

# Financial Insights

from Quinn+Cardy Wealth Management  
of BMO Nesbitt Burns



## The Great CPP Debate Continues...

It is a decision that many Canadians will need to make prior to retirement: when should you start Canada Pension Plan (CPP) benefits? At age 60, 65 or wait until 70?

Despite the potential for a higher CPP payout — an increase of 42 percent if the CPP is deferred to age 70<sup>1</sup> — less than one percent of Canadians wait until age 70 to collect CPP. For those who have a choice,<sup>2</sup> taking CPP before 70 may not be that surprising. In the 1972 Stanford Marshmallow Experiment, psychologist Walter Mischel gave his young participants a choice — one marshmallow immediately, or two if they waited 15 minutes. While most wanted to wait, less than one-third were able. As the experiment showed, humans tend to favour instant gratification.

When considering delaying benefits, here's the good news — most of us are likely to live longer than we may believe. If you reach the age of 65, chances are you will likely live to age 85 (see chart below).

This may mean many wonderful years in retirement, but it may also create worries for those concerned about outliving retirement savings. For many, income challenges from the pandemic haven't helped to ease these concerns.

Yet, given our life expectancy, studies continue to show that deferring CPP results in greater overall lifetime income for the average individual. A recent study published in the popular press will have you believe that taking CPP early at age 60 instead of 70 could cost you over \$100,000.<sup>3</sup>

While there is no disputing that waiting until age 70 may deliver higher lifetime payments for the average retiree, there may be reasons to consider taking an earlier CPP.

**Need for early income** — Retirement costs aren't often linear in nature and may mirror life stages. Often, more income may be needed earlier in retirement, and CPP may provide this supplementary income.



**Concerns about longevity** — Some individuals may worry about longevity due to family history or illness. Life expectancy is difficult to predict.

**Opportunity cost of other income** — If CPP is deferred, other sources of income will be used. This may require withdrawing investments, which involves an opportunity cost of the potential loss of future growth. The recent study suggesting that you may forego \$100,000 by taking CPP early may be misleading as it does not factor in this potential loss, which would reduce this gap.<sup>4</sup> In other cases, individuals may expect to leave certain investments to family members. A study done by the Society of Actuaries suggests that if the goal is to maximize a RRIF/RRSP for beneficiaries, then the best option may be to take CPP at age 65 so that the RRIF can be depleted more slowly.<sup>5</sup>

There are other factors that may impact the decision of when to start CPP benefits, including amount of CPP to which you are entitled, the preservation of other income-tested benefits, and your current or future income tax bracket. All of these considerations can vary significantly by individual. For a thoughtful analysis specific to your particular situation, please call.

1. Or 0.7 percent for each month; 2. With other sources of income enabling the delay of CPP payments; 3. [financialpost.com/executive/executive-summary/posthaste-canadians-who-take-cpp-at-60-lose-100000-in-retirement-income-study-finds](https://financialpost.com/executive/executive-summary/posthaste-canadians-who-take-cpp-at-60-lose-100000-in-retirement-income-study-finds); [theglobeandmail.com/investing/personal-finance/article-taking-cpp-early-can-cost-you-100000-and-limit-your-long-term/](https://theglobeandmail.com/investing/personal-finance/article-taking-cpp-early-can-cost-you-100000-and-limit-your-long-term/); 4. [fpcanadaresearchfoundation.ca/media/5fpda5zw/cpp\\_qpp-research-paper.pdf](https://fpcanadaresearchfoundation.ca/media/5fpda5zw/cpp_qpp-research-paper.pdf); 5. [cia-ica.ca/docs/default-source/research/2020/rp220114e.pdf](https://cia-ica.ca/docs/default-source/research/2020/rp220114e.pdf)

The Probability of a 65-Year-Old Reaching Various Ages

Age	75	80	85	90	95
Females	90%	82%	69%	50%	26%
Males	86%	75%	59%	38%	17%

Source: Based on Statistics Canada T1310-0135.



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