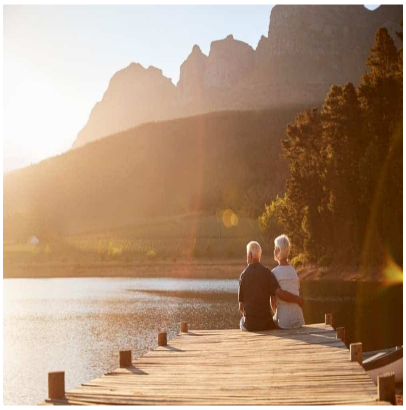

CRA to Retirees: Here’s How Much You’re Paying Into CPP

Description

As of this year, did you know that the Canada Revenue Agency (CRA) gives out only an average of $710.41 per month in CPP payments? That’s just $8,524.92 a year for Canadians to try and live on once they retire if they have absolutely no savings.

With most retirees needing about $2,500 per month just to survive, that is certainly not enough to live on. If you have an employee pension, things are different. But even then, life is expensive, and life expectancy is growing. Did you also know that while the average age for Canadians to live to is 81, that includes those who died early for unexpected causes? So really, the average age could be 90 for deaths related to growing older.

That means you suddenly need about 30 years of cash to cover your costs with your CPP payments. Oh, and CPP payments don’t actually last forever. You pay into them, and once they’re gone, they’re gone. So, you need to take steps to build a personal pension that can supplement your CPP payments.

Luckily, there are tons of ways to do this with programs like the Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA) providing solutions. So, below you’ll see some ways to ease your tax burden, and collect as much CPP and personal pension as you can.

Employee and self-employment contributions

On average, employees contribution about 4.95% of earned income to CPP to a maximum of $57,500 per year. As of 2020, that maximum is set to rise to $58,700. So, if you earned that $57,500 limit last year, you would be paying $2,673 into CPP per year. That’s $222 per month, which is already almost a third of what your average CPP payout would be. But that’s all added up over years of contribution to your CPP before retiring.

If you're self-employed, then suddenly those payments double. That's because you're both employer and employee. Employers match the CPP contribution. As a self-employed person, you have to pay both the employee contribution as well as the employer contribution. That's now $444 per month in payments before retirement!

The solution

CPP take such a huge bite out of what you earn each year, and it may not even be collected by you if you don't live long enough to enjoy those contributions. It also could be that the CPP program ends in the future, and it would be entirely unclear what would happen to your cash and how you would rely on that pension.

For these reasons alone, it's time to also consider a tax-free way of bringing in a personal pension. This comes from opening a RRSP and TFSA. By maxing out on your contributions each year, you get a few things. From the RRSP, you get a tax deduction from what you contribute. This can save you thousands in tax savings each year! Especially if you're on the border between two tax brackets.

The TFSA can then be used to keep your savings growing tax free, with none of your returns reported to the CRA. As long as you abide by the rules, you can make huge returns that can be used in retirement. In fact, you could even take out what you must each year during retirement, and put it in your TFSA. That way you are still making returns, even if you don't need that RRSP money you must start taking out.

Where to invest

Consider stocks that are set to soar over the next few decades for those nearing retirement. A great option to consider is **Cenovus Energy** (TSX:CVE)(NYSE:CVE). Cenovus took on debt by acquiring **Husky Energy**, but when the market rebounds the company will have brought down costs and have a huge arsenal of gas to bring in revenue. The company also has new products that will allow refining at the source. So, wait a few years and Cenovus could be the next powerhouse; it's already the third-largest energy company in Canada.

Be patient and wait for this stock and others to grow. Educate yourself, and you could be bringing in cash you never dreamed of in your retirement.

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