



## Canada Revenue Agency: Combat Higher CPP Pension Contributions With Dividend Stocks

### Description

The Canada Revenue Agency announced that the maximum pensionable earnings under the Canadian Pension Plan (CPP) will be \$58,700 in 2020 (up from \$57,400 in 2019). Simultaneously, the employer and employee contribution rates will be raised to 5.25% (up from 5.1% in 2019).

However, the basic exemption amount will stay the same at \$3,500.

Ultimately, this means if you earn \$58,700 or more in 2020, your CPP pension contribution will be \$2,898 if you're an employee and \$5,796 if you're self-employed. This is \$149 greater for employees (or \$298 greater for self-employed individuals) from 2019's amount.

Accordingly, your CPP pension contribution will be lower if you earn less than \$58,700 for the year.

No matter how much you earn, the CPP contribution rate is set to increase steadily year after year. By 2024, the rate will reach 5.95%!

This calls for [trusty dividend stocks](#) as a solution to combat higher CPP contributions.

To earn \$149 on a yield of 4%, you'd need to invest \$3,725. Assuming a 5% yield, the required investment amount reduces to \$2,980. Self-employed individuals will need to tough it up and double that investment amount to generate the income they need.

Here are dividend stocks that offer secure yields of 4% and 5%, respectively, to get you started on combating higher CPP contributions.

### TD Bank

A long history of operation, a track record of profitability, and [a reputation of safe dividends](#) all describe **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)).

As far back as TD Bank's data shows, it has paid a growing dividend since 1970. However, its predecessor was founded 115 years earlier. Occasionally, the bank maintained the same dividend, but incredibly, it never cut the payout.

For example, the last global financial crisis triggered TD to maintain the same quarterly dividend for 2.5 years between late 2008 and early 2010.

Since then, the economy has stabilized and recovered. Unfortunately, we may be entering a period of slower growth due to high debt levels applying to consumers, corporations, *and* governments.

This has weighed on TD stock's valuation. At \$73.39 per share as of writing, it trades at about 10.9 times earnings, which is a discount of about 10% from its long-term normal multiple.

The lower valuation pushed TD's dividend yield up to 4%, which acts as good support for its stock price under most market conditions. Even better, the bank is about to increase its dividend payout next month. So, be on the lookout for that!

## A&W

While most dividend stocks pay quarterly dividends, others pay once or twice a year or even monthly. **A&W Revenue Royalties Income Fund** ([TSX:AW.UN](#)) belongs in the last group. Therefore, unitholders can enjoy its 5% yield paid in monthly income.

Where does A&W's 5% yield come from? A&W gets it from the 3% royalty income it collects from 971 A&W restaurants across Canada!

A&W enjoys organic growth from charging higher prices on its menu and gaining higher cash flow from new stores.

Since 2005, the fund has increased its payout by about 76%, or an annualized increase of 4.15%. It's a delight to see A&W having improved the safety of its cash distribution by reducing its payout ratio (based on cash flow) over time.

You should consider holding A&W units in tax-advantaged accounts such as a Tax-Free Savings Account and Registered Retirement Savings Plan, because the fund pays non-eligible dividends that are taxed at higher rates than eligible dividends in non-registered accounts.

## Investor takeaway

Investing in quality businesses, including TD stock and A&W, which offer decent dividends, is an effortless way to combat higher CPP contributions.

The good news is that these stocks are bound to increase their payouts and therefore require essentially no work on your part once you buy the shares.

## CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

## **TICKERS GLOBAL**

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:AW.UN (A&W Revenue Royalties Income Fund)
3. TSX:TD (The Toronto-Dominion Bank)

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