Planning to Retire? Aim to Save More Than Just the CPP Pension

Description

Some Canadians have no qualms about retiring at 60 because there's an option to take the Canada Pension Plan (CPP) early. Wait five years more and you can claim the Old Age Security (OAS) at 65. However, retiring with only the CPP (plus OAS) as the anchor is not the brightest idea.

Ask current retirees if the payments from this deferred income retirement vehicle are enough. Even if you add the OAS, financial dislocation is very likely high. The combined pensions come out to less than 50% of the average pre-retirement income.

If you desire comfortable living in retirement, aim to save more than the CPP while you can. You'll be glad you did and not regret the decision ever.

CPP is not a retirement plan

Know at the onset that the CPP came to be as to supplement the OAS. Also, it's not intended to replace all your regular pre-retirement income or salary. It bears repeating that the CPP plus the OAS can cover 50% of a retiree's income need at best. Hence, it's clear as day that you're responsible for saving money and planning for retirement.

A retired couple receiving the average CPP pension and qualifying for the maximum OAS would have difficulty coping with the rising cost of living and healthcare as you age. Soon-to-be retirees still need to have savings and investments to ensure you cover all expenses, including travel and leisure activities.

Start saving sooner than later

No one should plan for retirement on the eleventh hour. You have financial priorities like most, but you'll have to find ways to save for retirement. The important thing is that you start the process sooner than later.

Here are some suggestions you can follow to have a sizeable retirement fund when the time comes:

- Prepare a realistic budget and work around it.
- Cut down on useless spending to free up more cash for savings.
- Liquidate or pay down debts to reduce interest costs.
- Set aside a specific amount every month to build a seed capital.
- Invest in income-producing assets to build a nest egg.

A retiree's top priority

A safe and sound retirement is the top priority of serious retirement planners. One sleek way to enhance retirement income is to invest in dividend-paying stocks. It's possible that you can live off the dividends or cash flow you will generate. Your CPP could be a secondary income source, not the primary.

Royal Bank of Canada (TSX:RY)(NYSE:RY) belongs to the cream of the crop. Aside from being the largest bank in Canada, RBC's dividend track record is an impressive 150 years. Its current dividend is 4.64%.

Assuming the yield remains constant and you have $150,000 to invest, you'll have a nest egg of $371,574.48 in 20 years. By then, the monthly income from RBC is $1,436.75. The average CPP monthly pension (as of June 2020) is $710.41, while the maximum monthly OAS this year is $613.53. Income from RBC is higher than the pensions.

Take no chances

Retirement isn't the end of the road, so don't take your chances by relying solely on the CPP. It would be best to have a wellspring like the Royal Bank of Canada to experience a fulfilling retirement life.

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