CPP Pension User: 2 Reasons to NOT Take Your Pension at Age 60

Description

No retiree wants to live on restricted income in the sunset years. There's no magic number about the amount of savings you must have, although retirement experts recommend at least 70% to 80% of the annual pre-retirement income.

For Canada Pension Plan (CPP) users, it's enticing to start payments as soon as the pension becomes available at age 60. The early option is a popular choice even if the CPP replaces only 25% of the average workers' lifetime income. The replacement level doesn't matter to most, as the pension is for a lifetime anyway.

However, there are financial risks far greater than the replacement level. Two reasons might convince you to rethink your option and not take your CPP at 60.

Reduced pension

In 2021, the maximum monthly amount for a user claiming the CPP at age 65 can expect to receive $689.17 per month (for new recipients as of October 2020), on average. Therefore, the annual basic pension is $8,270.04.

If you choose the early option, the CPP payment reduces by 0.6% for each month before 65 or 7.2% per year. It's a permanent 36% reduction overall or $2,977.21 less versus the annual basic pension. Somehow, your income improves by $615.37 per month at age 65 when the Old Age Security (OAS) benefit kicks in.

Increasing life expectancy

CPP users don't usually think about mortality. However, you shouldn't ignore the longevity issue, especially if financial resources in the sunset years are concerned. The current life expectancy in Canada is 82.66 years, 0.18% higher from 2020. Also, consider the breakeven age.

If you take your CPP at age 60, the break-even point versus someone who claims at age 65 is when you both turn 74 years old. You'll collect five years longer, but your peer pulls ahead with a higher pension past age 74. A CPP user with excellent health can delay until 70 to increase the pension some more or 42% overall after age 65.

Financial cushion

Whether you choose the early or basic options, retiring with only the CPP pension and no savings is a risky proposition. The federal government introduced the Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Accounts (TFSA) so that Canadians can save more for retirement.

Save money and invest in blue-chip stocks like the **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM). The bank stock is an eligible investment in both the RRSP and TFSA. Moreover, the fifth-largest bank in Canada is a generous income provider, with its 5.15% dividend.

Aside from the high dividends, CIBC returned 7% in 2020, notwithstanding the low-interest-rate environment, higher loan-loss provision, and fallout from the pandemic. The bank stock's dividend track record is more than a century (153 years), including the worst recessions and economic downturns on record.

Make CIBC a core holding in your RRSP or TFSA and sleep like a log. By the time you retire, you would have another income source you can draw from for life. You'll have enough buffer or cushion since the CPP can't cover all your financial needs in retirement.

Plug the loopholes

Determine early on the gap between the funds you would need and the income you would receive in retirement. The CPP take-up decision should be easy, not overwhelming, if you plug in the loopholes, including income from other sources.

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cliew