CPP Pension Users: 3 Horrifying Truths About Retirement

Description

CORRECTION: Although the CIA and OSC both issued reports around the same time on the same subject, there was no collaboration between the two.

The Canadian Institute of Actuaries (CIA) and the Ontario Securities Commission (OSC) conducted studies two years ago regarding the perceptions of Canadians toward retirement planning. The findings reveal that many misunderstand certain things, especially the financial aspects.

Often, what would-be retirees envision is far from reality. There are horrifying truths about retirement. If your planning is late and haphazard, you're facing a crisis in the sunset years.

Change in the standard of living

People nearing retirement should realize and accept that a dramatic change in their standard of living is a foregone conclusion. You can no longer support your lifestyle due to lower income. Also, you need to be conscious of your spending because you need to guard against the long-term cumulative impact of inflation on the cost of living.

Retirement is not one size fits all

Prospective retirees who would be relying exclusively on government benefits during retirement must pause and think. The Old Age Security (OAS) and the Canada Pension Plan (CPP) won't be enough to replace your pre-retirement income, so you'll still need to build a nest egg.

However, the amount of retirement income is relative. Your lifestyle considerations will determine the actual level of personal savings you need to reach. If 100% of retirees rely on the OAS and CPP alone, all would be in for a disappointing retirement.

Late preparation is detrimental

Retirement planning should begin as early as the very first day of your first job. If a 25-year old individual started saving $250 monthly until age 65, the total savings after 40 years would be $120,000. Meanwhile, a peer who thought about retirement only at 55 but did not save at all would have a difficult task catching up.

Saving money is a must if you are to avoid a shortfall in retirement and fill the gap left by the OAS and CPP. Better yet, save, invest, and create multiple sources of retirement income. Owning a dividend stock like **Bank of Montreal** (TSX:BMO)(NYSE:BMO) should lessen your worry of not having enough in retirement.

An investor who bought $10,000 worth of BMO shares 20 years ago would have grown the money to $85,963.90 today. Assuming the investment was six times more, the cash would be over half-a-million dollars, including the reinvestment of dividends. You lose the opportunity of amassing a fortune if you don’t have a long-term plan.

BMO is the toast of baby boomers and the friendliest stock to dividend investors. This $53.96 billion bank started the wave of dividend payments. Its 191 years dividend track record is the longest of any Canadian corporation. The yield at present is 4.47%, while the payout ratio is a low 47.09%.

In the past week, the bank stock fell by 8.4% to $84.37. The coronavirus outbreak is fueling a market sell-off. BMO, however, remains resilient as ever. CEO William Darryl White presented recently a balanced first-quarter fiscal 2020 performance that includes an 8% revenue growth and $1.6 billion in earnings.

Reality check

Retirement life is tough and not rosy, as many imagine it to be. But if you know the harsh realities about retirement, you can prepare better and rise above the challenge.

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Date
2025/07/04
Date Created
2020/03/10
Author
cliew