FP Answers: Should I take CPP at age 60, even though I only have a small pension and no other investments?

Ryan is 59 years old and still has a mortgage. Should he apply for CPP now and use that money to pay down his mortgage, or invest?

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Most Canadians should start with taking CPP at age 70 in mind, and then determine which age is best for them based on their situation. Photo by Getty Images/iStockphoto files

Article content

By Julie Cazzin, with Janet Gray

Q: Hi, I'm 59 years old and fully employed. My annual salary is $70,000. I don't have a registered retirement savings plan (RRSP) or other investments, but I do have a small pension from my employer that will pay me about $1,500 a month at age 65. I still have a mortgage of $200,000 at 2.4 per cent, as well as annual bill payments totalling $22,000. Should I apply for the Canada Pension Plan (CPP) now and use those funds to invest or pay down my debt? Or should I wait until I'm 65? — *Ryan in Penticton, B.C.*

FP Answers: Your question is one I hear a lot from pre-retirees. CPP is a pension funded from employee and employer contributions made during your working years. The amount you receive in retirement is based on three main criteria: the starting age of receiving the benefit, how much and how many years you contributed to it, and your average earnings while working. The 2022 maximum benefit at age 65 is $1,253.59 month, although the average benefit (as of June 2021) is $619.68.

Ryan, you can take CPP as early as age 60, but you'll receive reduced benefits. If you wait until you turn 65, you'll receive your full benefits. You can also choose to delay your benefits until age 70, which gives you increased benefits.

You can receive CPP retirement benefits at age 60 while continuing to work and your CPP contributions while working will permanently increase your benefits the following year and ongoing.

Every month below age 65 that you take CPP means a decrease of 0.6 per cent monthly (or 7.2 per cent per year), for a 36-per-cent total decrease if taken at age 60. For example, instead of receiving the age 65 monthly maximum of $1253.59, you would receive about $802. That amount will be the permanent amount for your lifetime other than inflation adjustments and possible additional contributions if you work to age 65.

Now, if you wait until age 70, your age 65 amount increases by 8.4 per cent annually, or 42 per cent at age 70. Instead of $1,253.59, your age 70 benefit would be about $1,780. But it's not just about waiting for the larger amount. Some people might have a reduced longevity or have few other income sources. Not everyone will qualify for the maximum benefits since it's based on your years of contributions (40 maximum) and the years of maximum qualified income (that was $61,600 in 2021).

Ryan, there are some other things to consider. You mentioned you have a pension at retirement. Does your pension include a bridge portion to age 65? A bridge benefit is a temporary pension

designed to fill the financial gap between early retirement and age 65. This could allow you to wait at least to age 65 to take CPP after the bridge benefit ends.

It's also important to consider if you'll have other sources of income from age 60 to age 65 or 70 that you could use, which would then allow you to wait for a larger CPP benefit at age 70. In your situation, if taken now, CPP benefits (which are fully taxable) might also move you into a higher tax bracket and you would be hit by the double whammy of having to receive a lower benefit and paying more tax on your total annual income.

Your mortgage interest of 2.4 per cent is less than the increase you would earn if you wait to take CPP at a later date. It might be better to allow the CPP to grow at 7.2 per cent annually than to take it to pay down a debt of 2.4 per cent.

Before making a final decision, I suggest you contract Service Canada to get your CPP statement estimate of benefits. It will give you a better idea of your financial situation and future choices. Most Canadians should start with taking CPP at age 70 in mind, and then determine which age is best for them based on their situation and the above-mentioned factors.

—Janet Gray is a fee-for-service certified financial planner and money coach in Ottawa.