CPP Pension Users: Here's How You Can Increase Your CPP Payments by 42%

Description

The Canada Pension Plan (CPP) might be a vital portion of a Canadian's retirement income. The maximum annual payout via the CPP is just over $14,000 for residents starting the pension payment at the age of 65 in 2020.

However, the actual amount you receive via this pension plan depends on how much you have contributed and for how long you have made these contributions towards the CPP. While it is not advisable to just depend on the CPP for a comfortable retired life you can protect yourself against longevity risk and defer the payout until the age of 70.

For every month you delay your CPP payout, you will receive an additional 0.7%. So, if you delay your CPP by one year, the payments will increase by 8.4%, and if you extend the withdrawals until the age of 70, it will be 42% higher.

However, you can find a way to replace and delay your CPP by identifying a portfolio of blue-chip dividend-paying stocks such as **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS).

Dividend income can replace a part of your CPP

Bank of Nova Scotia is a full-service financial institution and has a massive presence in Canada and the United States. It provides a range of retail, commercial, corporate, investment, and wholesale banking services.

Bank of Nova Scotia stock is trading at $56.3, which is 27% below its 52-week high. The COVID-19 pandemic induced sell-off in early 2020 sent most banking heavyweights to multi-year lows.

There are concerns over Canada's high unemployment rates, which might increase the risk of defaults. Further, a low-interest-rate environment will impact the profitability of BNS and peers, although it will be offset by increasing demand for mortgage and corporate loans.

Despite these headwinds, BNS reported an adjusted net income of $1.3 billion and earnings per share of $1.4 for the last quarter, which were in line with the prior-year period. Total provision for credit losses increased $335 million on a sequential basis to $2.18 billion, and the PCL ratio was up 88 basis points year over year.

Adjusted revenue fell 3% compared to the prior-year period after excluding the impact of divestitures. Comparatively, net interest income was flat, as higher contributions from asset-liability management activities and loan growth offset the negative impact of foreign currency fluctuations.

BNS stock is also trading at a cheap valuation with a forward price-to-earnings multiple of 9.1.

The Foolish takeaway

BNS stock has a forward dividend yield of a tasty 6.4%. This means in order to generate $14,000 in annual dividend income you will need to invest around $220,000. While it does not make financial sense to allocate such a huge amount in just one stock, you can identify similar large-cap companies with an established presence, huge economic moats, a resilient business model, and stellar historical performance.

Analysts tracking the stock have a 12-month average target price of $61, which indicates an upside potential of 10%. After accounting for the bank's dividend yield, total returns may be closer to 16.5% in the next year.

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