Canada Revenue Agency: Should You Take Your CPP Pension at 60 or 65?

Description

In this time of the Great Pandemic, Canadians approaching retirement are hesitant to set a firm date. If you're a Canada Pension Plan (CPP) user, the road you are in today will soon become two divergent roads. You'll arrive at a fork-in-the-road where you have to make a choice. Should you take the pension at 60 or wait five more years and retire at 65?

One of two possibilities

Before March 2020, retirement planning did not consider a global pandemic. Soon-to-be retirees worry if they can ever retire with the uncertainties around. The more pressing concern now is financial security, not holiday cruises in the future. Such retirement dreams might be gone forever because of COVID-19.

Regarding the CPP, there are one of two possibilities. You can either claim it at age 60 or 65. Assuming you're 65 and starting to receive the pension, the average monthly CPP is $710.41. Had you been contributing 83% of the time between 18 to 65, or 39 years, you could receive the maximum monthly payment of $1,175.83.

Taking the CPP early at 60 is not the wisest move to many because of the downside. Your pension will reduce permanently by 36%. However, it makes practical sense if there are health concerns or urgent financial needs.

Wrong move

Some think they can stop working at 60 but claim the CPP at 65. This move gives no advantage to the retiree. Generally, the contributory period ends when you start receiving your CPP. Thus, you have five years (from 60 to 65) of zero earnings at the end of the contributory period. The result is a lower CPP retirement pension when you retire at 65.

Remember, the benefits are calculated based on amounts and how long the CPP contributions were during the contributory period. Aside from the 39 years, you should have contributed “enough” in each of those years to qualify for the maximum.

Stability in retirement

Retiring is more than just not working. The sunset years can be the best years of your life if you have financial stability throughout the period. Your CPP is inadequate to survive because it only replaces 33% of the average work earnings. You still need to save and seek out other income sources.

Since the 2008 financial crisis, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is always part of the discussion when income stability in retirement is the topic. The second-largest bank in Canada was the only company that posted revenue and income growth during the time.

You can build a substantial nest egg by investing in this income-producing asset. TD boasts of a dividend track record of more than 160 years. If you want income for life, this $121.77 billion bank is your dream investment.

The blue-chip stock pays a 4.8% dividend. A $200,000 investment will produce $800 in monthly retirement income. In a 20-year holding period, you would have a half-a-million nest egg.

Lifetime anchor

The bulk of retirement income of Canadians comes from investments, not the CPP. Whether you take the pension at 60 or 65, it would not be easy to navigate life in retirement. With TD as your anchor, you can generate enough income with less risk.

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Date
2025/07/08
Date Created
2020/11/20
Author
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