Canadian Retirees: Don't Rely Only on Your CPP Pension

Description

Retirement anxiety is rising among Canadians because of the continuing pandemic and rising inflation. According to hubinternational.com, 37% of Canadians saved for retirement from mid-2020 to April 2021, while 63% did not. Given the survey data and current environment, many seniors face a retirement crisis.

The Canada Pension Plan (CPP) is available as early as 60 and the benefit is for life. Unfortunately, the pension is a retirement foundation. It only replaces 25% of the average pre-retirement income if payments start today and 33% in the future when the enhancements are in place.

Financial risk

Canada Pension Plan Investment Board (CPPIB) President and CEO John Graham said, "Our broadly diversified portfolio with investments in infrastructure and real estate is reasonably positioned to weather inflationary pressures." He adds, "Our double-digit Fund performance over the long term continues as we brace for uncertain markets from a position of strength."

CPP users can take comfort in the long-term sustainability of the Fund. However, relying on the CPP alone could be a financial risk. Even if you add the Old Age Security (OAS) benefit, the combined pensions might not cover all your financial needs in retirement.

Earn from other sources

Would-be retirees need a third pillar to be stress-free and live comfortably in retirement. Many Canadians use the Tax-Free Savings Account (TFSA), Registered Retirement Savings Plan (RRSP), or both to build retirement wealth. While the TFSA and RRSP have fundamental differences, the eligible investments are the same.

Whether you hold government and corporate bonds, mutual funds, exchange-traded funds (ETFs), or stocks in your TFSA or RRSP, money growth is tax-free. TFSA withdrawals are tax-free, while RRSP withdrawals are taxable.

Dividend stocks are preferred investments because balances compound faster due to the tax shelter and dividend reinvesting. More importantly, dividend stocks provide recurring income streams to boost CPP and OAS pensions.

Anchor stocks

Future retirees can choose the **Toronto Dominion Bank** (TSX:TD)(NYSE:TD) or **Fortis** (TSX:FTS)(NYSE:FTS) as good anchor stocks. The dividend yields of the Big Bank (3.63%) and top-tier utility company (3.50%) aren't the highest on the TSX, but the payouts should be rock-steady for years or decades to come. The current share prices are $98.06 and $60.30, respectively

TD is Canada's second-largest lender and soon-to-be the sixth-largest financial institution in the U.S. On February 28, 2022, the $191 billion bank signed a definitive agreement to acquire First Horizon Corporation for US$13.4 billion.

The premier regional bank would accelerate TD's long-term growth strategy in America. But with or without the M&A, TD's 165-year dividend track record gives you the confidence to invest.

Fortis is on track to become the TSX's second dividend king in 2023 after **Canadian Utilities**. The dividend growth streak of this $28.63 billion regulated electric and gas utility company is 49 consecutive years. Furthermore, management's plan to raise dividends by 6% annually through 2025 is doable.

With the new $20 billion capital plan (2022-2026), the largest in Fortis' history, rate base will grow by 6% on average annually. Thus, would-be investors can expect growing income streams when they invest today.

Create a plan

CCPIB reminds users that the CPP pension is not a plan. You can avoid financial dislocation in retirement by having other income sources like blue-chip stocks.

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