Retirees: Do This if You Are Worried Your CPP Pension Won't Pay Enough!

Description

The Canada Pension Plan (CPP) is a retirement plan that has a monthly payout and aims to replace a part of your income. If retirees qualify for the CPP, they will receive monthly payouts for the rest of their lives.

The CPP payout is dependent on your contributions to this plan, the age you start withdrawing your pension, and the average earnings during your work life. The typical age when Canadians withdraw their CPP is 65. However, residents can start withdrawals as soon as 60 or as late as 70.

The payout will rise higher if you delay your payments till the age of 70. If you start CPP payments at 60, the payout will be 36% lower compared to the payout received at the age of 65. Comparatively, monthly payments can be 42% higher if they are withdrawn at the age of 70.

Retirees need to have a second stream of income

For 2020, the average CPP payout stands at $672.87, while the maximum payout is $1,175.83 for a 65-year-old retiree. These payments are not enough for retirees who want to lead a comfortable life.

The average life expectancy for Canadians now stands at 81 years, and this is bound to put a strain on your savings and financial reserves. So, retirees need to plan ahead and ensure they have enough savings in high-quality dividend stocks that will lead to a second stream of income.

Invest in a dividend-paying ETF

For creating a secondary source of income, Canadians can look to invest in **iShares S&P/TSX Canadian Dividend Aristocrats Index ETF** (TSX:CDZ). This ETF is currently trading 19% below its 52-week high, which has increased the fund's dividend yield to a juicy 3.9%.

CDZ has a diversified exposure to high-quality Canadian dividend-paying stocks. The fund's portfolio consists of companies that have increased cash dividends for the last five consecutive years.

This ETF has the highest exposure to Canada's financial sector with 23.2% followed by utilities, industrials, and energy at 13.9%, 13.5%, and 12.5%, respectively.

The top five holdings of CDZ are **NFI Group**, **TransAlta Renewables**, **Transcontinental**, **Capital Power**, and **Fiera Capital**. They cumulatively account for 10.3% of this ETF. All the top five holdings have eye-catching dividend yields and are trading at attractive valuations.

This not only provides retirees with dividend payments but also an opportunity for significant capital appreciation. NFI has a forward dividend yield of 6.2%, while TransAlta, Transcontinental, Capital Power, and Fiera Capital have forward yields of 6.2%, 5.8%, 5.9%, and 9.1%, respectively.

Will the market correct further?

With the coronavirus outbreak and volatile oil prices, investors can expect a further correction in equity markets. Investors can use the Warren Buffett indicator, which states that if the market cap of equity markets is more than the country's GDP, then markets are overvalued, and vice versa.

Currently, Canada's market cap-to-GDP ratio is 105%, which means equity markets are trading at a slight premium. In case a recession hits global markets, Canada's GDP for 2020 will move lower and equity markets may follow suit.

However, as we know, it is impossible to time the markets, and investors should consider every major dip as a buying opportunity.

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