



## Can You Retire With NO SAVINGS and Your OAS and CPP Pension?

### Description

The Old Age Security (OAS) and Canada Pension Plan (CPP) are the important foundations of Canada's retirement system. Both pensions are guaranteed lifetime incomes for would-be retirees. Unfortunately, you must have personal savings besides the two benefits to living comfortably in retirement.

If you have zero savings, [don't push your luck too far](#). The Canada Pension Plan Investment Board (CPPIB), fund manager of the CPP fund, tells Canadians it's wrong to assume the CPP pension (and OAS) can cover all your financial needs in retirement.

### Partial replacements

Canadians who reach age 65 will be entitled to receive the OAS benefit. You don't need an employment history to qualify. In the first quarter of 2021, the maximum OAS monthly benefit is \$615.37. If you want a higher amount, you can defer your claim and start payments at 70. The amount will increase by 36% permanently.

The CPP enhancements are underway, and the phase-in should be complete by 2024. Sadly, the younger generation will benefit the most from the changes, not baby boomers close to retirement. In the future, the CPP will replace 33.33% of the average pre-retirement income.

Currently, the CPP pension replaces only 25%. The average monthly CPP in 2020 is \$689.17, although you can [increase the pension](#) by starting the payments late or 70. Your monthly payment will increase by 42% to \$978.62. If you combine the OAS and CPP payments, your potential monthly income at age 70 is \$1,815.52 or an annual retirement income of \$21,786.30.

### Ideal retirement savings

Some retirement planners suggest as much as 70% of your working income for a comfortable retirement. Other investment advisors believe you must save ten times your final salary before the

actual retirement date. However, there's no magic number because every retirement is different.

The amount of income you would need in retirement depends on your lifestyle, expenses, and unique needs. Since you have an estimate of your guaranteed income (OAS and CPP), you can better assess the shortfall or income gap you need to fill. Most Canadians would match the combined pensions with investment income to have more financial cushion in the sunset years.

## Pension-like income

The **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) is among the dependable income stocks on the TSX. This 203-year-old bank is the first company ever to pay dividends. Its dividend track record of 191 years somehow indicates the bank's reliability to provide pension-like income to Canadian retirees.

Given BMO's current dividend yield of 4.26%, you would need to own \$367,500 worth of shares to match the combined OAS and CPP monthly payments. Assuming you can save as much over time and the yield remains constant, the recurring monthly income stream is \$1,304.63.

BMO's share price is back to \$100 in January 2021 after sinking to \$53.95 during the COVID-19 sell-off in March last year. For fiscal 2020 (year-ended October 31, 2020), the bank reported an adjusted net income of \$5.2 billion compared to \$6.2 billion in fiscal 2019. Note that provision for credit losses increased by nearly 240% to \$2.9 billion.

## Third pillar

The OAS and CPP are the backbones of retirement in Canada. However, pensioners would still need investment income from a dependable third source to enjoy retirement life to the fullest.

### CATEGORY

1. Bank Stocks
2. Dividend Stocks
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