CPP Pension Users: Should You Start Payments at 60 or 65?

Description

The Canada Pension Plan (CPP) pegs 65 as the full retirement age. If you've contributed to the deferred income retirement vehicle, you are eligible to receive the pension. However, some provisions allow people to claim the benefit as early as 60.

Canadians nearing the retirement stage face a dilemma because choosing to retire between the ages of 60 and 65 has real significance. The CPP benefit partially replaces average earnings upon retirement. Hence, the question of whether to start payments at 60 or 65 arises among CPP pension users.

Ready for a break

In most developed countries, 65 is the ripe retirement age for the working class. When people reach this age, they are ready for a break. The life expectancy for Canada in 2020 is 82.52 years. If you were to take the retirement exit at 65, you still have more years to enjoy and fulfill your bucket list.

The maximum monthly CPP benefit is $1,175.83, although not everyone gets this amount. On average, the monthly payment is $672.87. Should you elect to receive the benefit earlier or at 60, the pension reduces by 7.2% per year before 65 or a permanent reduction of 36%.

Claiming the CPP at 60 is logical if a pensioner has poor physical health or anticipates a shorter life expectancy. Similarly, it makes good financial sense if you have an urgent need for cash to pay bills and others.

In summary, the CPP takes the best 35 years of your earnings when you retire at 60. When you start the payments at 65, the CPP will base the amount on your best 39 years of earnings. The decision is yours to make. However, whether it's 60 or 65, you still need retirement income beyond the CPP.

Proven income-provider

CPP users can pay themselves with pension-like income by investing in dividend stocks. **Royal Bank of Canada** (TSX:RY)(NYSE:RY) can provide current and future retirees with greater financial stability. Moreover, this premium bank stock can endure elevated market volatility.

This $135.11 billion bank is a Dividend Aristocrat whose track record spans 15 decades. Now is the best time to take a position in Royal Bank since it's selling for less than $100 per share. The dividend offered is 4.56%, which means a $50,000 retirement savings can produce $570 in quarterly income for a lifetime.

The massive market capitalization allows the bank to dominate the retail banking industry. Royal Bank is also establishing a dominant position in insurance, wealth management and treasury services. The bank can post steady earnings because of geographical and operational diversification.

Given the 895.43% total return over the last 20 years, the Royal Bank of Canada is a fail-safe investment option for prospective retirees. A pandemic or deep recession will not disrupt the dividend payments. The bank is a time-tested income provider.

Primary consideration

Try to work out the numbers if you're approaching the retirement age decision zone. Age will not be the primary consideration due to the income gap in the CPP. Only a well-funded nest egg outside of the pension plan will give you the confidence to retire, be it at 60 or 65 years old.

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