Five signs you're counting too much on CPP for retirement

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If you think Canada Pension Plan (CPP) and Old Age Security (OAS) benefits will give you the goods to fund your golden years, you might want to sit down.

But first, Janet Gray wants you to look under your chair and count its legs.

That's because Ms. Gray, a certified financial planner with Money Coaches Canada in Ottawa, has seen too many Canadians teetering when it comes to their retirement plan.

"Think of retirement income as a three-legged stool. One leg is government benefits, the next is defined pension and the last one is personal savings," she explains.
"Obviously if you don't have one of those three, the other two have to compensate."

In other words, someone who doesn't have a company pension plan would have to bump up their registered retirement savings plan (RRSP) or tax-free savings account (TFSA) to make up the difference. But that's not always what happens. Instead, people heading into retirement sometimes rely too heavily on government benefits to pay for everything from housing to utilities and even debt.

That's a big mistake, says Paul Shelestowsky, senior wealth adviser with Meridian Credit Union in Niagara-on-the-Lake, Ont. Canadians are playing a dangerous game with their future by expecting the benefits to make up for meagre savings.

"CPP and OAS were never meant to form somebody's retirement plan. They were meant to augment it and help as one of the pieces of the puzzle," Mr. Shelestowsky says.

Still, heightened expectations of government payouts are common. According to a 2014 Bank of Montreal study, 89 per cent of Canadians said they expected CPP or the Quebec Pension Plan to fund part of their retirement. Thirty-one per cent said they expected to rely "heavily" on their CPP/QPP.

Here are five signs that your retirement plan – or lack thereof – depends too much on government pensions and not enough on the other two main options for retirement income.

1. You don't know what you have coming to you.
If you're oblivious about how much government money you will be eligible for some day, you're not alone. In 2013, a Leger Marketing survey for H&R Block found that seven out of 10 non-

retired Canadians were unaware of how much money CPP pays out monthly. (The maximum in 2015 was $1,065 a month.)

Mr. Shelestowsky runs the numbers and shows that if CPP and OAS were your only sources of income in 2015, you'd bring home a net of $17,883 a year – in other words, the equivalent of a big wakeup call.

"You would have $1,490 a month to live on. I don't know of too many people who can do that," he says.

2. You're too optimistic.
In the same vein, while a two-income couple will obviously bring in more government money than a single person, they need to know that they might not necessarily double their income. One spouse might have taken years out of the workforce to watch the kids or didn't make that much in the first place.

It's also a mistake to count on receiving the maximum payout. The average CPP payment is only about $550. Again, how much you receive from CPP depends on how much you added to it over the years. For example, if you made less than $53,600 in 2015, the maximum pensionable earnings that year, you've lost points for the long term.
And don't forget, spouses die. In 2015, a survivor's maximum pension for someone older than 65 was just $639.

3. You've never bothered to picture retirement.
Deciding whether CPP and OAS will give you enough to retire on without visualizing what you want retirement to look like is a little like buying a bathing suit without trying it on first: Nine times out of 10, you'll have a bad fit.

Instead, take some time and decide what's important to you, says Ms. Gray. Do you see yourself on a cruise for six months of the year or hanging out in the backyard with the grandchildren? That's going to dictate how much money you'll need.

"Some people are just very happy paying their bills and living in the house they love. They may need only 40 per cent of their pre-retirement income," she says.

If that's the case, the government pension could very well make up the lion's share of their retirement income. But it still probably won't cover all expenses without making some serious financial and lifestyle sacrifices.

4. You think of your RRSP as petty cash.
It seems like a good idea at the time: withdrawing money from your RRSP or TFSA to pay for an emergency, child's education or even bills. But treating retirement savings like a bank account – a "nice to have" rather than mandatory – could spell trouble in the long run if there's not enough savings to draw on.

“You’re thinking, ‘Oh, I’ll just take out $5,000 to get caught up,’ but you’re losing years of compounding,” Mr. Shelestowsky cautions, referring to the magic of generating earnings on your previous earnings.

Instead, build an emergency fund and keep it at the ready. Let your savings grow.

5. You don’t factor in debt.
Maybe you’ve seen the headlines. Seniors are adding to their debt load even faster than the general population, with the average Canadian senior owing just shy of $15,000.

Remember, CPP and OAS offer limited funds. It would be tough enough to make ends meet on that income in the best of times, but add debt to the mix and the situation would likely spiral downward.

Ms. Gray says she sees it happen when people leverage the equity in their homes later in life or help their children come up with a house down payment.

“Ouch. That makes things tighter if they’ve only got $40 a week for groceries because they’re paying off $800 a month for the line of credit,” she says.

“So you have to ask yourself, what debt are you taking into retirement with you?” And more importantly, where’s the money coming from to pay for it all?