Forget CPP and OAS: Add DI and SWP to Retire Like a King

Description

Canada's pension and retirement system is one of the most robust in the world. However, even this well-funded system has failed to stay ahead of the rapid rise in the cost of living over the past few decades.

Now, the average Canadian Pension Plan (CPP) payment is $679 a month, while the Old Age Security (OAS) plan payment maxes out at $613 a month (both figures from 2019). That means the ordinary Canadian can expect roughly $1,292 a month from government-supported retirement programs. That's not even enough to meet rent or mortgage payments in some major cities, let alone all the other costs of living.

In other words, Canadians need to go far beyond the CPP and OAS to secure their retirement and live their golden years in comfort. I believe a robust combination of dividend income (DI) and a systematic withdrawal plan (SWP) could achieve this balance.

Dividend income

Several Canadian corporations are so profitable that they hand out leftover cash to shareholders on a regular basis. In fact, some companies have a track record of consistently boosting dividends every year for decades.

Adding these robust and stable dividend stocks to your portfolio could help you generate substantial passive income. In fact, real estate investment trusts and underappreciated energy stocks can offer dividend yields several times higher than the interest on a savings account.

Inovalis Real Estate Investment Trust, for example, offers a 7.8% dividend yield, while telecommunications giant **BCE** offers a 5.2% dividend yield that is poised for stable growth for the next few years.

With a little bit of research, you can pick some attractive dividend stocks and boost your annual passive income by as much as $5,400 tax-free. The best thing about dividends is their link to corporate profits, which means investors can expect this stream of passive income to grow far faster than the rate of inflation over time.

Systematic withdrawals

A combination of CPP, OAS, and DI should be enough for most retirees. However, if you have less capital to invest or need much more cash to live comfortably, you may need to add yet another stream of passive income: systematic withdrawals.

A SWP allows you to sell a fixed portion of your investments every year without running out of capital over the long term. In other words, your annual withdrawals are less than the capital gains on your investments.

Financial experts estimate that the average investor can expect the stock market to deliver a 5-6% annual return, which means they can sell 4% or less of their capital every year to fund their retirement. At a 4% rate of withdrawal, an investor needs only $387,600 to effectively *double* their income from OAS and CPP combined.

Bottom line

Depending on how much time and capital you have, a combination of CPP, OAS, dividend income, and systematic withdrawal plans could generate several thousand dollars every month in tax-free passive income, allowing you to retire like a king.

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Author
vraisinghani