CPP Users: Why It's Silly To Rely on ONLY the CPP Pension for Retirement

Description

The Canada Pension Plan (CPP) pension, along with Old Age Security (OAS), is the guaranteed lifetime income of retirees in Canada. Retirement experts, however, will tell you the CPP is not a retirement plan. Understand that CPP users are responsible for saving money for their retirements.

Workers (and employers), not the government, funds the defined benefit pension plan with their contributions. You can look forward to receiving the CPP, but keep in mind that it replaces only 33.33% of the average worker's earnings.

Hence, there's an income gap to fill. Relying on the CPP alone as retirement income isn't advisable, if not silly. Strive to prioritize saving for the sunset years and thank yourself in the future.

Take your CPP at 60, 65 or 70

Age 65 is the middle ground in CPP. Soon-to-be retirees have the option of starting payments at this default age or take it early at 60 or move it further to 70. The average CPP monthly is $710.41, assuming you're 65 and claiming it today. It translates to an annual retirement income of $8,524.92.

Some will rush to receive to CPP as soon as it's available. Also, people with health concerns or urgent financial needs are likely to claim early at 60. However, you must consider the negative impact. Your pension reduces permanently by 36%.

If you don't need the pension yet because you're still working, delaying until 70 bumps up the pension. Your CPP benefit will get an 8.4% boost every year after 65 or a total increase of 42%. This option also minimizes the longevity risk.

CPP update

Since 2019, CPP contribution rates are increasing. This year, the employee/employer contribution rate is 5.25% but will increase to 5.45% in 2021 (10.9% total). The increases are every year until it reaches

5.95% (11.90% full) by 2023 before levelling off.

Simple nest egg building strategy

A simple approach to supplement your CPP pension is to invest in income-producing assets. You can gradually fill the income gap as you receive and reinvest dividends from a retirement stock like the **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD).

The second-largest banking institution in Canada has a market capitalization of $128.47 billion. Brand-wise, Toronto-Dominion Bank ranks number 77 among the top 100 most valuable global brands in 2020.

TD is with popular brand names like **Amazon.com, Apple, Coca-Cola, Facebook, and Nike.** Besides the inclusion in the list of most valuable global brands, TD is the only company that reported revenue and profit growth in the 2008 financial crisis. Paying dividends (163 years) is also in the bank's DNA.

Note that TD's total return over the last 20 years is 627%. The share price today is $70.90, while the dividend yield is a decent 4.46%. A $150,000 position will generate a recurring quarterly income of $1,672.50. Hold the blue-chip asset for 25 years and you'll have a nest egg of $446,520.91. If you purchase TD shares, you don't have to sell anytime soon or not at all.

A decision you won't regret

It's a retiree's call to supplement the CPP pension with investment income or not. However, if you can save funds and invest soon, there'll be no regrets in retirement.

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