



Retirement Alert: Are CPP and OAS Pension Payments Sufficient to Survive?

Description

Canadian pensioners and those heading toward their retirement years are wondering if they can rely on the Canada Pension Plan (CPP) and Old Age Security (OAS) pensions to cover rising living costs.

In the old days, that might have been the case. Most people owned their homes before retiring, meaning they didn't have to worry about covering the cost of putting a roof over their heads.

Rising home prices in recent years are resulting in more Canadians carrying mortgages longer – a trend that's expected to continue. Rent costs are also increasing due to tighter supply caused by higher demand from people who are unable to buy.

A report from Statistics Canada released in April 2019 said that 42% of senior families (people aged 65 or older) carried debt in 2016, compared with 27% in 1999. The debt-to-income ratio doubled, while the debt-to-asset ratio changed very little.

Overall household debt across all age groups has increased substantially. At the beginning of 2019, the average household owed \$1.76 for every dollar of income, up from \$0.86 in 1990.

The government increases CPP and OAS pension payments in step with the rising cost of living determined by the average cost of a basket of goods and services, known as the Consumer Price Index (CPI).

The CPP payment is adjusted once per year and OAS is reviewed quarterly. For 2020, the government raised CPP payments by 1.9%.

Another trend is the disappearance of defined benefit pensions. Today, most companies offer defined contribution plans. The baby boomers and GenX crowd likely have a mix of the two, but younger Canadians are increasingly finding themselves without any company pension at all because of the rise in contract work and the evolution of the gig economy.

How do you boost pension income?

People are starting to look at ways to increase their income in retirement beyond relying on CPP and OAS. One strategy involves owning quality dividend stocks inside a Tax-Free Savings Account (TFSA). Younger investors can use the distributions to buy more shares while older investors can pocket the payouts.

The advantage of the [TFSA](#) is the fact that none of the income is taxed. In addition, the income is not used by the CRA when determining OAS clawbacks.

A balanced portfolio of reliable **TSX Index** dividend stocks could reasonably generate an average yield of 5%. The cumulative TFSA contribution limit is now \$69,500 per person, so a retired couple would have up to \$139,000 today to invest and generate tax-free income. At a 5% yield this would provide an extra \$6,950 per year, or roughly \$579 per month in additional cash flow.

The best stocks to buy have long track records of [dividend](#) growth supported by rising revenue and profits. Let's take a quick look at three companies that might be interesting picks to get you started.

BCE just raised its dividend by 5% and provides a yield of 5.2%. The telecom giant has a wide moat and should benefit from rising demand for broadband and home monitoring services. Low interest rates are expected to provide ongoing support for the stock.

Enbridge is another popular pick among dividend investors. The company is North America's largest energy infrastructure company with pipelines, storage, and renewable energy assets that generate reliable and predictable revenue streams.

The company expects distributable cash flow to grow by 5-7% per year over the medium term. The stock currently provides a 5.75% dividend yield.

Bank of Nova Scotia offers a dividend yield of 4.8%. Canada's third-largest bank is betting big on Latin America to drive future growth while boosting its strength in wealth management in Canada. The bank is very profitable and dividend increases should continue at a steady pace.

The bottom line

Relying on CPP and OAS to cover retirement living costs is becoming increasingly difficult. Fortunately, Canadians can set up their own TFSA pension funds to help fill the gap.

The **TSX Index** is home to many top dividend stocks that pay reliable and generous dividends.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:ENB (Enbridge Inc.)
3. TSX:BNS (Bank Of Nova Scotia)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date

2025/07/30

Date Created

2020/02/11

Author

aswalker

default watermark

default watermark