CPP Pension Users: The CPP Has Got Your Back in a Market Crash

Description

Retirees and would-be retirees are fearful about the safety of the Canada Pension Plan (CPP) in a market crash. The world and its economies are not prepared for the root cause, which is the coronavirus. Now, the national defined benefit pension program in Canada is under threat.

The CPP covers earnings that are nearly equivalent to 115% of national average earnings. For low- and middle-income earners in Canadians who do not have other sources of retirement income, the CPP and the Old Age Security (OAS) are the only options for income.

Fund stewardship

The worry is understandable, if not warranted. CPP users are pinning their hopes on the stability of the retirement fund. The Canada Pension Plan Investment Board (CPPIB) is the fund manager of the CPP. Its mandate is to build the investment fund, so the CPP can live up to the promise of meeting benefit and retirement obligations.

Like most retirement savings vehicles, the CPPIB invests in equities or stocks. But the value of its holdings is declining, as the epidemic continues to pummel the market. To dampen the effects, the fund's steward resorts to pooling equity risk.

According to CPPIB officials, the risk-bearing capacity is unchanged. The drop in prices during market crashes is an inducement to expand the amount of risk in the CPP portfolio. By making bargain purchases with long-term potentials, the CPPIB is helping stabilize the market.

CPPIB president Mark Machin is assuring CPP users that the retirement fund is safe and stable. As of year-end 2019, the CPP fund is $420.4 billion and should be rising to $1.75 trillion by 2040. The board also expects the large pool of assets to total 6.5 times annual benefit outlays by 2080.

Top CPP stock

Among the CPP stock holdings are **Royal Bank of Canada** (TSX:RY)(NYSE:RY), **Enbridge**, and **Suncor**. All three are stalwarts in their respective sectors. RBC is a no-brainer buy, and as the largest bank in Canada, this stock is a core holding in any stock portfolio.

Over the last two decades, RBC has returned 1,232.58%, including the reinvestment of dividends. An investment of $10,000 back in December 31, 2009, is worth $133,161.31 in December 31, 2019.

The stock, however, has a year-to-date loss of 18.87%. It's hard to imagine the $117.5 billion company will be unable to weather this crisis. The $82.54 share price plus the dividend yield of 5.24% makes it a very attractive to risk-averse investors. The bank has been paying dividends since 1870, and that record should still prevail.

In mid-March, RBC said that COVID-19 is set to push Canada into recession over the next two quarters. The bank predicts the impact of the coronavirus will run its course by the end of the first half of 2020. However, if low oil prices carry on, recovery will not be as easy.

RBC acknowledges that business confidence today has fallen below the levels in 2008-2009. Despite the dreadful scenario, the prudent risk and cost-management expertise of RBC should help maintain its strong capital position.

Health safety first

People should focus more on staying safe against COVID-19 and worry less about the retirement pension. The CPP has got the users' backs in this most trying time in the modern era.

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cliew