CPP Pension: Should You Start Payments at 60, 65, or 70?

Description

Before the pandemic, Canadians approaching retirement have plans to take their Canada Pension Plan (CPP) early at 60. But with COVID-19 still around, the train of thought is changing. Many lean towards age 65 or even later at 70.

The CPP is the guaranteed lifetime income for Canadian workers, together with Old Age Security (OAS). However, there are financial consequences, positive and negative, whether you decide to take your CPP before or after age 65.

Default claim (65)

If you were to claim at 65, the CPP would base the benefit payments on the best 39 years of earnings. The maximum monthly payout in 2020 is $1,175.83, although you'll only get the max if you have contributed enough for that long. On average, the monthly pension is $710.41(as of June 2020) or $8,524.92 yearly.

Three factors will determine the benefit amount: the age you start receiving the pension, the amount and length of CPP contributions, and average earnings throughout your working years.

Early option (60)

You can take your CPP a day after your 60^{th} birthday, which is the earliest you can claim. It's not the best choice from a financial standpoint because of a negative repercussion. A pensioner voluntarily commits to a 36% reduction in retirement income.

The early option makes sense or practical if the reason is urgent financial need. If it's due to poor health, it might be better to apply for a CPP disability pension. The disability amount is higher than a retirement pension if you get the approval. Also, it converts to a full retirement pension at 65.

Delay incentive (70)

A simple move to boost your CPP is to delay until 70 to take advantage of the incentive, which is a permanent 42% increase. The amount increases 8.4% annually for every year after your 65. There's no further increase past 70 years old.

Live off dividends

If you were to save and invest to supplement your CPP, go for the income stock with the longest dividend history on record. is the **Bank of Montreal** (TSX:BMO)(NYSE:BMO) has been paying dividends since 1829. A retiree can live off the dividends, with the CPP pension as the backstop.

This blue-chip stock trades at $92.27 per share and pays a 4.63% dividend. An investment of $184,200 will produce a monthly income equivalent to the CPP monthly payment. If you have a long-term horizon and don't have that amount yet, start small and build up your holdings going forward. Also, your money will compound if you keep reinvesting the dividends.

The pandemic and low-interest-rate environment are strong headwinds for Canadian banks. BMO'CEO Darryl White told investors not to worry about the heavy exposure to commercial lending. The bank can weather the downturn. Management doesn't expect outsized losses.

Over the next three years, the prestigious bank is investing $3 billion in capital to support women-owned businesses and programs across the country. BMO's authorized lending to women entrepreneurs will increase by more than $1.4 billion.

Constructive warning

Retirement experts' advice to CPP users is to reinforce the pension with other income sources. Your CPP alone is not enough to meet your financial needs or obligations in retirement. Heed the wise counsel.

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