

7 Steps Toward Better CPP/QPP Claiming Decisions

Shifting the paradigm on how we help Canadians

Step #3:

Retiring Problematic Narratives

STEP
3



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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.

