Canada Pension Plan: Here’s How You Can Increase Your CPP Payout by 42%

Description

Would it be gainful for Canada Pension Plan (CPP) users to start pension payments at age 65 rather than age 60 when it’s already available? The amount will reduce by 36% or 0.6% per month if you collect five years before the default age. It’s a financial risk unless you have health concerns or an urgent need for cash flows.

The CPP take-up decision isn’t easy, especially if at the onset you know the monthly benefits at 60 or 65 wouldn’t be enough to live comfortably in retirement. But if you were to base your decision on a Canadian Institute of Actuaries report, delaying CPP until 70 is more advantageous from a cash flow and savings perspective.

A deciding factor

The Canadian Institute of Actuaries’ report suggests, not endorses, to users to consider the delay option. It’s good the CPP is a flexible retirement program because you have three options when to collect. However, waiting to claim CPP until 70 is an inexpensive and safe approach to receiving higher payments.

Canadian seniors consistently and generally start CPP payments at the standard age of 65. But since the average life expectancy is age 80 for men and 84 for women, it becomes a deciding factor. Also, Statistics Canada predicts life expectancy to rise by two years over the next 15 years.

A clear financial advantage

Would-be retirees must not ignore the mortality issue and should contemplate the longevity risk. Increasing CPP payments via postponement promises an additional secure, lifetime income. Your pension will increase permanently by 42%. At the same time, you have a hedge against inflation.

The Canadian Institute of Actuaries also highlights that the choice to delay CPP payments to age 70 increases constant-dollar benefits by 50% over what it would be if take-up is 65. While waiting, you have time to bridge the gap or fill the CPP's inadequacy by investing in income-producing assets.

Building a nest egg is ideal

Canadians are responsible for building their nest eggs in retirement. Your CPP pension is the foundation, not the primary income source. The challenge for retirees is to ensure the retirement fund will last the distance. To prevent financial dislocation, think through investing in the pioneer in dividend payments.

The **Bank of Montreal** (TSX:BMO)(NYSE:BMO) is investment-friendly as it has been paying dividends since 1829. This $63.04 billion bank established the incredible feat despite two World Wars, the Great Depression, several financial crises, and now the COVID-19 pandemic.

BMO is now the eighth-largest bank in North America in terms of asset size ($949 billion as of October 31, 2020). In the 2020 health crisis, the bank concentrates on providing interest-free loans to small and medium-sized businesses.

Suppose you invest today, whether in a Registered Retirement Savings Plan (RRSP) or Tax-Free Savings Account (TFSA), BMO pays a 4.31% dividend. An investment of $215,500 will produce retirement savings of $501.148.21in 20 years. Double the investment, and it's a cool million nest egg.

Increased life expectancy

With the average life expectancy increasing, retirees could be spending as long as they did during the working years. Thus, delaying the CPP until 70 is one step to boost your retirement income. Give it serious thought.

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