50% of Canadians Could Retire Poor

Description

Should Canadians worry about retiring poor, because COVID-19 is hurting retirement plans? Those on the cusp of retirement are doubly worried because of job or income losses. The retirement savings of some have been decimated due to early withdrawals. You might need to work more years to stave off poverty.

The 2019 **Scotiabank** Investment Poll shows that nearly 50% of Canadians are concerned they will need to rely on family for financial assistance. Also, about 70% of the respondents admit they're not saving enough for retirement. The survey results were before the pandemic. The anxiety level could be higher today.

Old-age poverty

A crisis looms if job losses will become permanent, especially for older workers in the labour force. While the unemployment rate dropped to 10.2% in August 2020, the long-term effects of COVID-19 are still unknown. Statistics Canada is not sure how many of the pandemic-related layoffs will be permanent.

When a soon-to-be retiree loses a job or income, the tendency is to tap into retirement savings to cover expenses. Pensions like the Canada Pension Plan (CPP) and the Old Age Security (OAS) reduce old-age in poverty. However, an individual retiree might still struggle with $15,436.80 in annual pension.

Financial challenges

Based on records from Statistics Canada, earnings of permanently laid-off workers between the late 1970s and early 2010s fell 25% five years after their initial job loss. The financial aftershock from the pandemic might take years. It's a reality future retirees are facing.

COVID-19 brought complex financial challenges, and it will continue into the retirement years. Prospective retirees must be aware of the fundamental importance of financial security. You can't make a knee-jerk decision anymore. Many are thinking of delaying retirement, because of a reduction in savings and the need for more income.

Invest when able

It would be best to gear your strategy towards building a retirement fund if you have the financial flexibility to invest. Supplement your CPP and OAS with investment income from a Dividend Aristocrat like **Bank of Montreal** (TSX:BMO)(NYSE:BMO). The best part is that you won't outlive your retirement savings, because the capital will remain intact.

The eighth-largest bank in North America is the most shareholder-friendly TSX stock. BMO's dividend track record is 191 years — the longest among all dividend-paying companies in Canada. Currently, the bank stock is trading at $82.21 per share and offering a 5.16% dividend.

Assuming you bought 1,000 BMO shares for a total investment of $82,210, the annual dividend earning is $4,242.04. You then use the dividends to buy more shares. Your total investment increases to $86,452.04. If the yield remains constant, the second year's dividend income is $4,463.93, while the investment income becomes $90,912.96.

Keep repeating the pattern to allow your money to compound. In 20 years, the original investment would be $218,827.32. This example did not consider dividend growth. Over the last five years, BMO has raised its dividend four times on a year-over-year basis (5.8% annual average).

More financial cushion

You will stumble through finances if you don't have sufficient retirement income. COVID-19 only made it worse. Retirees can't live on either pensions or dividend earnings alone. However, you'll have more financial cushion if you have both.

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