Baby Boomers: Don’t Even Think About Retiring With ONLY Your CPP Pension!

Description

Older Canadians are most vulnerable to the coronavirus-induced recession. Baby boomers in particular will find retiring harder, because of the fallout from COVID-19. The pandemic impacts not only retirement timing but financial confidence as well.

A would-be retiree can’t say it isn’t a dilemma, because there’s a safety net waiting. The Canada Pension Plan (CPP) and Old Age Security (OAS) will be available when you reach 65. Both pensions are the backbone of retirement in Canada, but not necessarily sufficient to give you a comfortable retirement.

Thus, it’s safer for baby boomers not to think about retiring with only the CPP plus OAS as anchors. Take action if you must and find ways to secure your financial security while there’s time.

Demographic time bomb

Baby boomers are born between 1946 and 1964, which means the youngest boomer is or will turn 56 years old in 2020. However, Canada is on the cusp of becoming a super-aged society, as 45% in this age bracket will be 65 or over this year. More will join the ranks in the next decade.

The CPP and OAS will disappoint you if the objectives are to have enough financial resources for security and live the same lifestyle as when you were working. The CPP is adequate to replace roughly 33% of the average pre-retirement income only.

Try to match your estimated retirement expenses with the pension amounts an individual retiree would receive. The CPP payments vary, although, on average, the monthly benefit is $672.87. If the CPP replaces 33% of the average pre-retirement income, theoretically, your monthly retirement income must be $2,039.

For the OAS, the maximum monthly benefit is $614.14. Add this to the CPP, and the shortfall is downto $751.91, more or less. The two combined assure of an annual income of $15,444.12. You need tohave a third income source to fill the remaining gap.

Wellspring of retirees

The danger of not saving enough is retiring into poverty. Of course, you'll not retire penniless if you're a CPP contributor. Also, the OAS is the second buffer. However, having investment income to supplement your pension will pry you away from financial misery in retirement.

Royal Bank of Canada (TSX:RY)(NYSE:RY) is the ideal wellspring for prospective retirees. Since 1870, Canada's largest bank has been paying dividends, and the payouts could be inexhaustible for another 150 years. Currently, the dividend yield is 4.49%, with the payout ratio at less than 55%. The share price is only $96.29 per share (a roughly 14% discount), although analysts are bullish about RBC.

The forecast is a high $127 in the next 12 months or a 51% price appreciation. Owning $185,000 worth of shares will produce a monthly income of $755.42. With the CPP and OAS, you'll be earning the average pre-retirement income. Now is the best time to initiate a position.

Higher quality of life

A baby boomer can elect to delay taking the CPP and OAS until 70 for higher payments. It's a practical move if your health is good and there's no urgent financial need. But if you can supplement the pensions to match the average pre-retirement income, a comfortable retirement awaits.

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