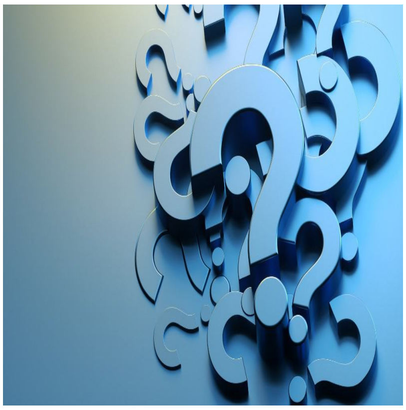

Can You Retire Comfortably on OAS and CPP Pension Payments Alone?

Description

Many Canadian soon-to-be retirees are finding it difficult to save up a sizeable nest egg. Unfortunately, contingent expenses and market plunges have the potential to completely derail a retirement plan, leaving them overly reliant on OAS or CPP payments.

But is it possible for the average Canadian to comfortably rely on their pension alone? Of course, your mileage may vary depending on how much you're eligible for, but the short answer is no.

It *is* possible to retire on OAS and CPP payments if you're willing to downsize and live a frugal lifestyle, as fellow Fool contributor Ambrose O'Callaghan suggests, but that's not the definition of "comfort" that most prospective retirees have in mind.

Sell the home and downsize?

"A survey conducted by **Sun Life** released in 2016 revealed that Canadian retirees were on average living on 62% of their pre-retirement income." said O'Callaghan. "Fortunately for homeowners, home values have skyrocketed over the past decade. Retirees who are homeowners will have attractive flexibility in this area — and an opportunity to walk away with a big profit from their original investment."

Selling the house and downsizing may be a solution to some cash-strapped prospective retirees, but what about those retirees reluctant to sell their homes because of all those memories? Or those who don't have any home equity, with no ability to downsize further?

OAS and CPP payments will likely do little to help with anything more than a couple of bills, especially if you've got hefty monthly expenses to take care of or live close to a major city centre. As such, those who are in their late 50s or early 60s may wish to remain in the workforce if they're able to save up a small nest egg that can help supplement one's income when it's time to hang up the skates.

You'll be a late saver, but who cares?

It’s better to be late to the party than not show up at all!

Moreover, a small nest egg could have the potential to act as a third pension that can allow you to spoil the grandkids, keep your home, and go on the occasional Alaskan cruise while maintaining your financial independence.

Even with a modest-sized nest egg, you can stretch your yield without risking your shirt with investments like the **BMO High Dividend Covered Call ETF** (TSX:ZWC), which sported a near 9% yield amid the latest market-wide tailspin.

I know what you’re thinking.

A 9% yield is just asking for trouble. A dividend (or distribution) cut of epic proportions, but with the ZWC, there’s a minimal possibility of such. Why? The ETF invests in hand-picked Canadian securities that are screened not only for big yields but the safety, growth potential, and quality of the underlying businesses.

You’re getting a gift basket that’s comprised of the bluest of blue chips and the most bountiful of REITs. And the best part is, the ETF sports a yield that’s larger than the yield of the sum of the ETF’s distributions. How? The “covered call” option-writing strategy that trades off “upside potential” in return for premium income upfront. The result is a massive yield at the cost of capped upside.

Foolish takeaway

Given we could be headed for a recession, the ZWC is looking like a solid bet for those who want significant monthly income without substantially elevated downside risk.

Of course, like any stock, the ZWC will face immense volatility in market meltdowns, but the distribution yield is safe and should be of less concern to a retiree who’s a late saver!

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