Retirees: Build Your Own Pension With These 3 ETFs

Description

If you're retired, there are few investments better for your needs than index ETFs. Younger investors can afford to speculate on riskier assets, but when you're retired, you have to play it safe. Ideally, you'll retire with a nice sum of money saved so you can live off dividends and interest. If so, you have a nice base of assets to start with. But that's only half the battle. In addition to having savings, you need to know where to invest them. In this article, I'll explore three ETFs that you can use to build your own pension.

iShares S&P/TSX 60 Index Fund

iShares S&P/TSX 60 Index Fund (TSX:XIU) is Canada's most popular ETF. It's built on the TSX 60 index — that is, the 60 largest Canadian companies by market cap. It's a pretty diversified fund, which reduces the risk. The more diversified a portfolio of assets is, the lower the unsystematic risk — that is, the risk in owning individual assets. Holding 60 stocks isn't the *most* diversified fund you can get, but it's decent. XIU offers a low (0.15%) management fee and a 2.5% dividend yield. If you want to get some quality Canadian stocks in your portfolio without buying them individually, a fund like XIU is the way to do it.

Vanguard S&P 500 Index Fund

Vanguard S&P 500 Index Fund (TSX:VFV)(NYSE:VOO) is an ETF that tracks the S&P 500 — the most followed stock market index in the world. The S&P 500 is the 500 largest U.S. stocks by market cap. VOO/VFV is market cap weighted, so your exposure to each stock is in proportion to its size. About 25% of the fund is invested in the big U.S. tech giants. That's probably a good thing, because those companies have been beating on earnings consistently in 2020 and 2021. With VOO, you pay a 0.04% fee; with VFV, the fee is 0.08%. That would seem to argue for buying for VOO, but remember that with VFV (the Canadian-listed version), you don't have to worry about currency conversion costs.

BMO Mid-Term Investment Grade U.S. Corporate Bond ETF

Last but not least, we have **BMO Mid-Term Investment Grade U.S. Corporate Bond ETF** (TSX:ZIC). This is a fund of U.S. bonds offered by a Canadian bank — **BMO**. Bonds are among the safest investments out there, because their interest payments take priority over stock dividends. If a company goes bankrupt, there's a chance bond holders will get their money back, but most stock holders will lose it all.

Generally, government bonds don't offer enough yield to keep up with inflation. With corporate bonds, it's a different story. Corporate bonds often yield enough to stay ahead of inflation, especially if you re-invest the coupons. ZIC currently yields 3.41%, which beats inflation in Canada but not the United States. It's definitely not an investment you'll get rich overnight on, but it's a decent passive-income play for retirees.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSEMKT:VOO (Vanguard S&P 500 ETF)
2. TSX:VFV (Vanguard S&P 500 Index ETF)
3. TSX:XIU (iShares S&P/TSX 60 Index ETF)
4. TSX:ZIC (BMO Mid-Term US IG Corporate Bond Index ETF)

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