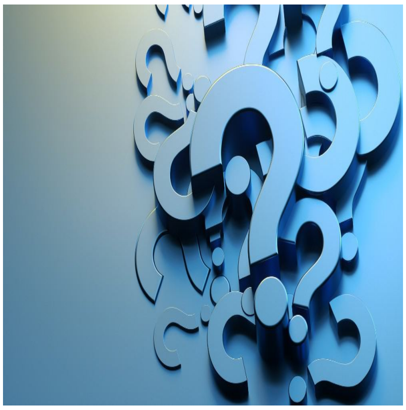

CPP Pension Users: Should You Start Your Pension at 60, 65, or 70?

Description

For Canadians, the typical age to start receiving pension payments from the Canada Pension Plan (CPP) is 65. However, there is an option to start receiving CPP payments as early as age 60 or as late as age 70.

It goes without saying that in case you want to receive CPP payments from the age of 60, the payouts will be far lower than the payouts in later years. Any person in Canada who earns more than the basic exemption amount should contribute to the CPP.

The amount of retirement pension therefore depends on a variety of factors, such as the age you start the pension, the length and amount of your contribution, and the average earnings in your lifetime.

In 2020, the maximum pensionable earnings are $58,700, and the basic exemption for the year is $3,500. The contribution rate for employees stands at 5.25%. This means Canadian workers earning over $3,500 per year need to contribute 5.25% of their income to the CPP. The maximum amount an employee can contribute for the year is $2,898.

In 2020, the maximum monthly amount a 65 year old starting CPP payments can receive stands at $1,175.83, and the average monthly payout is $672.87. In case you start CPP payments at 60, you will lose up to 36% of your pension amount. The pension amount is reduced by 0.6% every month of 7.2% every year.

Similarly, if you delay CPP payments till 70, the pension amount will increase by 0.7% every month, or 8.4% every year, which will mean an increase of 42% in payouts.

The CPP withdrawals depend on several factors, including the current financial position of the individual, savings, life expectancy, and much more. In case you are still working at 65, it will be prudent to delay CPP payments to take advantage of a higher payout at a later age.

We can see that the average payments, whether taken at 60 or 70, will be insufficient to maintain a more than modest lifestyle in big Canadian cities like Toronto and Vancouver. It will be inadvisable to just bank on the CPP for retirement payouts.

Canadians nearing retirement need to build a robust portfolio of dividend-paying stocks. In case you are 40 years old, retirement is still 20 years away, giving you enough time to allocate funds to investments with a stellar record of wealth creation.

Capital Power

Investors can consider stocks such as **Capital Power** (TSX:CPX) to supplement their CPP payouts. Capital Power is a North American power-producing company. It develops, operates, and acquires power generation from several energy sources.

The company is engaged in the operation of electrical generation facilities within Canada and in the United States. Capital Power has a market cap of $4.07 billion and an enterprise value of $8.32 billion.

The stock has gained 49% in the last five years and 27% in the last year. It is trading at a forward price-to-earnings multiple of 20.3 and analysts expect company earnings to rise by 23.3% in 2019 and by 25% in 2020. After accounting for Capital Power's forward dividend yield of a tasty 5.1%, you can see that the stock still has reasonable upside potential.

Capital Power is just one such dividend-paying company. There are several other blue-chip companies in Canada and the United States that investors can consider for long-term returns.

CATEGORY

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1. Editor's Choice

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Date
2025/07/06
Date Created
2020/02/13
Author
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