Term certain annuity

Delay your CPP and still get the income you need

Meet Sarah

Sarah, age 60, is an engineer who wants to retire now, but her employer pension alone isn't enough to fund her basic retirement expenses. When it comes to her Canada Pension Plan (CPP) benefit, she can:

- Start receiving monthly income now or
- Hold off until an older age in order to receive a higher CPP income amount.

During her career as an engineer, Sarah contributed to her RRSP and TFSA and will receive a modest employer pension. She also has a portfolio of non-registered investments.

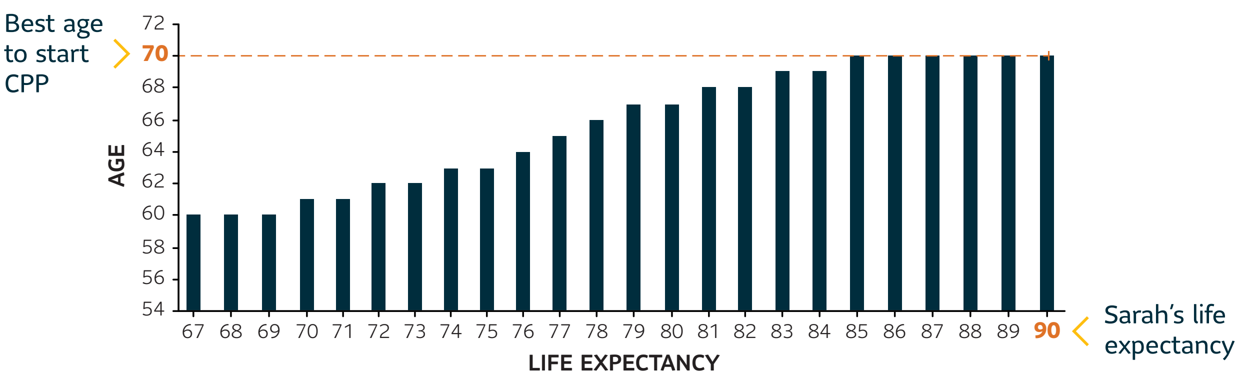
The challenge

Sarah knows her monthly CPP income will be less if she starts receiving it early. She realizes her family history of long lives could mean she'll collect more total CPP dollars over her lifetime if she delays taking income until a later age. She also knows she'll need to make up that lost income during the years she waits for the benefit to start. She asks her advisor if there's a way she can take advantage of the delayed-start incentive, knowing the following:

- Family longevity indicates Sarah should plan for retirement income to age **90**.
- Delaying her CPP means she'll maximize the CPP benefits over her lifetime, but will also need to supplement her income until age **70**.
- Sarah's counting on the CPP after-tax income of $514[1] per month and her employer pension to meet her retirement expenses. However, if she starts taking her CPP at age **60**, her benefit is significantly lower for the rest of her life.

Best age for Sarah to start CPP[2]

(based on life expectancy and to maximize lifetime pre-tax income)



Sarah's CPP benefit at various start ages (indexed annually for inflation)

		Monthly benefit	
Age	**Reduction or incentive rate**	**Before tax**	**After tax (-31.67%)**
60	-36.0%	$753	$514
61	-28.8%	$837	$572
62	-21.6%	$922	$630
63	-14.4%	$1,007	$688
64	-7.2%	$1,091	$746
65	0.0%	$1,176	$803
66	8.4%	$1,275	$871
67	16.8%	$1,373	$938
68	25.2%	$1,472	$1,006
69	33.6%	$1,571	$1,073
70	42.0%	$1,670	$1,141

[1]Based on a marginal tax rate of 31.67%.
[2]Created using 2020 CPP maximum payments (https://www.canada.ca/en/services/benefits/publicpensions/cpp/cpp-benefit/when-start.html).

The solution

Sarah agrees with her advisor's suggestion to allocate some of her non-registered savings to a bridging strategy that supplements her pension income until age 68.

- To get the increased income for life, Sarah defers her CPP benefit to age 68.
- Using $54,120 of her non-registered savings, Sarah buys an eight-year indexed term certain annuity.
- The after-tax income of this annuity replaces the CPP income benefit she would have received if she started her benefits at age 60.

Term certain annuity vs CPP, age 60 to 68

	CPP	Term Certain[3]
Age 60, monthly after-tax income	$514	$515
Annual indexing	3%	3%
Age 64, monthly after-tax income	$579	$580
Age 68, monthly after-tax income	$651	$652
Total income, age 60 to 68	**$62,661**	**$62,783**

[3]Rate as of Aug, 25, 2020.

The result

Sarah has a solid income strategy for her retirement.

- A $54,120 investment in a term certain annuity provides Sarah with almost $63,000 in income from ages 60 to 68.
- The term certain annuity gives her an indexed after-tax monthly income beginning at $515 at age 60.
- By delaying her CPP until age 68, Sarah's before-tax monthly CPP benefit increases to $1,472 and continues for the rest of her life.

For more information, speak to your advisor or:

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