CPP Pension Users: You Can Increase Your CPP Payments by 42%

Description

You will know if retirement is a big deal in a country by looking at its retirement system. Mercer and the CFA Institute's recent report ranks Canada 9th in the top 10 countries globally with a sound retirement structure for its citizens.

The same report found that Canada's system showed improvement due to pension plans' asset growth, particularly the Canada Pension Plan (CPP). Most systems worldwide face unprecedented life expectancy, which increases pressure on public resources to support the older generation's health and welfare.

Individuals working in Canada are eligible to contribute to the CPP. The fund grows from annual contributions, which are then invested and managed by the Canada Pension Plan Investment Board (CPPIB).

The standard or default age to claim the benefits is 65. However, monthly payments can increase if you take your CPP at age 70.

Newly enhanced pension

CPP enhancements, which began in January 2019, are ongoing. It will run for seven years, and contribution rates are increasing every year until 2025. Once the enhancements are complete, the CPP retirement pension can replace one-third of the average work earnings after 2019. Survivor and disability pensions will increase too.

However, the enhancements' impact is fairly significant only if you're 30 years old and below. Baby boomers and generation Xers have little to gain, except slight increases every employment year beginning in 2019. The millennials or generation Z have time on their hands and can wait for 45 years to achieve the maximum benefits.

CPP 42% incentive

Soon-to-be retirees will not see the day when their maximum CPP retirement pension grows by up to 50%. Fortunately, retiring baby boomers can still receive higher payments by taking the CPP at 70. By deferring, the benefits will increase by 8.4% per year after 65, or a 42% permanent increase overall.

The average CPP in 2020 is $710.41 per month or 8,524.92 per year. If you wait, the annual pension increases to $12,105.38 or a $3,580.46 increase for a lifetime. The incentive is substantial, but relying on the CPP alone will not guarantee financial security in retirement.

Top priority

The 2019 **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) or Scotiabank retirement survey results reveal that only 23% of Canadians consider saving for retirement as a top priority. Many do not maximize their Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA) to save for the future.

For example, Scotiabank is a blue-chip stock and an eligible investment you can put in either investment account. The third-largest bank in Canada pays a generous 5.33% dividend. Assuming you have $177,000 to invest today, the capital will compound to $500,051.75 in 20 years. You would be more financially secure with a half-a-million nest egg.

Apart from its impeccable dividend track of 188 years, Scotiabank was named the Canadian Bank of the year in 2020 by *Banker* magazine. Early this year, the same magazine awarded Scotiabank the title of the Best Bank in North America for Innovation in Digital Banking.

Misconception

Prospective retirees think that living expenses will decline in retirement and therefore often underestimate spending. You would walk a tightrope with only the CPP pension as your income source.

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