Canada Pension Plan: Taking the CPP at Age 60 Could Cost You Over $50,000

Description

The timing to take the Canada Pension Plan (CPP) has always been a bone of contention. Generally, the CPP take-up decision depends on a retiree's circumstances. However, some retirees will not wait and would want to claim the pension when it becomes available.

If you lean toward the early option, it could cost you over $50,000. The amount is significant that you might regret the decision later on.

Cash flow comparison

A CPP pensioner weighing his options should view it from a cash flow perspective. Collecting at 60 is an instant drawback. Your pension reduces by 7.2% for each year before 65 or a permanent decrease of 36% overall. This option is practical if you have health issues or urgent financial needs.

Let's dig deeper to give you a better insight. I will also peg the average CPP pension at $1,000 to make it simple. Your annual pension at 60 is $7,680 ($12,000 x 92.8%). If you live past 74, you would have received a total pension of $115,200 ($7,680 x 15 years).

A person who starts at 65 would have an annual pension of $12,000 ($1,000 x 12). However, at past 74, the payment received is more than the payout at 60. The total pension would be $120,000 in 10 years ($12,000 x 10).

Delay option pays a higher pension

The annual pension starting at 70 is $17,040 ($12,000 x 1.42%) because the permanent increase over five years is 42% or 8.4% per year after 65. **If you live past age 81,** you will earn more money if you start CPP payout at age 70 than at age 65. The total pension is $204,480 ($17,040 x 12 years) versus $168,960 ($7,680 x 22 years).

Expanding further or if you live past 84 years old, the total CPP pension of someone who claimed at 75 is $255,600 ($17,040 x 15 years). In contrast, your total pension in 25 years is $192,000 ($7,680 x 25) only. The disparity is more than $50,000 or $63,600.

Retirees' vital asset

CPP users who invest need a vital asset like the **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI). This industrial stock is performing beyond expectations in the COVID world. Current investors are winning by 23.8% year-to-date and enjoying a modest 1.62% dividend. The yield is not high, but the payouts are safe, come hell or high water.

This industrial stock is a reliable long-term investment. Railroads are the cogs that drive or keep economies going. CNR plays a pivotal role in North America. It transports more than $250 billion worth of goods annually. Several industries rely on the company for their intermodal, trucking, freight forwarding, warehousing and distribution needs.

Also, three major petrochemical centres in North America depend on this $99.97 billion rail carrier. You can describe CNR as their lifeline. Management is also forward-looking as the company invests roughly 20% of its annual revenues to strengthening network efficiency and footprint.

Weigh your options sensibly

Deciding on when to take the CPP can be confusing and tricky. Will you risk a lower CPP pension and claim early at 60? Can you afford to wait until 70 for a higher pension? You can't rush the decision. Instead, do an honest assessment of your expenses to determine what age is best for you.

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