CPP Pension User: 2 Reasons to NOT Delay Your CPP Until 70

Description

Canadian seniors customarily collect the Canada Pension Plan (CPP) at age 65, although there's an early or late option. Either way, the payments will adjust. You'll receive less if you take your CPP early at 60. If you delay or wait until 70, the incentive is higher payment.

Many retirees take time to figure out the best time to collect. It's a milestone decision that will impact on retirement life down the road. The early option is a bummer, because collecting at 60 means a 0.6% reduction per month before 65 or a 36% permanent decline in pension payments.

Choosing the deferral option makes sense, since it will boost the payment by 0.7% for each month of delay after 65. The total payout comes to 42% larger than at 65. While this option is financially rewarding, some retirees have valid reasons not to delay the CPP until 70.

Personal health

The breakeven point between receiving less at 60 versus the cumulative payment at 65 is at 72. Taking the early option is best for Canadians with poor health or reduced life expectancy. You can use the CPP funds to enjoy the retirement years while you still have zest and energy.

Financial need

Closely linked to failing health is an urgent financial need. Some may have been forced to retire early due to health reasons or an unexpected job layoff. In both instances, a retiree will experience financial stress. Thus, the delay option isn't rational.

With zero income and insufficient savings, there's no choice but to take the CPP as early as possible or one month after you turn 60. You need the pension to pay bills and spend on basic needs. Your retirement income should increase when you start collecting the Old Age Security (OAS) at 65.

Cover the shortfall

Prioritize building your nest egg, because the CPP won't cover your financial requirements in your non-working years. However, investment income can fill the shortfall and give you a financial cushion. **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is a provider of active income in retirement.

The second-largest bank in Canada has been paying dividends to shareholders for 163 years. Although growth will be slow for the rest of 2020 and next year due to the impact of COVID-19, you can still expect a steady income stream.

If you invest in this blue-chip stock pays a 5.13% dividend. An investor with $234,000 worth of TD shares today will earn $1,000.35 monthly. This income could be for life if you hold the stock and never sell. In 20 years, the capital should be worth $636,427.81. You can retire with confidence at 60 or later.

TD is breaking new grounds again by partnering with the Charles Swab Corporation. The latter acquired TD Ameritrade Holding Corporation, and the transformative transaction gave TD a 13.5% ownership in the wealth industry leader.

Whole brew

The CPP is just one ingredient of the retirement income mix. The whole brew consists of three: CPP (+OAS), personal savings, and employer pension. If there's no third ingredient, personal savings will make up the bulk of retirement income, especially if you take your CPP early.

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Date
2025/08/25
Date Created
2020/10/14
Author
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