The Stan Clark Financial Team's

PERSPECTIVES

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Financial planning

When should you start taking CPP?

By Sylvia Ellis, Senior Estate Planning Advisor

In our business, creating financial plans goes hand-in-hand with investing. Such plans guide us in helping determine your customized asset allocation, as well as answering certain questions. Of these, one of the most commonly asked is, "When should I start taking my Canada Pension Plan (CPP)?"

First, let's briefly refresh on the plan itself. CPP provides retirement, disability and survivor benefits for individuals who have contributed. It starts anywhere between ages 60 and 70, with 65 being the "normal" retirement age. Any earlier and you're subject to a reduced benefit (0.6% per month or 36% at age 60) and any later, an enhanced benefit (0.7% per month or 42% at age 70).

As of 2021, at age 65, CPP provides a maximum benefit of $1,203.75 per month.

So, how does CPP compare when taking it at different ages? The Canadian Institute of Actuaries (CIA) published a 38-page report in July 2020 titled *The CPP Take-Up Decision*. Specifically, the report compared taking CPP payments at age 70 and bridging the gap with RRSP/RRIF savings, versus taking CPP at age 65 and self-managing the income. In both scenarios, the same initial level of savings was used to target the same annual secure net income.

The analysis considered individuals retiring at age 65 who have sufficient registered savings to replace the CPP pension income that would be delayed to age 70. If those variables were changed – such as an individual having no RRSP/RRIF savings and having exclusively TFSA savings, for example – the conclusions might be different.

With this in mind, the analysis found that, for the majority of Canadians with sufficient registered savings to bridge the gap, the decision of whether to delay CPP payments depends on investment returns and life expectancy. The report concluded that, given today's low interest rates and increasing longevity, "delaying CPP payments is clearly a financially advantageous strategy" for those with sufficient savings. A major advantage of increasing payments via postponement is that it promises additional secure, lifetime income that increases each year alongside the price of consumer goods, thereby helping to protect seniors against the financial risks associated with inflation, financial market returns and longevity.

One of the points the CIA report made was, again, to apply your registered assets to bridge the gap between 65 and 70. The report used this formula: 7.35 x CPP at 65 = RRSP bridge amount. So, if you expect the maximum benefit of $1,203.75 per month, this would equate to utilizing $106,170.75 of your registered funds.

Another important takeaway from the report is that delaying may actually provide a greater benefit than 42%. CPP is based on maximum pensionable earnings, which have historically increased faster than inflation. As such, the report concludes that the CPP increase from age 65 to 70 will actually be closer to 50%, not 42%.

In their Executive Summary, the CIA stated that "taking CPP payments later is a cheap and safe approach to receive greater secure income in retirement; nevertheless, more than 95% of Canadians have consistently taken CPP payments at normal retirement age (65) or earlier since CPP introduced flexible retirement in the 1980s. Why, you ask? It could be partly emotional. People feel that they want to ensure they get back some of the money they put in, just in case. It could also be, in part, education on the topic, which is what we hope to do with this article."

What are the exceptions? The following: if you don't have enough registered savings; or if your Guaranteed Income Supplement (GIS) or Old Age Security (OAS) could be affected. For most individuals, if you have an investment account sufficient to bridge you to age 70, then delaying makes sense if you desire having more guarantees later in life.

At the Stan Clark Financial Team, we use our proprietary financial planning software to look at various what-if scenarios, and to consider all variables in helping you determine when it may be best to take your CPP.

If you have any questions or would like to have a copy of the CIA report emailed to you, please let us know. ■

Sylvia Ellis is the Senior Estate Planning Advisor for the Stan Clark Financial Team at CIBC Wood Gundy. Sylvia provides support to the team in projecting and planning client financial affairs.

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Phone: (604) 641-4361 Toll free: 1 (800) 661-9442 Fax: (604) 608-5211 Email: StanClarkFinancialTeam@cibc.ca www.stanclark.ca