



Canada Revenue Agency: Here's How Much You're Paying Into CPP

Description

Did you know that, according to the Canada Revenue Agency, [the average monthly CPP payment is just \\$679?](#)

With most retirees having expenses around \$2,400 a month, it's not much to live on.

If you're lucky enough to have an employer-sponsored pension, you may be able to live off of that and CPP combined.

If you don't, you'll need to take steps to build a personal pension to supplement your CPP payments. With various tax incentives available in accounts like RRSPs and TFSAs, it's quite possible to build a personal pension that exceeds the amount you earn from CPP.

That's all the more important when you consider taxes and CPP contributions. As you're about to see, CPP contributions can add up to quite a bit each year. In fact, when you consider the fact that you'll likely work for longer than you'll be retired, you may end up paying more into CPP than you take out.

Fortunately, there are many ways to reduce taxable income and lessen your tax burden, which I'll reveal shortly.

Employee contributions

The standard employee CPP contribution is 4.95% of earned income up to a maximum of \$57,500. In 2020, the maximum is going up to \$58,700. There's a \$3,500 annual basic exemption, so if you earned \$57,500 in 2019, you'd be paying in \$2,673. That averages out to \$222 a month, roughly one-third the average CPP payout – but remember that you're likely to work for much longer than you'll be retired.

Self-employed contributions

If you're self employed, your CPP contributions will be roughly double those of the average employee.

The reason for this is that there's an employer CPP contribution in addition to the employee one, and you have to pay both if you're self-employed.

Fortunately, there are some credits and deductions on CPP payments that you can take advantage of when you're self-employed – and you can reduce your overall tax burden by opting out of EI. Still, if you're self-employed, expect to pay big on CPP.

How to offset your CPP contributions

CPP contributions take a big bite out of your earnings that won't necessarily be compensated for – especially if you don't live long after retiring, or the if CPP program ends up disappearing at some point in the future.

Canada's pension plan is reportedly financially sound, but similar pension plans in other countries have serious issues with long-term sustainability.

For these reasons, you will want to take active steps to reduce your overall tax burden as much as possible.

One of the best ways to do that is by opening an RRSP and trying to max out your contributions each year. With that money, invest in index ETFs like the **iShares S&P/TSX Index Fund** ([TSX:XIU](#)).

RRSPs give you a tax deduction on the amount you contribute, which can result in thousands in tax savings each year. The effect is most profound if you're just on the border line between two tax brackets, and the RRSP contribution helps you stay beneath the threshold.

ETFs like XIU are perfect for RRSPs. Offering built-in diversification, they eliminate the need to spend hours reading stock charts and annual reports and give you market-average returns with no need for special research. This makes XIU a perfect "set it and forget it" RRSP pick.

Of course, there are many ETFs for Canadians to choose from. If you opt for XIU's sister fund, XIC, you get even more diversification. However, XIU is preferable overall for a few reasons.

First, as a TSX 60 fund (as opposed to a TSX composite fund), it's [concentrated on large caps](#). This makes it less risky.

Second, it has a higher dividend yield than funds that buy the entire market.

Third, it enjoys slightly better long-term historical performance than TSX Composite funds like XIC.

For these reasons, XIU is the perfect fund for investors looking to minimize their taxes with an RRSP.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:XIU (iShares S&P/TSX 60 Index ETF)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/08/27

Date Created

2019/11/25

Author

andrewbutton

default watermark

default watermark