Uh-Oh! Your Retirement Could Be at Risk After COVID-19

Description

It is no surprise that COVID-19 has had a devastating effect on the economy. Everybody feeling the economic pressure from the pandemic has been busy reprioritizing their finances. If you are a Canadian retiree, the global health crisis may mean you need to reconsider your retirement plans and adjust your strategy.

One of the most vital parts of a Canadian retiree's retirement income is the Canada Pension Plan (CPP). The government plan accounts for a chunk of the income after you retire, and you have every reason to worry about the impact of COVID-19 on your retirement money.

The question is: Will the CPP have the money to pay pensioners in the aftermath of COVID-19?

Fund performance

The Canada Pension Plan Investment Board (CPPIB) is responsible for handling the funds that contribute to your CPP. The administrative body reported that the pandemic has had dire consequences for the retirement fund. It slashed billions of dollars from the CPP portfolio.

The yearly investment return of 3.1% for the fiscal year that ended on March 31, 2020, was the worst performance for the CPP portfolio since the global financial crisis of 2008. The CPPIB Canadian stock portfolio fell 12.2% for the fiscal year, making it one of the worst times for the retirement fund since its inception.

Despite the severe market downturn in March, the CPP's assets managed to record $17.6 billion in gains. More than $12 billion of the gains were from the net returns on investments. The remaining gains came from individual CPP contributions by Canadians.

CPP liquidity

Eleven of the most significant pension funds in Canada were expected to withstand the effects of a market downturn, according to the Fitch Ratings report in July 2020. According to the rating agency, the CPP peer group has ample liquidity to weather the pandemic's financial headwinds.

Most of the pension funds have adequate cash, and short-term investments can repay all the outstanding liabilities. The pension plans also leverage any investment opportunities as they arise to rebalance the portfolios if necessary promptly.

COVID-19 economy

While the CPP plays a major role in how much you earn during retirement, it is still a partial aspect of your retirement income. The havoc of COVID-19 will have far-reaching effects on the economy. With millions of unemployed, risks of further lockdowns, and a significant loss for businesses across the board, the financial situation of many Canadian retirees is in a precarious position.

Even if you have the retirement funds saved up, it would be wise to put your previous plan on hold. It would be better not to burn through your retirement nest egg immediately. Setting aside your savings for later could prove better for your retirement plans post-COVID-19.

Preserve your capital

Preserving your capital is the name of the game in these challenging times. There is a constant risk of another market crash that can send your business investments reeling. If you have investments that could make a part of your retirement fund, I would advise shifting your capital to low-risk assets like **Emera Inc.** (TSX:EMA).

Emera is a utility sector operator that generates, transmits, distributes electricity, natural gas, and provides other utility services across North America and the Caribbean. The company might not be the most significant utility sector company in Canada, but it can provide a safe parking space for your capital.

Utility companies like Emera can rely on the constant demand for their services to generate stable and predictable cash flow. As the demand for its services remains constant, Emera can continue generating cash flow regardless of the economic circumstances.

As well, 95% of Emera's electric and natural gas utilities are regulated. It also has a geographically diversified customer base that can provide it with substantial cash flow.

Foolish takeaway

While most stocks are struggling with volatility during these times, utility operators like Emera continue to outperform the broader market. Emera is trading for $56.29 per share at writing and is up 1.61% from its valuation at the start of 2020.

The stock is paying its investors at a juicy 4.53% dividend yield. It is safe to say that Emera could be a crucial investment to help you protect your capital from the effects of COVID-19 and any subsequent market crash.

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