Here's Why You Can't Live on ONLY the OAS and CPP

Description

When planning for retirement, what concerns you the most – the magic number of retirement funds or the optimal retirement age? I would suppose that for many potential retirees in Canada, financial security is the bigger concern. Their safety nets are a universal pension and an earnings-related social insurance program.

The Old Age Security (OAS) and the Canada Pension Plan (CPP) forms the foundation of Canada's retirement system. Both are critical sources of retirement security. You'll be eligible to receive the OAS at age 65 and claim your CPP as early as 60. To get higher benefits, you can delay receiving both until you reach 70 years old.

However, COVID-19 is altering retirement plans not only for baby boomers, but also for the Gen-X and millennial generations. The pandemic is telling all ages to improve retirement readiness and not rely solely on the OAS and CPP. If you don't fill the gaps in the pensions, you might struggle financially in your sunset years.

Push the numbers

A retiree would need more than the OAS and CPP to enjoy a higher quality of life. Based on the latest estimates, the combined total monthly payment is $1,286.40. The OAS maximum is $613.53, while the average CPP is $672.87. It also assumes that you're retiring at age 65.

If you want to receive more, you can defer the payments until 70 and take advantage of the incentives. This option will boost your OAS and CPP by 36% (7.2% per year) and 42% (8.4% per year), respectively. It would mean, however, five years of waiting. You should be healthy or don't have an urgent financial need to choose this option.

From the looks of it, the two government benefits leave a wide retirement income gap. You can't subsist on the pensions the rest of the way. It would be best to fill the gap with a separate income source.

Address the gap

Would-be retirees need a combination of the OAS, CPP, and another income-provider. The current health crisis should nudge you to close the difference as soon as possible. Those who have been saving early in their careers have a head start. But to achieve the desired financial well-being, you're encouraged to invest for money growth.

There are risks to investing, although you can mitigate them by choosing the right assets. **Bank of Montreal** (TSX:BMO)(NYSE:BMO) is a safe and retirement-friendly investment. This bank is tops when it comes to dividend history. It has an impressive track record of 191 years dating back to 1829.

BMO is the fourth-largest of the Big Five Banks in Canada. Its market capitalization stands at $48.33 billion. At the current price of $75.56, this bank stock pays a 5.66% dividend. Your $100,000 can purchase 1,323.45 worth of shares and deliver $1,415 in quarterly income. In a 20-year investment horizon, your capital will grow to $300,754.50.

Build enough nest egg

The OAS and CPP will not satisfy all your retirement needs, no matter how good you are in stretching the budget. Your financial resources in the golden years should be a healthy mix of pensions and a significant nest egg.

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