



Retirees: Can You Live Solely on Your OAS and CPP Pension?

Description

The long-standing question of would-be Canadian retirees is whether the Canada Pension Plan (CPP) and Old Age Security (OAS) pension are enough to live on. For the CPP, the CPP Investment Board (CPPIB) stresses the pension is only a foundation in retirement and not a retirement plan.

Financial experts also say that, ideally, a sturdy retirement income should look like a three-legged stool. One leg represents government pensions (CPP and OAS), the other is retirement savings, while the third is workplace pension. Thus, the odds of living comfortably in retirement with only the CPP and OAS are very low.

Most Canadians who are saving for the long-term invest their money to build a nest egg. The typical investment vehicles are [dividend stocks](#). If you were to take the same route, make the **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) or **BCE** ([TSX:BCE](#))([NYSE:BCE](#)) your anchor stock. Both companies can provide [endless income streams](#) like the CPP and OAS.

Income gap

The basic CPP and its expanded version replace 25% and 33.33% of the average pre-retirement income. Currently, the maximum monthly CPP at age 65 is \$1,203.75. However, you should have contributed 39 years (between 18 and 65) to receive the maximum. Most users receive only the average of \$619.75 (January 2021).

Canadians turning 65 will receive the OAS, where an eligible recipient can receive the maximum of \$626.49 (July to September 2021) per month. Thus, if the CPP replaces only 25% of the average pre-retirement income and you add the OAS, the replacement level increases to 60%. The combined total is \$1,246.24 per month,

Based on the sample computation, the combined total of \$1,246.24 per month (average CPP and maximum OAS) represents roughly 60% of the average pre-retirement monthly income. Hence, you need to fill an income gap of \$830.83 (40%) to live comfortably in retirement.

Logical choice

BMO is a logical choice because of its [dividend track record](#). Canada's fourth-largest bank pioneered sharing a portion of its profits with shareholders through dividends. The practice started in 1829, and the record is approaching 200 years.

The bank stock trades at \$128.47 per share and pays a 3.29% dividend if you invest today. BMO's payouts should be sustainable, given the 39.55% payout ratio. Also, a hike is possible once the banking regulator lifts the restrictions on dividend increases.

Assuming you invest \$20,000 and the yield remains constant for 25 years, your capital will compound to \$112,320.20. Your income stream will be \$307.92 per month.

Next-best source

BCE is an outstanding dividend stock to boost your retirement income. Canada's largest telco has been paying dividends since 1881. In addition to the consistent payouts of 140 years, the \$57.25 billion company pays a generous 5.54%. Your \$50,000 can purchase 791 shares (\$62.91 per share).

If you apply the same parameters for BMO, the investment's value will balloon to \$192,485.16 in 25 years. The annual dividend of \$10,663.68 translates to \$888.64 per month. You could close the income gap and have a stable three-legged stool in retirement.

Secure your financial security

Canadians can take appropriate steps to secure their financial security long before their retirement dates. The CPP and OAS pensions will help you to retire, but you'll need more than the foundations to be problem-free in retirement.

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