CPP Pension User: 3 Reasons to NOT Take Your CPP at Age 65

Description

Is there an upside to not wait until 65 to start your Canada Pension Plan (CPP)? The pension pegs the standard age to start payments at 65. A report by the Canadian Institute of Actuaries suggests that Canadians should consider delaying payments.

The delay option improves financial outcomes and provides greater retirement income security. However, your CPP reduces by 36% permanently if you voluntarily elect to claim the pension when it becomes available at 60. Nevertheless, passing up on a larger payment makes financial sense to other pensioners.

1. Need an income stream sooner

The need for money sooner is often the primary reason for most CPP users. It could be due to unexpected job layoffs and difficulty obtaining work. Thus, it becomes extremely necessary to have an income stream to cover financial needs. Others would use the CPP to pay off high-interest debts rather than wait. More so, by the time you reach 65, the Old Age Security (OAS) kicks in to make it two guaranteed incomes for life instead of one.

2. Health consideration

Transitioning to the retirement phase is always a mystery, because no one knows how long they'll have financial needs. Some CPP users start payments late to mitigate longevity risks. However, a person with poor health or who expects a shortened life expectancy will not think twice about taking CPP.

If poor health is the issue, consider applying for a CPP disability pension instead. Assuming an application is approved, the retirement pension is higher and converts into a full retirement pension at age 65.

3. Maintain active lifestyles

Did you leave employment to start a business in your 50s? The early option could mean users went into self-employment and have zero CPP contributions between 55 and 60. Also, some users would rather maintain active lifestyles while they're young, able, and full of energy. They also plan to spend less when they get older. Thus, an extra CPP income would be helpful in the early years of retirement.

High investment return

CPP users who have long been using their Tax-Free Savings Account (TFSA) or Registered Retirement Savings Plan (RRSP) to the hilt have the confidence to retire early. For instance, holding **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) shares in a TFSA or RRSP can provide a higher rate of investment return.

The energy stock pays a juicy 7.09% dividend today. Any amount of investment will double in 10.15 years. Over the last 20 years, Pembina has returned an impressive 616.77% (10.34% CAGR). So far, in 2021, investors are up 22.73% year to date. Analysts forecast the stock to climb to $42 in the next 12 months when oil prices rebound.

North America's energy industry needs Pembina's full spectrum of midstream and marketing services. The $19.95 billion pipeline giant's competitive advantages are the following: integrated assets, commercial operations, and hydrocarbon value chain.

Pembina owns an efficient pipeline network and is a leader in the Canadian oil sands region. Since contracts in conventional pipelines are fee-based, cash flows are visible and stable. For the full year 2021, management expects to generate 90-95% of EBITDA from its long-term contracts.

Available when you retire

The early CPP option could favour some users and turn off others. However, regardless of the take-up decision, the pension will be available when you retire.

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