CPP Pensioners: Should You Take CPP Payments at 60, 65, or 70?

Description

The million-dollar question on the minds of many older Canadians is whether they should collect CPP payments sooner at the age of 60 or later at 70. The answer differs for everybody and depends on a wide range of factors that must carefully be considered.

First, the obvious: if you collect at the moment you hit 60, you're going to get less per month than if you delayed it to 70.

"For every month that you start receiving payments before age 65, you will lose 0.6% per month, or 7.2% per year, of your CPP payment. That's a 36% reduction. For every month that you defer payments after age 65, you will gain 0.7% per month, or 8.4% per year, of your CPP payment. That's an increase up to 42%." said fellow Fool Christopher Liew.

That's a pretty decent return for holding out!

In essence, the annual pension amount you'll get by receiving at 60 will be less than half the amount that you'll receive at 70. Given the average life expectancy in Canada is 82 years, though, it's not always good to delay, especially if you're likely to be under financial stress through your 60s.

Thus, the answer to the "sooner or later" problem should be about maximizing one's total utility (the closest quantifiable metric for gauging happiness) that CPP payments will provide you over a lifetime.

As you may know, The Motley Fool's motto is to "make the world smarter, happier, and richer." While you may be wealthier down the road by opting to collect pension payments later rather than sooner, it may not make you the happiest, especially if you live frugally through your "youthful 60s" only to have more money in the bank in your 70s.

Before deciding on whether to collect CPP payments now or later, you must consider your other sources of income, your health (to gauge life expectancy), your investment ability, and the financial footing of your family members or dependents.

For example, if you're a baby boomer with several millennial children who are burdened with student debt, no other sources of income, a small nest egg, and ample expenditures, you may want to consider taking CPP payments sooner rather than later to relieve your financial stress and increase your total utility.

If you're making ample income from your investments, and additional CPP payments won't make a tonne of difference with your present lifestyle, you should consider delaying your CPP unless you're in dire health and know for a fact that you have a low life expectancy.

For most investors who have a sizeable nest egg, one should strive to invest in safe dividend stocksor one-stop-shop income ETFs like **BMO Covered Call Utilities ETF** (TSX:ZWU) to meet their income needs.

ZWU is a 6.3%-yielding basket of stable utility businesses that naturally have a low correlated to the broader markets (ZWU has a 0.8 beta), a large dividend (or distribution) payout, and a covered call strategy that results in consistent premium income over time.

I'm a massive fan of BMO's line of covered call ETFs, and the value proposition offered to retired investors. They have a relatively low 0.71% management expense ratio (MER) and allow retirees to increase their income without compromising on safety. The additional income provided by the covered call strategy lowers one's downside risk at the expense of a ceiling on share price upside.

In everything but up markets, a covered call ETF like ZWU will outperform a non-covered-call counterpart. But for retirees who care less about capital gains, ZWU is well worth the price of admission.

If you find that a 6% yield isn't enough to live comfortably, you may want to consider taking CPP payments sooner rather than later, as stretching your yield even farther could put your principal at risk.

Foolish takeaway

There is no "one-size-fits-all" solution like there is for income investors who abide by the "4% rule" for their investment income. If you're facing financial hardship or limited financial flexibility, there's no shame in opting to collect payments sooner rather than later.

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