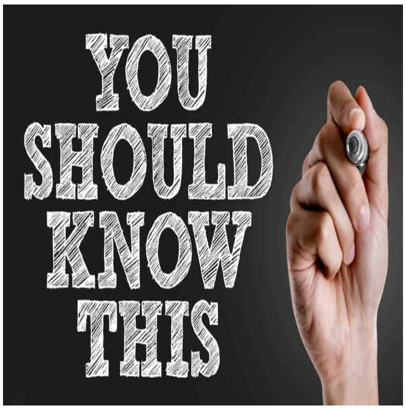

Canada Revenue Agency: 1 Big Change for the RRSP in 2021

Description

Canadian retirement plans have been thrown into flux due to the COVID-19 pandemic. This is a troubling development, as retirement planning for individual Canadians was already in dire need of improvement before this crisis began. In September 2019, a BDO Canada survey of 2,047 Canadians found that 53% had little disposable income while wrestling with overwhelming debt. Moreover, 38% of gen-Xers had no retirement savings. Nearly half of this cohort said they can't afford to save for post-work life. Fortunately, the Canada Revenue Agency is working to tweak the Registered Retirement Savings Plan (RRSP) in positive ways.

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Back in October 2019, I'd warned Canadians against aiming to work forever rather than constructing a retirement plan. While younger generations may need to work longer than their elders, it is still important for them to actively plan and prepare for retirement. If not, you may seriously jeopardize your quality of life when you reach old age.

Today, I want to look at one big change for the RRSP that is coming in 2021. Beyond that, I want to go over two stocks that Canadians should look to add to their RRSP before this historic year comes to an end.

Canada Revenue Agency has announced changes to the RRSP

In the beginning of November, the Canada Revenue Agency announced changes to the Canada Pension Plan (CPP) and to the RRSP. The Liberals managed to hold onto power in 2015, albeit with a minority government, on the back of promises to bolster programs and accounts administered by the Canada Revenue Agency.

To that point, it announced that the RRSP dollar limit, which is also indexed, will be $27,830 in 2021. This is up from $27,230 in 2020. This gives Canadians saving for retirement some more room to maneuver. Investors should use that extra RRSP room to add top dividend stocks.

Don’t forget to take full advantage as you prepare for retirement

RRSP investors should seek out dividend stocks that offer good value, strong income, and an excellent dividend history. These two stocks qualify for all three.

Genworth MI Canada (TSX:MIC) is the largest private residential mortgage insurer in Canada. Its shares have dropped 10% in 2020 as of close on November 12. The stock is down 2.9% year over year. Shares have surged 26% month over month. It released its third-quarter 2020 results on November 2.

Net income rose 12% year over year to $124 million and fully diluted operating earnings per share increased 3% to $1.38. It achieved this on the back of 36% growth in total premiums written and a 37% jump in transactional premiums written. Canada housing has continued to see huge sales numbers, even in the face of the COVID-19 pandemic.

Shares of Genworth last had an attractive price-to-earnings (P/E) ratio of 9.2 and a price-to-book (P/B) value of one. Moreover, it offers a quarterly dividend of $0.54 per share, representing a 4.8% yield. This is a great dividend stock for an RRSP today and for the long haul.

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Manulife Financial (TSX:MFC)(NYSE:MFC) is another dividend stock I’ve been bullish on since it slipped during the March market crash. This company is one of the largest insurers and financial services providers in Canada. Its stock has dropped 18% in 2020. However, shares have jumped 9.8% week over week.

In Q3 2020, Manulife’s profit jumped to $2.07 billion, as it earned $1.04 per diluted share. This was up from $723 million or $0.35 per share in the prior year. However, core earnings decreased 4.8% to $1.45 billion or $0.73 per share. The company continues to battle the COVID-19 pandemic in its global business. It still boasts a fantastic balance sheet that has allowed it to weather volatility.

RRSP investors should salivate at Manulife’s very favourable P/E ratio of 7.8 and P/B value of 0.8. Better yet, it offers a quarterly dividend of $0.28 per share. That represents a strong 5.4% yield.

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