# Should you take early CPP benefits?

**Tax Talk**

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The concept of a retirement age may seem to be just that these days – a concept. People are already saving less or dipping into their bank accounts or credit lines to pay for everyday expenses and plan to work longer to make up for it.

If you're 60 or older, there's a potential source of income you may not have considered: a Canada Pension Plan (CPP) retirement pension.

CPP provides monthly, inflation-protected income when you retire or if you become disabled. It's designed to replace about 25% of the earnings on which your CPP contributions were based over your working life, up to a current monthly maximum of $908.75. For most Canadians, it's the only pension they have.

You don't have to wait until you reach what the government considers "full-retirement age" to quality for CPP. If you're willing to accept some trade-offs, you can apply for a CPP pension starting at age 60.

### How to qualify

One way to qualify for early CPP benefits is to stop working by the end of the month before the CPP retirement pension begins and during the month in which it begins. For example, if you want your pension to begin in June, you have to stop working by the end of May and you can't work during the month of June.

Another way to qualify is to earn less than the current monthly maximum CPP retirement pension payment ($908.75 in 2009) in the month before your pension begins and in the month it begins.

For example, if you want your pension to begin in June 2009, you need to earn less than $908.75 in both May and June.

### Age and payment amounts

Your pension normally starts the month after you turn 65.

The CPP adjusts the amount you receive by 0.5% for each month before or after your 65th birthday from the time you begin to take your pension.

That's 6% a year. If you start collecting CPP the moment you turn 60, the benefits will be 30% less than you'd get by waiting until you reach 65, but you'll have money in hand you otherwise would not have.

Conversely, if you can wait until you're 70, your payments will be 30% higher than the person who began taking benefits at 65.

### Can you afford to wait?

While your monthly payments may be larger financially if you wait, in certain circumstances you should at least consider taking CPP early:

**1. You need the money.** Taking your CPP benefits early can supplement or replace income you need to pay the bills. It may also enable you to pursue a creative passion – art, travel, education. The personal benefits may outweigh the financial costs.

**2. You're in poor health.** It's almost impossible to know how to maximize your CPP benefits because no-one can say how long they will live. If you don't expect to live long, you'll want to start collecting your pension as soon as possible despite the reduced amount of the benefits. A caveat: Your dependents can qualify for survivor benefits. You and your spouse should calculate how these benefits would be affected by an early payout.

**3. You want to eliminate a major business cost.** Once you start receiving your CPP pension, you can work as much as you want without affecting your pension amount. However, you can't contribute to the CPP on any future earnings from employment.

So let's say you're an owner/operator and 60 years old. You earn $30,000 net income from your business. Assuming you live in Ontario, you'll owe $2,667 in federal tax, $1,431 in provincial tax, and $2,624 in CPP contributions – a total of $6,721. Because business is slow, you stop working for two months and qualify for early CPP benefits of $4,800 a year.

With a taxable income of $34,800, you'll owe $3,870 in federal tax and $1,880 in provincial tax, but no CPP. The total: $5,660. You're up the $4,800 pension plus the difference in the tax payable of $1,061. By taking CPP early, you have $5,861 more cash in your pocket.

### Check your statement

If you've been working in Canada and even one CPP contribution has been made for you (by you or your employer) at some point in your career, you're probably entitled to a CPP retirement pension. Don't assume you won't qualify because of your income or the types of jobs you've held.

Take time to find out the details. Visit servicecanada.gc.ca to view or print a copy of your CPP statement. It will show the total amount of your CPP contributions by year and your pensionable earnings on which they are based. It will also estimate what your pension or benefit would be if you were eligible to receive it now.

With that in hand, sit down with your accountant or financial advisor about how big a role CPP can or should play in your overall retirement plan. There's no one-size-fits-all answer. □

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