Canada Pension Plan: 1 Simple Way to Earn 42% More in Your Pension

Description

Canada has a relatively well-developed financial support for retirees. The Canada Pension Plan (CPP) is one of two guaranteed income sources for seniors. Many Canadians will rely solely on these pensions in the sunset years. In particular, the CPP replaces 25% of the average worker's earnings but leaves a considerable income gap.

CPP users on the verge of retirement would have to rethink their options or face severe financial constraints. A 65-year-old who will claim the pension today can expect to receive $689.17 per month (as of October 2020), on average. Had you contributed 39 years, it's possible to obtain the maximum pension of $1,203.75.

If the pension amount is not to your liking because it's too meagre, there's one simple way to bump up your CPP. However, you would need to push back your retirement to a later date.

Receive 42% more in CPP

The CPP offers an incentive to would-be retirees. While you can claim your pension as early as age 60, you can also start the payment five years after 65 or 70. From a cash flow perspective, the delay option is better than the early option since it results in a permanent 42% increase in CPP pension.

If you can wait, your annual CPP pension will increase to $11,743.46 or $3,473.42 more than if you were to retire at 65. The reason is that the pension increases by 8.4% per year after 65. Hence, instead of $689,17, you'll receive a higher monthly pension of $978,62.

The delay option is a practical and less-costly move, especially if your health is excellent or doesn't have urgent financial needs. Remember that your CPP is for life, so the 42% increase means a significant financial cushion in retirement. Besides the financial consideration, you minimize longevity risk with the delay option. Life expectancy in Canada is 82.66 years (for 2021), so it makes sense to claim late at 70 if you expect to live past the said age.

Cut to the chase

Retirement experts usually advise retiring individuals to have at least 75% of pre-retirement income. Since your CPP replaces only 25%, how can you pay the bills or cope with rising living expenses in retirement?

Cut to the chase and save. Use the money to invest in income-producing assets like dividend stocks. Pick Canada's largest bank to secure your financial future. **Royal Bank of Canada** (TSX:RY)(NYSE:RY) or RBC is the dream investment of most Canadian retirees. Your income stream could be for life.

The blue-chip stock isn't the highest dividend payer on the **TSX**, although the yield is a decent 4.02%. If you were to invest $50,000 in RBC, your annual dividend is $2,010. Keep reinvesting the dividend, and in 25 years, your money would be worth $133,934.12.

It's just the tip of the iceberg because your nest egg could be so much more if you accumulate RBC shares over time. This $152.78 billion bank is a no-nonsense income provider owing to its 15 decades-long dividend track record.

Best laid-out plan

People usually think about retirement in their 50s. If you wait that long, you might not have enough time to save and build a nest egg. Starting young is still the best plan if you desire a comfortable retirement.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/08/24
Date Created
2021/01/28
Author
cliew