CPP Payments Are Rising in 2021:10.9% of Your Paycheck Could Disappear

Description

The changes to the Canada Pension Plan (CPP) came to effect in January 2019, where the contribution rate increased to 5.10% versus the previous year's 4.95%. However, the enhancement isn't one time but a gradual increase up to 2023 and later.

Beginning in 2021, and if you're self-employed, you could lose 10.9% of your regular income because of the third scheduled yearly increase in contribution rate. Employed individuals will contribute 50% less, or 5.45%, as employers pay the same contribution rate as their employees.

The trade-off for a smaller paycheck

The enhancements couldn't come at a better time. Since the country is in a recession, some believe the premium hike in 2021 will hurt. However, CPP users must realize that a sacrifice today will bring something good in the future. When you retire, your CPP will replace one-third of the average work earnings, not one-quarter anymore.

Self-employed contribution rates will further increase after 2021. The rate increases are 11.4% and 11.9% in 2022 and 2023. As mentioned earlier, the employee and employer contribution rate is always 50%. Still, no one wins from the newly enhanced pension except the CPP users themselves, especially the younger generations.

Ensure retirement readiness

While it may be too late for retiring baby boomers, they have the option to start CPP at 70 for higher monthly payments. In the delay option, the benefit would increase by 42% or 8.4% every year. For boomers with health concerns or urgent financial needs, you can take the CPP early at 60, but the pension reduces permanently by 36%.

The CPP enhancement is only an initiative to help Canadians have a good start in the run-up to retirement. Your Old Age Security (OAS) will be available at age 65, but it doesn't mean you'd be

100% ready to take the retirement exit. A would-be retiree still needs a third income source to live comfortably in retirement.

If you have savings, invest in the **Royal Bank of Canada** (TSX:RY)(NYSE:RY). You can bank on Canada's largest financial institution to deliver recurring income. It's no exaggeration to say that dividends from RBC are also for life. This blue-chip stock has been paying dividends since 1870 or 15 decades to-date.

At $105.15 per share, the dividend yield is 4.11%. Assuming you purchase $150,000 worth of RBC shares, the quarterly dividend is $1,541.25. In a 20-year investment horizon, you'll have a nest egg of $335,691.38. Since the turn of the century, the dividend from this banking giant has been growing steadily. The Royal Bank of Canada will not disappoint retirees intent on living their retirement dreams. Buy the stock now and hold it forever.

CPP pension fund level 2020

According to the Canada Pension Plan Investment Board (CPPIB), the CPP pension fund, as of September 30, 2020, stands at $456.7 billion. In the second quarter of the fiscal year 2021 (quarter ended June 30, 2020), the fund's assets increased by $22.3 billion. About $700 million came from net contributions.

Furthermore, the pension fund's portfolio annualized net return for the five and ten years ended September 30, 2020, was 9.6% and 10.5%. CPPIB President and CEO Mark Machin said all investment departments generated positive returns in the most recent quarter. However, the board remains cautious, given the effects of COVID-19 on the markets.

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