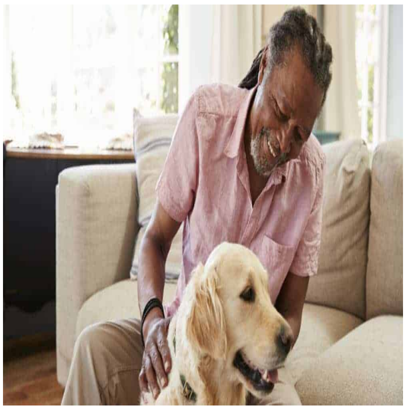

Retirees: Should You Take CPP at 60 Because of COVID-19?

Description

The COVID-19 pandemic has had devastating effects on Canadians of all ages. Threatening our health and taking our livelihoods, it has been the most serious crisis in recent memory.

Young and old Canadians are suffering in their own ways, but it's clear that retirees have been hit hardest. Not only is their health at greater risk, but their finances have been negatively affected. Many retirees have seen their RRSP balances shrink in the wake of the COVID-19 market crash. They've also missed out on aid. To qualify for CERB — the main form of financial aid available in the COVID-19 era — you need to have worked in the last 12 months, which excludes many retirees.

Faced with these dilemmas, some Canadians are considering taking CPP early. Recently, *MoneySense* ran an article advising retirees on when to take CPP in the age of COVID-19. It pointed out that some retirees have opted to take CPP earlier than planned to provide more benefits to their surviving spouses. The idea might seem to make sense, but it comes with certain risks.

The cost of taking CPP at age 60

The longer you wait to take CPP, the more annual benefits you get — generally speaking. If you take CPP at 60, your payment will be 36% lower than if you'd waited until 70. For every year you wait after 65, you get an extra 0.7%. Over a few years, that can add up to a nice amount.

In normal circumstances, waiting longer to take CPP is the best move. But we're not in normal circumstances. COVID-19 has made part-time work harder to find. According to Statistics Canada, many Canadian retirees rely on part-time jobs to make ends meet. The lack of such jobs can make early CPP seem necessary. However, that means accepting lower annual payments.

Faced with this dilemma, retirees seem stuck between a rock and a hard place. The question, then, is, what can retirees do as an *alternative* to taking CPP early?

What to do instead

If you have some cash savings lying around, one alternative to taking CPP early could be establishing a dividend-paying investment portfolio. With $500,000 invested in a portfolio yielding 3%, you'll get about $15,000 a year — more than most CPP recipients receive. If you hold part of your portfolio in a TFSA, you won't pay any taxes on it — although the TFSA does have a $69,500 limit.

One great asset to consider holding in a TFSA is the **iShares S&P/TSX 60 Index Fund** (TSX:XIU). It's an ETF that you can buy and trade like a stock on the TSX stock exchange. Unlike individual stocks, XIU doesn't require special research. As an index fund, it gives you built-in market cap weighted exposure to the 60 largest companies in Canada. This means you don't need to be an investing expert before you buy it. Diversification reduces portfolio risk, which makes in-depth knowledge of individual companies less necessary. In XIU's case, you get a full 60 Canadian stocks, which is a pretty well-diversified portfolio.

At current prices, XIU yields 3%, which means $500,000 worth of it can generate the $15,000 a year income stream just mentioned. If you have an extra $500,000 sitting around un-invested, it could be an excellent way to put your money to work. It could also help you avoid the consequences of taking CPP early.

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