CPP Pension Users: 3 Reasons NOT to Start Your CPP at 60

Description

Canada Pension Plan (CPP) users look forward to the day they cash in on their years of contribution to the earnings-based social program. The CPP pension is for life, although it's only a partial replacement of the average pre-retirement income (one-fourth at least).

The payment amount depends primarily on the amount and length of contributions. Eligible recipients usually start payments at 65, the standard retirement age. The CPP, however, is flexible in that it offers an early or delay option. A user can elect to start payments as early as 60.

The early take-up decision is understandable and practical if you expect shorter life expectancy and have serious health issues or urgent financial needs. But under normal circumstances, starting CPP payments at 60 might not be the wisest move for three reasons.

1. Permanent pension reduction

The maximum monthly pension as of 2021 is $1,203.75 or $14,445 per year. Since not all qualify to receive the max, the estimated average amount for new beneficiaries (January 2021) is $736.58 or $8,838.96 annually. Focus on the average for conservative purposes.

In the early option, the financial consequences are as follows: 0.6% reduction per month before 65, 7.2% reduction per year before 65, and a 36% permanent reduction overall. The early take-up is a disincentive from a cash flow perspective. If you rush to claim the pension ahead of your peers, the yearly income stream is only $5,656,94 instead of $8,838.96.

2. Substantial loss in lifetime income

According to the Ryerson's National Institute on Aging and the FP Canada Research Foundation, CPP users who couldn't wait until 65 unknowingly forego a substantial lifetime income. The lifetime loss calculation in research by Bonnie-Jeanne MacDonald for the two organizations estimates the income loss throughout retirement to be about $100,000.

3. Loss of protection against various risks

Retirement life is harsh unless you have substantial wealth to cope with high inflation or higher costs of living and healthcare expenses. Also, you might live longer than anticipated, so a lower CPP pension could potentially increase your financial anxiety in retirement.

Build retirement wealth

Retirement experts have good intentions if they advise people to save and invest for retirement. You still face financial dislocation with CPP at 60, then Old Age Security (OAS) at 65. If you have savings, don't keep it idle. Allow it to work and create an additional income stream for the future.

The stock market today is conducive to investing. Canada's largest telecom company, for example, can provide lasting income. **BCE** (TSX:BCE)(NYSE:BCE) started paying dividends in 1831 and hasn't missed a payout since. At $60.82 per share, the dividend yield is a hefty 5.77%. The telco stock's total return in the last 45.5 years is 68,451.82% (15.42% compound annual growth rate).

With a market cap of $55.02 billion, BCE is stronger than ever in the 21st century. The blue-chip company's core strengths are consistent revenue generation and long-term business growth. In the most recent decade, BCE invested nearly $4 billion in broadband networks.

Over the next two years, it will spend $1.7 billion to accelerate the rollouts of fiber and 5G networks plus its wireless home internet (WHI) services.

Give your CPP a boost

The research study by Jeanne MacDonald says taking the CPP one year later or at 61, not 60, is a material boost. However, if you want a 42% permanent increase, start the pension payments at 70.

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Date
2025/07/29
Date Created
2021/07/02
Author
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