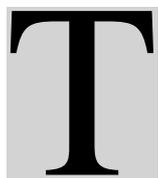


When should you start collecting the Canadian Pension Plan (CPP)?



his question is usually asked of me, often as my clients get into their 50's and the retirement horizon starts coming into focus.

My reply is that there is no one answer that is right or wrong, it really comes down to personal circumstances and the "luck of the draw" as to what your life expectancy will be.

In 2020 the maximum CPP benefit for someone retiring at age 65 is \$1,175.83. This figure is made up of contributions you and your employer have made since you were 18 and first entered the work force. Keep in mind that not all Canadians qualify for the full maximum, most receive less than the maximum.

CPP can be started as early as age 60 but the payments are reduced .6% a month which works out to 36% less than for someone who waited until age 65.

So, what factor should you consider that is right for you?

Taking it early can be advantageous under the following circumstances:

- You need the cash flow now to meet monthly expenses
- If your health or family genetics show you will have a lower life expectancy
- You will have reduced earnings that qualify for CPP contributions from age 55 to age 60, as the CPP formula is based on the best 35 years you contributed
- As a business owner that is incorporated, you have the ability to take dividends rather than salary from the company. The big gain here is that CPP contributions are based on T4 salary income, rather than dividend income. In 2020 a self-employed individual would pay up to \$2,898 both personally and corporately, so a switch to dividends would save up to \$5,796 in CPP contributions that would not have to be made.

When is it beneficial to defer to age 65 or even up to age 70?

- If you are not self employed and both you and your employer are still contributing, it rarely makes sense to start early. These extra contributions from age 60 onwards enhance the ultimate pension you will receive in the future.
- It is not worthwhile taking early CPP simply to reinvest the net proceeds into a RRSP or TFSA. The reason is the CPP payments are fully taxable and the net amount reinvested rarely exceeds the 7.2% yield you would receive if you deferred for another year.
- Taking CPP at age 65 can impact the Old Age Security (OAS) "clawback" up until age 70. Thus, if you elected to take OAS and CPP at age 65 you could have some or all of the OAS reduced for that 5-year period, because of the "clawback" feature in CRA's tax schedule. This is assuming you have additional T4 salary income, other pension income or rental/investment to bring you above the \$70,054 threshold when the "clawback" starts.

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Other considerations:

Projections show the “crossover point” between someone taking CPP at age 60 rather than age 65, is approximately age 74. This means if you die before age 74 and took early CPP you would have received more out of the plan, rather than waiting. Conversely if you live past age 74 and waited to age 65 to start payments, you would have won the pension lottery.

Life expectancy for Canadian males is around age 81 and females age 85 so the big gamble for all retirees is – how long will you live?

For Canadians with a spouse or minor children some Survivor Benefits are built into the system so that they are entitled to a modest monthly income. However, the benefits are based on the age of the spouse and/or the children.

If a surviving spouse is entitled to Survivor Benefits, the payment can not exceed the maximum that

person would have received when combined with their own eligible amount (currently \$1,175.83 in 2020).

For those with children under the age of 18 they are entitled to a maximum of \$255.03 (in 2020) per child. This can continue up to age 25 should the child be enrolled full time as a student.

Those without a spouse or minor children are only entitled to a maximum \$2,500 lump sum at their death.

As always, if you wish to discuss your retirement situation, please contact me.