Canada Revenue Agency: Should You Start Your CPP Pension at 60 or 70?

Description

Deciding when to tap into the Canada Pension Plan (CPP) wouldn't be as challenging if it weren't for COVID-19. The fallout from the pandemic has forced would-be retirees to re-think their retirement plans. Many who were planning to start payments as soon as possible are probably considering holding off for a few years more.

Before the coronavirus, Canadian seniors were enthusiastic about their financial future. Each retiree could potentially receive an annual pension of $15,887.28 at the default age of 65. Of the total, $8,524.94 is the average CPP, while the rest is the maximum Old Age Security (OAS).

Regarding the CPP, you can decide to take the pension at 60 or delay it until 70. You can also delay the OAS until 70 but not claim it before 65. There are upsides and downsides with the early or late CPP options.

Plausible reasons to start at 60

There are two plausible reasons why some CPP users claim at 60: health and an urgent need for cash flow. Claiming early because of poor health or serious medical condition makes perfect sense.

Likewise, it's practical to take the CPP sooner when you anticipate financial constraints through your 60s due to insufficient income or depleted savings. It's a reluctant decision, as you would need money for sustenance and pay bills. However, taking CPP at 60 has a negative effect. Your income for life will reduce by 36% permanently.

An incentive to delay until 70

Deferring the CPP until 70 offers better math. Your CPP payout will be higher, because there's a 42% permanent increase in benefits. For every year of delay after 65, the boost is 8.4%. Besides the incentive, if you're in good health, it makes sense to delay because you minimize longevity risk.

Some Canadian seniors who are still working after 65 are likely to delay. They don't need extra income or a pension yet. Keep in mind also that CPP contributions are optional at this point. Last, deferring the CPP pension (and OAS) by a couple of years could result in tax savings.

Need to increase retirement income?

Even with the enhancements beginning in January 2019, your CPP will replace only one-third of the average pre-retirement income. To ensure worry-free and comfortable living, augment your CPP pension. Dividend investing is a straightforward way to increase retirement income.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) can be the core holding in your portfolio of retirement stocks. TD proved its durability during the 2008 financial crisis. Despite the meltdown, this banking behemoth managed to achieve steady revenue and earnings growth.

The second-largest bank in Canada has been paying dividends for more than one-and-a-half centuries. For the last 20 years, the total return is 627%. At the share price of $71.41, the dividend yield is 4.5%. You can grow your nest egg to $500,000 in 20 years if you can purchase $270,325 worth of TD shares. Your lifetime monthly income would be $777.47. Pandemic or no pandemic, this blue-chip stock will not let retirees down.

A retiree's primary goal

There will always be arguments between the early and delay option in CPP claims. However, the insufficiency of the pension as the only income source in retirement isn't contestable. Don't avoid what is essential in retirement — financial stability.

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