



CRA Update 2021: 1 CPP Pension Change to Be Aware of

Description

The CPP pension is one of the Canadian retirees' best friends. And that's a relationship they spend their whole working life cultivating. Unlike OAS, which is a government-funded pension, people fund their CPP pension throughout their working life. If you are above the age of 18, working, not a resident of Quebec, and earn more than \$3,500 a year, you are obligated to contribute to the CPP.

While the actual age when CPP comes into effect is 65, you can start taking it when you turn 60 or defer it till you are 70. The latter is usually the smart thing to do, as it allows you to maximize the monthly amount you can receive. The amount you receive also depends upon your average annual earnings and years of contributions.

One CPP change

The CRA has announced the year's maximum pensionable earnings (YMPE) or earnings ceiling amount for 2021. It's quite a mouthful, but the concept is simple. That's the threshold of your earnings that's taken into account when calculating how much in CPP contributions you can make. The new ceiling is set at \$61,600, which is about \$2,900 more than last year's ceiling (\$58,700).

The change in "height" of [the ceiling](#) is calculated through a CPP legislated formula that takes into account the growth of weekly wages and salaries in Canada. The ceiling alone isn't raised. The contribution rates are also up by 0.2%. It's now 5.45% compared to 5.25% last year. Since self-employed individuals don't get matching contributions, their contribution rate is 10.9% to mimic the default contribution rate.

The other retirement fund

The other retirement fund that every Canadian should contribute to (but it's not compulsory) is the RRSP. Contributions are tax-deductible, and the more you can put away now, the better your financial standing in your retirement will be. One of the stocks you might want to consider buying your RRSP is **Interrent REIT** ([TSX:IIP.UN](#)). [The stock](#) is currently undervalued and trading at a discount.

Interrent has been growing its revenues quite steadily for the past five years, but its stock has a solid growth history stretching back much further. It's currently offering a five-year CAGR of about 19.26%. If it keeps growing at this rate, you can convert a one-time \$10,000 investment in the company into a \$338,000 nest egg in two decades.

As of 2019, the company had over 10,000 suites and a total of 84 properties. The occupancy rate of 95.6% rate is not ideal, but it generates more than enough rental income to cover this aristocrat's dividends comfortably. The payout ratio is very safe at 10.8%.

Foolish takeaway

One reason why retirees are typically advised to defer receiving their CPP pension until they are 70 and maximize the monthly amount is that this payment will stay with them, even when their savings are depleted. However, if you have stocked your RRSP and TFSA with the right assets, you may not run out of your retirement reserves quite so easily.

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