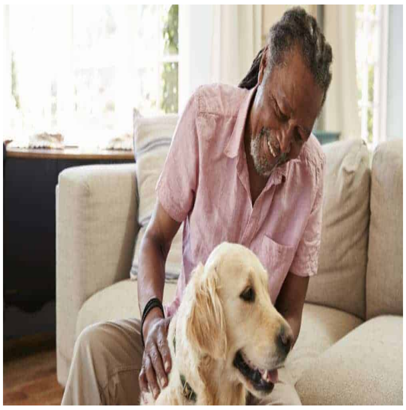

3 Clever Reasons to Start Your CPP at Age 60

Description

A simple cash flow analysis shows that taking the Canada Pension Plan (CPP) when it becomes available at 60 isn't the best option. The pension amount reduces by 7.2% per year before 65, or 36% overall in five years. Assuming you're eligible to receive the maximum CPP, you'll receive $9,244.80 per year instead of $14,455.

The $5,200.20 difference is material and a turn-off for CPP users. Nevertheless, the early CPP decision isn't entirely a losing proposition. Often, your circumstances influence the verdict. Still, three reasons when starting payments at age 60 are the most practical, if not clever.

1. Personal health

The delay option (age 70) bumps up the CPP permanently by 42%. However, the incentive is ideal only if you're operating at full health. If you have personal health issues or expect a shorter life expectancy, the early option is appropriate. The breakeven point between the reduced payments at 60 and cumulative pensions at 65 is 72. If you think your health will fail you, waiting five more years is a ridiculous decision.

2. Urgent financial needs

Delaying your CPP until 70 is an inexpensive way to receive higher pensions. Despite the incentive, Bonnie-Jeanne MacDonald from Ryerson University's National Institute on Ageing says 95% of CPP users claim their pension at the standard age of 65. Anyhow, if you have urgent financial needs and have minimal or zero savings, the flexibility of the CPP works in your favour. In such a situation, starting your lifetime pension early is a rational decision.

3. Reduce the OAS risk

Some CPP users would instead take the taxable CPP at 60 for tax-reduction purposes. High-net-worth individuals especially can bring down overall taxes and maximize the Old Age Security (OAS) benefit. A lower marginal rate may apply to a portion of the payments. Thus, by spreading out the payments over an additional five years, your lower annual income reduces the risk of having the CRA claw back your OAS benefit.

Never-ending potential

Someone who has been saving for retirement since the first day on the job would have no reservations about taking the CPP at 60. Even if you're in your 30s, a 30-year investment horizon is enough to build a substantial nest egg. Long-term dividend investing is a proven strategy to meet your retirement goals.

North West Company (TSX:NWC) is a dependable source of investment income. At $35.05 per share, this consumer-defensive stock pays a 4.11% dividend. Assuming you have $75,000 to invest today, the money will compound to a quarter of a million, including dividend reinvestments, in 30 years.

North West is a 353-year-old retailer of food and everyday products and services. The $1.71 billion company caters to rural communities and urban neighborhood markets. Besides the home country, the grocer serves customers in Alaska, the South Pacific, and the Caribbean.

In Q1 fiscal 2021 (quarter ended April 30, 2021), net earnings increased 228% versus the same period in fiscal 2020. Incoming CEO, Dan McConnell, sums it up: "North West is a company with never-ending potential."

Good financial sense

Sometimes, going after more isn't always the best recourse. The early CPP option makes good financial sense for Canadians without sufficient income or personal savings to carry them through their 60s. Furthermore, you'll have more lifetime income when the OAS kicks in at 65.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:NWC (The North West Company Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/09/13
Date Created
2021/06/25
Author
cliew