Want to Live off CPP and OAS in Retirement? Here's 1 Thing You May Need to Do First

Description

Old Age Security (OAS) and Canada Pension Plan (CPP) payments aren't going to be enough to give you anything resembling a lavish lifestyle in retirement. In 2020, the most a new CPP recipient at 65 can earn every month is $1,175.83. The average, however, is usually much less than that.

But even at the maximum, that would translate into an annual income of about $14,110. OAS and income supplements could add about $18,000 more. Combined, that would put you right around $32,000 per year. That's about the equivalent of someone making $16/hour.

That's the best-case scenario for an individual relying on just those two sources of income. With a spouse, you could earn more combined. However, it's unlikely that it will be enough to have a comfortable retirement. Even relying on an employer's pension may not save you.

One way to make it possible: change your lifestyle

In order to get by on CPP and OAS payments, you may need to change how you live. Toronto and Vancouver are the most expensive in Canada; thus, they're not going to be cost-efficient options for retirees. Many of the cheapest cities to live in are in smaller communities. Quebec is one of the lower cost options in the country for retirees to consider.

But moving is not an easy thing to do, however, especially across provinces. But if you can't control your income, what you *can* control are your expenditures. And moving away from higher cost-of-living cities into more affordable ones could be one way to slash many of your expenses.

But it's not just where you live that matters, it's also *how* you live. Reducing travel budgets and minimizing trips to **Starbucks** are just a couple of other examples where someone can bring down their expenses.

Don’t want to change? Consider utilizing a TFSA

If you’re not willing or able to bring down your costs, one way to improve your retirement is by using a Tax-Free Savings Account (TFSA). Any income you earn in a TFSA won’t impact your OAS and CPP payments. It’s all tax free. If you’ve got savings, a good place to put it can be in an exchange-traded fund (ETF).

The **iShares Diversified Monthly Income ETF** (TSX:XTR) can provide you with monthly dividend payments that will give you a recurring source of revenue. Currently, it yields more than 5% annually and it can be a quick way to supplement your monthly revenue.

The ETF has a beta of around one, meaning that it should generally follow the flow of the market. Financial services, energy, and communication services account for more than half of the fund’s total holdings.

The ETF offers investors good diversification and no single stock accounts for even 2% of the fund’s total holdings. It includes some big dividend stocks like the **Canadian Imperial Bank of Commerce** and the **Bank of Montreal**.

With solid blue-chip stocks, investors don’t have to worry about taking on too much risk with this ETF. The average holding has a price-to-earnings multiple of 16 and a book value below two.

ETFs can be a great way to accumulate more cash, especially inside a TFSA.

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