Planning for Retirement? Why You Shouldn’t Rely on Your Employer’s Pension Plan

Description

If you’re not worried about your retirement because you think your employer has you covered, you may want to think again. Over the years, there’s been a trend in pension plans moving from defined benefit to defined contribution. That means the employee, not the employer, is the one taking on the investment risk. It allows the employer to not worry about whether they’ve contributed enough for a defined benefit plan. Under a defined contribution plan, the employer contributes a pre-defined amount; the strength of your pension and the benefits you will receive will depend on how well your investments perform.

So, while having a pension fund from your employer is certainly great and will give you an added boost so that you won’t have to rely on just Canada Pension Plan (CPP) and Old Age Security (OAS) payments, it still may not be as good as what you may be expecting. And even if you have a defined benefit plan, it’s still never a bad idea to contribute to a Tax-Free Savings Account (TFSA) to help make your savings as strong as possible for retirement.

How a TFSA can improve your retirement plan

Even if you try and save $10/day from your current day-to-day expenses, whether it’s sacrificing a trip to a fast-food restaurant or multiple coffee trips during the day, that can go a long way to building your savings if you use that cash to invest in a TFSA. Inside a TFSA, any income earned on eligible investments isn’t taxable, and if you’ve been eligible every year to contribute and never have, you’ll have $69,500 of contribution room. If you’re planning for retirement along with your spouse, and they’re also eligible, then that’s another TFSA that both of you can use to save towards retirement, providing a tax shield for nearly $140,000 worth of investments.

To put that into perspective, a $140,000 investment into a dividend stock yielding 5% would mean that you could earn nearly $7,000 per in tax-free dividends every year. Plus, any capital appreciation you earn from your investments rising in value would be tax-free when you go to sell them as well. If you can set aside money and contribute to a TFSA, there's no reason not to do it.

An easy way to invest

If you don't know where to invest, a good place to start is with an exchange-traded fund (ETF). **iShares Canadian Select Dividend Index ETF** (TSX:XDV) yields 4.2% annually, and more than half of its holdings are in financial services, including big bank stocks. It has more than 10% of its holdings in utilities and communication services. It also has more modest exposure to energy and industrials, which can be a bit riskier. But overall, it can be a great way to diversify your portfolio without having to spend hours trying to figure out which mix of stocks to invest in.

An ETF can simplify the process for you, and the iShares Canadian Select Dividend is a great one to pick as the holdings are very conservative. The average price-to-earnings multiple in the ETF is less than 13, while the price-to-book multiple is about 1.6. Whether you're looking for value, dividends, or both, this is an ETF you can buy and forget about.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:XDV (iShares Canadian Select Dividend Index ETF)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/07/31
Date Created
2020/03/06
Author
djagielski