Retiring Soon? If You ONLY Have the OAS and CPP Pension, Don’t!

Description

The overall outlook for life in retirement among Canadians is negative. You can’t contest this perception, because decreasing salaries or earnings impact retirement preparedness. If you’re retiring soon and only have the Old Age Security (OAS) and Canada Pension Plan (CPP), hold your horses.

There’s no question about the disruptive influence of the coronavirus pandemic on people’s finances. For seniors due for retirement, it reduces financial confidence and alters retirement timing. The risk is too much if you insist you can get by with the OAS and CPP.

Harsh reality

You can be worry-free and live the life you desire in retirement if you have enough financial resources. The OAS and CPP pensions are replacements for pre-retirement income, but up to 33% only. Factor in healthcare costs, including long-term care and other emergencies. You’ll be working on a very tight budget ($1,286.40 monthly).

Retirement planning usually takes two or three decades since building a nest egg entails years of savings. You’re filling up a 67% shortfall of the average pre-retirement salary. Even if the latest Global Retirement Index from France-based Natixis Investment Managers ranks Canada eighth out of 44 countries for retirement security, the pandemic worsens the future.

Buy-and-hold asset

Start assessing how much you can afford to save for retirement. The OAS and CPP are strong foundations, but you still need to supplement them with investment income. One way to increase your retirement savings is to invest in dividend stocks.

ATCO subsidiary **Canadian Utilities** (TSX:CU) is a buy-and-hold and never-sell asset. This $9.12 billion company is one of the largest utility companies in Canada. Furthermore, it's a dividend all-star, because it has raised dividends for 48 calendar years in a row. At present, the dividend yield is 5.21%.

If you invest $150,000 today, you will generate $7,815 in pension-like income. In 20 years, the principal will grow to $414,220.58. Assuming the yield remains constant throughout the period, the annual dividend earnings should be $21,580.89. Add the yearly pension (OAS + CPP) of $15,436.80, and your annual retirement income balloons to $37,017.69.

Canadian Utilities is a safe and enduring business. The company owns regulated electric and gas distribution and transmission assets and operates principally in the home country. Nearly 86% of earnings come from regulated sources, while long-term contracted assets contribute the remaining 14%.

Risk-averse investors pick Canadian Utilities, because the business model is low risk and pandemic resistant. The company provides essential services and innovative business solutions in utilities (transmission and distribution of electricity and natural gas). Aside from electricity generation, its energy infrastructure offers energy storage and industrial water solutions. The retail energy is into electricity and natural gas sales.

Act with urgency

While the prevailing sentiment of would-be retirees in Canada is pessimistic, smart retirement planning should calm the fears. Understand at the onset that the OAS and CPP fall short of the pre-retirement salary.

Retirement experts advise people to stay invested because of the growing uncertainties. Act with urgency and find ways to boost your nest egg to supplement the pensions. You can't ensure retirement stability if you drag your feet.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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