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Policy Implementation Brief: Pension Delay Guarantee

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Introduction

The National Institute on Ageing recommends adding a “**Pension Delay Guarantee**” (PDG) to the Canada and Québec Pension Plans (CPP/QPP) to strengthen retirement income security.

The Challenge: Despite setting aside savings, one-third of Canadians—the “vulnerable massive middle”—lack workplace pensions or secure lifelong income beyond CPP/QPP and Old Age Security (OAS). While CPP can be claimed anytime between 60 and 70, the monthly amount significantly increases for every month of the delay. Currently, **most claim CPP by age 65 even though deferring could increase income over a retiree’s lifetime** by \$100,000 for the average Canadian, simultaneously improving retirement income security. For those who can afford to delay, **the main barrier is the fear of “missing out”** if they die early, a well-documented behavioural challenge known as loss aversion.

The Solution: The PDG would address this fear by offering a safety net: PDG would reimburse, in the case of early death, the difference between the retirement pension benefits actually received and what would have been received had benefits been claimed at age 60.

The Advantages:

- **Low Cost:** requires no taxpayer dollars and no additional CPP/QPP contributions. It could be fully self-financed within the existing adjustment structure, with no impact on the basic age-65 pension entitlement.
- **Better Outcomes:** Since it is designed to put more retirement income into the pockets of older Canadians, the PDG has the potential to reduce the burden on public income-tested social programs, such as the Guaranteed Income Supplement (GIS).
- **Strengthens Canada’s Retirement System:** Directly addresses fairness concerns, nudges Canadians toward better retirement outcomes, and strengthens public trust in CPP/ QPP—while safeguarding the sustainability of Canada’s retirement income system

Why now: With the CPP triennial review currently underway, we have a critical window to act. Missing this opportunity would delay implementation by five years—missing the chance to support the majority of the baby boom generation.

Policy Rationale: The Pension Delay Guarantee

Introducing a pension delay guarantee (PDG) is a low-cost, equitable, and effective solution that policymakers and other stakeholders should rally behind to strengthen the financial security outcomes for Canada's ageing population and modernize the CPP/QPP system.

Currently, many Canadians claim CPP/QPP early out of fear they will die before collecting "enough" to make waiting worthwhile. This is a well-documented cognitive bias known as loss aversion, where short-term fear of financial loss outweighs the very real long-term financial advantages of deferring benefits. The current system can feel like a gamble with death.

The PDG would eliminate this fear by ensuring participants (or their beneficiaries) never receive less than they would have by claiming at 60. It addresses the issue of perceived fairness, particularly for those worried about "losing out" if they delay and die early.

This low-cost and simple policy reform would:

- Encourage more informed, future-focused claiming decisions;
- Allow CPP/QPP to do an even better job of fostering retirement income security in Canada;
- Make the most of Canada's existing retirement infrastructure – without raising taxes or increasing contributions.

As our population ages and public spending pressures mount, this targeted improvement would help the CPP/QPP system work better for Canadians, now and in the decades ahead.

Defining the Problem

1. From an individual's perspective:

- Claiming retirement pension benefits early dramatically reduces lifetime income. For example, a person eligible for \$1,000 per month at age 65 would receive only \$640 if they start at 60, but \$1,420 if they wait until 70. In aggregate, delaying to 70 more than doubles (2.2×) the monthly benefit

compared to starting at 60 and, on average, yields \$100,000 more over a retiree's lifetime – all in today's dollars.

- These payments last for life and are indexed to inflation, helping ageing Canadians overcome their biggest financial fears: inflation and running out of money.
- Yet, despite wanting higher pension income, the majority still claim by age 65.
- The key barrier to delaying benefits for those who can afford to wait is the fear of dying early and missing out—a psychological hurdle that leads retirees to focus on short-term losses rather than long-term security. This fear persists even in the face of clear financial advantages to delay.

2. From a government perspective:

- Leveraging CPP/QPP is a fiscally responsible way to support Canada's ageing population while reducing reliance on tax-funded programs.
 - Canada's ageing population is putting growing pressure on OAS/GIS and healthcare spending, both of which are paid from general revenues.
 - Unlike these programs, CPP/QPP is self-funded, not reliant on tax revenue.
 - In fact, since the PDG is designed to put more retirement income into the pockets of older Canadians and provide additional benefits to their survivors, it has the potential to reduce the burden on public income-tested social programs, such as GIS.
- Improving claiming decisions is an accessible and impactful solution that boosts late-life income without cutting core benefits or passing on the cost to taxpayers or contributors.
 - The potential is striking: delaying CPP/ QPP benefits can significantly increase monthly pensions, reaching nearly 20 million Canadians. Over 1,000 people claim their CPP/QPP benefits daily.
 - Other approaches to increasing public income for older Canadians—such as mandating later retirement ages (as proposed for OAS) or increasing CPP/QPP contributions—are politically challenging and create affordability issues for businesses and workers.
- Supporting informed CPP/QPP claiming is a critical public policy priority that can improve outcomes, strengthen program sustainability, and build public confidence in Canada's retirement system.
 - A well-designed policy should encourage retirees to make financially optimal CPP/ QPP claiming decisions that improve retirement security without increasing program costs.
 - Helping financially capable participants delay benefits enhances their long-term security while protecting income-tested supports for vulnerable older Canadians who cannot delay.

How Does it Work?

The PDG is like a money-back guarantee for people who delay starting their CPP/QPP pension. It provides a payout if they pass away before reaching the “breakeven” point on delayed benefits.

Example Scenarios:

- At 65, a contributor is eligible to receive \$1,000/month.
- If they claim early at 60, they will instead receive \$640/month (due to the early-claiming reduction).
- If they delay but die before breaking even, the PDG reimburses their estate for the “missed” early benefits:
 - Die at 63 (never claimed): Estate receives \$23,040 (3 years × \$640/month).
 - Die at 65 (never claimed): Estate receives \$38,400 (5 years × \$640/month).
 - Claim at 65, die at 67: Estate receives \$29,760 (\$53,760 in missed benefits between 60–67, minus \$24,000 in benefit payments from 65–67).
 - Die at 74 (claimed at 65): No payout— they have already collected more than they missed.

Why the PDG is Low-Cost, Feasible and Equitable

- Low cost. Only a small minority of contributors die before reaching the “breakeven” point on delayed benefits. Because of this, payouts would be rare—and their infrequency is precisely what makes the PDG so low-cost.
- No change to CPP contributions. There are two potential mechanisms to finance the PDG entirely within the CPP in a way that is fair and sustainable with no change to existing contributions:
 1. The PDG could be financed through modest changes to adjustment factors (the increases or decreases applied when benefits are claimed before or after age 65).
 - In the extreme, under the current age adjustments, waiting from age 60 to 70 more than doubles benefits (222%). Preliminary analysis suggests that introducing a PDG would lower this only slightly—from 222% to 214%. With this mechanism, there is no change in the Minimum Contribution Rate (MCR). Financing is entirely internal to the structure for adjusting benefits claimed before or after age 65.
 - Research shows that while people may be aware of actuarial adjustment factors, small changes to these factors have little

impact on behaviour—claiming decisions are driven far more by psychology, personal circumstances and perceived risks than by marginal financial incentives.

2. It could be determined that the cost of the PDG is too small to require separate full funding and thus can be financed entirely by the existing steady-state contribution rate.
 - The current 9.9% contribution rate exceeds the MCR by 0.7% and the MCR would only increase by 0.1% with the adoption of the PDG. This is the financing mechanism that was used for 2024 changes for part-time students and the death benefit top-up.
- No Change to Base Benefits: Under either financing mechanism, the existing CPP/QPP benefit starting at age 60 or age 65 would be preserved. The flexibility to claim at earlier ages plays a vital role for lower-income Canadians, who tend to retire earlier and depend on early claiming – proposals that raise the minimum age or reduce early benefits would harm the most vulnerable.
- Supports socio-economic equity. Lower-income Canadians tend to have shorter life expectancies, so enhancements like the PDG that protect against early death inherently deliver greater relative value to this group – improving equity across socio-economic lines.¹

“Policymakers must appreciate that the ultimate purpose of the CPP/QPP programs – and the measure of their success – is the amount of money that ends up in the pockets of older Canadians when they need it.”

(NIA CPP Series: Step 7, 2024)

Why Now?

Canada faces a critical window to strengthen CPP/QPP before the full wave of baby boomers choose to claim their pension benefits. Acting now ensures reforms take effect while millions still have the health, resources, and flexibility to make choices that protect their future security.

¹ While the PDG would improve equity and strengthen survivor financial security, its primary purpose is behavioural: to improve the performance of CPP/QPP by helping more Canadians achieve stronger retirement income outcomes. The CPP currently has two survivor benefit programs.

- The CPP death benefit is a one-time payment to the estate, spouse or other heir of a deceased CPP contributor. The standard amount is \$2,500.
- The CPP/QPP survivor's pension is a monthly payment made to a surviving spouse and orphaned children. It is calculated based on the “basic amount of benefit”—the retirement pension the deceased contributor would have received had they been age 65 at the time of death.

Neither of these existing benefits depends on the age at which the deceased actually claimed their pension. As a result, they do not address the key behavioural deterrent preventing many Canadians from delaying their own CPP/QPP retirement pension—namely, the fear of “losing money” if they die early.

This opportunity also aligns with the federal– provincial CPP review cycle. The Chief Actuary’s nine-year review of the age adjustment factors, included in the December 31, 2024, triennial report, provides a rare policy window to introduce changes seamlessly.

By acting within this cycle, policymakers can implement a pension delay guarantee by January 1, 2028, maximizing impact for future retirees and ensuring Canada’s retirement system remains strong, fair, and sustainable.

The next two Exhibits of this brief provide actuarial valuation timelines and supporting legal analysis, offering additional detail on the review process and implementation considerations.

Exhibit A: CPP Actuarial Valuation Timeline and Considerations

Key Dates?

- Last valuation date: December 31, 2021
 - Federal-provincial review in 2023, with resulting changes announced in 2024. These changes came into effect at the beginning of 2025.
- Current valuation date: December 31, 2024, released December 8, 2025
 - A federal-provincial review is scheduled for 2026, with any resulting changes to be announced in 2027. These changes would come into effect in 2028.
- Next valuation date: December 31, 2027
 - Federal-provincial review in 2029, with any resulting changes announced in 2030. These changes would come into effect in 2031.

The 31st Actuarial Report was a triennial report mandated by section 115(1) of the *Canada Pension Plan*, R.S.C., 1985, c. C-8 (“*CPP Act*” or “*Act*”). It had an effective date of December 31, 2021, and reflected events up to a cut-off date of July 13, 2022. It was signed on November 14, 2022, and was tabled in Parliament on December 14, 2022. This marked the beginning of the 2022-2024 triennial review by federal and provincial finance ministers and according to Section 113.1(3), the review should have been completed in time for recommendations to the federal government for contribution and other changes by the end of 2023. The top-up to the \$2,500 death benefit and changes to survivor benefits for ex-spouses and

part-time students were announced in the 2024 federal budget. ESDC implemented the amendments with an effective date of January 1, 2025.

Section 113.1(2) suggests that changes in age adjustment factors stemming from the 32nd Actuarial Report will adhere to the triennial review schedule. The valuation report was completed in 2025, with provincial consultations taking place in 2026. Any modifications to the adjustment factors are expected to be announced in 2027 and implemented on January 1, 2028.

Exhibit B: CPP Legal Analysis

It is important to note that the legal analysis and statutory amendments discussed below are only applicable to the *CPP Act* and not the *Act respecting the Québec Pension Plan, CQLR c R-9 (“QPP”)*. While functionally similar, including a PDG in the QPP would require a separate amending bill in the Québec National Assembly.

Provisions relevant to the implementation of a pension delay guarantee (PDG) under the *CPP Act* are located under Part II, Division A and B of the *Act*. Division A enumerates the benefits payable to contributors and Division B sets out the calculation for the benefits payable under Division A. As a lump sum benefit payable to a contributor’s estate or succession supplementary to the current Death Benefit under the *Act*, the PDG is properly included as a new subsection to section 57.

The amendments to section 57 of the *CPP Act* would provide for the creation of a PDG for eligible contributors and the amount payable under a PDG.

The premise for the calculation of age adjustment factors applicable before and after age 65 is that the minimum required contribution rate should be the same regardless of when contributors claim their retirement pension.

Clause 1 amends section 44 of the *Act* to add paragraph 44 (1)(i). Paragraph 44 (1)(i) includes the PDG as an additional payable benefit to a contributor’s estate or succession.

Clause 2 amends section 57 of the *Act* to add subsections 57(1.3) - (1.5).

Subsection 57(1.3) sets out the eligibility criteria for a lump sum PDG payable to a contributor's estate or succession. Under this subsection, the PDG is only payable to CPP contributors who die after becoming eligible.

to receive a retirement pension on or after January 1, 2028. The premise for the 2028 commencement date is to ensure that the bringing into force of the PDG occurs concurrently with the adoption of new age adjustment factors following the current triennial financial review, allowing the ESDC an opportunity to prepare for the new benefit and new age adjustment factors. The lag between the adoption of the legislation and the effective date, together with the existing provision allowing contributors to back-date their application for a retirement pension, provides an opportunity for contributors who are not interested in the PDG to avoid the associated change in age adjustment factors by claiming a commencement date earlier than 2028.

Eligibility for a retirement pension means that the contributor has made at least one valid contribution to the CPP, is at least 60 years old, and is not receiving a disability pension.

Subsection 57(1.4) states that a contributor's PDG benefit payable is calculated to be the difference between the retirement pension that would have been payable to an eligible contributor up to the date of their death if they had begun receiving their pension at 60, and the amount of pension they have already received.

Subsection 57(1.5) reads in an amendment to subsection 51(1) of the *Act* to clarify the inflation adjustments used in determining the amount of PDG payable to a contributor. The adjustment factor amends the Pension Index date to the date of the contributor's death.

Proposed Amendments to the Canada Pension Plan

PART II

1. Subsection 44 (1) of the Act is amended by adding the following after paragraph (h)
 - (i) a pension delay guarantee shall be paid to the estate or succession of a deceased contributor who has reached 60 years of age.
2. Section 57 of the Act is amended by adding the following after subsection (1.2)

Pension Delay Guarantee

Amount of Pension Delay Guarantee

(1.3) A lump sum pension delay guarantee is payable to the contributor's estate or succession if

- (a) a retirement pension did not become payable to the contributor prior to January 1, 2028; and
- (b) the contributor's death occurs after December 31, 2027.

Calculation of Pension Delay Guarantee

(1.4) A contributor's Pension Delay Guarantee for the purposes of subsection (1.3) is equal to the greater of zero and

- (a) the aggregate amount of retirement pension that would have been payable to the contributor if the retirement pension payments had commenced at the earliest month permitted by this Act.

Minus

- (b) the aggregate amount of retirement pension already paid to the contributor.

(1.5) For the purposes of subsection (1.4), variable E of the formula under subsection 51(1) of this Act shall be read as follows:

"E is the Pension Index for the year in which a pension delay guarantee becomes payable to the contributor under this Act or a provincial pension plan, and

Next Steps for Implementing the PDG

1. Engage the Provinces and Territories

- Alignment across the federation is required to amend the CPP.
- The federal government must secure approval from Ottawa and two-thirds of provinces representing two-thirds of the population, as outlined in section 111(4) of the *CPP Act*.
- Early discussions with provincial finance ministers will be critical to building consensus.

2. Engage the Chief Actuary

- The Office of the Chief Actuary should begin assessing the cost and implementation of the PDG.

3. Engage ESDC and Service Canada

- ESDC and Service Canada can identify administrative or operational challenges, including changes to:
 - Legislative and regulatory drafting.
 - Administrative calculations.
 - Communications about benefit commencement and survivor provisions.

4. Seek Cross-Government and Stakeholder Alignment

- Broader collaboration is needed with actuaries, pension experts, employer groups, and financial advisors.
- Federal and Québec governments should coordinate implementation for contributors covered under both CPP and QPP.

Timing

The current legislated CPP triennial review will take place in 2026. Missing this window would delay implementation until 2031, by which time almost all the baby boomer cohort will have started to receive their CPP retirement pensions—reducing the policy’s impact.