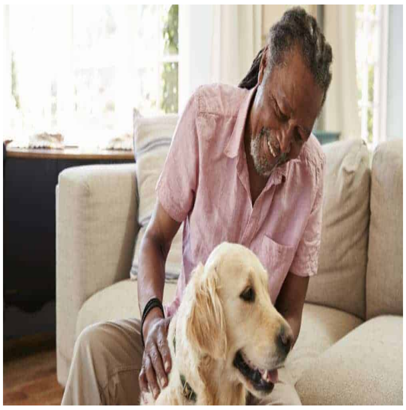

CPP Pensioners: 2 Reasons to Delay Your Payout Till Age 70

Description

The Canada Pension Plan, or CPP, is a monthly taxable benefit that aims to replace a part of your income during retirement. The typical age for Canadians to start receiving CPP payouts is 65. However, you can start receiving the pension as early as age 60 or delay it till you reach the age of 70.

Let's take a look at why it makes sense to delay your CPP payout.

Higher CPP payout

There is a strong incentive for pensioners to delay their pension payouts. You will benefit from an 8.4% increase in payouts for each year you delay the CPP. This means your CPP payment will increase by 42% if you wait till the age of 70 to start the pension.

In 2021, the average monthly CPP amount for new beneficiaries is $689.17, which amounts to $8,270 per year. If you wait till the age of 70, the annual payout will increase by 42% to $11,743.

Avoid OAS clawbacks

You can delay your CPP if you don't require the cash on an urgent basis. This also indicates you have enough savings for a comfortable life in retirement.

There are mandatory withdrawal schedules for retirees when you convert the RRSP (Registered Retirement Savings Plan) to an RRIF (Registered Retirement Income Fund). So, if your total annual net income is over the threshold limit of $79,845 in 2021, the Canada Revenue Agency will claw back your OAS (Old Age Security).

You need to plan your RRSP withdrawals in advance and avoid a clawback on your OAS. Generally, these clawbacks occur when you simultaneously withdraw your retirement income, resulting in a high annual income, which is then taxable. It makes sense to delay your CPP and avoid a clawback on your OAS pension.

Create a passive-income stream by investing in dividend stocks

Another way to delay your CPP is by holding blue-chip, dividend-paying stocks in your TFSA (Tax-Free Savings Account). For most Canadian retirees, the maximum cumulative contribution limit in their TFSA will be $75,500. If you invest this entire amount in a portfolio of large-cap Canadian companies, you can benefit from a steady income stream.

There are several Canadian companies that have an attractive dividend payout. Let’s take a look at a few of these companies and their respective dividend yields below.

Banking giants

Royal Bank of Canada: 3.7%

Bank of Nova Scotia: 4.6%

Bank of Montreal: 3.7%

Canadian Imperial Bank of Commerce: 4.7%

Toronto-Dominion Bank: 3.8%

Energy and utility companies

Enbridge: 7.2%

TC Energy: 5.9%

Fortis: 3.7%

Brookfield Renewable Partners: 4.6%

TransAlta Renewables: 4.5%

Capital Power: 5.4%

Telecom heavyweights

BCE: 6.1%

Telus: 4.8%

Rogers Communications: 3.3%

Real estate investment trusts

H&R REIT: 4.6%

Northwest Healthcare REIT: 6.1%

Killam Apartment REIT: 3.5%

Morguard REIT: 4.5%

Bottom line

An investment of approximately $75,500 allocated equally in each of these stocks will help you generate close to $3,400 in annual tax-free dividend income if they are held in a TFSA. Further, retirees can also benefit from capital gains over the long term.

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