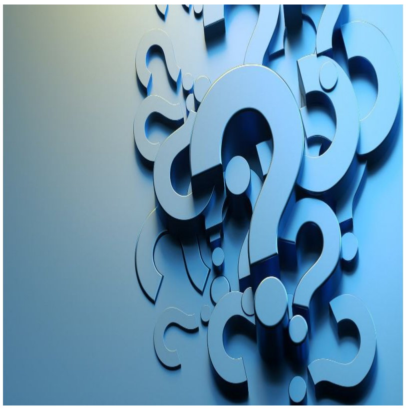

Can You Really Retire on CPP and OAS Alone?

Description

CPP and OAS are the two pension programs that all Canadians can benefit from at some point in their lives. While not everyone is lucky enough to have an employer-sponsored pension, anyone who worked and lived in Canada for at least 10 years can draw CPP and OAS. Combined, the two benefits can add up to a sizeable income supplement.

However, as you're about to see, the word *supplement* is key here. For a variety of reasons, CPP and OAS are unlikely to provide you with enough income in retirement–even if you get the maximum possible amount of CPP.

While the income boost from CPP and OAS is significant, it should only be seen as an extra on top of whatever you're getting from either an employer pension, investments, or both.

CPP and OAS together won't likely cover your expenses

The big problem with relying on CPP and OAS in retirement is that the two programs combined don't cover living expenses in many Canadian cities.

The average CPP payment is $679 a month, while OAS maxes out at $613 a month (both figures from 2019). If you're lucky enough to have your house paid off, relying on these may be feasible, but if you're renting or paying down a mortgage, you can forget about it: in major Canadian cities, rent is heading well north of $1,500 a month.

It's also worth mentioning that CPP and OAS are taxable, although the two together are often below the "basic personal amount" for federal taxes.

How to develop your own retirement income stream

If you're concerned that CPP and OAS won't cover your expenses in retirement, then you need to develop your own income stream. If you have some savings, you can do this by buying dividend stocks like **Fortis Inc** (TSX:FTS)(NYSE:FTS), and living off the dividends.

To make this work, you do need a sizeable amount of savings, but if you have a few hundred grand sitting around, it's much better than slowly eating away at the money.

Fortis shares currently yield about 3.9%, which means you get $3900 in annual cash back for every $100,000 invested. If you have $500,000 to invest, you'll get $19,500 in annual income from your shares.

Of course, you should never put all your savings in one stock. While you need to diversify to protect against the risk of loss, it's entirely possible to construct a portfolio of stocks yielding 4% on average, consisting of Fortis and other equities with similar yields.

One great feature of dividend stocks is that their income can grow over time. Fortis, for example, is aiming to increase its payout by 6% a year over the next five years.

This makes dividend stocks like FTS much more promising than bonds, which typically pay a fixed amount of periodic income up to a set maturity date.

Your retirement portfolio should ideally consist of both, however, as it's a good idea to diversify across different types of investments.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

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Date
2025/07/22
Date Created
2020/02/10
Author
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