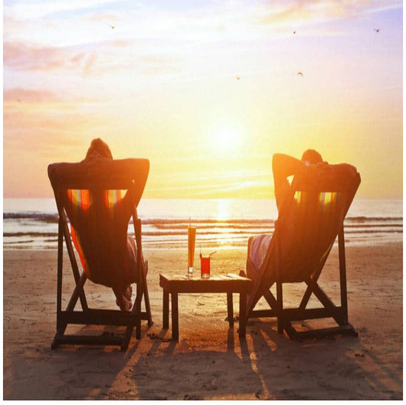

Retirees: 3 Reasons to Delay Your CPP Payout Until Age 70

Description

The Canada Pension Plan (CPP) is a designated benefit to help Canadians lead a comfortable life in retirement. It is a monthly taxable benefit and aims to replace part of your income on retirement. The Canada Pension Plan payouts depend on a number of factors such as the average earnings during your work life and contributions to the CPP.

It also depends on the age you decide to start receiving CPP payouts. The standard age to start these payouts is 65. However, you can delay the payments until the age of 70. Here we look at three reasons to do so.

CPP payouts will increase by 42%

If Canadians are looking to delay their CPP withdrawals until the age of 70, they will be rewarded with a higher payout. For example, the maximum annual CPP payment for a 65-year old in 2020 is $14,109.96. This maximum amount will increase by 42% to $20,036.14 for a 70-year old starting their pension.

Canadians can save on taxes by delaying CPP

The Government of Canada's largest pension program is the Old Age Security (OAS). The maximum monthly OAS pension stands at $613.53 per month. This indicates annual OAS payments of $7,362.36.

However, if your annual income exceeds $75,910, you will be taxed 15% on the OAS payment. Canadians who earn over $123,385 annually are eligible for OAS payments. An individual's annual TFSA, RRIF, CPP, and OAS withdrawal can be more than the threshold limit. In these cases, OAS pensions will be subject to a clawback from the Canada Revenue Agency (CRA).

You can delay CPP payments and look to reduce CRA taxes

Protects against longevity risk

Longevity risk is the risk associated with the rising life expectancy of pensioners. This will result in higher than estimated payouts and cash flows and can send retirement plans for a toss. You can look to liquidate riskier assets such as stocks when you are close to retirement. It will provide you with the required capital and help delay the CPP withdrawals.

You will be in a position to delay CPP payouts only if you have enough savings in retirement. A diversified portfolio of assets will help secure your future. One tried and tested inflation-beating asset is equity. And investing in top-quality equities might not only secure but also accelerate retirement plans.

The ongoing market volatility provides long-term investors to buy quality stocks at lower valuations. This buy and hold strategy will help investors generate massive wealth over time. One such company that is attractive at the current price is **Capital Power Corp** (TSX:CPX).

CPX has a market cap of $2.9 billion. The stock is trading at $27.13, which is 30% below its record high. Despite the recent pullback, Capital Power shares have gained over 20% in the last five years.

The company has managed to increase sales from $1.16 billion in 2017 to $1.96 billion in 2019. Its EBITDA has risen from $614 million to $1.02 billion in the same period. Capital Power aims to create cost-effective and innovative electricity solutions and is focused on expanding its natural gas and renewables portfolio. In Q1, its revenue was up 34% at $533 million while EBITDA grew 16% to $234 million.

The Foolish takeaway

Capital Power has a strong balance sheet and expects to generate $300 million in discretionary cash flow in 2020. This will help it sustain annual dividend payouts of $1.92 per share. It indicates a dividend yield of 7%. Further investors can also benefit from capital appreciation over the long term.

CATEGORY

1. Dividend Stocks
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