

## You Don't Know Jack; When should I Start Receiving CPP?

A common questions most retirees have is “when should we start to take [CPP](#) ?” (Canada Pension Plan) Is it better to start as early as you can, or defer it as long as possible?

The Canada Pension Plan (CPP) is a government pension that will pay you an income for life starting at age 65. The current maximum for 2018 is \$1,134 per month, indexed to [Consumer Price Index](#) (CPI) each year in January. The amount of income you may receive is based on your current age and your contributions since the age of 18.

To determine the amount of CPP you will receive, Service Canada looks at your entire working career from the age of 18 onwards. It will drop out your lowest 7.5 years of income, (and you can apply to exclude years you were disabled or child caring years) in order to determine your years of service, and your actual contributions.

You may elect to take early at age 60 or defer to age 70. If you elect to start to receive CPP prior to [age 65](#), the benefit amount is reduce by 7.20% per year, or 0.60% per month. If you wait to [age 70](#), the benefit after age 65 increases by 8.4 % per year, or by 0.70 % per month. (Note: you must apply to start to receive the benefits)

### ***So what should you do?***

One step is to determine the breakeven age, which is the age at which the income received would be the same for both options, and if you live longer, you would receive greater lifetime income.

Let's look at a real world example. A client obtained a CPP [quote](#), based on retiring at age 60, and electing to receive his CPP at ages 60, or age 65, or age 70. The following is the estimate:

Age 60	\$ 677.30 per month
Age 65	\$ 943.35 per month
Age 70	\$1,338.13 per month

Let's look at the cumulative cash flow received from starting at each age:

Age	At Age 65	At Age 70	At Age 78	At Age 81	At Age 82	At Age 90	At Age 96
60	\$40,638	\$81,276	\$146,297	\$170,680	\$178,807	\$243,828	\$292,594
65	\$ 0	\$56,601	\$147,163	\$181,123	\$192,443	\$294,325	\$350,926
70	\$ 0	\$0	\$128,460	\$176,633	\$192,691	\$321,151	\$417,497

- The breakeven age between starting CPP at age 60 and age 65 is approximate age 78
- The breakeven age between starting CPP at age 60 and age 70 is approximate age 81
- The breakeven age between starting CPP at age 65 and age 70 is approximate age 82

A key factor in your decision on when to start your CPP, is a term that Moshe Milevsky coined "Longevity Risk Aversion." In the simplest form, it means are you more interested in maximizing your lifestyle today or are you more interested in protecting your future lifestyle?

So what should you do?

**Rational for starting at age 60:**

- You require the income for lifestyle expenses at age 60.
- In all likelihood you may be more active and will want to spend more money on lifestyle from ages 60 to age 78/79/81, then afterwards.
- If you need the income that CPP will provide at age 60, you will have to draw down on your own assets prior to age 78/79/81 and potentially reduce your total net worth and/or estate.
- If you planning on downsizing your home after age 78/81/82, you will have additional assets then to cover potential health care and living expenses.
- Your health and/or family history indicated a shorter projected lifespan.
- You don't know what future changes to CPP may be.
- If you defer to age 65 or age 70, will the extra income cause you to be in the OAS (Old Age Security) recovery tax or claw back zone at that time?
- Do you still have debt that the CPP payments could be used to pay it down?
- If you delay CPP past the age of 65, any CPP spousal benefits are based on as if you started at age 65.

### **Rational for Deferring your CPP.**

- You don't require the income as you or your spouse have other income, to cover your expenses.
- You are extremely worried about income for health care expenses or living expenses as you age into your 80's.
- Your family has a historically long lifespan.
- You can start CPP at any time, so you could delay and review annually. One example of when you may delay and decided to start later would be perhaps you had a part time job and stopped. Another example could be a bear market (20 % market decline), and you start CPP then to reduce the amount you have to redeem from your personal assets.

Everyone should obtain a CPP quote for themselves. This will help with the long term planning, as well as do a comparison of you may receive at different ages. If you go to the following Service Canada link, [request for CPP quote](#), you can obtain a projection of your CPP based on the ages you wish to stop working, and when you wish to start to collecting. When you get the CPP estimate, your financial advisor use it their financial planning software to run the various "what if scenarios", to help determine when it is best to start based on your specific requirements and views.

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