CPP $536.90 Increase in 2021: Your Paycheck Could Get Smaller Next Year

Description

Employers and employees in Canada contribute to the Canada Pension Plan (CPP) yearly. The nationally administered pension program was designed to provide retirement or disability income to Canadians. In 2019, the CPP enhancements took effect, and the contributions of participants will increase from 2019 to 2023.

Next year, individual employees will get a smaller paycheck again as an offshoot of the increasing contribution rates since January 29, 2019. Since the new 2020 contribution employer and employee contribution rate is 5.25%, each employee will contribute $268.45 more, or $3,166.45, in 2021.

If you were to include the employers' matching contribution, the increase is $536.90, or $6,332.90 total, for the year. CPP contributions relate directly to annual earnings. The basic exemption amount is constant, while the maximum contributory earnings and maximum pensionable annual earnings change or adjust yearly.

CPP expansion objective

The federal government announced the CPP's expansion in June 2016, but its implementation began in 2019. Framers of the enhancements had one objective in mind: to prepare Canadians financially for retirement. Notable mentions are individuals who don't have access to a workplace pension plan.

The CPP enhancements will have a significant impact on retirement planning for sure. For individual employees, the effect is far-reaching when the changes are complete. Higher contribution rates today mean higher benefits in the future.

The short-term and long-term impact

Many CPP users will rant against the increasing contributions, because take-home pay will decrease for the next several years. Contribution increases will also hurt self-employed individuals who are paying double the employee's contribution. The feelings are understandable, although the pinch will be for the short term.

However, the positive effect of the ongoing enhancements will come in the long term. The changes will result in a significant increase in CPP benefits. Ultimately, your CPP benefits should replace one-third — not one-fourth anymore — of the average pre-retirement income.

The need to fill the CPP's shortfall

Even with the enhancements, the CPP may not be enough to keep up with or cover a retiree's financial needs. There's still an income gap to fill if you want to live comfortably in retirement.

A dividend aristocrat to consider if you're building a nest egg is pipeline giant **Enbridge** (TSX:ENB)(NYSE:ENB). This energy stock pays an 8.47% dividend. With its humungous yield, any amount you invest will double in eight-and-a-half years. If the goal is $1,000,000 in 20 years, invest $196,710 today.

Enbridge is the ultimate cash cow for Canadian retirees. It has a market capitalization of $78.78 billion, making it North America's largest infrastructure company. This dividend king has been paying dividends for 69 consecutive years and has raised dividends, without fail, over the last 25 years.

The latest exciting news coming from Enbridge was the establishment of an interim target for reducing greenhouse-gas emissions. It targets a 35% reduction of intensity from operations by 2030. Investments in renewable power (solar and wind) are growing. At present, Enbridge can deliver more than 2,000 megawatts of net-zero power to customers.

Fortify your retirement fund

Retirement experts say the CPP is not a retirement plan. Canadians are still responsible for saving money to have ample financial cushion. You'll fortify your retirement fund from starting the process sooner.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media

6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/27
Date Created
2020/11/20
Author
cliew