Will You Survive on ONLY Your CPP Pension When You Retire?

Description

Everyone is feeling the pinch due to the current pandemic. Unemployment is rising and jobs are scarce due to business closures or slowdowns. The value of investments has shrunk too because of the recent market selloff.

Would-be retirees, in particular, are on edge. Many of them ask whether you can survive only on your Canada Pension Plan (CPP) when you retire.

Replacement income

CPP is the money you will receive during the sunset years. It is also in exchange for the years you've been contributing to the fund. You draw the fund when your work in mainstream employment is over or when you become eligible.

However, the pension will replace the average pre-retirement income partially, not wholly. The estimate is that the CPP is good to replace just 33.3% of your regular income.

Absolute amount

In 2019, the maximum CPP is $13,854.96, or $1,154.58 per month. But don't count on the maximum. You would receive the amount if you were contributing to the fund 83% of the time you're eligible to contribute. To be precise, that would be 39 of 47 years (from 18 to 65 years old).

Since many do not qualify to receive the maximum, the average annual CPP is $8,074.44, which is only $672.87 monthly. You would say retirement income would be higher if you were to include the Old Age Security (OAS). Yes, it will, with the maximum monthly OAS payment of $613.53.

The combined total would bump up your annual pension to $15,436.80 or $1,286.40 per month. Try to do a deep dive and assess your future retirement expenses. Your CPP might not be enough to subsist on even if there's a drastic drop in expenditures.

Financial security

Retirement experts are advising prospective retirees to build a retirement fund separate from the pension. A poll by the **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) in September 2019 is revealing. The CIBC survey results show that 77% of Canadians are worried about having enough money in retirement.

Notably, the same respondents have no financial plans. The transition to retirement is going to be tough, although the lack of financial resources is tougher. You have money to spend on necessities using your CPP (plus OAS). Beyond that, you need other sources of retirement income to be financially secure.

A financial plan doesn't mean saving as much as you can, however. If you want to build a substantial nest egg, there has to be money growth. The alternative to hoarding cash is investing. CIBC is a blue-chip stock you can hold for 20 years or more. The fifth-largest bank in Canada is a dividend-payer with a 152-year track record.

Assuming you want to jump-start your wealth-building today, CIBC is trading at $96.52 per share and paying a 6.04% dividend. A $50,000 investment will produce $3,020 in passive income. In 20 years, your nest egg would amount to $161,571.36. Your financial anxiety will lessen if you have investment income.

Pivotal moment

Retirement is a crucial moment in one's life. You're supposed to live the sunset years without financial stress. Why wait for the cash crunch when you can secure your financial position as early as now?

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