Canada Revenue Agency: How Much Do You Contribute to the CPP?

Description

The government of Canada has a couple of retirement plans for residents. One of them is the Canada Pension Plan (CPP) – a monthly retirement pension. The CPP is a taxable benefit and aims to replace part of your income on retirement. Canadians who qualify for the CPP receive this pension for the rest of their life.

According to the Canada Revenue Agency, which is one of the administrators of the CPP, to qualify you need to be over 60 years of age and have made at least one valid contribution to this plan. The monthly CPP payout depends on several factors. One of the major factors is your contributions to the pension plan.

The Canada Revenue Agency website states, “Every person over the age of 18 who works in Canada outside of Quebec and earns more than a minimum amount ($3,500 per year) must contribute to the Canada Pension Plan (CPP).” If you are an employee, you pay 50% of the required contribution and your employer will pay the other half. If you are self-employed, you make the entire contribution to the pension plan.

How does the Canada Revenue Agency calculate the contribution?

The contribution towards the CPP depends on your annual employment income. The minimum amount is “frozen” at $3,500 while the earnings ceiling is set at $57,400. The contribution rate on these earnings is 10.2%.

So, the maximum contribution limit for the CPP in 2019 stood at $2,748.90, according to the Canada Revenue Agency website. The maximum contribution limit for a self-employed resident is double this amount at $5,497.8.

Starting in 2019, the Canada Revenue Agency is gradually increasing CPP contributions. You will receive higher benefits if you increase these contributions. Until 2019, the CPP replaced 25% of your average work earnings. Now, after annual enhancements, the CPP will grow and replace 33% of your average work earnings.

Why you cannot depend on the CPP

The maximum monthly amount a new recipient starting CPP payouts at the age of 65 can receive is $1,154.58 for 2019. The average figure stands at $679.16. Clearly these numbers are too low to lead a comfortable life in major Canadian cities.

Canadians need to ensure they have enough savings to supplement their CPP. One way is to create a portfolio of top-quality dividend-paying stocks such as **Enbridge Inc.** (TSX:ENB)(NYSE:ENB).

Enbridge is a North American energy giant and transports approximately 25% of crude oil produced in the U.S. and Canada. It also moves about one-fifth of the natural gas consumed in the U.S. With a gas distribution utility segment and assets in the renewable energy power sector, Enbridge is well-diversified.

Enbridge stock is currently trading at $41.2 which is 28% below its 52-week high. It is an energy heavyweight with a market cap of $83 billion and leads a sector with huge entry barriers.

As a major pipeline operator with coast-to-coast access, Enbridge is the first choice to transport energy commodities. It generates the bulk of cash flows via volume-based pricing, making Enbridge immune to commodity price fluctuations.

Yes, Enbridge will be impacted if oil prices continue to remain depressed, which will impact production. However, if the crude prices bounce back, Enbridge's cash flow will remain stable.

Enbridge stock has a forward yield of 7.9%. It increased dividend payouts at an annual rate of 11.5% in the last five years. With a payout ratio of below 80% and strong financials, Enbridge is unlikely to cut dividends.

The Foolish takeaway

In case you invest $30,000 in this stock, you will receive $2,370 in annual dividend payments. Retirees can look to invest in similar stocks that have strong fundamentals, high dividend yields, and the potential for capital appreciation when markets rebound.

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