



CPP Pension Users: 2020 Enhancement Means More Money for You

Description

Canada Pension Plan (CPP) users didn't pay much attention to the pension's enhancements until COVID-19 struck. Suddenly, there's interest in finding out the Year's Maximum Pensionable Earnings (YMPE) and Yearly Additional Maximum Pensionable Earnings (YAMPE).

The increase in contribution means the CPP benefits are increasing too. Rather than replacing 25% of the [average lifetime earnings](#), the enhanced CPP will replace 33.33%. Under the enacted Bill C-26, the CPP contributions will increase from 9.9% to a total of 11.9%. The change is gradual over five years.

Contribution rates

In 2020, the employer-employee contribution rate is 5.25% each and 10.5% for the self-employed individual. The rate will increase every year. However, the required contributions or YAMPE will be phased-in over two years.

The increases in 2024 and 2025 are 7% and 14%, respectively. Similarly, the increase is being phased-in over 45 years. Thus, no one will receive the 50% higher maximum retirement pension until 2065.

Pension amounts

All increases are cumulative such that CPP users that have earned at the YAMPE level for seven years (2019 through 2025), the maximum retirement pension in 2026 would be \$1,207.83. The maximum will increase by \$14.98 for every year of additional earnings at the YAMPE level for 2026 and beyond (maximum of 40 years of earnings).

If you apply the formula, the maximum CPP retirement pension estimate in 2065 is \$1,753.78 monthly, or roughly \$21,045 annually. Retirement experts say the CPP offers little value if you were to apply for the CPP before 2025.

However, for each year of pensionable earnings past 2024, the changes are significant. Your

maximum CPP retirement pension should be approximately 1.3% more than under the current amount.

Supplement your CPP

Even with the CPP changes, you still need to fill 66.67% of the average lifetime earnings to [live comfortably in retirement](#). Your annual retirement income will not increase materially by adding the Old Age Security (OAS). The financial cushion will still be inadequate.

BCE ([TSX:BCE](#))([NYSE:BCE](#)) is the perfect supplement to your CPP. This blue-chip stock can provide a pension-like income given the nature of the business. The largest telecommunications and media company in Canada designs, builds, and operates network infrastructures in the country. Private and public entities rely on BCE's telecommunications and Internet services nearly 24X7.

In 2020, Bell Canada is extending BCE's footprint in rural Canada. The wholly-owned subsidiary will provide improved broadband services to underserved communities across the region. Faster internet connectivity should help bridge the digital gap with urban locations. Bell's Wireless Home Internet program aims to provide broadband access to 350,000 rural homes.

For prospective investors, BCE is a generous dividend payer with its 6.03% yield. A \$33,500 investment will generate \$2,020.05 in passive income. The payouts should be safe and sustainable considering the industry-leading positions of Bell Wireless, Bell Wireline, and Bell Media.

CPP claims

Most CPP users have the option to claim the pension at 60, 65 or 70. The takeout before 65 reduces the payment, while the delaying until 70 increases the amount. However, don't forget to supplement your CPP with investment income in order to have more financial cushion in retirement.

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Date

2025/08/02

Date Created

2020/10/09

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