Canada Revenue Agency: The CPP 2021 Enhancement Will Increase Your Payout

Description

The Canada Pension Plan (CPP) enhancement in 2021 is welcome news for CPP pension users. On November 3, the Canada Revenue Agency (CRA) disclosed that the maximum pensionable earnings under the CPP will be $61,600 in 2021, up from $58,700 in 2020.

This enhancement means that the CPP contribution rate will now increase from 5.25% to 5.45% starting January 2021. So, your total CPP contribution that includes your employer contribution will rise to 10.9% of your pensionable earnings, up from 10.5%.

The Canada Revenue Agency also confirmed the basic exemption amount for 2021 remains $3,500. So, the maximum employer and employee contribution to CPP for 2021 will be $3,166.45 and the maximum self-employed contribution will be $6,332.9.

Comparatively, maximum contribution figures for 2020 were $2,898 and $5,796 for employed and self-employed Canadians respectively.

The CPP was gradually enhanced as of 2019. So, you will receive higher benefits in retirement for higher contributions. This enhancement will increase post-retirement benefit, the CPP retirement pension, disability pension as well as the survivor’s pension.

CPP enhancement will help you replace 33% of your earnings

Until 2019, the CPP aimed to replace 25% of your average work earnings. This average is based on your work earnings up to a maximum limit every year. The CPP enhancement will now enable you to replace about 33% of your average work earnings while “the maximum limit used to determine your average work earnings will also gradually increase by 14% by 2025.”

For Canadians who make enhanced contributions for 40 years, the CPP enhancement will increase the CPP payout by up to 50%.

How to create another passive income stream?

While the CPP and other retirement plans help Canadians with a monthly recurring payout, it is not enough to lead a comfortable life in retirement. The maximum monthly amount you could receive for 2020 via the CPP is $1,175.83 which indicates an annual payout of $14,109.396.

However, you can create another income stream by investing in quality blue-chip dividend stocks such as **TC Energy** (TSX:TRP)(NYSE:TRP). Despite ongoing weakness and volatility in crude oil prices, Canada's energy infrastructure giant has managed to showcase its resiliency in the last quarter.

In Q3, TC Energy's EBITDA was down 2.1% while its comparable funds generated from operations fell 7.7%. Its cash flow per share also declined by 10%. Despite these headwinds, TC Energy's maintained a healthy dividend payout ratio of 47%, indicating the company's business model can easily withstand the wild swings in energy prices.

During the Q3 earnings call, TC Energy said it will continue to advance its $37 billion backlogs of capital projects. This will allow the company to generate 98% of EBITDA from regulated or long-term contracted assets making it one of the safest dividend stocks on the TSX.

TC Energy stock now has a forward yield of 6.2% given its dividend per share of $3.24. The company expects to increase dividends by 8% to 10% in 2021 and at an annual rate of between 6% and 7% thereafter.

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