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## When to Start Your Canada Pension Plan & Old Age Security Benefits

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You may start to receive your Canada Pension Plan<sup>1</sup> (“CPP”) retirement benefits any time between ages 60 and 70. You may start to receive your Old Age Security (“OAS”) benefits any time between ages 65 and 70. But when is the optimal age to start?

Despite the opinions expressed by many retirement experts, there is no single right answer – it depends on your specific situation. In this article, we set out a balanced review of the advantages and disadvantages of starting your government retirement income early and late.

### What is the Old Age Security Benefit?

The basic Old Age Security benefit<sup>2</sup> pays \$601.45 per month (\$7,217.40 per year) as of January 2019. The full pension is payable to every Canadian resident beginning at age 65 provided you have lived in Canada for 40 years after your 18th birthday. A partial (pro-rated) pension is payable if you have lived in Canada for at least 10 years after the age of 18<sup>3</sup>.

If you delay starting your OAS beyond age 65, the monthly amount is increased by 0.6% per month by which you have waited. The maximum increase is 36% which occurs at age 70. A person starting their OAS at age 70 in January 2019 would receive \$817.97 per month.

Your OAS benefit is taxable – just like pension income. Once you start receiving your OAS benefit, it will be increased every 3 months based on increases in the Consumer Price Index.

Your OAS benefit stops upon your death. There are no surviving spouse benefits (except in cases of a surviving spouse with low income).

A person with a large total income could have some or all their OAS benefit “clawed-back” through their income tax return. In 2019, if your total taxable income for the year is more than \$77,580, you will have to pay back 15% of the excess. If your 2019 total taxable income exceeds \$125,696 and you start your OAS at age 65, you will have to repay all the OAS benefit. For example, if your 2019 total taxable income is \$85,000, you have \$7,420 of excess income and you will have to repay 15% of that - \$1,113. That repayment is in addition to the income taxes you must pay on the rest of your total income.

### What is the Canada Pension Plan Benefit?

The CPP is a mandatory employment-based pension system to which every working Canadian and their employer makes contributions. The standard pension benefit is based on starting your pension at age 65. You may choose to start it at any age between 60 and 70.

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- <sup>1</sup> The Quebec Pension Plan is similar to the CPP and this discussion also applies to the QPP, but for simplicity, we will refer only to the CPP herein.
  - <sup>2</sup> There are other benefits payable under the Old Age Security Act, including the Guaranteed Income Supplement and Spouse’s Allowance. Information about these programs is available from Service Canada at Canada.ca.
  - <sup>3</sup> Canada has social security agreements with various countries, so you may qualify for the full OAS pension based on your combined residency (check Canada.ca for more information based on the country you’re interested in). There are other qualification rules for those who do not live in Canada when starting to receive OAS.

The amount of your CPP benefit is based on your earnings history and the age at which you start it. The calculation of your CPP benefit is complex and beyond the scope of this article. A person who has contributed the maximum amount to the CPP in each year from age 18 to 65 will be entitled to the maximum pension of \$1,154.58 per month for retirement at age 65 in 2019. You can contact Service Canada (at Canada.ca) to request an estimate of your benefit, or simply check your Statement of Contributions which you can view online through your “My Account” with Canada Revenue Agency.

If you start your CPP benefit prior to age 65, the amount will be reduced by 0.6% per month by which your start age precedes age 65. The maximum reduction is 36% for starting the CPP at age 60. If you start your CPP benefit after age 65, it will be increased by 0.7% for every month between 65 and your start age to a maximum increase of 42% at age 70<sup>4</sup>. A person who is entitled to the maximum pension amount would receive \$738.93 per month if starting the CPP at age 60 in 2019 and \$1,639.50 per month if starting the CPP at or after age 70 in 2019.

Your CPP benefit is taxable – just like pension income. Once you start receiving your CPP benefit, it will be increased every year based on increases in the Consumer Price Index. In addition, if you continue to work after you start your CPP benefit, you may continue to make contributions and the amount of your benefit will be increased annually. CPP contributions are mandatory on employment income up to age 65, and optional after 65.

On death, there is a lump sum death benefit payable of \$2,500. In addition, your surviving spouse will be entitled to a survivor pension equal to 60% of what you were receiving, but in no event will your spouse’s total income from CPP exceed the maximum monthly benefit for a single person - \$1,154.58.

There is no claw-back for CPP.

### **Why Start Your Benefits at the First Opportunity?**

The most obvious reason is if you need the income. If you will face financial hardship by delaying the start, it makes little sense to delay receipt. But if you do not need the income, there are other reasons why starting immediately is worthwhile. Your first opportunity to start CPP is at age 60 and the first opportunity for OAS is at age 65.

It used to be “common knowledge” that one should start CPP at age 60 to get the best value. The reduction percentage was increased a few years ago and that changes the situation. In reality, starting early was not and is not an appropriate rule to automatically apply in all cases.

1. **Health, longevity and genetics:** If you are in poor health and expect that you have a shorter than average life expectancy, starting at the earliest age will likely pay the most money as possible to you while you are alive.

The less time you expect to live, the more reason to start your benefit as soon as possible. If you are in good health, it’s very hard to guess how long you might live. You can get an idea by looking at your ancestors – did your parents and grandparents die prior to age 80? If so, there is an increased chance that you might not reach age 80 either. That *suggests* you might be better off starting your CPP and OAS as early as possible. But remember, we are living longer and medical advances are having an impact on longevity – there is no guarantee either way.

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<sup>4</sup> Note that the increase percent for starting OAS after age 65 is 0.6% per month but the increase percent for CPP is 0.7% per month! By starting your benefits at age 70, you get a 42% increase in CPP but only a 36% increase in OAS.

2. **Retiring early:** Your CPP benefit is calculated based on your average earnings over your contributory period<sup>5</sup> – a year with low earnings will reduce the average and reduce your pension. The CPP ignores the lowest years of earnings, so they do not affect your benefit amount. For most of us, the 7 or 8 lowest years of earnings are ignored<sup>6</sup>.

Let's say you retire from work at age 60, have no or very little earned income after 60 but choose to wait until age 65 to start drawing on CPP. Because you have not started drawing CPP, your contributory period is still running – this means the 5-year period of zero earnings from age 60 to 65 will be included in your average earnings. This may reduce your average earnings, which will in turn reduce the amount of your CPP benefit. If instead you start receiving CPP at age 60, your contributory period ends and your 5 years of zero earnings will have no impact on your CPP benefit. If you're retiring earlier than age 60 this is an even stronger reason for starting CPP at age 60 – your years of zero earnings before age 60 will definitely be included in your average earnings and delaying CPP to age 65 will almost certainly have a negative impact on your average earnings and your pension.

3. **OAS Clawback:** If you're concerned about the OAS clawback, you may wish to start CPP early – the benefit will be reduced, so perhaps less of your income after age 65 will be clawed back.
4. **Death benefits:** There's a one-time lump sum death benefit payable from CPP – a maximum of \$2,500. If you don't have a spouse, this may be the only benefit payable if you die before you start your CPP. Since we don't know when we will die, some people start CPP early to make sure they receive some benefit from the plan while they're alive

If you have a spouse, there is a surviving spouse's pension payable under CPP, which could be as much as 60% of the benefit to which you would have been entitled. This means that if you die, your spouse could receive some value from the plan on your

### Retirement Stages

As we move through our senior years, we tend to go through three stages – celebration, settlement and decline.

The celebration stage is when we do all the things of which we have been dreaming – checking things off the bucket list. This can be an expensive part of retirement. Having the extra income from CPP and/or OAS could allow you to do today the things you have always dreamed of rather than waiting and hoping you will still be able to do them in the future.

Eventually, we gradually move to a point where we want to settle down and just enjoy things – the settlement stage. Our expenditures will normally also settle down. Many retirees during this stage find they have significantly more income than they need. After some time, we move into the decline stage – as we get close to our death.

The amount of time that we spend in each stage differs from person to person. Some people move from celebration to settlement in their early 70s while others won't start that move until their 90s. The move to the decline stage is normally something over which we have little control. That stage can be very short or extend for years and may involve significant medical issues and/or a nursing home.

Even though a person who lives into their 90s will get more money from OAS and CPP by delaying the start of benefits, that extra money might be of little value to them because it is received after moving to the settlement stage.

<sup>5</sup> Your contributory period starts at age 18 and ends at age 70, or when you start your CPP, if earlier.

<sup>6</sup> This is called a "drop-out". 17% of your contributory period is your drop-out period. A person starting their CPP at age 60 has a 42-year contributory period (from age 18 to 60). 17% of that is 7.14 years of drop-out. At age 65, the drop-out is 8 years. In addition, if you stayed home to look after children, those years where at least one child was under age 7 can also be dropped-out.

behalf. In this case, the decision of when to start receiving CPP should be based on other factors in this article. Beware though – if your spouse is entitled to a surviving spouse’s pension as well as his or her own retirement benefit, the combined total can’t exceed the maximum retirement benefit. This means that if your spouse is entitled to a maximum retirement benefit, the surviving spouse’s pension may be worth very little (or nothing).

Note that there are no death benefits payable under OAS, so if making sure you receive some value from the plan is important to you, you should start receiving OAS at age 65.

5. **Value:** Even though you may not need the extra income now, it could be that you will get more enjoyment out of it now than by waiting – most of us will be more active and spend more money in the early years of our retirement.

### Why Delay Starting Your Benefits?

6. **Health, Longevity and Genetics:** This is basically the same as item 1 above. If your ancestors generally lived to a ripe old age, the chances are you will do so, especially if you are in good health. If you do live past 85 or 90, you will almost certainly get more money out of your benefits by delaying their start.
7. **Value:** This item is the opposite of item 5 above. If you have all the money you need to do what you want currently, but you think that down the road you might need to have more, then you can maximise your income in future years by delaying the start date. For example, you might want to spend money on your grandchildren starting in 5 or 7 years and you wait to start your benefits so there will be extra money available each year.

An alternative way to fund an increase in future expenses is to open a new savings account, start your CPP and OAS as early as possible and have the benefits deposited directly into that account. Provided you can trust yourself to avoid raiding the account for other things, you will have a nice balance built up by the time you want to start spending it.

8. **Death benefits:** While women have a longer life expectancy than men, and younger people are expected to live longer than older people, either one of the couple could end up as the surviving spouse. Consider what your income will be if you outlive your spouse. If your CPP and OAS will be the bulk of your income, you may want to consider delaying the start to maximise your income in case your spouse dies first.
9. **The Claw-back:** If your total taxable income will result in the OAS being clawed-back, it may make sense to delay starting OAS<sup>7</sup>. There is little reason to start your OAS at age 65 if all, or almost all, of it will get clawed back!

Robin is 65 with total taxable income of \$93,000. Robin expects that level of income to continue each year – it will not decrease in the future. If Robin starts OAS, it will bump taxable income to about \$100,000. The claw-back is 15% of your income above \$77,580 (in 2019). For Robin, that’s 15% of \$22,420 - giving a claw-back of about \$3,363. Robin will receive \$7,217 of OAS benefit and must pay back \$3,363, keeping only \$3,854.

If Robin delays starting OAS until age 70, the annual OAS benefit will be increased to about \$9,815. Adding that to Robin’s other taxable income of \$93,000 gives \$102,815. The claw-back on that amount is about \$3,785. At 70, Robin would receive \$9,815 of OAS benefit and must pay back \$3,785 keeping \$6,030<sup>8</sup>.

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<sup>7</sup> This does not apply to CPP as it has no claw-back.

<sup>8</sup> If Robin had taxable income of over \$143,000, the entire increased OAS benefit would be clawed-back and there is little Robin can do.

By delaying the start of OAS, the annual benefit increases by about \$2,598 and Robin gets to keep all but \$400 of that increased amount.

In a different scenario, if Robin expects taxable income to decrease below \$77,580 in the future (for example if Robin is working and expects to stop working in a few years), there would be no claw-back on the OAS amount after the earnings decrease.

10. **Income Taxes:** If you expect your income tax rate to decrease in the future (possibly because you are still working and you plan to retire in a few years), you will be paying higher taxes on your CPP and OAS benefit by starting early.
11. **A Guaranteed Benefit for Life:** The OAS and CPP benefits are of the type known as “defined benefit”. That is the amount of your monthly income is defined and you know what it will be. For most workers with a workplace retirement plan, that plan is likely a “capital accumulation plan” also called a “defined contribution plan”<sup>9</sup>. Those plans work like an RRSP – contributions are made, accumulate with interest and there is a fund balance reported to you periodically. At retirement you have to do something to turn that account balance into a monthly income. The risk of running out of money because you live “too long” is very real.

If your retirement savings are mainly from personal savings and capital accumulation plans, the OAS and CPP are likely your main source of defined benefit income – that is they provide you with a guarantee of pension for life regardless of how long you live and regardless of how investments perform. By delaying the start of your OAS and CPP, you increase that guaranteed pension and give yourself a better base income on which to plan your future.

A couple who both start their OAS and CPP at 70 and who both qualify for the maximum benefit would receive a total of \$4,915 per month (\$59,000 per year). That can form a very nice base income on which to live with personal savings, RRSPs and capital accumulation plan benefits providing the funds to enjoy yourself and celebrate. (Most Canadians do not qualify for the maximum CPP, so most couples will receive a lower income amount than \$59,000 per year.)

## What’s the Over/Under?

Many people want to know how long it will take until they break even or are better off by delaying the start of their benefits. That is the over/under point. There are several ways to determine the over/under point and each gives a different answer!

Sam and Kelly are both age 60 and they have both qualified for the maximum CPP benefits. Sam starts the CPP at age 60 (\$739 per month) and Kelly delays to age 65 (\$1,155 per month). By the time Kelly gets the first CPP payment, Sam has received a total of \$44,300! But Kelly will now receive \$416 per month more than Sam because of delaying the start. Every month, the gap between Sam and Kelly gets smaller. When they are both age 74, they will each have received the same benefit – a total of about \$124,000. Every month after 74, Kelly pulls further ahead of Sam.

If we compare Kelly starting the CPP at 65 vs Chris at 70, Chris would have to live past 82 to receive more than Kelly.

That comparison looks only at the amount of benefit received and ignores the time value of money – the fact that a dollar you get today is more valuable than the dollar you will get in 5 or 10 years. For some people, the best comparison will consider interest – basically, if Sam, Kelly and Chris deposit their benefits into a bank account, at what age will Kelly’s balance (including interest) exceed Sam’s balance, and at what age will Chris’s balance exceed Kelly’s? If we do the calculation

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<sup>9</sup> However, most of the broader public sector workers will have a defined benefit plan, where the pension amount is guaranteed payable for life. This section 10 has little relevance for them since most of their retirement income is already protected for longevity.

using a 5% interest rate and 2% inflation rate, Kelly will move ahead of Sam at 76 (for the age 60 vs 65 start), Chris will move ahead of Kelly at age 86 (for the 65 vs 70 start) and Chris will move ahead of Sam at age 83 (for the 60 vs 70 start).

For Old Age Security, the over/under age is different because the increase percent for delaying the start differs from that used for the CPP. If Kelly starts OAS at 65 and Chris at 70, Chris will need to live to age 84 to do better than Kelly. If we include interest, Chris must live beyond age 90.

These analyses ignore the effect of income taxes. Taxes can change the results – and each person’s tax situation is different enough that a single answer is not appropriate. If the effect of taxes is really important to you, we suggest you discuss the question of when to start your CPP and OAS with a financial planner.

**Over/Under Age for CPP and OAS**

Benefit	Based on Total Benefits	Based on Benefits and Interest
CPP - Age 60 vs 65	74	76
CPP - Age 65 vs 70	82	86
CPP – Age 60 vs 70	78	83
OAS - Age 65 vs 70	84	90

*If you live beyond the over/under age, delaying the start of your CPP and/or OAS benefit will likely give more total benefits over your life.*

**Summary**

There is a chance that you remain unsure of the right answer for you at this point. The reality is you will not know what the best start date is for you until years into the future. The best one can do now is make a decision based on your current situation and hope that it works well for you.

**When do you want to start your benefits?**

Refer to the numbered paragraphs in the text for each of the following items and select the best answer for you. When you have finished, you may see a pattern that favours earlier, age 65 or later commencement. As you look at your results, consider how important each one of these items is to you. If there are only three items that are very important to you and you selected “earlier” for each of them and the other six items are not really very important to you but you selected “age 65” for them, that may suggest the 3 “earlier” items outweigh the importance of the 6 “age 65” items. In any event, this chart should help guide you to a decision based on your personal situation.

1. & 6.	Health, Longevity and Genetics	Earlier		At 65		Later
2.	Retiring Early	Earlier		At 65		Later
3.	Effect of CPP on OAS Clawback	Earlier		At 65		Later
4.	Death benefits	Earlier		At 65		Later
5. & 7.	Value	Earlier		At 65		Later
8.	Death Benefits	Earlier		At 65		Later
9.	Clawback	Earlier		At 65		Later
10.	Income Taxes	Earlier		At 65		Later
11.	Guaranteed Benefit for Life	Earlier		At 65		Later