Retirees: Would a Stock Market Crash Put Your CPP and OAS at Risk?

Description

Last week, investors got the fright of their lives as markets crashed on fears of a novel coronavirus (COVID-19) pandemic. After **Apple** cut its revenue guidance and **Goldman Sachs** warned of corporate earnings growth slowing to 0%, the markets predictably tanked.

The Dow lost 3,600 points for the week, including 1,190 points on Thursday alone, while the TSX shed 9.37% of its value. If you had investments in an RRSP, you probably took a significant hit. Depending on what kind of pension you have, it may have been impacted as well. Most retirees' pension benefits are funded by stocks, bonds, and a bit of private equity, all of which can take a hit in bear markets.

Which brings us to CPP and OAS. These two programs represent the main sources of retirement income for Canadians. If you're lucky enough to have an employer pension, that may or may not be safe in the event of a market crash. It depends in part on whether it's a defined benefit or defined contribution plan, and you'll need to discuss that with your employer.

CPP and OAS on the other hand have well defined rules that apply to all Canadians, so it's easy enough to determine whether your benefits are at risk of being cut.

OAS: probably not

OAS likely wouldn't be affected by a market crash. Funded by government tax revenues, its payouts aren't tied to an investment fund. While market crashes do reduce tax revenues, the government can offset lost revenue by raising taxes or borrowing money. Therefore, the government should be able to pay OAS even if a protracted market crash takes place.

CPP: possibly

CPP, unlike OAS, is funded by an investment portfolio, and could therefore theoretically face a shortfall because of a severe market crash. A decline in dividend or interest income would reduce the cash coming into the CPP investment fund, and the shortfall would need to be made up somewhere.

Realistically, the government would probably respond by raising premiums rather than cutting benefits, but you never know what could happen in a worst-case-scenario.

What to do

If you're concerned about market turmoil taking a bite out of your pension, the first thing to do is avoid the urge to panic. CPP and OAS are both very stable government programs that should be there when you retire.

If you really want to be safe, though, it wouldn't hurt to build up your own recession-resistant investment portfolio. By investing in non-cyclical stocks such as utilities, you can build up a steady income stream that shouldn't be too affected by market noise.

One example of a recession-resistant stock is **Fortis Inc** (TSX:FTS)(NYSE:FTS). It pays a generous dividend, which has increased every single year for the past 46 years, a period that has included several recessions. In 2008 and 2009, when a financial crisis was wreaking havoc on the global economy, Fortis increased its earnings and upped its dividend for two consecutive years. When you look at Fortis' business model, it's not hard to see why that was the case. As a utility, the service it provides is indispensable, so people don't cut it out of their budgets even in the worst of times. People would rather sell their cars than go without heat and light. So stocks like Fortis are capable of producing steady dividend income in recessions, even if their share prices fall with the broader markets.

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