How to Retire Comfortably on Just CPP and OAS

Description

If you're nearing retirement age, you've probably heard that it's nearly impossible to retire comfortably on CPP and OAS alone. It's true: the *average* combined CPP/OAS payout ($1,286.40) doesn't cover anybody's expenses in most cities. In fact, it doesn't even cover *rent* in big cities like Toronto. But that doesn't mean that *nobody* can retire on CPP and OAS alone. If you live in a low-cost-of-living area, it could be done. In fact, you can even increase the amount of money you receive from CPP to stretch it further. Here's how.

Step one: Wait as long as possible to take CPP

By delaying taking CPP, you can dramatically increase the amount of money you get in benefits. In fact, you can increase it by quite a significant amount.

Recall above, where I said that CPP and OAS *combined* pay only $1,286.40. That's true on average. But, in fact, it's possible to earn more than that from CPP *alone*. The way you do it is by waiting longer to take CPP.

If you wait until age 65 to take CPP, the maximum monthly benefit is $1,175. If you wait until 70, the maximum benefit is $1,666. At the rate of pay, you get at maximum earnings, no pension clawbacks, and a 70 start age, you get $20,000 a year. Throw OAS on top of that, and you could get up to $27,300 a year. In cheap areas (e.g., rural Nova Scotia), it's possible to live on that much money.

Step two: Invest

Another thing you can do to make CPP and OAS more livable is to invest some of the money you get from it. If you're getting, say, $27,000 a year from CPP and OAS, you could conceivably invest maybe $5,000 a year. At that rate, you'd save $10,000 in two years.

If you invested $10,000 in a high-yield ETF like **BMO Covered Call Utilities ETF** (TSX:ZWU), you'd get about $710 per year back in extra income. That's based on the fund's advertised yield (7.8%)

minus a 0.7% fee — a 7.1% “real” yield.

Even $710 a year is a nice little bonus. And if you hold ZWU in a TFSA, all the proceeds are tax free. But the real power is in investing continuously year after year. After 10 years of investing $5,000 a year in ZWU, you’d have a $50,000. Assuming the yield didn’t change, you’d get $3,550 in annual cash income on that position. Now THAT’S a good income supplement.

Foolish takeaway

For most Canadians, CPP and OAS don’t pay much. But that doesn’t have to be the case. By waiting longer to take CPP, you can turn these benefits into a truly substantial retirement income. With maxed out CPP and OAS plus some prudent investing, you could get up to $30,000 a year. In a low cost of living area, you could easily live on that. Of course, the cost of living is likely to go up over time. But the CPP is indexed to inflation, so you get some protection there as well.

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