3 Reasons Retiring on Your OAS and CPP Alone Is a Bad Idea

Description

Canada's pension system is one of the best in the world. The Canada Pension Plan (CPP) and the Old Age Security (OAS) are both well funded and well managed. This means nearly every Canadian can rely on having a decent stream of income after they retire.

However, most Canadians make the mistake of retiring on these government programs alone. Here are three reasons this is a huge mistake.

Minimal benefits

The amount of pension income you receive is capped and standardized. This means that even if you were making millions of dollars every year, your pension benefits would be comparable to most others.

This problem is also magnified if you live in a major city. Toronto and Vancouver are already expensive. The problem could get worse. CPP and OAS won't be enough.

Long wait

Most people qualify for retirement benefits only after the age of 65. Some wait till they're 70. This is simply too long to wait for passive income. Your skills could be redundant, or you may have to leave the workforce much earlier due to unforeseen circumstances. This means you're on your own before you meet the age eligibility criteria.

Subject to politics

Finally, the pension system is controlled by the government. This politicizes the issue. Changes have been made to the CPP and OAS programs over the years. However, these changes have mostly been positive, because the country's economy has performed well. What happens when a fiscally stringent government gets elected? Or the economy falls into crisis?

Protect yourself

Fortunately, the stock market can help you supplement your retirement tremendously. Robust dividend stocks such as **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) have been paying attractive dividends for decades. They're likely to keep paying these dividends for decades more.

The second-largest bank in the country is my favourite for two reasons. Firstly, its international business is broad enough to insulate it from Canadian economics. **TD Ameritrade** in particular helps buffer the company's finances.

Secondly, TD Bank is less exposed to the mortgage lending category than other banks of similar size. This makes the bank less risky over the long term. Defaults on mortgages are likely to expand rapidly once the current deferrals end. TD might avoid that storm.

At the moment, the stock trades at a price-to-earnings ratio of 11. It's also at a price-to-book ratio of 1.29. The stock offers a 5% dividend, which is likely to increase in the years ahead. Assuming the stock price grows just 2% every year and you reinvest 5% dividends back into the stock, you could double your money in 10 years.

Investing $10,000 in TD Bank today could deliver thousands of dollars in additional passive income in retirement. When you combine it with your CPP and OAS benefits, you could live a similar (if not better) lifestyle in retirement.

Bottom line

Don't depend on your CPP and OAS payments alone. A lot can change by the time you retire. Spread your bets and secure your finances with dividend stocks like TD Bank.

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