

The Case for Delaying Your CPP

February 2021

By Clinton Orr

When to start receiving your Canada Pension Plan (CPP) benefits is a common discussion for folks approaching retirement. CPP is a secure, inflation adjusted income that is paid for your lifetime and a portion is paid to your spouse after you pass. That's a strong pension. Everyone's situation is different, but for many, when to take CPP can have a significant impact on their retirement plan. According to a research paper recently published by the National Institute of Ageing and FP Canada the majority of folks take their CPP early. I believe you have to make the decision that is right for your situation. In many cases, in my view, there is some logic in delaying your CPP.

Before we get into the case for delaying your CPP, a quick review of the basics. The program is not funded by tax dollars, you and I fund the program. If you are working and earning a taxable income, there is a good chance you are paying into CPP. Both the employee and the employer contribute to the plan. If you pay into CPP you will receive a pension. The size of your pension benefit depends on how much you pay into the plan. There are more than 20 million Canadians participating in CPP. It's a big plan, and it's well funded, there is about \$400 Billion in CPP. The normal age to start receiving benefits is 65. Every year the maximum CPP benefit is adjust. For 2021, at age 65, the maximum pension you can receive is \$1,203.75 a month. You can draw your pension as early as 60, but there is a penalty for taking the pension early, 0.7% for each month prior your 65th birthday. At 60 the penalty is 36%. If you delay beyond 65 there is a bonus, 0.8% per month, or a 42% bonus at age 70.

According to the research paper mentioned above more than 95% of Canadians take their CPP at 65 or earlier. Fewer than 1% chose to delay until the age of 70. The prevailing mindset seems to be that taking CPP early is the right thing to do.

I believe everyone's situation is different and you need to find a fit for your plan, taking CPP early might very well be appropriate for your plan. In my view, most folks should at least consider delaying their CPP. For starters Canadians are living longer, most retirements now last a few decades, which means we need income to cover a longer period of time. We also have fewer sources of defined pensions.

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There was a time when most employers offered a defined benefit pension plan, a pension that would pay you a secure income for life. Those days are long gone, now there are only a handful of employers that have defined benefit pension plans. As well interest rates are at rock bottom levels, for investors that prefer low risk or guaranteed investments low interest rates have made it very difficult to get a good return. CPP is a secure, inflation adjusted income stream that pays you for life. Delaying CPP allows that secure pension income to grow.

If you delay taking your CPP until 70, your monthly pension will be much bigger than if you take your CPP at 60. Since Canadians, on average, are living longer, there is a good chance you will receive that larger pension for an extended period. According to the research paper mentioned above, an average Canadian receiving the median CPP income who chooses to take benefits at age 60 rather than age 70 is forfeiting over \$100,000 worth of secure lifetime income.

If you retire at 60 and delay your CPP until 70, you will receive a larger pension benefit from CPP, however it will not start until 70. So, you will need to draw from your savings to generate income in the early years of retirement.

The vast majority of Canadians are taking their CPP at 65 or earlier. If you are in reasonable health and have adequate savings to sustain your lifestyle in the early retirement years, delaying your CPP and increasing the amount of secure, inflation adjusted, pension you receive might make sense. There is not a start date for CPP that works for everyone. Your decision should fit your retirement plan, it is worthwhile discussing the options with your financial professional.

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