CPP Pension Users: How Will the 2020 Enhancement Impact Your Payout?

Description

Starting in January 2020, the Canadian Pension Plan (CPP) contribution rate has been increased from 5.1% to 5.25%. This will mean the total CPP contribution (including employer contribution) will now increase to 10.5% of total pensionable earnings, up from the earlier figure of 10.2%.

The CPP is being enhanced gradually. This will mean higher benefits for users in exchange for higher contributions. The enhancement will have a positive impact on the CPP retirement pension, disability pension, post-retirement pension and survivor's pension.

In 2019, the maximum monthly amount for a new recipient starting pension at the age of 65 stood at $1,154.58, while the average monthly amount was $679.16. So, the CPP payout will depend on your contribution and average annual earnings.

The CPP contribution rate will continue to rise till 2023, when it will touch 5.95%, or a combined figure of 11.9%. According to the Canada.ca website, the CPP retirement pension until 2019 replaced a quarter of an individual's average work earnings. Now, these enhancements will replace around one-third of an individual's pre-retirement income.

The CPP enhancements can result in an increase of up to 50% in retirement pension for those making enhanced contributions for 40 years.

Income investors can look to invest in dividend stocks

The CPP provides individuals with a steady stream of income post-retirement. But if income is the top criteria for CPP users, then they can look at stocks with high dividend yieldS, such as **Chemtrade Logistics Income Fund** (TSX:CHE.UN).

Chemtrade provides industrial and chemical services. While the company has increased sales from $1.22 billion in 2016 to $1.59 billion in 2018, analysts expect revenue to fall to $1.56 billion in 2019.

Due to its revenue decline, the stock has underperformed broader markets. Chemtrade shares have gained 11.5% in the last year compared to the 26.5% gain for the S&P 500. Analysts expect Chemtrade sales to return to revenue growth with estimated sales of $1.576 billion in 2020 and $1.642 billion in 2021. Chemtrade has focused on improving operational efficiencies, despite decelerating top-line growth.

In 2018, Chemtrade was visibly impacted by the number of rail cars on its fleet as well as service levels of these rail carriers. The lack of timely rail cars impacted the company's top line, as they restricted production rates. In order to offset longer transit times, Chemtrade has increased rail car fleets for certain products.

Chemtrade stock has a forward dividend yield of 10.7%. This means an investment of $10,000 in the stock will result in annual dividend payments of $1,070. It has a market cap-to-forward sales ratio of 0.67 while its enterprise value-to-sales ratio stands at 1.6. The price-to-book ratio is 1.30. These valuation multiples seem reasonable, and there is a chance for stock price appreciation as well if the earnings beat consensus estimates in 2020.

While Chemtrade's earnings might fall from -$0.45 in 2018 to -$1.01 in 2019, it will drastically improve to $0.22 in 2020, according to analyst estimates. The company's return to earnings and revenue growth, high dividend yield, and reasonable valuation make it a solid bet for income investors.

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2. Investing

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1. TSX:CHE.UN (Chemtrade Logistics Income Fund)

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Date

2025/08/17
Date Created
2020/01/22
Author
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