Could You Live Off of ONLY OAS and CPP Pension?

Description

An individual would-be retiree in Canada should have a comprehensive retirement plan. Current retirees warn of the realities of the retirement system in the country. Could one enjoy a comfortable lifestyle with only the Old Age Security (OAS) and Canada Pension Plan (CPP)?

The pensions replace only 33% of the average pre-retirement income. Your planning must address the 67% gap if you were to ensure financial security. If you can't cover the shortfall, retiring could be a traumatic experience. You might need to return to employment out of financial need.

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Increasing financial demands

According to Statistics Canada, the number of Canadian seniors still working has soared by 62% in the past decade. Nearly one of every eight individuals over 65 still work. The ratio was less than one in 13 in the preceding decade. For lack of retirement savings, many have no choice but to work in retirement years.

If the OAS and CPP were enough, Canadians should be excited to retire at 65. Achieving financial freedom at 55 isn't achievable anymore due to increasing financial demands. Retirees will tell you to keep working if you're healthy, because you'll struggle with the budget. I suppose the "budget" pertains to the pensions.

Looming crisis

Counting too much on the OAS and CPP is a terrible idea. Bitterness and regret will set in if you discover you're financially wanting and need to go back to the workplace. Remember that poverty among Canadian seniors is on the rise. The number of people over 65 will double by 2036.

Your retirement stool will only have two legs, not the ideal three if the pillars are the OAS and CPP. The combined monthly payment is $1,286.40. You'll have to make do with this budget in a retirement period that could be more than 20 years. Theoretically speaking, the supplement should be $2,611.78

monthly to meet the average pre-retirement income.

Pension-like income

Don't beat around the bush if you're desperate to supplement your OAS and CPP with pension-like income. **Royal Bank of Canada** (TSX:RY)(NYSE:RY) is for no-nonsense investors. This blue-chip company has an incredible dividend track record of 150 years. In a longer investment horizon, you can fill the 67% shortfall.

The largest bank in Canada pays a 4.57% dividend. Let's assume the yield remains constant throughout. You would need $280,500 capital for it to compound to $685,606.66 in 20 years. Hypothetically, you can achieve your goal and produce the required $2,611.78 by then. The point here is that retirement planning is a long process.

If you have the means, invest in this reliable dividend payer that already has a high yield. Capital gains are a bonus if the price appreciates. However, focus more on the potential income you can generate for a lifetime. Royal Bank of Canada is as committed as you are to long-term results.

Firm resolve

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Saving for retirement is easier said than done, especially if you have other financial priorities. But if you know it's a significant risk to rely on the OAS and CPP alone, make a firm resolve to create more retirement dollars to supplement your pensions.

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