



WARNING: Alberta Leaving CPP Could Jeopardize Your Retirement!

Description

Alberta is seeking to increase its autonomy. And CPP is among the federal programs it wants to shake loose from.

That's the assertion of some speakers at Alberta's fair deal panel, which will consider a number of measures to increase the province's independence from Ottawa. Following a contentious federal election in which Western alienation was a major theme, Albertan politicians have been considering measures to address longstanding grievances with the Federal government.

One of the most eyebrow-raising is Alberta leaving CPP. Among the proposals recently floated by Jason Kenney's government is the creation of an Alberta Pension Plan, similar to Quebec's independently administered pension program, QPP. Such a plan would be a major restructuring of Alberta's pension system, one that some in the province are already voicing concerns about. However, as you're about to see, it could have even greater implications for the rest of Canada.

It could cause a CPP pension shortfall

One of the biggest consequences of an Alberta withdrawal from CPP would be a massive pension shortfall. According to a recent *Financial Post* article by Franco Terrazzano, director of the Canadian Taxpayers Federation, Alberta paid \$28 billion more into CPP than it took out between 2008 and 2017. A similar article by Benefits Canada reported that Albertans make 16.5% of CPP contributions while taking only 10.6% of benefits. These figures imply that an Alberta withdrawal from CPP would mean a shortfall in the program. That would have to be made up somewhere — if not, the sustainability of the program would be under threat.

Consequences of a shortfall

According to some studies, an Alberta pension withdrawal could cause a jump in CPP contributions from other provinces. The Fraser Institute, for example, calculated that if Alberta's contributions are taken out of the CPP system, then Canadians will have to start paying 10.6% of their income (as

opposed to 9.9% last year) to keep the program sustainable. That would hit Canadians in the pocketbook, but the bigger risk would be a *lack* of CPP contribution increases, which would lead to the program becoming underfunded.

What to do

If you're worried about an Alberta withdrawal from CPP jeopardizing your retirement, there are a few things you can do to protect yourself.

One of the first is to establish your own portfolio of dividend-paying stocks and ETFs.

Dividend stocks pay cash — sometimes quite a bit of it — providing a steady income stream that can pay you for years.

You don't need to be an investing expert to start investing in dividend stocks, either. Stock research is a complex and time-consuming process, but you can skip it by buying index ETFs instead of individual equities. Index ETFs provide you with market-average returns in exchange for a small fee, which is typically much less than you'd pay for other types of funds.

One great index ETF for Canadian investors is **iShares S&P/TSX 60 Index Fund**. XIU is a diversified ETF that's based on the TSX 60 — the [largest 60 publicly traded companies in Canada by market cap](#).

XIU has a dividend yield of 2.8%, which means you get \$2,800 in annual cash payments for every \$100,000 you invest.

If you max out your RRSP, you could easily get more income than that by holding XIU and other funds with similar yields. In a TFSA — whose [contribution limit is just \\$69,500](#) — you'd get less, but recall that TFSA contribution room increases over time.

By holding a diversified index ETF like XIU in a TFSA or RRSP, you can gradually establish a tax-free income stream that will lessen your dependence on CPP during retirement. Of course, remember that a retirement investment portfolio should be well diversified, with many other stocks, bonds, and ETFs, in addition to any position you take in a fund like XIU.

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