



## A CPP Pension Increase in 2021 Could Mean a Smaller Paycheck for You

### Description

Canada Pension Plan (CPP) users should note that the plan's maximum pensionable earnings will increase again in 2021. Based on the CPP legislated formula, which factors growth in average weekly wages and salary, the new amount is \$61,600.

Canadians who have been contributing to the CPP have been making [higher contributions since January 2019](#). The employer and employee contribution rate rose to 5.10% in 2019 and then to 5.25% in 2020. The self-employed contribution rate is double. By 2021, the rate will climb to 5.25%. If you're a CPP user, your paycheck next year will be smaller.

### Run-up to retirement

CPP is a contributory, earnings-related social insurance program in Canada. It's one of two foundations of the country's retirement system. The other is the Old Age Security (OAS). The CPP enhancements took effect on January 2019 following the 2016 agreement of provincial ministers.

Ideally, contributing or paying in more to the pension in the run-up to retirement would boost the payments when you retire. The provincial ministers hope that with the CPP enhancements, Canadians could save more retirement.

### Win-win situation

Individual employees have contributed \$2,784.90 (\$5,497.80 with employers' contribution) in 2019 and should end 2020 with a total of \$2,898. In 2021, your annual paycheck will be \$3,166.45 less due to the higher contribution rate. Some will rue the increased salary deductions. But before you complain, consider the upsides.

The design of the CPP enhancements is noble. It will add a safety net and address your worries about the lack of guaranteed income streams. More importantly, the CPP will replace almost 33% of the average work earnings instead of the previous 25%. Thus, look at it as a win-win situation.

You have the option to delay until age 70. The incentive for delaying is a 42% permanent increase in pension payments. However, not everyone gets to receive the maximum monthly CPP payment. If you receive an average of \$710.41 monthly, it won't be enough in retirement.

## Pension supplement

While the CPP assure retirees a core amount of guaranteed income, there remains [a 67% shortfall](#). Save as much to use the money to create another income source and fill the gap. **AltaGas** ([TSX:ALA](#)) is a defensive asset that pays monthly dividends. It's a good supplement to your CPP monthly pension.

AltaGas is a \$5.02 billion diversified energy infrastructure company. This utility stock pays a respectable 5.35% dividend. You would need at least \$159,400 worth of shares to match the average CPP monthly pension. However, you can start small and gradually increase your stake as you move along. Your capital will compound if you keep reinvesting the dividends.

The company has transformed from a pure midstream player in 1994 to one that boasts of the right combination of utility, midstream, and power-generating assets today. AltaGas derives 42% of EBITDA from the steady utility business. This regulated utility firm has highly contracted assets, strong market fundamentals, and long-term, stable cash flow.

## Higher reward

Your take-home pay will decrease some more in 2021 with the continuing CPP enhancements. However, the sacrifice today is in exchange for a higher pension in the future.

### CATEGORY

1. Dividend Stocks
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