CPP Pension: You're Not 100% Ready for Life After Work Because of 1 Flaw

Description

How would you know if a retiring Canadian is not 100% ready to take the retirement exit? The answer is a frank one, although some might take it the wrong way. You're not prepared to retire if you'll rely exclusively on the Old Age Security (OAS) and Canada Pension Plan (CPP) payments.

A major flaw

Take it from the experience of present retirees. Many of them regret not saving enough for retirement. Others lament not investing early to build a significant nest egg. The rest is finding out that relying on the OAS and CPP only could lead to financial dislocation.

Entering retirement with zero savings and no other retirement income sources is frightening. It would be hard to imagine working around a monthly budget of $1,286.40. Aside from the rising cost of living and inflation, there are medical costs to consider during retirement.

Early preparation is a must

Early preparation for retirement is the best, but it's mandatory today more ever. The main reason why you must plan out as early as possible is that life is getting longer. In 2020, the average life expectancy in Canada is 82.52 years old. If the lifespan is creeping above 80, you'll have an extended retirement.

More financial obstacles than you think

Retirement is not a bed of roses, but more of financial hardships if resources are lacking. That is why you shouldn't bank on the OAS and CPP only. While the future is uncertain, you can guarantee a comfortable retirement by building a nest egg on top of the government benefits.

Invest to avoid money troubles in retirement

You'll feel optimistic about retiring if you have dependable sources of income other than the OAS and CPP payments. Sometimes, all you need to amass retirement wealth is just one company like the **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM).

This $44 billion banking institution is one of the Big Five banks and the highest dividend-payer among the group. The yield of this blue-chip stock is 5.76%. Also, CIBC's track record of sharing profits with shareholders via dividends is impeccable. It was back in 1868 when this bank started paying dividends.

Assuming you buy $100,000 worth of CIBC shares today and hold it for the next 30 years, your potential retirement fund is $536,590.85. The annual income is $5,760.

CIBC holds the industry-leading position in digital banking. It was the first bank to introduce a mobile banking app. In the first quarter of 2020, earnings rose by 9% year over year to $1.5 billion. Growth expectations for the rest of the year are lower due to market uncertainties. Dividends, however, should be safe.

The action plan

Don't expect things to sort out by itself before retirement. The reason that you don't have money to save and invest for retirement won't cut it. If there's a will, there's way to a comfortable retirement.

You need to take planning seriously, develop a retirement plan and grow a substantial fund. No more, no less.

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