Most clients should wait to claim CPP payments: report

A report from the Canadian Institute of Actuaries looks at claiming CPP at age 70 vs age 65

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Should your client delay claiming their Canada Pension Plan (CPP) payments? A new report commissioned by the Canadian Institute of Actuaries

(CIA) and the Society of Actuaries provides insight to help answer that question.

The CPP Take-Up Decision investigated the financial consequences of delaying CPP payments for five years by looking at workers retiring at age 65 who had sufficient savings to begin drawing CPP pension income at age 70 instead.

If a person starts CPP after age 65, payments increase by 0.7% each month (8.4% per year), up to a maximum increase of 42% at age 70.

Specifically, the report compared claiming CPP payments at age 70 and bridging the gap with RRSP/RRIF savings to claiming CPP payments at age 65 and self-managing the income. In both scenarios, the same initial level of savings was used to target the same annual secure net income.

The analysis found that, for the majority of Canadians with sufficient RRSP/RRIF savings to bridge the gap, the decision of whether to delay CPP payments depends on investment returns and life expectancy.

“From a cash flow and savings perspective, the CPP timing decision is unaffected by those considerations that are normally key to retirement financial planning — such as Guaranteed Income Supplement (GIS) benefits, taxes, pension income, other savings or even the level of the CPP benefit itself,” the report said.

In other words, if a client targets a single net annual lifetime income and attempts to get there by either using RRSP/RRIF wealth to augment income or delaying CPP payments, the effects on such factors as personal income taxes and GIS eligibility remain the same in both scenarios.

Since the decision to delay CPP depends on returns and life expectancy, the report concluded that, given today’s low interest rates and increasing longevity, “delaying CPP payments is clearly a financially advantageous strategy” for the majority of Canadians with sufficient savings to bridge the gap.

Using a risk-free investment rate of inflation plus 1%, 75% to 80% of Canadians would be better off financially by delaying CPP payments, the report found.

Yet more than 95% of Canadians have taken CPP payments at age 65 or earlier since the plan introduced flexible retirement in the 1980s, it said.

For the full analysis, read The CPP Take-Up Decision.