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The case for starting CPP benefits early

They're guaranteed as long as you live, which these days could be a lot longer; meantime, you conserve your own retirement savings

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DECISIONS, DECISIONS

A choice people agonize over in their retirement planning is when to start their Canada Pension Plan retirement benefits. This chart offers a simplified view of how the total lifetime amount of benefits varies depending on when you retire and start CPP.

If you retire at this age	Your 2017 maximum monthly CPP retirement benefit would be	Total payments if you live to these ages									
		73	74	75	76	77	78	79	80	81	82
60	$713	$111,228	$119,784	$128,340	$136,896	$145,452	$154,008	$162,564	$171,120	$179,676	$188,232
65	$1,114	$106,944	$120,312	$133,680	$147,048	$160,416	$173,784	$187,152	$200,520	$213,888	$227,256
70	$1,582	$56,952	$75,936	$94,920	$113,904	$132,888	$151,872	$170,856	$189,840	$208,824	$227,808

Notes:

- Total payments are the monthly amount multipled by 12 and then by the number of years you collect benefits.
- The indexing of CPP payments to offset inflation is not factored into these numbers.
- In taking CPP early, you may not be using personal assets that will earn a rate of return.
- Potential gains can be realized if you invest some or all of your early CPP benefits.

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The most dispassionate, data-based experts on retirement say you should delay starting your Canada Pension Plan benefits until after age 65.

But the actuarial take on CPP doesn't sway retirement planner Daryl Diamond. The Winnipeg-based author of *Your Retirement Income Blueprint* recommends that clients start their benefits whenever they retire. "I don't care whether it's 59 years and 11 months or, age 62 and a half," he said. "It's one of the first streams of income we look at if people are retiring."

You can collect an unreduced CPP retirement benefit at the age of 65, based on personal contributions in your working years. You have an option to begin receiving a reduced pension as early as age 60, or you can delay as late as age 70 and receive at least 42 per cent more than you would have received at age 65. Actuaries say longer lifespans mean those who delay CPP past 65 stand to receive more in total lifetime benefits than those who start earlier if they live to a certain age.

I tried an online CPP calculator and found that I had to live to 82 to receive higher total CPP retirement benefits by delaying the start to age 70 versus 65. I then tried an online life expectancy calculator that said I will live just past age 89. "There's a very easy argument to be made [for delaying CPP] on the assumption that people live longer," Mr. Diamond said. "But there are other pieces when it comes to putting it all together."

Delaying CPP means you'll likely have to draw on your personal savings to cover living costs until your benefits start. The actuaries see this as a plus because you'll be reducing an income source that is subject to market volatility and building a flow of CPP money that is close to guaranteed. CPP benefits are also inflation-adjusted every year, so you have some defence against rising living costs.

The extra money you get by waiting to collect CPP is considerable. The maximum monthly payment at age 70 would be $1,582.12 for 2017, compared with the $1,114.17 you'd get at 65 and the $713.07 paid if you start benefits at 60.

But when you die, your CPP benefits expire with you. There's a survivor's benefit for spouses and common-law partners, but it's modest in size and not available in all situations. This quirk – some would say flaw – in the CPP's design is the first part of Mr. Diamond's argument for taking CPP early. Grab onto your benefits as soon as you can because all or much of them will be lost if you die early.

The second part is that you have the opportunity to conserve your own retirement savings and also grow them via investment gains.

Yes, those savings are subject to stock market crashes and the damage that rising rates do to bonds. But with proper estate planning, you can leave your remaining retirement savings in the hands of a spouse, children or a charitable cause when you die. Unlike CPP benefits, you can control what happens to your money after you're gone.

Mr. Diamond does agree that it can make sense to use personal assets early and delay CPP if you're worried that you haven't saved enough for retirement. "You want to have that underpinning of, 'I'm not going to run out of money,'" he said.

But you're vulnerable to a drop in CPP income when a spouse dies. Federal government numbers show the average CPP retirement payout for new beneficiaries is $644 monthly in 2017; for new beneficiaries age 65 and older, the average survivor benefit is even lower at $316 monthly.

The amount of CPP a surviving spouse is already receiving has a big influence on the survivor's benefit. The surviving spouse cannot receive more than the maximum CPP retirement benefit in total. So if the survivor already gets the maximum, no additional top-up would be available following the death of a spouse who also gets CPP. Effectively, there is no survivor's benefit in this situation.

We're dwelling here on what-ifs that apply when someone dies early in retirement. But, as actuaries are quick to point out, lifespans are getting longer. Statistics Canada data show that males at age 65 could expect to live an extra 19 years, and women an extra 22 years. Census data from 2016 showed the fastest-growing age group in the country are people aged 100 and up. The census included 8,230 centenarians, up 41.3 per cent from 2011.

A rough year for Mr. Diamond's client base shows how we don't all benefit from rising life expectancy. In the past 10 months, 10 individuals have passed away. The older clients were 80, 78 and 74, while the rest were under the age of 70. He notes that this trend is highly unusual and not reflective of the broader population.

The additional retirement benefits you get every month by delaying CPP is a potential difference-maker in terms of monthly household budgeting. But this extra money might also have an effect on your Old Age Security benefits. Mr. Diamond points out that starting CPP at a higher level could push your income to a level that triggers at least a partial clawback of OAS. For 2017, the clawback starts with income of $74,788.

Mr. Diamond says you can look at delaying CPP as a way of enhancing your future retirement income. But he argues that taking CPP when you retire provides an immediate income boost.

He uses the example of someone who retires at age 60, but wonders if she should take CPP at 65. Waiting those five years would add $401 per month to her income based on current payouts. But taking CPP at 60 would give her $713 per month that she otherwise wouldn't have. Without adjusting this $713 per month for inflation, she will have received $42,780 in total payments by age 65.

"This is money that did not have to be withdrawn from personal assets," he said in a briefing note. "Those retirement assets are invested and earning a rate of return."

It's also possible to invest some of those early CPP benefits and earn a return on them as well.

The decision on whether to take CPP early, on time or delay comes down to personal preference and emotions as much as numbers. Would you be more comfortable going without CPP for a while to build up bigger payments that won't be subject to stock market corrections? Or, would it better suit you to take CPP early and conserve your personal savings?

Mr. Diamond says his preference for taking CPP early is based on more than 30 years of experience in the advice biz. Just recently, he has taken on a new client who still isn't convinced that taking CPP early is the right thing to do. "Every other client that we have met and started retirement income has taken their CPP early."

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