In 2020, Retiring on CPP and OAS Alone Would Be a Disaster

Description

CPP and OAS are the two main pension benefits available to Canadian retirees. Unfortunately, they don't usually pay enough to cover most peoples' retirements. CPP only pays about $640 a month on average, while OAS maxes out at $613. Together, they don't usually pay even $1,300 a month — less than the rent on a one-bedroom apartment in Toronto. On top of that, both benefits are taxable, so the amount you receive is even less than it looks!

Even in the best of times, retiring on CPP and OAS alone would be a bad idea. In 2020, it would be a truly disastrous mistake. This year, there are a number of factors at play that would make it even harder than usual to survive on just CPP and OAS. We can start with the most obvious.

It's still a lot harder to find a part-time job

A lot of Canadian retirees depend on part-time jobs to get by. Between CPP, OAS, and a part-time job, it's possible to make ends meet. Unfortunately, part-time jobs are harder to get this year than before. The COVID-19 pandemic hit employers in the pocketbooks and cost the economy many jobs. While business is coming back to life, we're still at historically high unemployment numbers. This makes finding a part-time job harder than it was last year.

Real estate is surprisingly strong

Normally, when lots of people are out of work, real estate takes a hit. Unfortunately, that's not happening this year. Housing prices are still hitting new highs in many markets, which means the cost of living is still high. It does look like rent is down 10% nation-wide, but 10% isn't a huge difference. So, we're looking at a situation where unemployment is high while rent remains expensive. It's not a good time to depend on only CPP and OAS while renting.

What you can do instead of relying on CPP and OAS alone

Because of a number of economic factors, 2020 is a tough time to be trying to get by on only CPP and OAS. Fortunately, if you have savings, you don't have to. If you invest $500,000 at an average yield of 3%, you'll get $15,000 a year back in income. That, on top of CPP and OAS, could be enough to live off of — especially if you hold a portion of it in a tax-free environment, like a TFSA.

To illustrate the power of investing, let's imagine you invested $500,000 in a bond fund like the **BMO Mid-Term US Investment Grade Corporate Bond Index ETF** (TSX:ZIC). ZIC is exactly the kind of investment that retirees should be looking at. It's based entirely on bonds, which are far safer than stocks because of their superior claim on earnings. Nevertheless, it still has a 2.88% yield — not too far off the 3% just mentioned.

If you invested $500,000 in ZIC, you'd get about $14,400 back in income every year. If you held $69,500 of that position in a TFSA, $2,000 of that income would be completely tax free. Take the whole position together, and you'd have a nice income supplement that could really boost your CPP and OAS pension. Not bad at all!

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