CPP Pension and OAS: $1,286.40/Month Isn't Enough to Survive On

Description

Did you know that CPP and OAS combined only pay $1,286.40 a month on average? That works out to $15,436 per year — far below the poverty line. You don't need to be a genius to know that that isn't going to support a single Canadian in retirement — let alone a couple or a family. But you might be surprised to see just how little it really is. In this article, I'll explore why $1,286.4 just isn't enough to retire on — and what you can do to generate more substantial retirement income.

How far $1,286.40 will get you

Before getting into how little $1,286 a month truly is, I should mention one positive of earning that much.

At that income level, you'd pay almost no income tax. The basic claim amount in Canada was recently increased to $13,229. That's an amount of income that you get a 15% tax credit on. Because that's almost the entirety of a $15,436 a year, you'll pay barely anything in taxes if CPP and OAS is your only income.

However, the awful truth is that even with this near zero tax rate, you still won't get anywhere with CPP and OAS alone.

Consider these facts:

- According to Rentals.ca, the average rent on a one-bedroom apartment in Toronto is $1,922 per month.
- The *nationwide* average for a one bedroom is $1,782.
- The average Canadian *individual* spends at least $214 on groceries for themselves each month — higher if they have dependents.

Even if you're single and have no dependents, your monthly expenses as a retiree are likely to be $2,000 a month or more. So, even with the low tax rate, CPP and OAS alone will not cover your expenses.

How to supplement your CPP and OAS — without paying higher taxes

By now, if you're heading to retirement with no pension except for CPP and OAS, you're probably getting a little nervous. The two benefits don't cover anybody's expenses after all, so if you're not getting any other pension income, what are you to do?

The bad news is, there's not much coming up that could increase your CPP or OAS payments. You can increase your CPP by waiting longer to take it, but that means more years of work. There's also enhancement, but that's going to take 40 full years to reach a 50% pension increase. Apart from those two possibilities, your CPP and OAS are likely to be pretty meagre for the foreseeable future.

Fortunately, there's another way to get some retirement income going — and you can even avoid paying taxes on this income.

If you have some savings to invest, you can establish a tax-free passive-income stream by holding high-dividend ETFs like **BMO Covered Call Utilities ETF** (TSX:ZWU) in a TFSA.

ZWU is an ultra-high dividend ETF that claims to have an 8.2% yield. It does have fairly high fees, though, so let's say 7.5% to play it safe. If you invest $75,500 at a 7.5% yield, you'll get $5,662 per year in income. Held in a TFSA, all of that income is tax free. In 2021, there'll be $75,500 in TFSA space available. If you're nearing retirement age and haven't contributed yet, you'll be eligible for all of it. So, you can establish a portfolio of high-yield ETFs like ZWU and instantly add $5,000-$6,000 to your retirement income — and not pay a penny in tax on any of it!

It's simply one of the best ways to supplement your CPP and OAS income, period.

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andrewbutton