When should YOU start receiving Canada Pension Plan benefits?

The CPP benefit is payable without any reduction starting at age 65. You may start receiving CPP as early as age 60, but your pension will be reduced to take into account the longer amount of time you will receive the benefit – the reduction is 0.6% for each month (or 7.2% per year) before age 65. The maximum age to start receiving CPP is age 70, and your CPP benefit will increase by 0.7% per month (8.4% per year) by which you’ve waited.

Based on 2019 rates, the maximum benefit payable at age 65 is $1,154.58 per month. If you start receiving your benefit early at age 60, a 36% reduction will apply, resulting in a maximum pension of $738.93 per month. If you start your benefit at age 70, an increase of 42% will apply, resulting in a maximum of $1,639.50 per month. The reduction at age 60 seems quite significant, and by contrast, the increase at age 70 sounds very attractive – but when should you start receiving your pension based on your personal circumstance?

Your CPP benefit checklist

There are many factors to consider when deciding when to start receiving CPP. The following checklist may help you think about what’s right for you – as you read through each factor, use the scale to record whether you should start your CPP at age 65, earlier or later.

Health

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<tr>
<th>Earlier</th>
<th>Age 65</th>
<th>Later</th>
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<tbody>
<tr>
<td>○ If you’re in poor health, receiving your benefit as early as possible will likely pay the most money, given your shorter life expectancy</td>
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<tr>
<td>○ If your health is good, and based on your family history you expect to live longer than the average, you will receive more value if you wait to receive a higher benefit</td>
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Death benefits

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<th>Earlier</th>
<th>Age 65</th>
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<td>○ There’s a one-time lump sum death benefit payable from CPP – a flat amount of $2,500. If you don’t have a spouse, this may be the only benefit payable if you die before you start your CPP. Since we don’t know when we will die, some people start CPP early to make sure they receive some benefit from the plan while they’re alive</td>
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<td>○ If you have a spouse, there is a surviving spouse’s pension payable under CPP, which could be as much as 60% of the benefit to which you would have been entitled. This means that if you die, your spouse could receive some value from the plan on your behalf. In this case, the decision of when to start receiving CPP should be based on other factors in this checklist</td>
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Beware though – if your spouse is receiving a surviving spouse’s pension and then starts receiving his or her own retirement benefit, the combined total can’t exceed the maximum retirement benefit. This means that if your spouse is entitled to a maximum retirement benefit of his or her own, the surviving spouse’s pension may be worth very little (or nothing).

**Still working?**

**Earlier** | **Age 65** | **Later**
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- You are allowed to start receiving CPP any time after age 60, even if you’re still working. Some people choose to gradually transition from work to retirement by reducing their workweek. Starting CPP early can help supplement the reduced income you receive by working fewer hours.
- If you choose to start your CPP while you’re still working, you will probably be taxed at a higher rate than if you were actually retired. One way around this would be to take your CPP and contribute it to your RRSP. This way, you defer paying taxes, and are investing your CPP to use it later in your retirement.
- If you continue to work after you start your CPP benefit, you may continue to make contributions and the amount of your benefit will increase annually. CPP contributions are mandatory on employment income up to age 65, and optional after 65.

**Retired?**

**Earlier** | **Age 65** | **Later**
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- Your CPP benefit is calculated based on 25% of your average employment income over your contributory period. There are a few exclusions to help increase your average earnings, but your contributory period basically runs from age 18 up to age 65. If you start receiving CPP before age 65, your contributory period stops running.
- Let’s say you retire at age 60, but choose to wait until age 65 to start receiving your CPP to receive an unreduced pension. Remember, your contributory period is still in effect! This means the five-year period of zero earnings from age 60 to 65 will be averaged into your average employment income. By waiting to receive the full benefit you may reduce your average earnings, and may lower your benefit.

**Taxes, pension sharing and the OAS clawback**

**Earlier** | **Age 65** | **Later**
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- If you choose to start your CPP while you’re still working, you will be taxed at a higher rate than if you were actually retired. One way around this would be to take your CPP and contribute it to your RRSP. This way, you defer paying taxes, and are investing your CPP to use it later in your retirement.
● If your spouse is in a lower tax bracket than you, starting your CPP may allow an opportunity for tax savings through the CPP pension sharing option. Under this option, if only you contributed to CPP, you can share your pension. If both of you contributed, you and your spouse or common-law partner may receive a share of both benefits. The combined total amount of the two benefits stays the same whether you decide to share your pensions or not. This may allow you to have your lower income spouse pay tax on some of your CPP benefit!

● If you expect to have high income after age 65, you may lose some or all of your Old Age Security (OAS) pension through the OAS clawback. For 2019, if your total taxable income for the year is more than $77,580, you will have to pay back 15% of the excess. If this is a concern for you, you may wish to start CPP early – the benefit will be reduced, so perhaps less of your income after age 65 will be clawed back.

**Value**

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<th>Earlier</th>
<th>Age 65</th>
<th>Later</th>
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● Many people want to start their retirement by fulfilling some lifelong dreams – perhaps a new house, that shiny new car, or a dream vacation. Starting CPP early may help pay for this more expensive “honeymoon” phase of retirement. Even without such extras, you will likely be more active and spend more money in the earlier years of your retirement.

● If you have the money to do what you want now, but you think that down the road you might need more, you can maximize your income in future years by delaying the start date of your CPP benefit. For example, you might want to spend money on your grandchildren in five or seven years, so you wait to start your benefit so there will be extra money available.

**Other sources of income**

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<th>Age 65</th>
<th>Later</th>
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● Consider what your income will be if you outlive your spouse. If CPP and OAS will be the bulk of your income, you may want to consider delaying the start to maximize your income in case your spouse dies first.

● If your retirement savings are mainly from personal savings and capital accumulation plans, the OAS and CPP are likely your main source of “defined benefit” income – that is they provide you with a guaranteed pension for life regardless of how long you live and regardless of how investments perform. By delaying the start of your OAS and CPP, you increase that guaranteed pension and give yourself a better base income on which to plan your future.
The over/under

Many people want to know how long it will take until they break even or are better off by delaying the start of their benefits. That is the over/under point. There are several ways to determine the over/under point and each gives a different answer!

Sam and Kelly are both age 60 and they have both qualified for the maximum CPP benefits. Sam starts CPP at age 60 ($739 per month) and Kelly delays to age 65 ($1,155 per month). By the time Kelly gets the first CPP payment, Sam has received a total of $44,300! But Kelly will now receive $416 per month more than Sam because of delaying the start. Every month, the gap between Sam and Kelly gets smaller. When they are both age 74, they will each have received the same benefit – a total of about $124,000. Every month after age 74, Kelly pulls further ahead of Sam.

If we compare Kelly starting the CPP at age 65 versus Max at age 70, Max would have to live past 82 to receive more than Kelly.

That comparison looks only at the amount of benefit received and ignores the time value of money – the fact that a dollar you get today is more valuable than the dollar you will get in five or ten years. For some people, the best comparison will consider interest – basically, if Sam, Kelly and Max deposit their benefits into a bank account, at what age will Kelly’s balance (including interest) exceed Sam’s balance, and at what age will Max’s balance exceed Kelly’s? If we do the calculation using a 5% interest rate and 2% inflation rate, Kelly will move ahead of Sam at 76 (for the age 60 versus 65 start) and Max will move ahead of Kelly at age 86 (for the 65 versus 70 start).

This analysis ignores the effect of income taxes. Taxes can change the results – and each person’s tax situation is different enough that a single answer is not appropriate. If the effect of taxes is important to you, we suggest you discuss the question of when to start your CPP with a financial planner.

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<tr>
<th>Benefit</th>
<th>Based on Total Benefits</th>
<th>Based on Benefits and Interest</th>
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<tbody>
<tr>
<td>CPP - Age 60 vs 65</td>
<td>74</td>
<td>76</td>
</tr>
<tr>
<td>CPP - Age 65 vs 70</td>
<td>82</td>
<td>86</td>
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If you live beyond the over/under age, delaying the start of your CPP and/or OAS benefit will likely give more total benefits over your life.