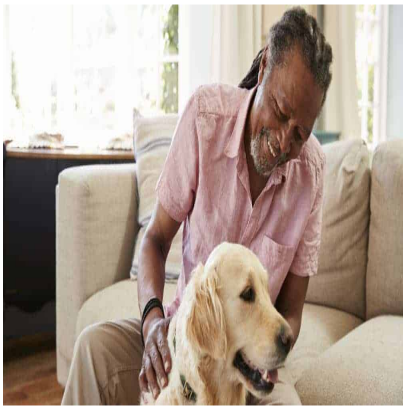

Are You Eligible for the $1,253 MAXIMUM CPP Benefit?

Description

Did you know that you can receive up to $1,253 per month if you take CPP at age 65?

Not many Canadians know this, because the average CPP payout is between $600 and $700. But if you work all your adult life, have no pension clawbacks, and earn enough to make the max contributions, you'll pull in $1,253 a month if you start CPP at age 65.

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Not bad!

In fact, the CPP payout can go even higher than $1,253. Canada.ca says that CPP payouts rise 8.4% for every year you postpone benefits beyond age 65. The gains from postponement are capped at 42%, so if you wait all the way until age 70, you could get as much as $1,779 per month. That's a solid pension. With that said, barely anybody actually waits that long to take CPP. Waiting until 65 is often considered to be a postponement in itself! So, we'll run with that as the "realistic" maximum.

Collecting $1,253 a month in CPP vs. the $619 a month most people get could make a world of difference in your retirement. That extra $634 could be the difference between thriving and struggling. Unfortunately, few ever get the max CPP amount. In this article, I'll help you to figure out whether you're one of the lucky few who could be in the running for it.

Calculating your CPP benefit

To know how much CPP you'll get, you need to calculate your benefit. It goes off a number of factors:

- How long you worked.
- How much you paid in.
- The age at which you took the benefit.
- Whether you have other pension income (this results in clawbacks).

Doing all the CPP calculations by hand can be tough. So, I recommend using the retirement income calculator on Canada.ca. This online app walks you through a series of questions that leads you to an estimate of your monthly CPP benefit. It may not be 100% accurate, but it should be in the right ballpark.

How far will your CPP get you?

How much money you'll get in CPP should be one of your top concerns if you're about to retire. The difference between average CPP and max CPP is a universe wide if you spread it out over the course of a lifetime.

Let's imagine that two retirees invested in an index fund like **iShares S&P/TSX 60 Index Fund** (TSX:XIU) using their CPP monthly payouts. For simplicity's sake, let's ignore taxes and just imagine that they invested every penny.

XIU is a broad market equity fund. These types of funds have historically returned about 10% a year. There's no guarantee that they'll keep having returns that strong, but on the flip side, there's a chance they could do even better. So, we can use 10% as a reasonably conservative return estimate.

If investor A invested a $619 paycheque in XIU, it would (with our assumption) double in 7.2 years. That would take this investor to $1,238.

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If investor B invested a $1,253 max CPP cheque it XIU, it would also double, but, in this case, the end amount is much larger at $2,506. The gap between investor B's and investor A's cheques initially was only $634. But after both doubled, it is above $1,200! These retirees both invested in the same fund. But because one had a much larger CPP cheque to invest, that individual got much more from their investment.

What to do if your CPP payout is weak

If you're already about to retire and your CPP payout looks like it will be low, one thing you can do to enlarge it is to wait longer to take it. This results in a steady increase for every year of postponement. While you're waiting on your retirement date, you can invest your paycheque into funds like XIU and re-invest the dividends for a dependable "supplement" to whatever you'll ultimately get in CPP. In retirement, every penny counts. So, make it!

CATEGORY

1. Investing

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