FEB 2025

WealthWisdom

Timing is Everything:
Why Some Regret Taking Early CPP Benefits

Ottawa & Kanata Branches

750-45 O'Connor St., Ottawa K1P 1A4
400-450 March Rd., Kanata K2K 3K2

With most Canadians starting their Canada Pension Plan (CPP) benefits early, there's been growing attention to the potential advantages of waiting. Recall that taking CPP benefits before age 65 – as early as 60 – decreases payments by 0.6 percent per month, whereas delaying their start beyond 65 increases payments by 0.7 percent per month, up to 42 percent (by the age of 70). Actuarial studies continue to show that many people are better off delaying benefits as the CPP break-even age[1] is often below the average life expectancy. Those who live past the break-even age will receive a higher overall benefit by waiting.

And, yet, according to recent statistics, only around four percent of Canadians are expected to wait until age 70.[2]

While statistics suggest that many Canadians should delay benefits given our increased life expectancy of around 82 years, there are valid reasons to consider taking early benefits. Some worry about longevity due to family history or illness. Others may require income sooner, as retirement expenses are often not linear, with higher costs sometimes arising earlier in retirement. Healthcare expenses may also necessitate accessing benefits early. Additionally, some individuals factor in the preservation of income-tested benefits or consider the current and future implications of income taxes.

The age of retirement can also impact the calculation of your benefits. If you retire at age 60 and wait to collect CPP at age 65, you may be negatively impacting your CPP benefit amount by adding five zero-earning years to the benefit calculation. However, if you work past the age of 65 and delay benefits, you may be adding higher-earning years to the calculation and increasing your benefit.[3] This is because CPP benefits are generally calculated

CPP TIMING TOOL:
If you have yet to take CPP benefits, this tool may help you frame the timing decision: www.theglobeandmail.com/investing/personal-finance/tools/cpp-benefits/

Raymond James Ottawa Tip:

Did You Know?

CPP TIMING: CHANGE YOUR MIND?

If you start benefits and change your mind, you can cancel your CPP retirement pension up to 12 months after you start receiving it. The cancellation must be requested in writing to Service Canada and you must also pay back the CPP benefits received. For more information, please see: www.canada.ca/en/services/benefits/publicpensions/cpp/cpp-benefit/after-apply.html

using the best 40 years of income, usually between ages 18 and 65. Since lower-earning years tend to be at younger ages when first starting a career, extending the working years past age 65 may add higher-earning years to the calculation, thus increasing the benefit. The good news? It doesn't work the other way: Any low-earnings years after age 65 will not affect the benefit calculation.

Regrets, We've Had a Few…

Indeed, the old words of Frank Sinatra may be a reminder to consider the timing decision with care. A recent article in The Globe & Mail highlighted Canadians who had "regrets" after starting benefits early:[4]

- **Impact on survivor benefits —** One widow discovered that starting her own CPP reduced her maximum entitlement from survivor benefits. She was also unaware that survivor benefits would change when she turned 65 and hadn't considered the impact of deferring her own benefits beyond that age.
- **Legacy considerations —** A man who wasn't in immediate need of the funds wished he had delayed his CPP after realizing how much more he could have left for beneficiaries. A study by FP Canada (2020) suggests that taking CPP at age 60 instead of 70 could forgo $100,000 of lifetime benefits.[5]
- **Inflation adjustments —** Given that we have all endured substantial inflation in recent years, one retiree noted that had he waited, the multiplier for starting later would have further enhanced the inflation-indexed benefits. In fact, actuarial studies show that a higher inflation rate can amplify the benefit of waiting to take CPP benefits.[6]
- **Returning to work and the impact of taxation —** One man who began receiving CPP at 60 and retired at 63 decided to return to work. He regretted starting his CPP pension early due to the taxes he was required to pay on CPP income during his subsequent return to employment.

Need Assistance to Determine When to Start CPP?

As you consider the timing decision, we at Raymond James are here to help. With our deep understanding of our clients' financial situations, we can provide tailored insights to help you make an informed decision about the timing of government benefits or other important retirement decisions. Please don't hesitate to contact our office for support.

FOOTNOTES:

1. The age at which total benefits received by delaying payments exceed total benefits received by starting payments earlier.
2. www.theglobeandmail.com/investing/personal-finance/retirement/article-at-what-age-do-canadians-start-their-cpp-pensions-and-what-age-should/
3. www.canada.ca/en/services/benefits/publicpensions/cpp/cpp-benefit/amount.html
4. www.theglobeandmail.com/investing/globe-advisor/advisor-news/article-these-canadians-wish-they-had-waited-to-take-their-cpp-benefits-heres/
5. www.fpcanadaresearchfoundation.ca/media/5fpda5zw/cpp_qpp-reseach-paper.pdf
6. www.advisor.ca/tax/tax-strategies/consider-inflation-when-deciding-when-to-begin-cpp/

RAYMOND JAMES®