

# 7 Steps Toward Better CPP/QPP Claiming Decisions

## Shifting the paradigm on how we help Canadians

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# Step #3:

## Retiring Problematic Narratives

STEP  
3



September 2024

**NIA** NATIONAL  
INSTITUTE  
ON AGEING\*

# National Institute on Ageing



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## Paper Series Background: 7 Steps Toward Better CPP/QPP Claiming Decisions



### **Overview**

Shifting the paradigm on how we help Canadians.



### **Introduction**

Opportunities and obstacles to shifting the paradigm.



### **Step #1**

A New Framework Tailored to the Retiree's Perspective.



### **Step #2**

Making a Case for Secure Pension Income.



### **Step #3**

Retiring Problematic Narratives.



### **Step #4**

Providing the Right Information in the Right Way.



### **Step #5**

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



### **Step #6**

A New Approach to Retirement Transition Choices.



### **Step #7**

Additional Insights for Policymakers.

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.

By waiting until age 70 to claim, Canadians can receive more than double the monthly pension amount than if they had claimed benefits at age 60. These higher payments last for life and are indexed to inflation. That's why for people who can afford to wait without hurting their lifestyle — either by drawing on personal savings or by working longer — choosing to wait to claim is a safe and inexpensive strategy that increases their lifelong income.

However, although most people can afford to wait, an overwhelming majority (9 in 10) choose to take their CPP/QPP benefits by age 65, reducing the lifetime income security they say they want and will most likely need.

This paper series aims to shift the paradigm toward more informed decision-making. Its purpose is simple: to propose new ways that those in positions of influence — such as financial advisors, pension plan sponsors, and policymakers — can help Canadians understand and benefit from the value of delaying CPP/QPP benefits.

The solutions are aimed at participants transitioning to retirement for whom delaying CPP/QPP benefits is in their best interests, but the solutions also support choosing to claim early where circumstances warrant this choice.

In either case, improving the clarity of the decision and helping people better understand their choices — and the consequences of those choices over the short and long term — leads to more informed and confident decisions, peace of mind and, ideally, better retirement outcomes for all.

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## Paper in Brief

Deciding when to start Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) benefits is one of the most important financial decisions most Canadians will make. Waiting from age 60 to 70 can more than double the CPP/QPP retirement pension — a monthly income stream that lasts for life, keeps up with inflation and is critical to the financial well-being of most retirees (MacDonald, 2024b). Unfortunately, this decision receives very little attention, and current data shows that nine out of ten participants claim benefits by age 65 (ibid).

While there are valid reasons for claiming these benefits early, such as not being able to afford to delay, this paper aims to untangle the less rational justifications. Its purpose is to empower those in positions of influence — financial advisors, pension plan sponsors and policymakers — to help retiring Canadians navigate three flawed narratives:

1. **“You’ll be better off taking CPP/QPP benefits at age 60 if you die before your break-even age.”**
2. **“What if the government changes its mind? Take advantage while you can.”**
3. **“Take it and invest it — you’ll do better.”**

Some of these justifications for early claiming have elements of truth, but they are largely unfounded.



- 1 **“You’ll be better off taking CPP/QPP benefits at age 60 if you die before your break-even age.”**

Known as the **break-even approach**, this widely used mental shortcut has emerged in financial guidance for the CPP/QPP claiming decision. It frames the decision as a bet on when the retiree expects to die.

The break-even approach has been shown to strongly influence earlier claiming decisions. In fact, among a spectrum of biased methods studied, Brown et al. (2016) found it to be the most detrimental. It isolates the CPP/QPP claiming decision from the retiree’s overall financial picture and diverts their attention away from their desire for secure lifelong income. This framing arouses a **gambler’s mentality**, where the focus is shifted to the risk of not living long enough to “break even,” and away from the more relevant risk of being unable to safely finance retirement over the long term without running out of money. In other words, the break-even approach has the perverse effect of framing early claiming as the “safer” choice.

This approach is a misleading shortcut that distorts clear and rational financial decision-making. Instead of informing the CPP/QPP claiming decision, it caters to short-sighted, fear-based natural human psychological

biases, fosters financial illiteracy and discourages retirees from supporting their long-term financial well-being. Unfortunately, the financially vulnerable are the most susceptible to this biased framing (Brown et al., 2016).

While it may have been well-intentioned, the Canadian financial services industry needs to “break the break-even” by ceasing this conventional practice. Financial planners are excellent candidates to champion this change.



## 2 “What if the government changes its mind? Take advantage while you can.”

This narrative reflects the commonly expressed fear that CPP/QPP benefits will “run out” or that the government “can’t be trusted” to deliver them. While all financial promises carry risk, this paper makes the case that the CPP/QPP is the safest element of Canada’s retirement income system.

Overall, the CPP and QPP are designed not only to protect retirees from individual financial risks such as inflation, investment and longevity, but also to minimize political and funding risks that can affect other retirement income programs. Assessments by Canada’s chief actuary confirm that the program’s contribution rates are sustainable for at least the next 75 years. CPP benefit provisions can’t be altered by a single government acting alone, its assets can’t be misappropriated, and the investments are not concentrated in Canada or any other single country. The CPP/QPP funding model is exceptionally long-term and diversified in its funding sources.



## 3 “Take it and invest it — you’ll do better.”

This narrative implies that a person can opt for early CPP/QPP benefits, invest the payments and ultimately achieve greater wealth. However, this argument relies on unrealistic assumptions that contradict basic financial principles. It assumes that investing early CPP/QPP payments will yield a fixed return above the risk-free rate without the associated risks of higher-yielding assets. Like the break-even age approach, it is susceptible to the harmful effects of a gambler’s mentality that conflicts with established standards for sound retirement financial planning.

This paper also reviews the faulty logic in other prevailing narratives, including the following:

**“A bird in the hand is worth two in the bush,”** which points to the potential risk of not immediately taking available money when the opposite is more likely true. For Canadians seeking long-term retirement income security, delaying CPP/QPP benefits is “two birds in the hand” and future investment returns are the “birds in the bush.”

**“Why leave this money for the government when you could have it right now?”** points to a belief that the CPP/QPP programs (or the government) benefit from later claiming ages. Again, the evidence shows this is untrue and potentially even the opposite.

**“Enjoy the money now while you’re young,”** which suggests that ageing Canadians will have limited years to enjoy their savings, and taking CPP/QPP benefits early will allow them to do so sooner. However, in reality, research shows that individuals

with more secure pension income have the flexibility and confidence to spend more of their remaining savings sooner and feel happier about doing so. Moreover, this advice incorrectly assumes that expenses will decrease with declining health, which is not the case for many Canadians. While voluntary recreational spending may decrease with age, health-related expenses will increasingly fall on ageing Canadians due, in part, to the declining availability of free care and support from adult children.

Finally, this paper explains the psychological phenomena that are likely linked to the illogical mainstream arguments and that are key to addressing these problematic narratives. As explained in other steps in this paper series, the decision to claim CPP/QPP benefits is complex and has not received the attention and support it deserves. People are approaching the decision with incomplete or inaccurate information (MacDonald, 2024b), which opens the door to external influences, psychological biases, and mental shortcuts (Simon, 1955) — including being persuaded by these mainstream narratives. The result is poorly made claiming decisions that are at odds with what individuals truly want and need.

This disconnect meets the criteria for inducing cognitive dissonance, which refers to the psychological discomfort experienced when one's beliefs and actions are not aligned (Festinger, 1957). Rather than honestly accepting the mistake and advising others on how to make better decisions, people often cope with their psychological discomfort through self-deception, justifying their positions with illogical arguments and mentally blocking evidence. The need to

reduce cognitive dissonance is amplified by the complexity and significance of the CPP/QPP claiming choice — most notably by people who have already claimed benefits or advised others to do so.

When individuals experience cognitive dissonance, challenging them with a logical argument can drive them even deeper into cognitive dissonance, as they feel compelled to “dig in their heels” and explain or justify their positions using increasingly irrational logic to avoid the discomfort of regret. The more significant the discrepancy, the greater the motivation to reduce it (Festinger, 1957)

**As Mark Twain reportedly said, “It’s easier to fool a person than it is to convince a person that they have been fooled.”**

While attempting to resolve cognitive dissonance through self-deception is natural and normal, it can still prevent intelligent people from listening to reason. For those seeking to shift the paradigm and improve CPP/QPP claiming behaviour, it’s crucial to recognize cognitive dissonance when it occurs.

This paper aims to break the cycle of flawed arguments by identifying and refuting these narratives. However, to move past the current trend of biased advice that favours early claiming, simply countering flawed arguments with logic may not be effective and could potentially worsen the situation — especially when those viewpoints stem from cognitive dissonance. These narratives persist because people are naturally susceptible to them, and once they make the decision, they also tend to stick to them.

Those in positions of influence can take the lead and stop using these problematic narratives. They have an opportunity to provide authoritative guidance that supports effective decision-making — in other words, interventions proven to help people align their decisions with their preferences.

The other steps in this paper series propose such solutions. These measures are designed to enhance participants' competencies and cater to their natural psychological mindset before they make a choice, which helps them to more easily and accurately understand how the various options best serve their financial self-interests. By using evidence-based interventions to help people navigate the complexity of the CPP/QPP claiming journey, the retirement industry can help individuals avoid falling prey to misguided narratives and mental shortcuts, as well as face the uncomfortable regret of a poorly made decision. This preventative approach will hopefully prove more effective than attempting to refute the illogical narratives and perverse practices entrenched in the CPP/QPP claiming decision landscape.



# Introduction

As discussed in the introduction paper in this series, delaying the start of Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) benefits helps solve what older Canadians say are their top three biggest financial concerns as they contemplate ageing: 1) inflation, 2) running out of money and 3) being unable to cover future long-term care needs (MacDonald, 2024b). Yet while most can afford to delay, nine out of 10 claim benefits by age 65, and the majority don't put any energy or thought into the decision (ibid).

The introduction paper of this series also discussed sound reasons for claiming these benefits early, such as being unable to afford to delay, as well as some of the mental blocks and psychological biases that have led individuals to claim early, despite their financial concerns (ibid). This paper takes the next step and untangles some of the more troublesome mainstream justifications for early claiming. There are a variety of common arguments, such as:

1. **“You’ll be better off taking CPP/QPP at age 60 if you die before your break-even age.”**
2. **“What if the government changes its mind? Take advantage while you can.”**
3. **“Take it and invest it — you’ll do better.”<sup>1</sup>**

While some of these explanations have elements of truth, and those truths could be good reasons for claiming early in a particular set of circumstances, they are largely unfounded. This paper reviews these three flawed narratives in mainstream thought on the CPP/QPP claiming decision as well as other common public commentary.

Tackling flawed narratives with technical, rational arguments can inadvertently suggest that people are unintelligent. However, as described in the overview of this paper series (MacDonald, 2024a), the authors believe that **suboptimal claiming decisions are not due to a lack of intelligence on the part of retirees:**

The CPP/QPP claiming choice is difficult and has not been explained well to date. It is a once-in-a-lifetime, high-stakes financial decision that requires evaluating a wide range of uncertain future events, particularly financial market returns, inflation and age of death. This occurs against the backdrop of government taxes and transfers, personal health, finances, household circumstances, and the expectations, emotions and attitudes toward retirement and ageing. These circumstances create what psychologists deem to be the most challenging choice for humans to tackle alone, paving the path for perverse influences, psychological biases and exploitation (Simon, 1955; Thaler & Sunstein, 2021). They also detract from what people want and choose to do (Beshears et al., 2008). Natural biases and a general lack of awareness of how CPP/QPP programs work result in a significant disconnect from the long-term perspective necessary to decide how to fund decades of retirement.<sup>2</sup>

<sup>1</sup> Variations of these narratives are widespread throughout the financial service industry and published articles on CPP/QPP benefit claiming, examples of which have been cited throughout the paper.

<sup>2</sup> Summarized from MacDonald (2024a, p.8)

Apart from examining problematic narratives, this paper also takes a step back to identify a challenge that could be linked to all the illogical mainstream arguments. It delves into cognitive dissonance: the psychological discomfort experienced when someone's beliefs are shown to be at odds with their actions (Festinger, 1957). The natural response to reduce this discomfort is to engage in self-deception, justifying actions with illogical arguments and/or mentally blocking rational evidence.

Communication initiatives that do not consider these psychological barriers may be ineffective or even harmful. As explained later in this paper, the CPP/QPP claiming decision fits established criteria for causing cognitive dissonance. When someone is experiencing cognitive dissonance, using logical arguments to challenge them can intensify this state and lead to more irrational reasoning. When mainstream narratives are linked to cognitive dissonance, therefore, responding with traditional, general financial education could exacerbate the issue.

As with the entire paper series, this paper's purpose is to support and empower those in positions of influence — financial advisors, pension plan sponsors and policymakers — so they can better guide Canadians in navigating the most important financial decision many will ever make.



## Narrative #1: “You’ll be better off taking CPP/QPP at age 60 if you die before your break-even age.”

When we encounter a complex decision, we tend to rely on mental shortcuts, known as “heuristics” (Simon, 1990). These shortcuts and quick decisions are natural and vital to handling the multitude of decisions we face every day. However, they can compromise the careful and thorough thinking required for decisions with significant long-term consequences.

The break-even age is a widely used shortcut that has emerged in financial guidance for the CPP/QPP claiming decision.<sup>3</sup> It frames the decision by suggesting that a person will not “break even” (or come out ahead) unless they live to at least a particular age. To evaluate two alternative claiming ages, the break-even analysis calculates the crossover point (“break-even age”) when the cumulative higher CPP/QPP payouts from delaying payments equal the cumulative lower CPP/QPP payouts from having taken them at the earlier age. The person then guesses whether they will live to that “break-even age.”

This approach is misleading — and potentially harmful — for several reasons. It’s built on faulty logic and subtle framing that reinforces the natural human tendency toward a short-term view. Specifically, the break-even age approach has these problematic features:

**1. Longevity pessimism** — The first issue is that the break-even approach is often based on faulty assumptions. People are likely to answer the question, “Will I live long enough?” inaccurately since they tend to underestimate their longevity for discussion, see Step #2 (MacDonald et al., 2024b).

“Longevity pessimism could significantly impact later-life financial well-being. If people underestimate how long they will live, they expose themselves to the risks of undersaving and overspending in retirement. It also means they will undervalue guaranteed lifetime payment offerings such as annuity contracts or workplace defined benefit pensions (e.g., CPP/QPP)” (Club Vita, 2022).

**2. A no-win situation** — The break-even approach ignores the inconsistencies of the risk/reward dynamics between the decision-maker and their beneficiaries, where “your beneficiaries win if you die earlier than the break-even age, and you lose if you live longer.”

“Consider a person who decides to take CPP/QPP early so they can hold on to more savings and still maintain their spending budget. If this person dies before their break-even age, then their beneficiaries are rewarded with

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<sup>3</sup> The break-even approach is widespread: it appears in online calculators (Activa Interactive, n.d.), and it is used by financial advisors, and conventionally stated rationale for deciding when to claim CPP/QPP benefits (Bouw, 2024a; 2024b). In the U.S., Rabinovich & Samek (2018) conducted focus groups to ask Americans why they claimed Social Security benefits early. They identified the rationale of not living long enough to collect sufficient benefits — a break-even mindset — as one of the two most widespread explanations, alongside concerns regarding cash flow needs. They found the “narrative regarding longevity was remarkably constant across participants and groups: we cannot know how long we will live, so we may as well enjoy our Social Security retirement entitlement, from as soon as we can access it” (p. 20).

*"I've always claimed that there is a pretty big risk for the heirs, not for the pensioner himself. The delayed pension allows them to safely spend more while alive than by taking the pension early... As they say: pick your poison. We're not getting out of it alive."*

— longinvest (2017) from the comments section

greater untouched savings. If they die after the break-even age, then they themselves lose. In other words, the only people who can really come out ahead by claiming CPP/QPP early are the beneficiaries of their legacies" (MacDonald, 2020a, p. 44).

As discussed in MacDonald (2020a), even with the desire to provide for beneficiaries, foregoing a lifetime of increased inflation-indexed pension payments is a very expensive way to protect against an unlikely outcome of premature death.

**3. A gambling mentality with known harmful effects** — The next major issue is that the break-even approach reinforces a problematic mental shortcut known as "mental accounting," which is the tendency to separate financial decisions based on the source of the money. Mental accounting leads to distorted, inconsistent and biased evaluations of financial outcomes.

For example, when considering buying an annuity, people often apply the break-even approach. They segregate the decision into a mental account and then calculate, "Will I live long enough?" This mental arithmetic has its own term in annuity literature: the "annuity gamble." Box A explains the role of the "mental accounting" heuristic within an annuity gamble along with its harmful effects.



## Box A: What is the annuity gamble, and why is it a problem?

“Rather than viewing an annuity as providing insurance in the event that one lives past 85 or 90, most people seem to consider buying an annuity as a gamble, in which one has to live a certain number of years just to break even” (Thaler, 2011).

Beginning with Thaler (1985), research has found that “mental accounting” obstructs objective evaluations of alternative financial options. Mental accounting occurs when people mentally assign subjective attributes to different categories of financial sources in a way that is contrary to basic economic principles. For example, a person might mentally separate an accumulated retirement plan balance between financial returns and the original capital, spending the first while attempting to preserve the second.

However, this mental division is artificial. All money is “fungible” in that a dollar is worth the same regardless of where it came from, how it is spent or how it makes one feel. The issue is, once these divisions have been made, it’s difficult for the decision-maker to transfer mentally between accounts, and those subjective categories make it hard to judge alternatives fairly, leading to sub-optimal decision-making.

When deciding whether or not to buy an annuity, mental accounting turns into what is known as the “annuity gamble.” The annuity purchase is regarded as a separate and distinct “mental account,” and the person asks themselves, “Will I make this money back before I die?” This framing distracts a person’s attention from their lifelong spending objectives and desire for long-term financial security, which is ranked as the top financial priority among ageing Canadians (MacDonald et al., 2024b).

“The combination of these perspectives — considering annuities as gambling on longevity and desiring protection against loss of their assets’ values even after death — can best be understood in terms of the mental accounting framework: An annuity is segregated into its own mental account rather than integrated with all retirement consumption dollars” (Hu & Scott, 2007, p.73).

**The break-even approach appears to have turned the “annuity gamble” into a widespread industry practice for evaluating CPP/QPP claiming choices.**

**4. The assumption that financial risk protection carries no value** — The protection afforded by the CPP/QPP’s inflation-indexed lifelong income stream is highly valuable. The traditional approach of “break-even” advice calculates the cash flows associated with the CPP/QPP delay decision (the “return”) while ignoring the risks that a person faces in retirement. This gap in mainstream financial planning motivated the analysis by MacDonald et al. (2020). The research conducted a comprehensive financial risk/return evaluation of the timing decision for CPP uptake, concluding: “These results demonstrate that risk matters, and the income certainty offered by the CPP delay decision is valuable. This is an important message for those advising Canadians, since it emphasizes the fact that deterministically treating the future as having no risk undermines and undervalues the option of delaying CPP uptake. Attention should be paid to helping Canadians to think twice before forfeiting the secure, lifetime income that delaying CPP payments provides” (ibid, p. 4).

**5. The framing of this decision promotes early claiming** — The most significant issue — which, alone, should lead to discontinuing the break-even approach — is that it has been proven to be a powerful bias toward earlier claiming.

In a U.S. study, Brown et al. (2016) tested ten alternative methods or (frames) to present the same choice about claiming Social Security benefits. The frames were deliberately designed to each use a distinct feature that the authors hypothesized would bias the respondents to an earlier claiming age, based on research in behavioural economics and psychology.

Among all the frames, they found the break-even framing to be the most powerful in encouraging earlier claiming behaviour. “Our research suggests that Social Security’s historical emphasis on ‘break-even analysis’ may have inadvertently encouraged several generations of American workers to claim benefits earlier than they would have if the information had been presented in a different frame” (ibid, p. 159).

Why? The study concluded that the break-even approach is an extreme form of wealth framing that “implicitly frames the decision as a risky bet on one’s length of life while downplaying the longevity insurance aspects of the choice” (ibid, p. 146). This perspective nudges a person’s focus toward the potential short-term loss and away from the longer-term gain of retirement financial security.

Through this framing, the priority being impressed on the decision-maker is the risk of not living long enough to “break even” rather than the more relevant risk of not having enough income to finance up to 40 or more years of retirement. By diverting an individual’s attention away from their desire for secure lifelong income<sup>4</sup>, the break-even analysis has the perverse effect of framing early claiming as the “safer” choice.

Another concerning finding in Brown et al.’s research is that the financially vulnerable are the most susceptible to break-even framing. “The fact that it appears relatively easy to influence the claiming decision by a change in framing is a concern, since it implies that many individuals may be insufficiently equipped to make a decision that will affect their financial well-being later in their lives. We have found that the financially less literate, individuals

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<sup>4</sup> See Step #2 (MacDonald et al., 2024b) for a review of the benefits of secure pension income relative to liquid savings in retirement.

with credit card debt, and those with lower earnings are more influenced by framing than others. These are also the groups that are most financially vulnerable at older ages” (ibid, p. 146).

Another significant finding of Brown et al. (2016) is that the break-even approach has a lasting impact on biasing decision-making. In other words, people are influenced by how the claiming decision is initially presented to them, even after receiving new information. Ongoing use of the break-even approach can counteract positive efforts made by others to improve the status quo.

## Breaking Away from the Break-even

Professional standards for financial planners instruct them to consider their client’s *overall* financial situation and risk profile.<sup>5</sup> In contrast, the break-even analysis focuses on the CPP/QPP claiming decision in isolation without considering a person’s complete financial picture. It assumes a fixed future and ignores the spectrum of relevant factors — including other sources of income, taxes, personal preferences and post-retirement financial risks such as inflation, investment returns and longevity.

Not only is encouraging people to guess how long they will live and plan accordingly unhelpful, but it can also harm financial security in retirement.

**Longevity planning should not be presented as a single number but rather as a range of possibilities and financial implications.** As shown in Step #2 of the paper series, fewer than one in 20 people die in the year of their life expectancy, and most people live longer than that age (MacDonald et al., 2024b). People should be encouraged to consider the financial impact of dying earlier or later than expected and contemplate their financial comfort level in various scenarios. (Upcoming Step #5 of this paper series provides more guidance on asking helpful questions).

While it may have been well-intentioned, the break-even approach exploits natural human psychological biases, caters to financial illiteracy and discourages retirees from supporting their long-term financial well-being. The U.S. Social Security Administration has come to this conclusion and has changed its practices accordingly.<sup>6</sup>

**The Canadian financial services industry also needs to “break the break-even” by moving away from this conventional practice, as its influence on the CPP/QPP claiming decision directly opposes how Canadians should be preparing for retirement.**

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<sup>5</sup> “In providing financial planning advice, professional judgment requires appropriate consideration of the client’s full financial picture and personal circumstances (the client’s goals, needs and priorities) and the interdependencies and interrelationships among them. Prudent strategies and recommendations will take into consideration, among other factors, the client’s current situation, goals, needs, priorities, risk tolerances and time horizons” (FP Canada Standards Council, 2024, p.16).

<sup>6</sup> The Social Security Administration revised its instructions for SSA claim representatives in 2008 by removing the break-even analysis (Brown et al., 2016).

## Narrative #2: “What if the government changes its mind? Take advantage while you can.”

*“It is not about maximizing benefits, it is about getting as much money as you can before our Liberal government changes the rules, and takes money away from pensioners.”*

— Larry888 (2020) from the comments section in MacDonald (2020a)

*“If you don’t need the money take it and blow it or invest it but DO NOT trust it to the vote-buying fiscal fatuity that presently roams parliament hill.”*

— watchlist\_for\_lan (2020) from the comments section in MacDonald (2020a)

*“I’m trading gold and silver, the stock market is going to crash, the government can’t be trusted so I need to get my Social Security ASAP!”*

— Client response, reported in Zhou (2016).

There is also a commonly expressed fear that CPP/QPP benefits will “run out” or that the government “can’t be trusted” to maintain CPP/QPP and other benefits for older Canadians. If this were true, it would be a reason to claim benefits as soon as possible.

Addressing this concern means being factual and avoiding overstating the certainty of CPP/QPP benefits. As Benjamin Franklin famously said, “In this world, nothing is certain except death and taxes” (Sparks, 1856, p. 410). All financial promises carry risk, but CPP/QPP is arguably the safest component of Canada’s retirement income system.

## Box B: CPP/QPP 101

- CPP and QPP were established in 1966 by a federal/provincial agreement to respond to the issue of poverty among retired Canadians.
- Both programs are financially autonomous, funded solely by employer and worker contributions. The federal and provincial governments do not contribute except in their capacity as employers.
- The federal government administers the CPP, but provinces can opt out and administer their own program that provides (virtually) identical benefits. To date, only Quebec has taken this option.
- Under Canada's constitution, the operation of a program like CPP can't override provincial jurisdiction, so changes to CPP require the same level of consensus as constitutional amendments: approval of the federal government and at least seven Canadian provinces with at least two-thirds of the country's population.
- The CPP funding model was redesigned in 1997 to account for anticipated demographic shifts resulting from retiring baby boomers and a significant decline in fertility rates. Before 1998, contributions were only sufficient to cover current benefits and a modest operating reserve (i.e., "pay-as-you-go funding"), but the new model aims to build up a larger reserve to mitigate the impact of the demographic changes (known as "partial funding"). QPP underwent a parallel funding reform.
- The CPP undergoes triennial reviews by the Chief Actuary and the provincial finance ministers. Those reviews confirm that the program's benefits and contribution rates are sustainable for at least the next 75 years (Office of the Chief Actuary, 2022).
- Contributions in excess of current benefit requirements are invested. For the CPP, this fund is managed by the Canada Pension Plan Investment Board (CPPIB). The CPPIB operates at arm's length from the government, with directors appointed by the Finance Minister of Canada in consultation with the participating provinces. Their legislated mandate, according to Section 5 of the CPPIB Act, is to manage assets "in the best interest of the contributors and beneficiaries ... with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the factors that may affect the funding of the Canada Pension Plan" (Canada Pension Plan Investment Board Act, 1997).
- In 2016, the provinces and the federal government agreed to enhance the CPP/QPP. While the original 1966 benefits were phased in quickly to alleviate poverty and provide a relatively large benefit to the first generation of CPP/QPP contributors, the 2016 enhancements are being phased in over 40 years, following a full funding model.

The new proposed **NIA Retirement Income Framework** — developed by the National Institute on Ageing (NIA) and illustrated in Figure 1 below — illustrates how Canadians depend on a combination of programs to create an income foundation and spending buckets (MacDonald et al., 2024a). The ongoing financial sustainability of each framework component can be affected by government pressures and underperformance of funding sources. To address the concerns about the sustainability of the CPP/QPP component, we next examine these two types of risks and the protective features within the CPP/QPP.

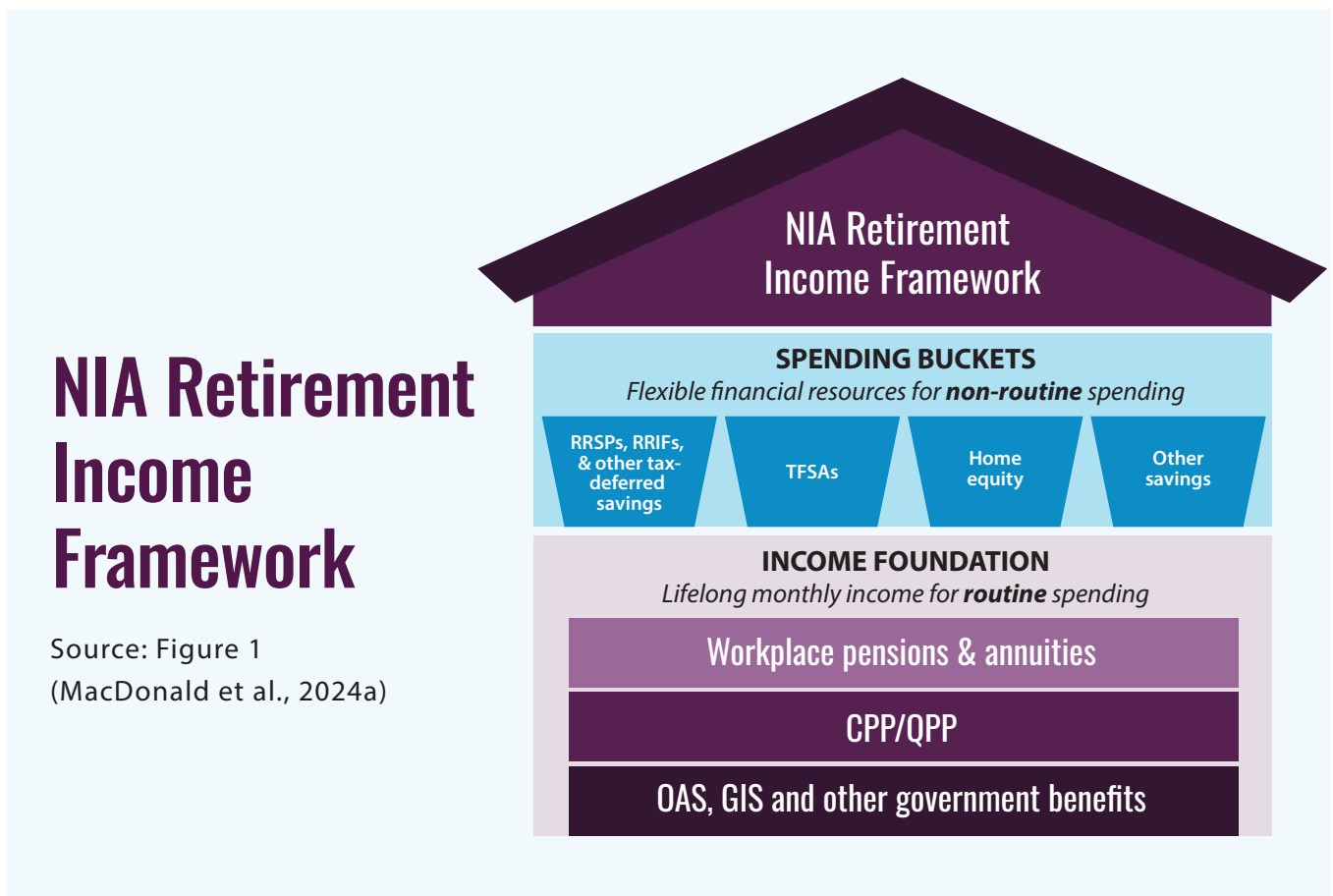
### Risk #1: Government Pressures

What happens if the government can't afford to continue providing all the services it has provided in the past? What options does

it have? How do these options impact the various components of the retirement income system and the CPP/QPP in particular?

**Option #1: Cut spending** — A straightforward method for a government to restore fiscal balance is to reduce or eliminate spending on Old Age Security (OAS), Guaranteed Income Supplement (GIS), healthcare, and other taxpayer-funded benefits and programs for older Canadians.

**Option #2: Raise taxes** — Governments can raise taxes in several ways, including increasing tax rates; eliminating credits, deductions and exemptions; introducing new taxes on wealth, income and consumption; and withdrawing or restricting existing tax advantages for wealth held in principal residences, tax-free savings accounts (TFSA), registered retirement savings plans (RRSPs) and other retirement savings vehicles.



## NIA Retirement Income Framework

Source: Figure 1 (MacDonald et al., 2024a)

**Option #3: Capitalize on inflation** —

Sovereign governments and monetary authorities, such as Canada’s federal government, can mitigate the impact of overspending by increasing the money supply and allowing inflation to rise. Inflation reduces the purchasing power of most forms of retirement savings and income, except for inflation-linked pensions like the CPP/QPP.<sup>7</sup>

**Option #4: Default on debt** — Sovereign governments can default on their debts or negotiate settlements with lenders, eventually paying less than the full amount owed. Negotiated settlements usually involve widespread spending restraint and tax increases. Although Canada has never defaulted on its debt, most other countries have.<sup>8</sup> Sovereign default can devastate a country’s exchange rates and indirectly affect domestic retirement savings.

While it’s easy to see how the choices made by a distressed government could harm other parts of the Canadian retirement income system in Figure 1, it is harder to see how CPP/QPP benefits could be negatively impacted. As explained in Box B:

- Funding comes from participating employers and employees, not federal and provincial governments (except in their capacity as employers of public servants);
- The CPP’s governance structure prevents any single government from unilaterally altering benefit provisions;
- CPPIB assets can’t be misappropriated for other government purposes; and
- CPPIB assets are not concentrated in Canada or any other single country.



<sup>7</sup> For a discussion of the impact of inflation on older adults, see Step #2 of the paper series (MacDonald et al., 2024b).

<sup>8</sup> The Bank of Canada and the Bank of England jointly maintain a database of sovereign defaults, itemizing defaults by more than 150 countries (Beers et al., 2023).

## Risk #2: The Funding Model

The **funding model** for CPP/QPP strikes a balance between reliance on future contributions and investments that strengthens the sustainability of future benefits in a way that neither pay-as-you-go programs (like OAS) nor full funding programs (like workplace pensions) can match. Specifically:

- The 75-year planning horizon used to assess contribution adequacy is substantially longer than that used for government benefits or private retirement income plans.
- CPP/QPP investments are vulnerable to the same financial market risks as other funded retirement income plans, but these risks play a more minor role in ensuring benefit security because investments are only intended to cover a portion of the projected cost of future benefits.<sup>9</sup>
- CPPIB is one of the largest pension funds in the world, with investments valued at \$632 billion as of March 31, 2024 (CPP Investments, n.d.). The size of the fund permits a greater degree of diversification of investments by geography and type.

- The program's strength is also linked to the diversification of contributions across industries, provinces and generations. The CPP/QPP's funding levels, contributions and benefit security will be affected by demographic trends, such as the downward trend in fertility. However, their funding model means this challenge will be addressed gradually over time, without the pressure for short-term corrections faced by pay-as-you-go government benefits and services.

The partial funding model for CPP/QPP benefits is unique. Internationally, most comparable social security programs are unfunded.<sup>10</sup> It is debatable whether a higher funding target or full funding would improve the sustainability of social security benefits (Brown, 2002).

The absence of full funding in the base CPP/QPP program increases the reliance on solidarity between future generations. To the extent that benefits for today's retirees are paid from current worker contributions, there is an expectation — or hope — that future generations of workers will be willing to do the same. For example, the proposal for Alberta's withdrawal from CPP could suggest that a younger workforce might not (collectively) be willing to assume this responsibility. However, the report commissioned by the Alberta government (LifeWorks, 2023) found that their

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<sup>9</sup> The phase-in of enhanced benefits adopted in 2016 represents a kind of full funding that does not lead to as much variability in contributions as the method typically used in workplace pension plans.

<sup>10</sup> It's important to note that the CPP/QPP partial funding model is appropriate, given the anticipated changes in the age dependency ratio in the 21st century. However, this model is unsuitable for workplace pension plans, which require full funding because the sponsoring employers, unions or industries are more susceptible to decline and financial default than an entire country.

interpretation of Alberta’s proposal would not damage the sustainability of the CPP for the remaining participating provinces. (It should be noted that a more conclusive analysis by Canada’s Chief Actuary is in the process of being prepared).

With that said, fear of benefit reductions is not entirely without cause. CPP/QPP benefits are at least theoretically vulnerable to benefit reductions due to poor funding. For example,

if the contribution rate required to meet funding objectives for base benefits exceeds the current base rate<sup>11</sup> and the provincial ministers can’t agree on a different solution, half of the shortfall would be addressed through a temporary suspension of indexing and half through increased contributions. This adjustment mechanism is a protective feature: modest adjustments are made incrementally and only when strictly needed to maintain long-term sustainability and avoid more extensive corrections.

## Box C: Why aren’t Canadians confident in the sustainability of the CPP/QPP?

Where does the apparent lack of confidence in the sustainability of the CPP/QPP come from? It likely dates back to the 1990s, when experts raised alarms that the CPP/QPP programs were not financially sustainable. For example, the 1994 QPP Actuarial Valuation showed that if the contribution rates were not increased, then there would be no more funds by 2006 (Régie des rentes du Québec, 1994). Widespread public discussion of this concern coincided with the growing popularity of claiming CPP/QPP benefits at age 60 and paved the way for acceptance of the contribution increases incorporated in the funding reform effective in 1998. The proportion of age 60 CPP/QPP claimants rose dramatically during the prolonged period of high unemployment that followed the 1990-1992 recession — for QPP, it went from approximately 38% in 1993 to 57% in 1998 (Retraite Québec, 2023a). Similarly, the rates for age 60 CPP claimants also rose considerably during that period (MacDonald, 2024b). While economic conditions at the time, which forced people into early retirement, were the most obvious cause of this rise, it was possibly also a response to a perception of the unsustainability of CPP/QPP benefits. Unfortunately, while the financing problem was fixed, the idea that CPP and QPP could run out of money may have persisted.

Another source of the apparent public lack of confidence may come from outside the country. As noted, most countries operate social security on a pay-as-you-go basis. It has been widely reported that the U.S. Old Age Security Income (OASI) fund is on track to run out of money in 2033 if no changes are made (The United States Social Security Administration, 2024).

While this shows precisely why the 1998 CPP funding reforms were necessary, Canadians might not understand that we have already fixed the problem the U.S. is anticipating. Instead of undermining the sustainability of CPP/QPP, the challenges faced by U.S. Social Security should highlight the success of the CPP/QPP in addressing this same challenge head-on in the 1990s.

<sup>11</sup> The current base contribution rate on earnings up to the Year’s Maximum Pensionable Earnings (YMPE) is 9.9% (half paid by employers and half by employees).

To summarize, the CPP and QPP have been designed not only to eliminate the personal financial risks that retirees face — namely, inflation, investment and longevity<sup>12</sup> — but also to minimize the political and funding risks that can undermine other retirement income programs. As international pension plan management and investment expert Keith Ambachtsheer once succinctly said, “The CPP will exist as long as Canada exists.”<sup>13</sup>



<sup>12</sup> See paper series step #2 for a full review of these risks to the individual and the advantages of secure lifelong monthly income from CPP/QPP (MacDonald et al., 2024b).

<sup>13</sup> Quoted in MacDonald (2020a, p. 46).

## Narrative #3: “Take it early and invest it yourself — you’ll do better!”

*“If you don’t quite need the money at 60 you can draw the CPP and invest it, ideally using RRSP and/or TFSA contribution room. This creates an extra pool of funds to draw on in later years, further offsetting the reduction of benefit and inflation.”*

— Dr. Burhed (2024) from the comments section in Bouw (2024b)

Some argue that taking CPP/QPP benefits early means the income could be invested, ultimately producing greater wealth over the long term. This would be a rational decision if it were true. However, to support this claim, this argument conventionally assumes that the invested CPP/QPP benefits earn a fixed investment return above the risk-free rate of return — that is, they include an “equity risk premium,” the extra return demanded by investors for taking on market financial risks.

The problem is, when comparing alternative financial strategies, you can’t have your cake and eat it too. Investors wanting higher investment returns need to be willing to accept greater investment risk. Assumptions about higher returns must also incorporate, therefore, the risk associated with the higher-yielding assets. Not incorporating the risk involved in the comparison goes against the fundamentals of modern finance.

### Balancing Risk and Reward

An earlier paper published by the Canadian Institute of Actuaries and the Society of Actuaries carried out such a risk/return analysis. It concluded that holding on to RRSPs savings, instead of using them to finance a delay in receiving CPP/QPP benefits, carries more risk and less reward (MacDonald et al., 2020). The analysis was motivated by the observation that “(w)hile the typical focus of mainstream advice calculates the cashflows associated with the CPP delay choice (the “return”), the financial risk implications are often absent” (ibid, p. 4). It used a longitudinal individual microsimulation model with stochastic markets, stochastic mortality and the interactions among sources of retirement income within the complex Canadian tax and social benefit system to capture the realistic interdependencies of the income flows produced by alternative CPP/QPP claiming decisions.

Specifically, the analysis tested the financial risk/reward trade-offs for the following options:

- **Option 1 “Delay CPP”:** This means using registered retirement income fund (RRIF)/RRSP savings to finance a **delay** in starting CPP benefits; or
- **Option 2 “Claim CPP benefits and invest them”:** This entails taking CPP early and investing those same savings to replace the difference in pension.

Box D illustrates these two otherwise identical financial strategy options.

The study found that the investing approach (Option 2) not only carries more risk but also typically delivers less reward. For example, with a four percent expected real rate of return (after deducting retail investment fees), nearly four out of five stochastic trials produced more income from Option 1 than Option 2. Overall, people can expect to do better by following Option 1 and delaying claiming CPP (and doing so with much less financial risk).



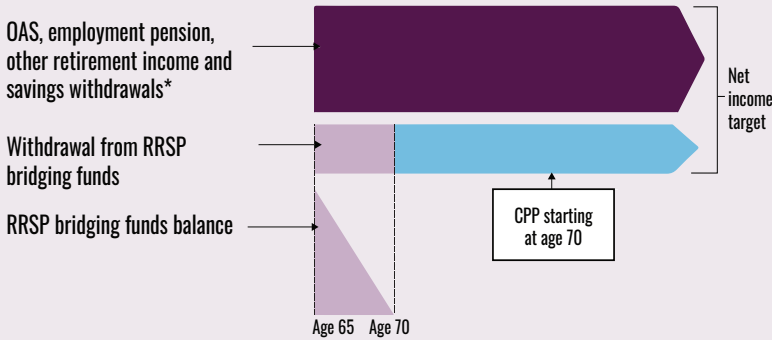
## Box D: Excerpt from the July 29, 2020 Globe and Mail Opinion: Here's a way Canadians with RRSP savings can get the most out of their CPP benefits (MacDonald, 2020c)

### A MATTER OF RISK

Two options aim to generate the same income each year, and start with the same level of savings and retirement income resources. The only difference is the age that CPP payments begin...and the risks involved.

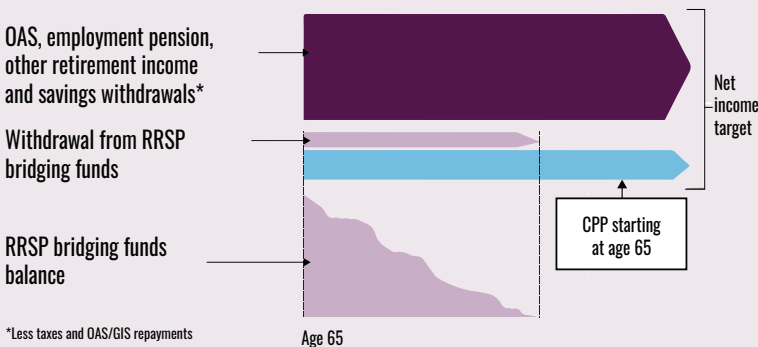
#### Option 1:

Delay payments from age 65 to 70, using a portion of RRSP/RRIF savings to provide an income bridge during that five-year period.



#### Option 2:

Claim CPP payments at age 65 and invest the RRSP/RRIF funds (which could otherwise be used as a bridge) in a portfolio subject to market risks, making annual withdrawals that generate the same net income as Option 1 (until death or the end of the bridging funds).



\*Less taxes and OAS/GIS repayments

“Using the example of a 65-year-old retiring Canadian, the goal of the research was to make a straightforward comparison of two otherwise identical financial strategies, where the only difference is the age that CPP payments start (see graphic).

In our study, we quickly realized the ramifications on personal income taxes and OAS/GIS eligibility are the same in both options as well. (Note that CPP death and survivor benefits are unaffected by the age of CPP uptake, and the same applies to employer pension plan benefits).

So, what’s the difference between these two options? The simple answer is the risks involved.”

*“Taking CPP means that I have to take less from my RRSPs (at least until age 71).”*

*(In reply) “The whole point is that the return on your RRSP is not guaranteed, whereas the increased CPP is guaranteed.”*

— Gregra2014 (2020) and Williams (2020) from the comments section in MacDonald (2020b)

Option 2 (the investing approach) showed poor performance even in scenarios where it was expected to do well. For instance, in more than half of the simulated scenarios, a man with a shorter life expectancy whose investments were expected to yield a long-term annual net return of six percent would still have come out ahead had he delayed taking CPP benefits.

Including an equity risk premium in the expected rate of return while ignoring the investment and inflation risk paints a rosier picture for Option 2 (investing) and biases the analysis towards early claiming. A more honest comparison would be between Option 1 and an “investing” option that, as far as possible, replicates the investment risk characteristics of a CPP/QPP pension. The most comparable marketable investment would be a Government of Canada real return bond, which provides a secure inflation-linked return for a fixed term.<sup>14</sup>

Assuming an equity risk premium without actually modelling the investment and inflation risk is as inappropriate as choosing high-risk penny stocks over a government-guaranteed bond, so long as the “expected return” is at least as good.

## Separating the Claiming Decision from the Investment Decision

This leads us to a core fault in the logic underlying this mindset: it mistakenly links a person’s exposure to investment risk with their decision about when to start receiving CPP/QPP benefits. As we next discuss, these are separate decisions.

The advantage of Option 2 (investing) is that it is more flexible in the short term, which appeals to retirees with a strong liquidity preference. The money can be left in the registered plan longer to optimize taxes or drawn from RRIFs/RRSPs more quickly if needed. It also provides more to beneficiaries if death occurs before the money runs out.

<sup>14</sup> According to MacDonald et al. (2020), with this minimum risk strategy, individuals taking CPP payments at age 65 instead of delaying to age 70 would run down the bridging funds by age 80. In other words, only those who die before age 80 would receive more income from taking CPP payments at age 65 and investing for minimum risk. According to current CPP actuarial tables, only a fifth of female CPP recipients and a quarter of males die before age 80, making the “claim early” option a very bad proposition for most.

An annuity would also be an alternative risk-neutral comparator to incremental CPP benefits. Option 1 of Box D (delay CPP) could be characterized as using a portion of an individual’s registered savings to buy an annuity from the CPP, with premiums paid from age 65 to 70 and annuity payments starting at age 70. MacDonald (2020a) performed a market-price comparison for the delayed CPP/QPP payments versus the cost of a similar annuity in the retail market. It found that if Canadians used the equivalent of the forfeited CPP/QPP payments to buy an annuity in the retail marketplace, the resulting payments would be 40% lower for a man and 50% lower for a woman. In other words, retail annuity prices were nearly double the cost.

The disadvantage is that, over the long term, it is expected to carry less reward and substantially more risk. As discussed in Step #2, managing personal savings requires a lot of work, and many retirees may not be adequately prepared to deal with investing and the associated financial risks — particularly as they age. Relying on investments for routine spending can lead to underspending, stress, and greater exposure to financial exploitation (MacDonald et al., 2024b).

The issue at hand is that the mainstream narrative, “Take it early and invest it yourself — you’ll do better!” incorrectly suggests that Option 2 offers the potential for higher investment returns and greater financial market risk. In reality, a retiree’s investment risk profile and when they choose to claim CPP/QPP benefits are separate decisions.

**The investing mindset conflates how much investment risk to take with the choice of when to claim CPP/QPP benefits into a single isolated decision.**

This is an example of how framing the CPP/QPP claiming decision as a standalone investment decision creates the same faulty mental accounting as the “break-even age” approach. The investing mindset creates a mental accounting framework that separates the CPP/QPP delay decision from the person’s overall financial profile, treating the early payments as a way to take on higher investment risk and potential extra return. However, the risk/return trade-off can be managed holistically through the mix of assets in the remaining investment portfolio.

In summary, the case for “invest it — you’ll do better” rests on a strong liquidity preference in the short term and generally disregards inflation and longevity risks. Most significantly, it disregards the correlation between investment market risk and return, which is fundamental to investment principles. Treating the claiming choice purely as an investment decision accepts the harmful premise of mental accounting and neglects the desire of most pensioners for protection from financial risks.

**“When is the best time to claim social security benefits?”**

*“Should You Take Money Early and Invest It? I’ll admit that as a wealth manager working with many successful people across the country, I might be swayed by that argument. After all, I am truly bullish on the stock market over the long term. The reality is, unless you are near the top of the 1% of richest Americans (and even then), the risk-reward just isn’t there after taxes.*

*For the other 99% of retirees, taking benefits early to invest would put your retirement security at risk. It may work for a few years, but when it fails, you likely will be too old to recover from an investing mistake, or even just a small market correction. Remember, for every year you delay receipt of benefits beyond full retirement age, your benefits grow around eight percent. From there, you still have cost of living adjustments” (Rae, 2020).*

## More Faulty Narratives

Several other prevailing narratives are linked to the same biases and misconceptions already discussed.

### **“A bird in the hand is worth two in the bush.”**

The “bird in the hand” adage stresses the potential risk of not taking immediately available money. Like the break-even framing, it promotes short-term thinking by highlighting the immediate loss of delaying and the uncertainty of the future. Another bias at play is the belief that having money “in hand” is “your” money while having a promised pension income is not. This leads people to prioritize protecting what they have now — a bias called the “endowment effect” (Thaler, 1980).

As MacDonald (2020a, p. 48) wrote, “The irony is, the ‘bird in hand’ expression is essentially saying that having some CPP/QPP income now is safer than taking the chance of having more CPP/QPP income later. But from a retirement income security perspective, delaying CPP/QPP provides a higher expected return with lower risk. The person is securing at least double the lifetime CPP/QPP income by using their savings to delay benefits from age 60 to 70, and there is no guarantee on the future financial performance of the savings they would otherwise be holding on to.”

For Canadians seeking long-term retirement income security, delaying CPP/QPP benefits is the “two birds in the hand,” while future investment returns are the “birds in the bush.”

*“If you defer CPP, you are spending your OWN money. I would rather spend the CPP and defer my own money to ensure future cash flow and estate.”*

— Suomalainen2 (2024) from the comments section in Bouw (2024b)

*“I took it at 60, I’m now 71. I’m ahead of the game, IMHO ... I subscribe to the policy that ‘a bird in hand is worth two in the bush.’”*

(In reply) *“I subscribe to the theory ‘wait for a bigger pension.’*

*There was a famous psychology study--give a child one marshmallow now, or say they can wait a few minutes and get two. Many chose the bird in the hand approach. They followed up many years later...the bird in the hand types did much more poorly in life than the ones that waited.”*

— LeonTrosky53 (2024) and The Internet (2024) from the comments section in Bouw (2024a)

## **“Why leave money for the government when you could have it right now?”**

This view reflects several flaws and psychological biases noted earlier: short-term thinking, fear of loss and general distrust of the government. It also points to a belief that the CPP/QPP programs or the government benefit from later claiming ages.

However, as already discussed, CPP/QPP funds never go to the government; they just remain in the fund. Moreover, the current CPP actuarial adjustment factors were calculated in Actuarial Study No. 18 (Office of the Chief Actuary, 2017) so that contribution rates would not be expected to go up or down based on when people decided to claim their pensions. A recent QPP consultation document priced the effect of mandating a minimum claiming age of 62 or 65 in light of longer life expectancies. According to their calculations, the current actuarial adjustment factors for early retirement are too generous (Retraite Québec, 2023b).

## **“Enjoy the money now while you’re young.”**

Another reason for recommending early uptake of CPP/QPP benefits is to get as much income as possible earlier in retirement, when a person has the health to enjoy it, rather than waiting until old age when they will likely have less opportunity for recreational spending — emphasizing that ageing Canadians will have limited healthy years to enjoy their savings.

But this advice is questionable for retirees with savings. First, those with more income security throughout retirement will have greater flexibility and confidence to spend more of their remaining savings sooner [see Step #2 (MacDonald et al., 2024b) for a discussion on the value of higher secure income in giving retirees more confidence to spend, as well as greater health and happiness]. This advice also erroneously assumes that expenses will decline with declining health, which is not true for many Canadians. Although voluntary recreational spending may decrease with age, there may be a corresponding increase in involuntary basic expenses — particularly those arising from declining health.<sup>15</sup>

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<sup>15</sup> See the series introduction paper (MacDonald, 2024b) for a description of the socio-demographic trends that will impact late-life expenses for retiring Canadians.

## The Role of Cognitive Dissonance

This section delves into a challenge that could be tied to the irrational mainstream arguments. It explores cognitive dissonance: a psychological phenomenon that mentally blocks people from accepting logical arguments and can manifest in illogical rationales for a poorly made decision.

**Cognitive dissonance** is the psychological discomfort experienced when a person's behaviour is inconsistent with their beliefs and values (Festinger, 1957) — in other words, when a person has two cognitions (elements of knowledge) that are dissonant (i.e., at odds). Considered one of the most influential theories in social psychology (Harmon-Jones & Mills, 2019), cognitive dissonance is unpleasant because it discredits a person's preferred perception of themselves: that they are logical, consistent in their thinking and good at making decisions. It also results in feelings of regret, sadness, shame and stress.

Instead of accepting the consequences of their inconsistent behaviour, people respond to these feelings with the following strategies:

1. Lying to themselves and justifying their actions with illogical arguments;
2. Discrediting evidence of dissonance;
3. Downplaying the importance of the dissonance; and/or
4. Actively seeking information that confirms their position while ignoring evidence to the contrary (known as "confirmation bias") (ibid).

In other words, rather than resolve their cognitive dissonance by addressing the uncomfortable feelings, they mold their thoughts to suppress those feelings. As Mark Twain reportedly said, "It's easier to fool a person than it is to convince a person that they have been fooled."

The attempt to reduce cognitive dissonance is natural and normal, and its manifestations can be observed in a wide variety of contexts. The classic example given in Festinger (1957) is smokers who want to live a long and healthy life but know that smoking is bad for their health. On the one hand, they can stop smoking and reduce the dissonance. On the other hand, to avoid suffering the unpleasant consequences of quitting (e.g., withdrawal), their recourse is to adjust their thinking to make the contradiction between their actions (smoking) and desires (living a long and healthy life) more bearable. For example, they may point to people who smoked and lived a long, healthy life, assert that they have healthy genes or insist they don't care if they die early, even though they do.

## Application to the CPP/QPP Claiming Decision

The CPP/QPP claiming decision fits the established criteria for causing cognitive dissonance, as outlined below.

**1. Disparity between actions and stated desires** — The introduction and Step #2 papers in this series (Macdonald, 2024b; MacDonald et al., 2024b) discussed the disconnect between the CPP/QPP claiming decisions being made and the expressed preferences of retiring Canadians. Research

shows that retiring Canadians want to live a long and healthy life without being financially vulnerable or becoming a burden on their families. Their biggest financial fears include inflation, running out of money and having enough funds to cover future long-term care needs. Long-term security is their top financial priority. This implies a clear desire for more lifetime income that is secure and stable and also keeps up with inflation (e.g., CPP/QPP). However, most people opt for substantially lower lifetime pension income in exchange for getting the money sooner. Like smoking, this disparity between action and stated desires could trigger cognitive dissonance (see Box E).

### Box E: Cognitive Dissonance in Action: Smoking and Explanations for Early Claiming of CPP/QPP Benefits<sup>16</sup>

#### PEOPLE USE LEAPS OF LOGIC TO JUSTIFY ILLOGICAL BEHAVIOR

*“I want to live a long, healthy life... but I smoke”*

1

SOMEONE SMOKED AND IT DIDN'T KILL THEM, THEREFORE SMOKING DOESN'T KILL

2

I HAVE GOOD GENES, THEREFORE SMOKING CAN'T KILL ME

3

LUNG CANCER MAY NOT EVEN BE THAT BAD — WE ALL DIE SOMEHOW!

*“I want to live independently with a stable income as I get older. I don't want to leave my home or become a burden on my family ... but I'll choose a substantially lower CPP/QPP pension so long as I get it sooner.”*

1

MY UNCLE TOOK CPP AT AGE 65 AND DIED AT 67

2

I CAN DO BETTER WITH THE STOCK MARKET

3

ENJOY LIFE WHEN YOU CAN — WHAT WILL I DO WITH EXTRA CPP WHEN I'M OLD?

<sup>16</sup> This visual was motivated by Charisma on Command (2020).

**2. Lack of support and attention** — A further contributing factor is the lack of attention paid to the CPP/QPP claiming decision. The introduction paper of this series explained that support for the decumulation stage of retirement financial planning — that is, helping people use their savings so that financing retirement is less expensive and more financially secure — has not gotten the attention it deserves from policymakers, employers and the retail financial services industry, in terms of innovation in education, policies and products. This is especially true concerning the CPP/QPP claiming decision.

According to the 2023 NIA Ageing in Canada survey results, only one in seven CPP/QPP recipients reported putting significant effort into the decision, with the rest reporting that they had given it “some time and attention” or had “made the decision quickly without much thought” (Macdonald, 2024b). Even more concerning, almost four out of 10 recipients say they consulted no one and nothing before making their decision (ibid). A 2021 survey by Retraite Québec further underscores this lack of attention. The survey found the majority (58%) of QPP recipients claiming benefits at age 60 did not seek advice from anyone on the best time to start claiming QPP benefits (Retraite Québec, 2022). If people spend little time on an important decision or make it with insufficient information, they will likely have more regret, which can create cognitive dissonance.

**3. An irreversible and complex decision** — People are especially prone to experiencing cognitive dissonance after they make a difficult, irreversible decision — such as claiming CPP/QPP benefits early — and then encounter new information that contradicts it. As Harmon-Jones & Mills (2019) explained:

*“Difficult decisions should arouse more dissonance than easy decisions, because there will be a greater proportion of dissonant cognitions after a difficult decision than there will be after an easy one. Because of this, there will be greater motivation to reduce the dissonance after a difficult decision” (p. 6).*

Those who have already chosen a particular option will feel even more pressure to make an even greater effort to discredit the rejected alternative and avoid the discomfort of regret, and the complexity of the CPP/QPP claiming decision strengthens this pushback. The need to reduce cognitive dissonance is amplified by the finding that older people avoid feelings of regret even more strongly than their younger counterparts (Mather & Carstensen, 2005). For instance, a study by Rabinovich & Samek (2018) investigated the levels of regret associated with claiming Social Security pensions. Their findings revealed that older adults generally did not express regret, even if they admitted to making uninformed claiming decisions.

**4. Lack of willingness to consider a future vulnerable self** — Besides the natural inclination to avoid feeling the regret of a complex, poorly made and impulsive yet significant decision, there are other sources of cognitive dissonance at play — such as a retiree’s reluctance to acknowledge the needs of their future, more vulnerable self. In fact, according to Akerlof & Dickens (1982), the need for mandatory state-run retirement income programs (like CPP/QPP) is a direct result of cognitive dissonance. In their seminal paper on the economic consequences of cognitive dissonance, they explained:

*“If there are some persons who would simply prefer not to contemplate a time when their earning power is diminished, and if the very fact of saving for old age forces persons into such contemplations, there is an argument for compulsory old age insurance. The case, as we see it, is analogous to the case for safety legislation made in the last section. In that model workers found it uncomfortable to contemplate the dangers involved in working in the hazardous industry... In a similar mode, persons may find it uncomfortable to contemplate their old age” (p. 317).*

## Why We Need to be Cognizant of “Cognitive Dissonance”

When someone’s beliefs are suddenly shown to be false, their response is either fight or flight. While attempting to resolve cognitive dissonance through self-deception is natural and normal, it can prevent intelligent people from listening to reason.

To shift the paradigm and help improve CPP/QPP claiming behaviour, it’s crucial to recognize the effects of cognitive dissonance. Substantial resistance will be present — most notably from people who have already claimed benefits or advised others to do so. This pushback can be identified by irrational arguments, discrediting evidence and/or focusing on one logical proof while ignoring the rest of the narrative. Challenging a person in this state with a logical argument can even drive them deeper into cognitive dissonance, as they feel compelled to “dig in their heels” and explain or justify their positions using increasingly irrational logic. The more significant the discrepancy, the greater the motivation to reduce it (Festinger, 1957).

Such narratives persist because people are naturally susceptible to them, and once they make the decision, they also tend to stick to them. This natural response can lead to a self-perpetuating cycle of misinformation.

Flawed narratives put forth by friends, relatives, and others in a position of influence who have already claimed benefits or advised others to do so can have a pernicious influence on people approaching the decision with limited information and background knowledge.

Professionals have an opportunity to take the lead here. They can stop using these problematic narratives and provide authoritative guidance for effective decision-making — that is, interventions proven to help people align their decisions with their preferences. For instance, by reframing the outcomes of claiming early from the perspective of the individual and what matters to them, as proposed in Steps #1 and #2 (MacDonald et al., 2024a; 2024b), people can better align their preferences with the options within the retirement income system before the decision is made.

Upcoming Steps #4, #5 and #6 in this paper series propose additional concrete guidance and solutions for CPP/QPP administrators and the financial service industry to better communicate the CPP/QPP and the advantages of delaying benefits. These interventions include intentional, evidence-based changes to current practices and further nudges and boosts that could — and should — be implemented to help people navigate the complexities of the CPP/QPP claiming journey.

Adopting better practices can protect people from falling prey to mental shortcuts and flawed narratives and avoid the regret of a poorly made decision. This pre-emptive approach can help circumvent the potential emergence of cognitive dissonance and stop the cycle of misinformation.



## Conclusion

This paper aims to provide experts with information that can be used to counter the flawed narratives that Canadians currently encounter regarding the CPP/QPP claiming age. However, simply arguing against approaches like the break-even age will not be successful without suppressing the existing narratives and offering improved explanations of the available options.

Bad advice and biased perspectives are problematic because they can lead people to believe they have the correct answer, providing a mental shortcut instead of acknowledging their own lack of information. Scientists argue that recognizing one's ignorance can be valuable, as it encourages people to consider their options carefully and use their best judgment, while false information does the opposite. This is why Stephen Hawking and others reportedly have said, "The greatest enemy of knowledge is not ignorance, it is the illusion of knowledge."

By offering easy justifications for early claiming, these existing narratives do a disservice to the public. But it's not enough to simply add good reasons for deferring; **we need to change the overall narrative.** Those who have an interest in helping support more informed retirement financial decision-making can foster this paradigm shift by:

- Suppressing the false narratives that lead to early claiming behaviour;
- Retracting literature and online calculators that promote break-even calculations; and
- Replacing them with holistic metrics, frameworks, and tools that comprehensively recognize a person's full financial picture throughout retirement.

Retirement financial planning should be approached as a spectrum of potential outcomes and their personal impacts. Those in positions of influence must refrain from offering oversimplified analysis, acknowledging the uncertainty of the future and the complexity of the decision, so individuals will be more inclined to carefully assess the financial consequences and their comfort level in different scenarios.

This paper series proposes solutions that will help influencers move to new narratives that can help individuals navigate the complexities of the CPP/QPP claiming process. These measures are intended to cater to the psychological mindset of participants and enhance their understanding of how the options best serve their financial self-interests. Supporting participants to more easily and accurately align their CPP/QPP claiming decision with their preferences before they make a choice can protect them from falling prey to flawed narratives and help them avoid the regret of a poorly made decision — circumventing the potential emergence of cognitive dissonance and stopping the cycle of misinformation.

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