



## CPP Pension and OAS: Why \$1,286.40/Month Just Isn't Enough

### Description

The COVID-19 pandemic brought nothing but gloom. As Canada enters a recession, people from all walks of life are bracing for a cash crunch in the coming months. You can't predict how long the misery will last. If you're a retiree, the [financial burden](#) is horrifying.

Retirees are fortunate to rely on the Canada Pension Plan (CPP) and Old Age Security (OAS). Under normal circumstances, living on the combined monthly total of \$1,286.40 is stressful enough. A combination of health and financial crisis would be too much to bear.

### Real terms

The CPP and OAS are [income replacements](#) when you get to the sunset years. Even with the expansion in 2019, the CPP will replace only 33.3% of the average work earnings. On average, the monthly CPP benefit in 2020 is \$672.87, while the maximum monthly OAS payment is \$613.53.

In absolute amount, your annual pension (CPP plus OAS) comes out to \$15,436.80 for 2020. Since retirees would be spending less during retirement, you might be able to manage and stretch out the pension every year.

### Inadequate lifetime sustenance

Theoretically, it is possible to survive with the CPP and OAS alone if you have excellent financial management skills. In reality, however, Canadian retirees are discovering that you need more than the government pensions to be worry-free during retirement.

Housing is usually the single most significant monthly expense unless you are not renting, and don't have a mortgage to pay anymore. The living expenses would include bills, clothing, and transportation, and, for some, travel expenses. Medical expenses often spike when you reach the retirement phase.

Retirement spending varies and depends on the type of lifestyle you choose. Hence, when you plan for

retirement, give it serious thought. Figure out your future expenses. If you think the CPP and OAS will put you in a tight situation, save up and invest to compensate for the gap.

## Generate other income

Many would-be retirees use their savings to invest in income-producing assets. One perennial choice is **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)). The fourth-largest bank in Canada is the first company ever to pay dividends.

The practice of paying dividends started in 1829 and continues today. Since that time, the bank has been maintaining a dividend payout ratio of not more than 50%. BMO's market cap stands at nearly \$40 billion. Currently, the stock price is \$62.37, while the dividend yield is 6.79%.

Assuming you have \$50,000 savings to invest in BMO, you can generate \$3,395 in passive income. Add it to your CPP and OAS, and you're your annual disposable income bumps up to \$18,831.80 or \$1,569.32 monthly.

The investment landscape is volatile at the moment, although BMO is a safe dividend play. This 203-year-old bank will endure the 2020 crisis as it had in past crises.

## Secure your future

Although the CPP and OAS are must-haves, new reforms to improve the retirement security of Canadians are welcome. If you have the means to build a nest egg, do so to be more secure.

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**Date**

2025/08/27

**Date Created**

2020/05/23

**Author**

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