Can You Survive on Your OAS and CPP Pension Alone?

Description

No one could have foreseen that 2020 would bring financial disaster. Would-be retirees will make a tough decision in the wake of a pandemic. If your plan before the pandemic was to bank on the Old Age Security (OAS) and Canada Pension Plan (CPP) only, you might want to consider other options.

Canadians who have entered the retirement phase are worried. It's difficult, if not impossible, to survive only the OAS and CPP payments. The life on the beach you imagine will forever remain on your bucket list.

True retirement plan

Retiring with only the OAS and CPP as income sources is not a plan. A "real" plan means taking control of your financial future. You'll receive the pensions at age 65 (with early or delay options) without much ado. However, the amount will frustrate you because it only replaces 33% of the average pre-retirement income.

The wide gap is a critical retirement issue you must address. When aiming for a comfortable standard of living, you must learn to structure your nest egg. You have the OAS and CPP as foundations. Theoretically, if the total monthly pension is $1,286.40 (OAS + CPP), you need $2,611.78 more to fill the 67% shortfall.

Your task is daunting, but you have to remember that retirement planning is a long process. According to survey results by Statistics Canada, the financial preparations for retirement of 31% of Canadians between the ages of 45 and 60 are inadequate. You can exclude yourself from the statistic by changing your priorities.

The key to a successful retirement is to match your income with your goals. If you think you can manage with only the OAS and CPP, take the retirement exit. You might regret the decision of not supplementing the pensions with investment income.

Retiree's significant other

A vital factor to consider when firming up a retirement decision is longevity. Your funds must last longer than ever during retirement. In Canada, life expectancy in 2020 is 82.52 years. Thus, retirement can be an era of 20 years plus. If you were to supplement your OAS and CPP, you should invest in assets that can provide lifetime income.

Bank of Montreal (TSX:BMO)(NYSE:BMO) is the superior choice of retirement planners because of its 191 years of dividend history. The unmatched track record indicates this bank stock is investor-friendly. While the fourth-largest bank in the country is not immune to economic downturns, it can overcome the headwinds.

At the height of the market panic in mid-March, the stock price sunk to the depths. However, from a low of $56.50, BMO has pared down the losses and climbed 34.64% to $76.07. The year-to-date loss is 21.4%, so you're buying the pioneer in dividend payouts at a discount. In exchange, you partake in its 5.51% dividend.

Retire with confidence

Retirement life would be a ball if you plan early and build wealth from BMO. You would need $570,000 worth of the bank shares to produce the 67% shortfall. But don't panic if time is on your side. The build-up can be gradual but deliberate. Your money will compound by the time you reach the ripe retirement age.

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