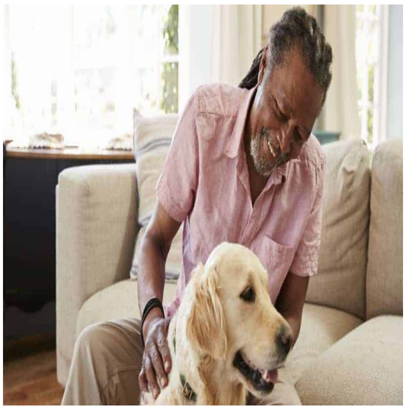

Canada Pension Plan: Should You Start Your CPP at 60, 65, or 70?

Description

Soon-to-be retirees are in a crisis, because of the deadly coronavirus outbreak in 2020. Unlike before, when life was normal and income was certain, it's doubly hard to firm up a retirement date. One concerning issue is when to start the Canada Pension Plan (CPP) payments.

For Canadians contributing to the CPP, very few will receive the maximum benefits. Furthermore, it's widespread knowledge that the pension will cover only 25% (older users) to 33% (younger generation) of the average lifetime earnings when you retire.

If you're nearing retirement, you have three payment options. The CPP pension is indexed to inflation, although the early or delay choices have negative and positive implications from a cash flow and savings perspective. It's up to you to decide which one will serve you the best.

65 is the default age

The standard age to receive the CPP pension is 65 based on actuarial studies. If you retire anytime soon, expect to receive $672.87 per month, on average. Hence, your estimated annual CPP pension is $8,074.44. You can claim the Old Age Security (OAS) simultaneously to receive the maximum monthly benefit of $613.53. An individual retiree receiving the CPP and OAS will have a guaranteed lifetime income of $15,436.80 yearly.

60 is the earliest option

Some CPP users will instead start the payments as soon as the pension becomes available. You can decide to take your CPP early at 60. While this option gives you a head start, the payment is smaller. Your CPP reduces by 36% permanently (7.2% per year before 65). Typically, the early option is beneficial to retiring Canadians with health problems or urgent financial needs.

70 is the optimal choice

If you're in the pink of health and still working productively, consider taking your CPP at age 70. It's the optimal choice for many, because the CPP pension bloats by 42% permanently. Your benefit increases by 8.4% per year after age 65. The OAS benefits increases by 36% if you defer it too until you reach 70.

All selections need a supplement

Regardless of the selection, you can rely on your CPP (plus OAS) alone in retirement. You need other income sources to ensure financial security in the golden years. **TC Energy** (TSX:TRP)(NYSE:TRP) is appealing if you need to supplement your pension.

The $53.03 billion energy infrastructure giant from Calgary, Canada, can sustain high dividend payments for decades, despite operating in a volatile sector. TC Energy is a pseudo-utility company, because it generates more than 95% of its cash flow from long-term contracts or government-regulated rates. Thus, cash flows are visible and predictable.

This energy stock pays a hefty 5.74% dividend and maintains a less than 70% payout ratio. Today, a $150,000 position will produce $717.50 in monthly income, higher than the CPP and OAS monthly payments. Combine the three, and you'll have an annual income of $24,046.80, which is a significant increase.

Make it a worry-free retirement

Your CPP benefit is there whether you take it at 60, 65, or 70. All you need to do is save up and invest in companies like TC Energy, which anticipates dividend growth in 2021 and beyond. Retirement life will be worry-free if you do.

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