Why a 2nd Wave of COVID-19 Would Be Financially Disastrous for Canadian Retirees

Description

The COVID-19 pandemic has been financially disastrous for many Canadians. Wiping out jobs and erasing savings, it has resulted in over eight million people going on government benefits.

So far, the CERB — the main lifeline for Canadians during the crisis — has cost the federal government $54 billion. That's a lot of money paid out to out-of-work Canadians, and for many, it was absolutely necessary. In May, Canada's unemployment rate soared to 13.7%. It has since fallen but remains historically high.

In this environment, many Canadians are hurting. That includes retirees. While most of the discussion about the financial impact of COVID-19 has centred on workers, retirees have arguably been hit even harder. Retirees whose portfolios were invested in stocks got hit hard in March. Those retirees who were not working part time couldn't qualify for the CERB.

These and other facts have led to a grim picture for Canadian retirees. While the federal government did come forward with a $500 benefit for retirees, it was one-time only, and took a very long time to get out.

Broadly, retirees have received less support during the pandemic than their working-age counterparts. And worse, they could be set to take another hit.

A second wave of COVID-19 could impact RRSPs

A second wave of COVID-19 could hurt Canadian retirees in a big way. The reason is that, unlike working-age Canadians, retirees depend largely on investments for income. Some retirees who have employer sponsored pensions and maxed out CPP can get by without their investments performing well. But many seniors really need their RRSPs to perform in order to pay the bills.

This is a problem, because RRSPs would likely be hit hard in the event of a second wave. Most Canadians' RRSPs are either self-directed — generally invested in stocks, bonds, and ETFs — or preinvested in a mutual fund offered by their bank. Most of these investments would be hit in the event of a second stock market crash.

When stocks go down, so do mutual funds and ETFs based on stocks. An actively managed fund might move in the opposite direction of the market, but it's unlikely. So, if you're a retiree depending on your RRSP to keep you afloat financially, you need to take steps to protect yourself.

How to protect yourself

If you're looking to protect your RRSP from future market downturns, bond funds like the **BMO Mid-Term U.S. Investment Corporate Bond ETF** (TSX:ZIC) can be great buys.

Corporate bonds are somewhere between stocks and government bonds in terms of risk. Their interest payments aren't quite as solid as those of government bonds, but they're more reliable than dividends from stocks. This is because bond income is legally entitled to priority payment over dividends.

The cost of this extra safety is lower potential returns. Bond interest doesn't grow as dramatically as dividends sometimes do, so bond returns tend to be pretty feeble. But the safety of principal is unmatched. With a bond fund like ZIC, you can be reasonably assured that you'll generate passive income you can count on. If you have a decent amount of savings to invest, that can help ensure your RRSP stays afloat when the stock market is down.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:ZIC (BMO Mid-Term US IG Corporate Bond Index ETF)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks
3. Investing

Date
2025/08/26
Date Created

2020/07/15
Author
andrewbutton