



## CPP Pension Users: 2 Frightening Truths About Retirement

### Description

Most Canada Pension Plan (CPP) pension users build different images of retirement lifestyles. Some even dream of enjoying the sunset years in exotic and idyllic settings. However, the images are often unattainable in the real world. To many Canadians, it's a rude awakening.

Retirement is indeed a unique experience, but you won't enjoy it as much without an effective plan. Without it, you're facing two frightening truths about retirement.

### 1. A comfortable retirement depends largely on finances

If you rely only on your CPP pension alone in retirement, think twice. The pension will barely cover half of your financial needs. The replacement level for retiring baby boomers is only 25% of the average worker's lifetime earnings. If you're a millennial, the enhanced CPP will replace 33%. Either way, you need to fill the income gap to have a quality of life.

You can increase your CPP pension by 42% if you [start payments at age 70](#). However, that's the maximum increase you can get. Thus, the best option is to look for other income sources to add to your CPP and Old Age Security (OAS) pensions. Also, don't underestimate retirement expenses and prepare a realistic budget.

### 2. Longer life expectancy

Life expectancy is now a determining factor in the retirement decision. In Canada, the age increased by 0.18% from 2019, so the current life expectancy in 2020 is 82.52 years old. The early retirement magic number for most retirement plans in Canada is 55 years old, although it's not the best option these days because of the uncertainties.

When you start [planning financially](#), make sure to cover ten more years of the average life span. Your retirement period could be longer than in your working years. Not everyone is fortunate to have a private pension. If your CPP pension replaces between 25% to 33% of your pre-retirement income, you

should have a back-up plan.

Chasing after the magic number like \$1 million can be a source of distraction and cause undue pressure. The best approach is to set a fixed amount monthly for retirement savings. Once you have enough capital as seed money, consider investing in dividend stocks.

An independent power producer like **Capital Power** ([TSX:CPX](#)) is a relatively safe investment. The business model is less risky since the company owns and operates power generation facilities. Currently, this \$3.8 billion company has 28 facilities with a combined power generation capacity of 6,500 megawatts.

Capital Power generates stable and growing cash flows from a contracted and merchant portfolio. The utility stock trades at \$36.03 per share and is up 10% year to date. If you invest today, the dividend yield is a high of 5.71%. A \$50,000 investment translate to dividend earnings of \$2,855. In 25 years, your hard-earned money will capital will quadruple to \$200,388.05.

## No honeymoon in the final frontier

The earlier you accept that you can't subsist on the CPP alone in retirement, the better. Retiring on low income in Canada is a challenge. Your pension will not cover your basic necessities and lends no hedge against inflation. If the journey to retirement is difficult, wait till you get to the retirement stage. Your final frontier isn't a honeymoon if you're income sources are limited.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:CPX (Capital Power Corporation)

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