Is it Smart to Retire on ONLY Your OAS and CPP Pension?

Description

Retirement planning is a serious undertaking. Canadian seniors approaching the retirement zone typically focus on when to start claiming the Old Age Security (OAS) and Canada Pension Plan (CPP). If you were to rely only on both and choose either age 65 or 70, either option isn't a smart move.

You don't have financial security if the combined monthly payment is $1,286.40. Based on estimates, the pensions amount to 33% of the average pre-retirement income. Hence, you might have to postpone your retirement until you can cover the apparent deficiency.

Foundations

Canadians are fortunate the country has a retirement system in place. No one will retire with nothing. The OAS and CPP are foundations, but not enough to provide quality living in retirement. Even if you delay taking both at 70, the permanent increases won't cover all your financial requirements.

Financial well-being is of the utmost importance in the golden years. Current retirees regret not building a substantial nest egg, because they assumed the pensions were sufficient. It was too late when they discovered that you need to have other income sources to live comfortably.

The 2020 health crisis should be an eye-opener. It's hard for retirees to endure a crisis without two-thirds of pre-retirement income. If you insist on the OAS and CPP alone, prepare to downsize and live frugally for the rest of your life. However, the financial strain might lead to mental and physical stress.

Retirement experts suggest that financial planning should start as early as 20. You can build a fortune in 30-40 years and retire rich. Income opportunities abound if you have the capital to invest in various assets. But if you're after a simplified approach, dividend investing is your avenue.

Retirement friendly

Many soon-to-be retirees pick **Bank of Montreal** (TSX:BMO)(NYSE:BMO) for obvious reasons. First, the fourth-largest bank in Canada is the first-ever company to pay dividends. Second, BMO's dividend track record is 191 years. Last, the dividends are safe because the payout ratio ranges from 55% to 60%.

Now is a good time to invest, because you can purchase the bank stock at almost 17% cheaper than its 2019 year-end price. Likewise, for $80.51 per share, the dividend yield is a lucrative 5.31%. Assuming you can invest $150,000, the earning is $7,965. In 10 years, your money would be worth $251,644.47.

In 2020, BMO is again pioneering in digital payment solutions. The bank's new digital offering, Interac e-Transfer Bulk Receivables, gives Canadian businesses to greater control over incoming payments while enhancing cash flow visibility. BMO aims to address the need to improve business efficiencies and save time and money.

For investors' benefit, BMO's CEO Darryl White predicts the bank will have lower loan losses than its industry peers in the pandemic environment. He was reacting to insinuations that BMO's commercial lending business is risky.

Smartest move

Even if you're the smartest budget planner in Canada, it would be hard to work around the OAS and CPP. The solution to living comfortably in retirement is not to stretch the pensions but to supplement them with investment income.

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cliew