Media release

New report finds that more Canadians should delay CPP payments

Ottawa, July 29, 2020 – A new report by the Canadian Institute of Actuaries (CIA) and the Society of Actuaries investigates the financial considerations of delaying Canada Pension Plan (CPP) payments and looks at the risks and opportunities associated with this delay. *The CPP Take-Up Decision*, authored by Bonnie-Jeanne MacDonald, FCIA, aims to better inform the decisions of Canadians for whom delaying CPP benefits might provide improved financial outcomes and greater retirement income security.

The analysis looks at workers retiring at age 65 who intend to use some portion of RRSP/RRIF savings towards increasing their lifelong annual retirement consumption. It also includes a comprehensive financial risk/return evaluation of the timing decision for take-up using stochastic individual microsimulation modelling.

Overall, for the majority of Canadians with sufficient RRSP/RRIF savings intended to increase secure lifetime annual retirement income, the decision on whether to delay CPP payments depends on current investment returns and life expectancy. Even in an extreme case that favours not deferring CPP payments – for example, situations with low longevity expectations and very high expected investment returns – a person faces a 50% probability of receiving more income by delaying CPP payments, while still carrying the risk that they could do much worse.

“This research shows that given today’s low interest environment and general population longevity expectations, delaying CPP payments is clearly a financially advantageous strategy,” says Michel St-Germain, FCIA, CIA President. The CIA’s 2019 public statement *Retire Later for Greater Benefits: Updating today’s retirement programs for tomorrow’s retirement realities* also looks at how delaying CPP, among other retirement program updates, can be beneficial to Canadians.

The framework developed in this paper compares two identical financial strategy options that differ only in the timing of the take-up decision. Between these two options, the cost of delaying CPP payments can be expressed with simple formulas, and the financial trade-offs underlying the CPP delay decision depend on the expectations of mortality and investment returns.

Since the financial risk and reward trade-offs associated with the CPP delay decision depend solely on how the bridging funds are otherwise invested and on mortality, this simplifies the communication of risk and return.

“This joint report will help inform the public debate on whether or not workers approaching retirement should delay CPP payments beyond age 65. It is an excellent example of the CIA’s mission to advance actuarial science and its application for the well-being of society,” says Sandra Caya, CIA Director of Communications and Public Affairs.

Download the report today: https://bit.ly/2P2n9BX

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