CPP Pension Users: 2020 Enhancement Will Increase Your Payout

Description

The Canada Pension Plan (CPP) enhancement in 2020 should be welcome news to CPP pension users.

The enhancement, however, means that your CPP contribution rate will increase from 5.10% to 5.25% starting January 2020. In total, your CPP contribution, including your employer's contribution, will rise to 10.50% of your pensionable earnings. Self-employed individuals who are CPP users will pay the full amount.

Implications

CPP contribution rates will continue to climb yearly until 2023, when the rate levels off at 11.9% combined, or 5.95% equal sharing by employer and employee. For baby boomers, the 2020 enhancement comes late in the day and with higher premiums.

The original design of the pension plan was to replace 25% of your average work earnings up to a specific limit. Now, expect the enhancement to replace 33% of your average pre-retirement income.

Since the full enhancement will occur in 2065, the younger generation, or those new in the workforce, should benefit the most. While the full payout will take 45 years, the benefits will inch higher beginning this year.

Offset the higher contribution

Some baby boomers are frowning on the CPP enhancement because it comes quite late. Also, deciding on taking CPP early at 60 or delaying until 70 for a higher pension amount becomes more crucial. Moreover, higher CPP income may impact Old Age Security (OAS) clawbacks.

Would-be retirees or income earners can offset the higher CPP contribution by investing in a high-yield dividend stock like **Wall Financial** (TSX:WFC). This real estate stock pays a fantastic 8.87% dividend.

As an example, with a $150,000 investment in WTF, you can derive a monthly gain of $1,108.75.

Since the outlook for the Canadian housing market looks brighter in 2020, the timing to invest in Wall Financial is perfect. Please don't confuse this $1.22 billion company with a real estate investment trust (REIT), although its operations are similar to a REIT.

Wall has three major segments: namely, ownership and management of residential and commercial income-producing properties, development and sale of residential housing (or development properties), and ownership and management of hotel properties.

The asset base (952 residential and commercial units plus 921 hotel units) of this real estate investment and development company delivers a stable income. The majority of the properties and hotels are in the Metro Vancouver area of British Columbia.

Wall Financial expects to add 519 more rental properties to its portfolio, as it embarks on the development of new purpose-built rental properties in the next couple of years. Last year was a banner year, as revenue grew by 52.9%, while the stock has gained by almost 50%.

Added compensation

Baby boomers wish they could turn back the clock and have the enhanced CPP with the TFSA. The combo should be perfect in preparation for retirement. But the best alternative for the older generation is to have an investment income as added compensation to offset the increased CPP contribution.

Wall Financial is just one of the many dividend stocks on the TSX that can provide investors from any generation with higher passive income in 2020.

CATEGORY

1. Dividend Stocks
2. Investing

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cliew