Should Canadian Seniors Push Retirement Dates Past 65?

Description

Rising inflation and the prolonged health crisis make it difficult for Canadian seniors to firm up their retirement decisions. The 2021 Retirement Report of Fidelity revealed that 56% of pre-retirees in Canada are concerned about the impact of rising cost of living on retirement savings.

Those with zero or little savings will rely on the Canada Pension Plan (CPP) and Old Age Security (OAS) benefits when they retire. The CPP and OAS peg the standard retirement age at 65. Assuming you're 65 years old today and claiming both pensions, the likely combined benefit amount per month is $1,345.02.

The breakdown is $702.77 (average) for the CPP and $642.45 (maximum January to March 2022). If would-be retirees think the $16,140.24 annual pension isn't enough, they can avail of the financial incentive and start payments at a later date.

Permanent increase

Age affects the pension amounts, but the delay option means higher benefits. CPP payments increase by 0.7% per month (8.4% per year) if you start payments after 65. If you can wait until age 70, the maximum increase over the base pension is 42%. The CPP amount will jump to $997.93 per month.

The OAS is available at 65, but a recipient's annual income must be less than $133,141 to receive the maximum. Seniors electing to collect at 70 will receive a 36% permanent increase (7.2% per year) in benefit. Hence, instead of $642.45, the OAS amount is $873.46. Hence, the combined pension would be $1,871.39 per month, or $22.456.72 per year.

The delay options are the cheapest ways to boost retirement income. While the CPP and OAS are for life, they might not be enough to live comfortably in retirement. Therefore, many Canadians use their tax-advantaged (TFSA) and tax-sheltered (RRSP) investment accounts to start investing and build retirement wealth.

Build retirement wealth

Dividend stocks are the preferred holdings because of recurring income streams. Today, **Manulife Financial** (TSX:MFC)(NYSE:MFC) and **TC Energy** (TSX:TRP)(NYSE:TRP) are attractive assets because the dividend yields are at least 5%. TFSA and RRSP balances should compound faster through dividend reinvesting.

Manulife is one of the world's largest insurance companies. Management raised its dividends (18%) immediately following the lifting of restriction on federally regulated financial institutions to hike dividends. The insurance stock trades at $26.45 (+9.7% year to date) and pays a 5.01% dividend.

Current TC Energy investors enjoy an 8% year-to-date gain ($64.53 per share) on top of the generous dividend yield (5.40%). Market analysts forecast a maximum upside potential of 13.1% to $73 in the next 12 months. Note that this top-notch energy stock has a dividend-growth streak of 21 years.

The $63.3 billion company boasts an extensive network of natural gas and liquids pipeline, and therefore, the business should be enduring. TC Energy also has power-generation and storage facilities to complete its diversified asset base.

According to management, the high-quality assets provide multiple platforms for business and dividend growth. TC Energy should be the top natural gas provider, as consumption in North America is expected to grow by more than 25% through 2030.

Confidence to retire

The same Fidelity survey says the pandemic would delay retirement plans of 21% of pre-retirees. However, those receiving pension-like income streams from Manulife and TC Energy would have the confidence to retire at 65.

CATEGORY

1. Dividend Stocks
2. Investing

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Date
2025/08/27
Date Created
2022/02/08
Author
cliew