
# Retirees: Could You Get by on ONLY Your OAS and CPP Pension?

**Description**

Canadians are confident of financial support when they reach the sunset years. The Old Age Security (OAS) and the Canada Pension Plan (CPP) forms the national pension plan.

Theoretically, the benefits from the decades-old retirement savings programs should cover the financial needs of a retiree. The reality, however, is that you might not get by if you'll depend only on the OAS and CPP pension.



## Income replacement

In real terms, you should at least have 70% of your current income to be financially secure during retirement. The OAS and CPP will help you retire but comes out short.

The CPP expansion, for example, will improve retirement security. Assuming you have a full contribution history, the enhanced CPP will provide a 33.3% income replacement instead of the previous 25%.

In 2020, the combined total monthly payment from the government-sponsored programs is $1,286.40. The monthly benefit (maximum) from the OAS is $613.53, while the CPP monthly payout (average) is $672.87. You can expect to have an annual pension of at least $15,436.80.

The events today, notably the coronavirus outbreak, should serve as an eye-opener. A would-be retiree experiencing financial hardship is likely to delay, not rush, retirement.

## Delaying the pension

The design of the OAS and CPP pegs 65 years old as the standard retirement age. You can take the CPP early at 60, while the OAS has no option earlier than 65. But the payments will increase annually if you delay both up to age 70.

Delaying the pension until 70 is a practical move. OAS and CPP payments will increase annually by 7.2% and 8.4%, respectively. While the returns are good, having other sources of retirement will strengthen your financial position.

## Build your nest egg

I agree with retirement planners who say that the OAS and CPP are foundations. You have a backbone but not necessarily a nest egg. An ideal one should cover everything. Thus, the advice of building retirement savings separate from the government pension makes sense.

Since 2009, Canadians have been using the Tax-Free Savings Account (TFSA). This unique investment account offers tax-free money growth. For many years, TFSA users have held the **Royal Bank of Canada** (TSX:RY)(NYSE:RY) or RBC shares in their accounts.

The largest bank in Canada is a blue-chip company and a reliable source of retirement income. Over the last two decades, this bank stock was able to deliver a total return of 1,232.58%. A $10,000 investment on year-end 1999 would be worth $133,161.31, including the reinvestment of dividends, December 31, 2019.

In 2020, stock prices are declining as a result of the health and oil crises. RBC is losing by 15% year-to-date such that at $85.34 per share, there's a buying opportunity. If you invest in this high-quality asset today, the dividend yield is 5.03%. All dividend earnings in your TFSA are tax-free.



## Lessen your financial worry

Investing early in income-producing assets will enable you to save and grow your retirement fund. A comfortable retirement is waiting if you have income sources beyond the OAS and CPP. It should also lessen your worries in times of economic downturn.

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