Can You Retire With No Savings and Only Your OAS and CPP Pension?

Description

Can you retire with no savings and rely only on the Old Age Security (OAS) and the Canadian Pension Plan (CPP)?

How much in OAS and CPP pension payments will you receive?

Assuming you retire at age 65 in 2021, the maximum CPP payout you can receive is $1,203.75 per month. However, most Canadians don't get the maximum. The average monthly amount received in October 2020 was $865.27 (up 28% from a year ago).

Your OAS pension payment amount is determined by how long you have lived in Canada after the age of 18, but you need to have lived in Canada for at least 10 years to receive any OAS payments (and 40 years to receive the maximum amount). Currently, the maximum amount is $615.37 per month, or $7,384.44 a year.

For example, if you've lived in Canada for 20 years after the age of 18, you'd receive 20/40 (i.e., half) of the OAS amount or $307.68 per month, or $3,692.16 annually.

The OAS and CPP payments won't be enough, but…

Many Canadians haven't lived in Canada for 40 years. To be conservative, let's use the average CPP pension amount and half of the OAS amount to get to a total CPP and OAS payment of $1,172.95 per month.

Depending on where you live in Canada, the cost of living and minimum wage are different. According to the Retail Council of Canada, the recent minimum wage ranges from $11.45 to $16 per hour across Canada.

Assuming $14 an hour, that'd be $2,072 per month on a 37-hour workweek. The combined CPP and OAS pension payments only make up about 56% of this minimum wage amount. So, they won't be enough to pay for a comfortable retirement, but that's normal.

According to Mark Machin, president and CEO of the Canada Pension Plan Investment Board (CPPIB), CPP payments pay up to roughly a quarter of an average employee's salary.

In other words, you should have other sources of retirement income, including your savings like Registered Retirement Savings Plans (RRSPs), Tax-Free Savings Accounts (TFSAs), and potentially company pension payments.

Supplement your retirement income with safe dividend stocks

You should save as much as you are comfortable with**,** but at least put away 10% of your after-tax income for your retirement investment fund. The sooner you save and invest smartly, the sooner you can gather a portfolio to get your passive-income stream rolling.

Don't just focus on income. Pay attention to growth as well.

Many dividend stocks with durable businesses are shareholder friendly and increase their dividends over time at a rate faster than inflation to boot!

Here's a list of such stocks from the top of my mind: **Fortis**, **Royal Bank of Canada**, **TELUS**, **TC Energy**, and **Granite REIT**.

They are leaders in their corresponding industries and handily make up a five-stock diversified portfolio should you choose an equal weighting in each stock, as they're from the utility, financial, telecom, energy, and real estate sectors, respectively.

At writing, their dividend yields range from 3.9% to 5.8% with an average yield of close to 4.5%. Additionally, they're expected to deliver long-term earnings-per-share growth of about 5% annually.

Therefore, if you buy the stocks at fair valuations, you should get long-term returns of close to 10% annually, which would far exceed the average **TSX Index** total returns of 7%.

Particularly, I find Fortis, TC Energy, and Granite REIT to be decently valued today.

Investor takeaway

The OAS and CPP likely won't be enough for you to retire on, but that's normal. A large part of Canadians' retirement funds is expected to come from their savings.

Contribute to your TFSA and RRSP accordingly and make strategic long-term investments in dividend stocks like Fortis, TC Energy, and Granite REIT to boost your passive income immediately! Then, when you retire, you can sit back and enjoy your nest egg along with OAS and CPP payments.

CATEGORY

1. Dividend Stocks
2. Investing

3. Stocks for Beginners

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

Date
2025/07/28
Date Created
2021/01/30
Author
kayng