Retired Canadians: A 2020 CPP Pension Increase Means You Make Less Money Today

Description

The Canada Pension Plan (CPP) is an excellent way to create monthly income stream post-retirement. However, you have to make a trade-off to take advantage of your CPP plan once you hit retirement age.

The joint administration of the CRA and ESDC has decided to increase the CPP contribution rate from 5.1% to 5.25% — the individual rates for employees and employers — effective January 2020.

Entrepreneurs and self-employed people have to take care of the full contributions on their own. The total contribution rate has increased from 10.1% to 10.25%. Notwithstanding your employment status, you will face an increased cash outlay this year if you are a member of CPP.

With a possible recession looming, you must not be just stashing away for the future: investing in ventures that pay you dividends in the present is also important.

While CPP will create an income stream post-retirement only, dividend investments will allow you to boost your monthly and annual incomes today.

Offset bigger CPP contributions with stock investment

While revised contribution rates will undoubtedly make your CPP payouts bigger, it also means you will make less money today. To compensate for the cash outlay caused by the CPP contributions, I suggest investing **Pembina** (TSX:PPL)(NYSE:PBA).

There are two significant reasons why I think Pembina stock can offset the outlay caused by a bigger CPP contribution.

The backbone of oil and gas landscape of North America

Pembina makes the backbone of the oil and gas supply chain in both the U.S. and Canada. Pipelines always offer the most cost-effective way to transport oil and gas between upstream and downstream points. With its intricate network of pipelines, Pembina offers this economical transportation.

Pembina deals in almost every hydrocarbon commodity mined for energy generation. This means crude oil, natural gas, and natural gas liquid, all of them come in the operational domain of the company.

Apart from that, Pembina also has the infrastructure to gather and process the crude extractions for fully facilitating the connected downstream facilities.

This layered and multifaceted operational structure gives Pembina a strong market standing. Its firm footing also reflects from its **TSX** performance of the last five years — a period that saw its stock grow 60.48%.

Generous with dividend payouts

The other reason why it would be good to invest in Pembina stock is its good dividend history. With a 4.98% dividend yield, the company is rolling out roughly 75% of its earnings in payouts.

Interestingly, this higher payout ratio is not affecting Pembina's expansion and acquisition plans. It has recently bought **Kinder Morgan Canada** that will further increase its operational capacity and profits.

Conclusion

CPP contributions can shrink what you are making today. But if you make smart investment decisions, you can make up for the CPP-derived outflow. Pembina is on a steady growth track with the stock and a good dividend yield.

Let's assume that the share price of Pembina remains bearish and lingers around its today's closing price, which is around $50.

Meanwhile, the dividend yield also stays the same. With these assumptions, you'll be able to make $498 on your $10,000 investment in Pembina by the next February.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:PPL (Pembina Pipeline Corporation)

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