CPP 2021: Is it Best to Start Your Pension Payments at 65 or 70?

Description

Canada Pension Plan (CPP) users nearing the end of their working years will soon be free of job-related stress. However, the pressure shifts to making a firm retirement decision. The expected start date is the standard age of 65 but delaying until 70 means higher payouts. When is it best to start the payments?

Basic monthly pension

In 2021, the maximum monthly amount for a new recipient starting the pension at age 65 is $1,203.75. Unfortunately, you must have contributed enough to the fund for at least 39 years to receive the maximum. The majority of CPP users can expect to receive $689.17 (as of October 2020) in monthly benefits on average.

Since the enhancements aren't completely phased in yet, the CPP will replace one-fourth of the average pre-retirement income. Thus, the annual pension amounts to $8,270.04 per individual retiree. If you claim the Old Age Security (OAS) simultaneously, the guaranteed income for life is $15,654.58 ($689.17 + $615.37 monthly).

Increased pension payment

Baby boomers who will not benefit from the ongoing enhancements have a way to increase CPP payouts. The delay option offers an incentive where the pension amount grows by 8.4% per year after 65 and up to age 70. If you start payments five years later, the overall permanent increase is 42%.

The wait should be worth it if you're healthy as a bull and no urgent need for a pension. From a cash flow perspective, the delay option is a winner. Instead of $8,270.04, the annual pension bumps up by $3,473.42 to $11,743.46. Delaying the OAS until 70 increases the benefit by 36%.

Assuming you claim the CPP and OAS together at 70, your estimated annual pension jumps to $21,786.30. The monthly difference of $510.98 is significant, because you'll have added financial cushion in retirement. Sadly, delaying your CPP until 70 and relying on it solely in the sunset years is a terrible idea.

Fill the CPP's shortfall

Retirement experts advise that if retirees were to stay above water and worry-free, there have to be other income sources. A dividend king like **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) can quickly fill the CPP's shortfall. The energy stock pays a high 7.49% dividend. More so, the payouts are monthly.

The hallmarks of Pembina are the resiliency and predictability the business. This $18.51 billion company weathered the 2008 financial crisis and the commodity price downturn in 2015. The COVID-19 pandemic is the latest challenge, although it did not significantly disrupt Pembina's operations.

Management is gearing for the near term and promises to provide essential transportation and midstream services in 2021, including the re-activation of two growth projects. With a capital investment program of $785 million, Pembina expects to end the year with an adjusted EBITDA of $3.2 to $3.4 billion.

Pembina Pipeline offers a full spectrum of midstream and marketing services in North America's energy industry. Its integrated assets and commercial operations plus the hydrocarbon value chain are its strongest attributes. Last, cash flow from operating activities will fund Pembina's 2021 capital-investment program.

Fork in the road

The CPP take-up date is a serious event and a fork in the road. Users must thoroughly evaluate which option gives the greatest advantage. Likewise, the confidence to retire depends on available income sources besides the pension.

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