CRA CPP Pension: Should You Start at 60 or 65?

Description

Canadian retirees often have a crucial decision to make: Should they begin collecting the Canada Pension Plan (CPP) payments when it becomes available at 60 or wait until 65 to receive the standard CPP benefits?

To delay the CPP or not is a delicate issue for many Canadians nearing retirement. If you have amassed a massive fortune by your retirement, the CPP might not matter as much. However, Canadians with minimal retirement savings have to properly evaluate their decision because of the financial consequences.

Today I will discuss the differences between collecting CPP at 60 and 65 to help you make a more well-informed decision regarding your pension.

Standard pension

The standard pension that CPP users receive at 65 could be up to $1,203.75 per month as of 2021. However, you must have contributed enough for several decades to receive the full benefit. The average standard pension most CPP users have received as of October 2020 is $689.17.

When you turn 65, you also have the Old Age Security (OAS) to supplement your CPP. The maximum monthly benefit for OAS in 2021 is $615.37. It means that your guaranteed monthly income as a Canadian retiree through these two pensions is $1,304.54 per month.

Early CPP take-up

The CPP is a flexible pension plan. Users can begin collecting CPP at 60 or delay it until they turn 70. The early take-up means that you will receive a reduced pension payment per month. The CRA deducts 0.6% for every month before you turn 65 with the early take-up. It could amount to a total 36% deduction for beginning your CPP five years early.

It could drastically reduce your pension payment through both programs to $482.82 per month. The OAS benefit is also only available to Canadians 65 or older. It means that you will have a drastically reduced monthly pension until then. However, early take-up could be a practical option if you need income support or have a shorter life expectancy due to health issues.

Don’t rely too much on your CPP

Relying too much on CPP and OAS payments is ill-advised for all Canadian retirees, even if they are receiving the full benefits. These pensions are designed to provide you with a partial replacement for your pre-retirement income. It would be best to create additional revenue streams that can supplement your pensions.

Ideally, you should consider investing in a portfolio of reliable income-generating assets and store them in your Tax-Free Savings Account (TFSA). **Telus Corp.** (TSX:T)(NYSE:TU) is an excellent stock to consider for this purpose.

The attractive income stock is a telecom giant that has recently diversified into the healthcare sector. At writing, the stock is trading for $25.77 per share and sports a juicy 4.83% dividend yield. Telus raised its dividend by 7% last year, and its management believes that it could increase by 7-10% annually in the next two years.

The telecom stock is well positioned to capitalize on the 5G rollout. As 5G becomes more mainstream, Telus could sell new 5G-enabled handsets and raise its rates for the high-quality 5G services. It could make an excellent stock to generate substantial passive and tax-free income to supplement your pension payments.

Foolish takeaway

When your retirement age is looming, you should consider doing an honest assessment of your estimated expenses as a retiree. Align your expenses with your financial circumstances, and that can help you make a better decision about when to start collecting your CPP.

Creating an additional revenue stream through a dividend income portfolio in your TFSA is crucial, whether you begin collecting your CPP at 60 or 65. Telus Corp. could be an ideal asset to begin building such a portfolio in your TFSA.

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