



How Much CPP Pension Will You Receive When You Retire?

Description

The road to retirement is long and sometimes winding. Canadians who recently retired or are planning to retire soon feel a sense of security because of the Canada Pension Plan (CPP). This is replacement income when you retire.

If you think the CPP is sufficient as retirement income, think carefully. The contributory program is one of the pillars of Canada's retirement system. However, the CPP is a partial replacement of the average pre-retirement income.

CPP is solvent

The worry of CPP users is if the retirement fund is safe after the horrific 2020 market crash. According to Mark Machin, president of the Canada Pension Plan Investment Board (CPPIB), retirees shouldn't lose sleep over the safety of the money.

He said, "This is one thing they should take off their list to worry about." The CPPIB is managing the pension fund on behalf of pensioners. Machin assures pensioners that despite the market downturn, the CPP is in good shape.

As of the quarter ended March 31, 2020, the CPP fund is \$409.6 billion. The CPPIB said that in the past five years, total investment returns were \$123 billion. Based on the December 2019 report of the Chief Actuary of Canada, the CPP is sustainable for more than 75 years.

Actual CPP amount

The maximum monthly CPP payout in 2020 is \$1,175.83. If you were to add the maximum Old Age Security (OAS) monthly payment of \$613.53, the total amount would be \$1,789.36. Ideally, your annual pension should be \$21,472.32, which is substantial.

In reality, however, the average monthly CPP is only \$672.87. Thus, the combined total is \$1,286.40

per month, or \$15,436.80 annually. Assuming you can subsist on the theoretical maximum pensions, you need to fill in the shortfall of \$6,035.57, or \$502.96 monthly.

Other income sources

Retirement requires long-term planning. You're not looking at next year or two but 20 years down the road. Even current retirees are playing the long game. As such, you should be building your nest egg way before your retirement date.

One highly recommended source of retirement income is **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)). BMO is the right investment for retirees for three reasons. This \$47.77 billion bank has been operating for 203 years and is the first company ever to pay dividends.

More importantly, BMO is still proudly standing after enduring two World Wars, the Great Depression, and subsequent financial crises. The 53% year-over-year drop in adjusted net income in the second quarter fiscal 2020 (quarter ended April 30, 2020) is not alarming. All the big banks had to increase credit loss provisions.

Despite the significant increase in credit costs, BMO's total assets and total deposits grew by 12% and 15%, respectively, versus the prior quarter. Although the bank anticipates pressure on profitability to linger, it will continue to focus on organic and inorganic growth. BMO's strategies should boost revenues moving forward.

The long road

Regarding the shortfall, \$103,500 worth of BMO shares can fill the gap. This bank stock pays a 5.83% dividend. If you're 20 years away from retirement, you only need to save \$431.25 a month. Think investing before spending, and you'll get to your retirement goals.

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