CPP Pension Users: Is it Best to Start Payments at 60 or 70?

Description

Canada Pension Plan (CPP) users have several options to start pension payments. You can claim as early as 60 when it becomes available or delay until 70. In terms of pension amount, the basic or middle ground is age 65. Most CPP users consider retirement as a significant life event. Hence, questions often arise as to which is the best option — early or late?

Soon-to-be retirees approach retirement planning differently. While the financial aspect is a crucial component of the decision, sometimes an individual's circumstance can influence the timing. Retirement experts warn users not to expect riches, because the CPP replaces only 25% of the average pre-retirement income.

Early option: 60

Let's begin at the basic pension to guide you clearly before making a firm decision. The CPP sets the standard retirement age at 65, where the maximum monthly payment amount is $1,203.75 (for 2021), or $14,445 annually. However, only those who have contributed enough for at least 39 years can receive this amount.

On average, you could expect a monthly CPP of $689.17, or a guaranteed annual income of $8,207.04. Now comes the drawback should you choose to start payments at 60. Your CPP will reduce by 7.2% per year before 65. The total 36% permanent decrease brings down your annual CPP to $5,292.83.

CPP users with serious health concerns or urgent cash flow needs will have to bite the bullet and accept a reduced pension. Some without such issues see it as a head start and more years to receive CPP.

Delay option: 70

The delay option is the logical choice if you're looking from the cash flow angle. If you choose to delay payments, your CPP will increase by 8.4% per year after 65. By waiting for five more years or until 70, the overall increase is 42%.

Instead of $689.17 monthly, the payment bumps up to $978.62, or $11,743.46 per year. Likewise, the deferral option protects users against longevity risk and calm fears of outliving retirement money. Furthermore, if you have no savings, and CPP is your only income source in retirement, a higher pension is necessary.

Dividend powerhouse

Dividend investing is a popular strategy of Canadians building a retirement fund or nest egg. The CPP is sure at 60 or 70, but the bulk of retirement income would still come from a different source, not the pension. The passive income you will derive from **Great-West Lifeco** (TSX:GWO), for example, could last for decades.

The $18.98 billion company is a powerhouse in the health and insurance industry. If you initiate a position today ($31.10 per share), the dividend yield is a whopping 5.63%. Your $75,000 will produce $4,222.50 in annual income. Double the investment, and the dividends ($8,445) should be higher than the yearly CPP pension at 65.

Great-West's primary focus is on the defined contribution retirement and asset management markets. The brand name or operating subsidiary is Canada Life, a simplified business model. As of December 31, 2020, the assets under management were $2 trillion — a 21% increase from year-end 2019.

In-depth examination

It would be best for prospective retirees to examine income sources and align them with estimated expenses before taking the retirement exit. Retirement life isn't a bed of roses. You must have adequate financial resources to cover expected and unexpected outlays.

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Date
2025/07/07
Date Created
2021/02/19
Author
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