CPP and OAS Are Not Enough: Should You Delay Retirement to Fight Inflation?

Description

Canada is gradually coming out from the pandemic. The pandemic affected the economy and health of Canadians, especially the ageing population. Many lost their jobs, and some took voluntary retirement. If you are considering taking retirement and living off a government-funded retirement, you are up for disappointment.

How much pension you can get from the CPP and OAS

The government-funded Old Age Security (OAS) pension and the self-funded Canada Pension Plan (CPP) can give you up to $1,822 per month in retirement. This is the amount you can get if you retire at age 65. But you can increase this amount by $728 by delaying your retirement to age 70.

The above amount is the maximum, and not everyone gets it. The average monthly CPP payout is $619.75 as of January 2021. The Canadian government adjusts the above amount for inflation. But ask yourself, is $1,238/month in CPP and OAS combined enough to maintain your current standard of living? And don't forget, this amount is taxable.

The problem with retirement is that it is not just inflation that affects your expenses. There are rising medical bills and convenience charges you pay, as your health doesn't allow you to take the physical strain. Rising inflation is also making old age costly.

Should you delay your retirement?

The big question is, should you delay your retirement? Both the CPP and the OAS incentivize you to delay your payout to age 70. Delaying the CPP and OAS will increase your payout by 42% and 36%, respectively. You can get a maximum monthly pension of $2,550 and an average of $1,721.

Delay your retirement if you have a job after the pandemic, if you don't have sufficient savings, and if you have any ongoing loan or mortgage. Use these five years to pay off your loan and start a personal retirement fund.

A retirement fund that beats inflation

You need to plan your retirement fund strategically. The repayment of debt will take away a major portion of your monthly expenses. Look at your current monthly expenses after loans and reduce them by $2,000 (this is about the amount you can get from government retirement plans). The amount left after deduction is what you'll seek from your retirement fund. Also, you need to ensure your retirement fund is not adding to your tax burden.

Hence, create a personal retirement fund in the Tax-Free Savings Account (TFSA). If you have already been investing in the TFSA, evaluate your portfolio for stocks whose growth has stagnated or bonds that are giving less than 3% returns. These stocks will not help you beat inflation or address your growing healthcare expenses.

Invest that money in inflation-beating dividend stocks like **Enbridge** (TSX:ENB)(NYSE:ENB) or **BCE**. Enbridge is offering a 7% dividend yield. If you invest $20,000 in Enbridge now, you can lock in a monthly dividend income of $117. Your principal amount will remain invested and exposed to stock price movement.

Enbridge has successfully increased its dividend at an average annual rate of 10% in the last 26 years. The company's new pipeline construction could slow in the coming years due to environmental reasons. Even if I take a conservative estimate of a 5% dividend growth, your monthly tax-free dividend pension will grow to $181.

To a stress-free retirement

I don't suggest frequent portfolio reallocation. But it is necessary to keep a tab on your portfolio performance when there is a change in your financial needs. Sometimes, you need to book a profit to have a stress-free retirement.

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