Don't Claim CPP if You Can't Answer These 3 Questions

Description

Taking the Canada Pension Plan (CPP) is one of the biggest decisions Canadian retirees make. The age at which you claim your CPP benefits partially determines how much you'll get. If you take benefits earlier, you get more years of benefits. If you take them later, you get more benefits per year. The latter option could pay off if you live a long life, but the former would make more sense if your life expectancy wasn't very long.

So, there is no cut-and-dry answer here. In this article, I will explore three questions you need to ask yourself before you take CPP.

Do I have enough savings to retire?

You should ideally have enough savings to live on if you plan to take CPP early because CPP at the minimum benefit level doesn't pay enough to live on. The average monthly CPP amount in June 2021 was just $619. That doesn't cover rent pretty much anywhere in Canada; depending on your lifestyle, it may not even cover groceries. If you plan on taking CPP at age 60, you really should have enough savings.

If, on the other hand, you wait until age 70 to take CPP, you may be able to get away with fewer savings. The longer you wait before taking CPP, the greater your benefits and the less you'll have to stretch out your savings. So, for many Canadians, it pays to wait.

Will CPP and OAS pay me enough to live on?

The second question you have to ask yourself before taking CPP is whether CPP and OAS *combined* will pay you enough. CPP alone pretty much never pays enough. It maxes out at $1,203 per month, which barely covers rent in most places. But when you turn 65, you become eligible for another public pension: OAS. With CPP *and* OAS combined, you might bring in enough income. The maximum CPP benefit plus OAS pays about $1,900 per month.

If your house is paid off and you have no dependents, you may be able to live on that amount. Everybody should ideally have some savings in retirement. But if you take the max CPP, then that amount *plus* OAS could give you a fighting chance.

Do I have investments?

The last question you want to ask yourself before you take CPP is whether you have enough investments. Earlier, I mentioned that you should have a lot of savings if you retire young. That's true, but it's not the whole story. To really be comfortable in retirement, you'll have to invest your savings. That way, you can watch them grow over time.

Let's say for argument's sake that you had $500,000 invested in an ETF like the **iShares S&P/TSX 60 Index Fund** (TSX:XIU). XIU is a highly diversified index fund built on the TSX 60–the 60 largest TSX stocks by market value. With $500,000 in XIU, you'd get about $11,500 a year in dividends. On top of that, you'd also possibly realize capital gains, which you could use to supplement your income from dividends.

So you could pull a decent income supplement out of this ETF. And you could tax shelter a sizeable percentage of your investment (about $81,500 worth) in a Tax-Free Savings Account (TFSA). It just goes to show that investing is the key to retiring wealthy. It can make all the difference between thriving and struggling.

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