Retirees: Can You Retire on Just CPP and OAS Payments?

Description

The Government of Canada has pension plans for retirees. The Canada Pension Plan (CPP) and Old-Age Security (OAS) are two such plans that provide a monthly payout to retired Canadians.

The CPP retirement pension is a monthly, taxable benefit. It aims to replace a part of your income when you retire. In order to qualify for the CPP, you need to be above the age of 60 and should have made at least one valid contribution to this plan.

The pension amount is based on several factors. This includes the age you choose to start the payment, average work earnings, and contributions to the CPP. In 2019, the maximum amount a Canadian starting pension at the age of 65 can receive stood at $1,154.68. The average monthly amount was $679.16.

The OAS is the Government of Canada's largest pension program. It's funded from the country's general tax revenue. The OAS is a monthly payment available to people over the age of 65. The payment amount is determined by the length of your stay in Canada after the age of 18. The maximum monthly payment amount for an OAS pension holder is $613.53.

We can see that the maximum monthly amount one can receive after combining the CPP and OAS payments is $1,768.21. The average amount is significantly lower. These pension payouts are insufficient to lead a comfortable life in large Canadian cities.

Retirees need to have an additional source of income to supplement the CPP and OAS payouts. This can be achieved by investing in dividend-paying stocks.

You can supplement the CPP with dividend-paying stocks

The COVID-19 pandemic has driven several stocks to multi-year lows. Banking stocks such as the **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) have lost significant momentum in the recent market sell-off. CIBC stock is trading at $81.84 which is 29% below its 52-week high. Comparatively, the **iShares S&P/TSX 60 Index ETF** is trading 16% below record highs.

Investors are worried that Canada's rising unemployment rates that will result in delinquencies and mortgage defaults. The countrywide lockdowns will also impact the corporate sector, which is grappling with lower consumer spending. Further, lower oil prices have also exposed banks to the highly vulnerable energy space which is one of the pillars of the Canadian economy.

CIBC has high exposure to Canada's housing market, making the stock volatile in the near term. If Canada's housing market crashes, CIBC stock will move significantly lower. While there are risks associated with most companies in today's uncertain environment, CIBC has strong fundamentals and has weathered several economic downturns.

It is a banking giant with a market cap of $36.4 billion. In each of the last five fiscal years, its profit margins have been over 26%. Net income has risen from $3.5 billion to $5 billion in this period, valuing it at just 7.5 times trailing earnings. CIBC ended fiscal 2019 with a free cash flow of $18 billion, making its tasty dividend yield of 7.1% safe, especially after accounting for its payout ratio of 50%.

The verdict

CIBC should gain pace on the market rebound. An investment of $100,000 in this banking giant will result in annual dividends of $7,130, allowing retirees to supplement their CPP and other retirement payouts.

This is just an example of a top-quality dividend-paying stock. Investors need to identify such companies and diversify their portfolios to create a recurring stream of predictable cash flows.

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