



Retirees: CPP Only Pays You This Little Per Month

Description

The Canada Pension Plan (CPP) fund has reached \$541.5 billion as of September 30, 2021. According to the pension fund's manager, the CPP Investment Board (CPPIB), they continue to build a portfolio designed to achieve a maximum rate of return without undue risk of loss to CPP users or future Canadian retirees.

However, the CPPIB wants to manage the expectations of recipients. Its primary purpose is to help provide a foundation for 20 million-plus Canadians to build their financial security in retirement. Hence, the message is clear that the CPP isn't a [retirement plan](#), nor does it replace a user's pre-retirement income.

Pension amount

The actual CPP varies and depends on the following: the amount and length of contributions, the age you start pension payments, and average earnings during your working years. For 2021, the potential maximum amount a new recipient (age 65) can receive every month is \$1,203.75.

However, only a minority of users qualify to receive the maximum pension. According to the government's website, the average monthly amount is \$619.68 (June 2021). If the CPP replaces only 25% of the average pre-retirement, then there's an income gap to fill. You would need an additional \$1,858.14 every month to maintain your current lifestyle when you retire.

Investment strategy

[Dividend investing](#) is one way to supplement your CPP. Retirement planners suggest using your savings or free cash to invest income-producing assets. Also, your investment strategy must be long-term similar to the CPPIB to realize the power of compounding.

The CPPIB invests in local and foreign public equities. As of September 30, 2021, the board has \$9 billion invested in TSX stocks. For regular investors, a \$104,000 investment, a 20-year investment

window, and a dividend yield of 6.305% can cover the CPP's shortfall fully.

Income sources

Capital Power ([TSX:CPX](#)) and **Timbercreek Financial** ([TSX:TF](#)) are attractive prospects for long-term investors. The utility stock pays a 5.38% dividend, while the financial stock yields a hefty 7.23%. With an average yield of 6.305%, you can invest \$52,000 in each today.

Your investment will compound to \$353,270 in 20 years by not touching the principal and reinvesting the dividends. Assuming the average yield remains constant, the annual dividend earnings by then would be \$22,273, or \$1,856 every month. You'd have restored 100% of your pre-retirement income with this strategy.

Capital Power (\$40.50) and Timbercreek (\$9.59) are steady performers this year, with year-to-date gains of 20.39% and 17.43%, respectively. Likewise, their businesses can sustain [dividend payments for years](#).

After three quarters in 2021, Capital Power reported 20.9% net income growth versus the same period in 2020. The \$4.64 billion company is a growth-oriented power producer in North America. It owns and operates power generation facilities and serves customers in Canada and the United States.

Timbercreek is a \$778.78 million non-bank lender with a unique business model. It provides short-duration loans (not more than five years) to commercial real estate investors. The lending policy is ultra-conservative given the high loan-to-value ratios. As of Q3 2021, the average loan-to-value is 69.6%, while 87.1% of its mortgage investment portfolio consists of cash-flowing properties

Gentle reminder

CPPIB's mandate is to invest the pension fund for the best interests of CPP contributors. However, the board reminds users they still need to save and invest to ensure a comfortable retirement.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CPX (Capital Power Corporation)
2. TSX:TF (Timbercreek Financial Corporation)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media

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