Canada Pension Plan: Why You Should Budget Ahead of 2023

Description

The Justin Trudeau-led Liberals managed to win re-election in 2019. They vowed to bolster some key domestic programs, as financial pressure has mounted for the broader population. One of these promises was the Canada Pension Plan enhancement. This meant that Canadians would eventually receive improved benefits while having to shoulder the burden of increased contributions. The five-year plan would boost employer and employee contribution rates by 1%. For some Canadians, this could mean they will pay over $1,000 more annually.

Canada Pension Plan: What changes are coming in 2021?

For 2021, the Canada Pension Plan contribution rate will move up to 5.45%. That puts Canadians right in the middle of this five-year push. At the new rate, the maximum contribution will be $3,166.45 each for employer and employee in 2021. Self-employed individuals must make both contributions, pushing the total to $6,332.90.

Once this five-year phase-in period is completed, the net amount taken from your paycheque will increase by several hundred dollars. In these challenging economic times, that is not an insignificant amount. Because of this, Canadians need to actively prepare for the change.

Why Canadians need to budget for these changes

By January 2023, employee and employer Canada Pension Plan contribution rates will sit at 5.95%. For self-employed Canadians, this rate will be double — 11.9% compared to 9.9% at the end of 2018. Of course, this also means that benefits will see a boost. This is cause for celebration, but Canadians will want to prepare for a hit to their paycheques all the same.

Canadians should remember that this is just the first phase in a transformation for the Canada Pension Plan. The country is face to face with an unprecedented demographic shift. By 2030, Canadian seniors will make up nearly 25% of the population.

While these new changes are admirable, young and old Canadians alike should look to broaden their options beyond the Canada Pension Plan. By investing in your future, you can also take the bite out of what the enhancements could do to your paycheque. Fortunately, the federal government launched an account back in 2009 that is perfectly suited to put more money in your pocket.

Canada Pension Plan: Drafting your own enhancement with a TFSA

The Tax-Free Savings Account (TFSA) is a wonderful growth vehicle, but it can also be a great source of income. In January 2021, the cumulative TFSA contribution room will rise to $75,500. That is a lot of room for investors to work with. You can take the bite out of the Canada Pension Plan enhancement by stashing a monthly dividend stock in your TFSA.

Shaw Communications (TSX:SJR.B) is a telecommunications stock that investors of all ages should consider. Its shares have climbed 4% month over month as of close on December 8. The stock is still down 7.4% in 2020.

In its Q4 2020 and full-year results, Shaw delivered adjusted EBITDA growth of 3.7% for the fiscal year. The company posted wireless net additions of 60,000 in the fourth quarter, despite a highly competitive environment. Shaw expects to carry this positive momentum into 2021.

Shares of Shaw last had a solid price-to-book value of 1.9. Meanwhile, it offers a monthly dividend of $0.099 per share. That represents a strong 5.1% yield.

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