Can You Survive Solely on Your OAS and CPP Pension?

Description

Canadians will not retire penniless when they take the retirement exit at age 65. Each will receive the universal pension or the Old Age Security (OAS). You add the earnings-related social insurance program, which is the Canada Pension Plan (CPP). The two pensions will combine to replace only 33% of the average pre-retirement income.

However, a retiree will not survive solely on the OAS and CPP pensions. If you want to maintain your current lifestyle or live comfortably in retirement, you must fill the 67% shortfall. The maximum OAS is $613.53, while the average CPP payout is $672.87. Do you think you can subsist on a monthly retirement income of $1,286.40?

Delay incentives will not help

You can simultaneously claim your OAS and CPP at age 65 or delay both until you reach 70 to increase the monthly payments. Another option is to take one at 65 and defer the other until age 70. Regardless of choice, do some honest assessment of your future retirement expenses.

In all likelihood, you would need more than the pensions to survive the golden years. The OAS and CPP will go as far as covering your necessities. Beyond that, your standard of living will not be up to par as when you were working. You need to be practical and consider the harsh realities of retirement.

Believe the current retirees who are discovering that relying on the OAS and CPP only is a terrible idea. The solution to this common pitfall is to supplement the pensions with investment. You can avoid the financial squeeze if you a third income source apart from the twin pensions.

Ideal income source

The 2020 global pandemic is raising awareness among would-be retirees to look after their future financial well-being. Your OAS and CPP are just backbones or foundations. The bulk of the nest egg usually comes from blue-chip assets like the **Royal Bank of Canada** (TSX:RY)(NYSE:RY).

RBC, the largest bank in Canada, is the ideal partner of people building retirement wealth. You can buy and own shares of this $137.82 billion bank and never sell again. The income stream it will provide is for a lifetime. RBC's dividend track record stretches back to 1870, including the worst recessions known to the world.

At present, the stock price is $96.91 per share at writing. For less than $100, it pays a lucrative 4.42% dividend. A $200,000 investment will produce $736.67 in monthly passive income, which is more than either the OAS or CPP monthly payments. If your investment horizon is 20 years, you'll have a whole nest egg of $475,011.12.

Retirement strategy

There's indeed less pressure in retirement because work stress is gone, and expenses are lower. However, there are unforeseen expenses that will crop up, including healthcare costs. Furthermore, a repeat of the COVID-19 health crisis will drain you financially.

Take the cue from current retirees. An integral aspect of retirement planning is to trim down apparent gaps in the pensions. Canadians are still lucky because of OAS and CPP. You only need to work on producing 67%, not 100%, of the average pre-retirement income.

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