

7 Steps Toward Better CPP/QPP Claiming Decisions

Shifting the paradigm on how we help Canadians

Paper Series Overview



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National Institute on Ageing



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Background

“As humans we have a remarkable capacity to sacrifice for the future, and an equally remarkable capacity to shortchange it, leaving our future selves to pay the price.”

Bethany Burum, 2014, p.iii.

When to claim benefits from the Canada Pension Plan (CPP) — or its Quebec counterpart, the Quebec Pension Plan (QPP) — is one of the most important retirement financial decisions Canadians will make. Benefit levels are adjusted according to the recipient’s age when payments start, and the financial incentives to delay claiming are lifelong and substantial. By waiting until age 70 to claim benefits, Canadians can receive more than double (2.2 times) the monthly pension than if they had claimed them at age 60. These higher payments last for life and are also indexed to inflation. That’s why, for most people who can afford to wait (either by drawing on personal savings or working longer), choosing to delay claiming CPP/QPP benefits for as long as possible is one of the safest, most inexpensive ways of increasing lifetime pension income, bringing with it greater protection against low investment returns, high inflation, and the anxiety of potentially outliving their savings.

In spite of this option to receive a greater lifetime retirement income, most Canadians opt for lower benefits by claiming CPP/QPP early – whether due to human bias, lack of

understanding or common financial planning practices. The result is that fewer than 1 in 10 Canadians claim their benefits after age 65. In fact, over the past decade, Canadians have most commonly taken their CPP/QPP benefits as soon as they are eligible – at age 60 – even though most are still employed.¹

Today’s retirement paradigm is defined by longer life expectancies and reduced family support, and the consequences of forfeiting enhanced late-life financial security – such as that offered by delaying CPP/QPP benefits – will land heavily on older Canadians as they age. Those consequences will also land on younger generations when they are called upon to support Canada’s ageing population.

The opportunity to improve the long-term retirement financial security of millions of older Canadians presented by delaying receipt of CPP/QPP benefits is striking, owing to its substantial increase in benefits and its widespread coverage. In total, approximately 20 million Canadians are participating in the CPP and QPP, and, on average, more than a thousand Canadians make the CPP/QPP claiming decision every day. This accessible and impactful solution for enhancing late-life financial security does not require reforming the current retirement income system. It can be achieved simply by changing the narrative around how the CPP/QPP benefits claiming decision is communicated to a way that resonates more clearly with Canadian retirees, appeals to their financial self-interest and acknowledges human behaviour’s nuances.

¹ For example, more than half of those who claimed QPP benefits at age 60 were still working (Retraite Québec, 2022).

Purpose

This 8-part series aims to shift the paradigm toward more informed decision-making. Its purpose is simple: to propose new ways to help Canadians understand and benefit from the value of delaying CPP/QPP benefits.

This series is aimed at those for whom delaying CPP/QPP benefits claiming is in their best financial self-interest, but it also supports choosing *not* to delay collecting CPP/QPP benefits where circumstances warrant it. In either case, improving the clarity of the decision and helping people understand their choices – and the consequences of those choices over the short and long term – will lead to more informed and confident decisions, peace of mind and, ideally, better retirement outcomes for all.

The starting position of this paper series is not that suboptimal claiming decisions reflect a lack of intelligence on the part of retirees. The CPP/QPP claiming choice is difficult and has not been explained well to date.² It is a once-in-a-lifetime, high-stakes financial decision that requires a complex evaluation of outcomes and is contingent on a wide range of uncertainties, including future financial market returns, inflation and age of death. All this occurs against the complicated backdrop of government taxes and transfers, personal circumstances, preferences, family expectations and emotions and attitudes toward retirement and ageing. Together, these circumstances create what psychologists deem to be the most challenging type of

choice for humans to tackle alone, paving the path for perverse influences, psychological biases and exploitation (Simon, 1955; Thaler & Sunstein, 2021). They also generate a detachment between what people actually want and what they choose to do (Beshears et al., 2008).

Some of the key psychological biases at play include the human brain's propensity toward short-term thinking when evaluating alternative options, and the inability to plan for a vulnerable future self.

These natural biases, combined with a general lack of awareness of how CPP/QPP programs work, result in a significant disconnect from the long-term planning necessary to make decisions about how to fund decades of retirement. **To shift the paradigm, this paper series proposes that the CPP/QPP claiming decision framework must be crafted to (1) foster informed decision-making, (2) cater to human psychology and behaviour, and (3) place an emphasis on long-term financial planning.** Adopting the language of more contemporary behavioural economics literature, the solutions proposed can be classified into the following two intervention tools:

² This paper series adopts the perspective of more contemporary research in the field of economics, which proposes that suboptimal financial decision-making is not due to a lack of intelligence, but rather that people are inhibited by factors such as limited time or computational ability (Simon, 1955).

- 1 Boosts:** interventions that make it easier for people to exercise their agency in making better choices by fostering (or boosting) a person’s decision-making abilities (Hertwig, 2017); and
- 2 Nudges:** interventions that promote an optimal choice without restricting options (Sunstein, 2014; Thaler & Sunstein, 2008, 2021). In this case, the features underlying the solutions are deliberately intended to nudge people away from their natural short-term, impulsive thinking, toward long-term, holistic retirement planning.

Structure and Format

While Canadians understand and fear the consequences of being financially vulnerable in old age, the opportunity presented by delaying CPP/QPP benefits claiming is poorly understood among the general public, and very little academic literature exists on this topic in Canada. This paper series aims to help fill this gap.

The first paper explains the value in shifting the paradigm, identifies the existing unhelpful (and potentially harmful) influences that factor into the CPP/QPP claiming decision for most Canadians, outlines the obstacles to progress and introduces what a paradigm shift could look like.

The remaining papers in this series propose, in seven steps, a range of “boosts” and “nudges” that various stakeholders and participants in the financial decision-making processes of Canadian retirees – such as human resource leaders, policymakers and the financial services industry at large – can realistically adopt in their policies and practices to help Canadians make more informed and unbiased CPP/QPP claiming decisions. These are as follows:



Step #1.

Educate the public about the Canadian retirement income system.



Step #2.

Help retirees understand the advantages of secure pension income.



Step #3.

Improve mainstream practices, perspectives and narratives.



Step #4.

Explain the mechanics of delaying CPP/QPP benefits.



Step #5.

Help Canadians overcome the systemic cognitive biases and motivational barriers associated with this decision.



Step #6.

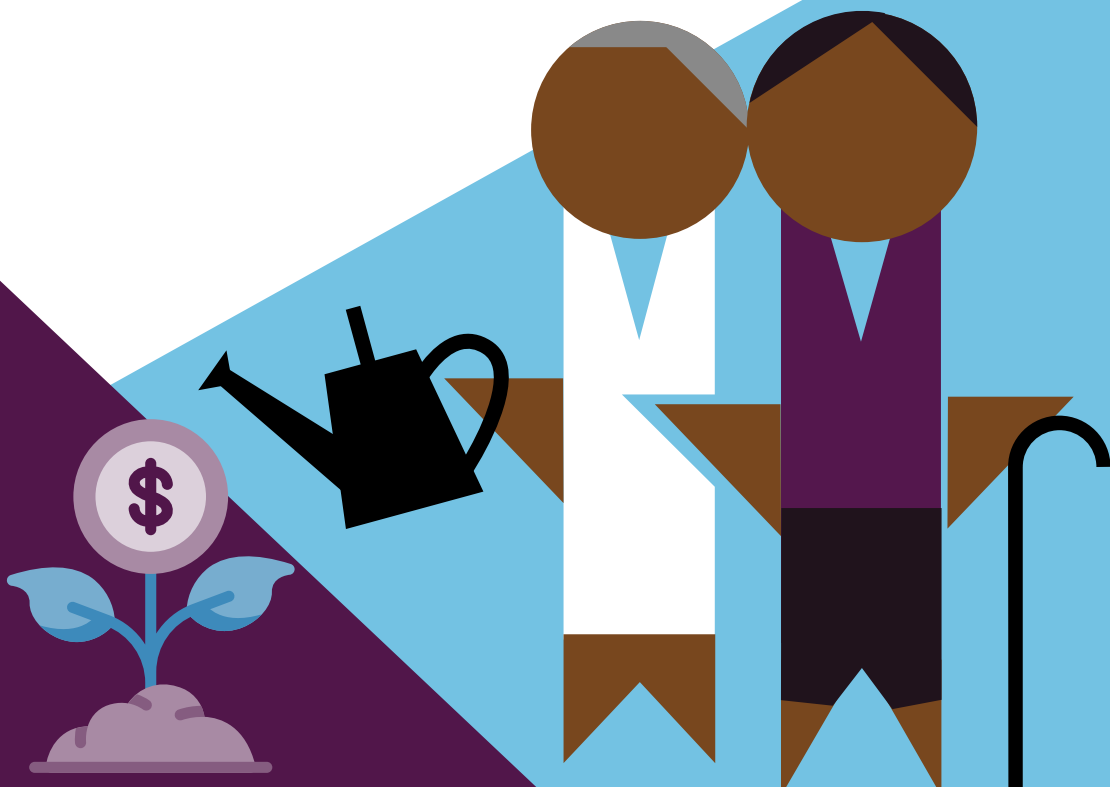
Develop new approaches to better communicate the financial advantages of delaying claiming CPP/QPP benefits.



Step #7.

Offer additional insights and actions for policymakers, employers and industry professionals.

The challenges and solutions outlined in this series build on academic literature from various disciplines around the globe, extending earlier findings from MacDonald (2020) and MacDonald et al. (2020). The findings consolidate relevant thought leadership across various backgrounds, including insights and contributions from researchers, policymakers and practitioners. By synthesizing and building on a wide range of perspectives, these recommendations are intended to help experts across the entire Canadian retirement income system by placing the CPP/QPP claiming choice within the broader retirement and financial decision-making landscape. The overall goal is to provide evidence-based solutions that can realistically be adopted, thereby improving the lives of millions of Canadian retirees for decades to come.



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