CPP Pension: Start at 60 or 70?

Description

Deciding when to finally tap into the Canada Pension Plan (CPP) was never an easy decision for Canadians. The onset of COVID-19 and its effects on the economy made deciding the best time even more challenging for Canadians.

The global pandemic's economic fallout might have made Canadian retirees and those close to retirement to rethink their plans. Many would-be retirees who were planning to begin their CPP could be considering holding off for a while longer.

Before COVID-19 struck, Canadian retirees could receive up to $15,887.28 in annual pensions after hitting 65. If you minus the Old Age Security (OAS) amount from the pension, the amount could be $8,524.94.

Are you wondering when to begin collecting your CPP? You can start your CPP at 60 or wait until you are 70. There are pros and cons for both options. I can help you make a more well-informed decision considering the current circumstances.

Reasons to start CPP at 60

There are two main reasons you could consider beginning your CPP the moment you hit 60:

- Your health might be in decline, or
- You have an urgent need for income.

Claiming CPP early due to serious medical conditions is a practical decision. Collecting your CPP from the age of 60 due to financial constraints also makes sense. However, the early collection comes with a major drawback.

If you begin collecting CPP at 60, the CPP payouts will be reduced by 36% than what you could receive if you started collecting it at the age of 65.

Why starting CPP at 70 could be better

Deferring your CPP until you are 70 has one major reason: More income. The CPP payment is 8.4% higher for each year you delay starting the pension. It means you can collect 42% more than what you could get by starting it at the age of 65.

If you are in good health and you have sufficient income without financial constraints, it makes sense to defer the payment.

Increase your retirement income

Despite the CPP enhancements, your CPP is designed to cover only a part of your retirement income. To ensure a worry-free retirement income, you might need to augment your CPP with another revenue stream. Investing in dividend stocks could be the best way to achieve this goal.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is a staple asset in many investors' portfolio with a long-term investment horizon. Buying and holding the stock in your Tax-Free Savings Account (TFSA) can entitle you to significant retirement income by the time you retire.

TD is a reliable stock due to its sheer resilience through several periods of economic hardship. The bank proved its mettle when it managed to achieve steady earnings growth and revenue in the 2008 recession. The bank can weather the current storm created by the global pandemic.

The stock is trading for $71.69 per share at writing with a juicy 4.35% dividend yield. With a dividend-payment streak more than 150 years long, TD's dividends are virtually guaranteed.

Foolish takeaway

The goal is to secure financial freedom that allows you to live a comfortable retirement life. You can argue the merits of collecting CPP early or deferring it until you are 70. However, creating another revenue stream to augment your pension will be necessary regardless. I think TD could make an excellent addition to your TFSA portfolio for this purpose.

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