Here’s Why It Will Be Hard to Retire on Your OAS and CPP Pension Alone

Description

With or without savings, Canadians approaching the retirement zone are 100% sure of income in the golden years. However, retirement is not as simple as waiting for the Old Age Security (OAS) and Canada Pension Plan (CPP). Retirement experts will advise you against planning your retirement around government pensions.

It’s good that a retirement income system is in place. However, you can’t maintain your pre-retirement standard of living with only the OAS and CPP. The 2019 Ipsos online poll for **Sun Life Financial** (TSX:SLF)(NYSE:SLF) validates this reality. Three in four retirees say retirement expectations are different from reality.

Many Canadians are ill-prepared financially. About 23% of respondents describe their lifestyles as frugal. You follow a strict budget and spend only on non-essentials. Thus, it wouldn’t be fun if running out of money is an everyday dilemma for the rest of your life.

Partial income replacements

The whole nine yards of retirement planning requires a 100% replacement of pre-retirement income. Your OAS and CPP will replace 33%, at best. The wide gap should be a serious concern for retirees because it will truly lower one’s standard of living. Do you think you’ll get by with the combined monthly payments of $1,286.40?

Lurking events

Since the OAS and CPP will not cover all the bases in retirement, a financial crisis looms. Downsizing and reducing expenses will not hack it. Better to expect the unexpected. Unforeseen emergencies or events in the future can disrupt your finances. Healthcare costs, for example, might soar due to medical problems.

Also, consider life expectancy. Canadians live longer (average 82.52), such that a retirement period can last 20 to 30 years. The conventional solution to prevent an economic fiasco is to supplement your pensions.

Add the third pillar

Investment income can fill the 67% lacking in your OAS and CPP. A dividend aristocrat like Sun Life can help you build retirement wealth. The world-renowned insurer and financial services company focused on retirees when it commissioned Ipsos to do the 2019 Sun Life Barometer survey.

The poll results also showed that about 44% of working Canadians expect to be still employed full-time at 66. Nearly 65% don't enjoy working past the traditional retirement age, but they need to work for the money.

Saving for retirement starts from the first day of your first job, and not when you're 50. Assuming you were saving $2,500 monthly since five years ago, your savings would be $150,000 today. Sun Life pays a 3.99% dividend, and if you invest the money in the stock, your passive income is $5,985. A 20-year holding period will increase your fund to $328,036.99.

Sun Life has increased its dividend four times on a year-over-year basis over the past five years (8.04% average annual increase). This $32.36 billion company doesn't pay the highest dividend. However, it's a compelling investment opportunity because dividend payouts should remain steady for many years to come.

Pillars of retirement

More than 50% of Canadians are still working past the retirement age because the OAS and CPP are not enough. You can only retire with confidence if you have personal savings to strengthen your financial well-being.

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Date
2025/08/25
Date Created
2020/09/22
Author
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