CPP Increase Might Be Painful — But Could Help a Lot of People

Description

A comfortable retirement is something everyone aspires to achieve. Many people wait for their retirement eagerly so they can have the time to do all the things they want. Others might dread retirement because they are not sure what they will do with their time. Regardless of your view on retirement, achieving financial security is a significant factor in determining how comfortable your golden years can be.

Canadians have several ways to prepare their retirement funds to achieve financial security. One of the mandatory retirement funds is the Canada Pension Plan (CPP). Designed by the government to partially fulfill your retirement income requirements, the fund can provide you consistent income that will not run out.

Knowing that CPP doesn't end under any circumstances is comforting. However, you need to contribute to your CPP to ensure that you get the maximum possible CPP income by the time you retire. There has been a development on the CPP premiums front that not everybody is happy about.

Increasing CPP premiums

If 2020 was just another year with nothing going wrong, an increase in how much you need to contribute toward CPP premiums might not seem too big a deal. However, this year has been awful for everyone amid the pandemic. A one-two punch of CPP premium increases will greet employers and employees in 2021, and it is no surprise that people are not happy about it.

According to the update, the CPP contribution rate will increase by 5.45% from 5.25% in 2020 for both employers and employees. Additionally, the amount of income that the increase applies to will be $61,600 from the current $58,700. It means that you will pay a higher contribution rate on an additional $2,900 in income during 2021.

While many aren’t happy about the unusually high increase, it could prove to be beneficial for Canadians in the long run. If the government takes back its plan to increase the CPP premiums, it can provide short-term financial relief. However, it can have a massive impact on your retirement income.

It’s more important to look at the bigger picture. The CPP premiums might seem problematic right now, but they can help you secure significant retirement income.

Creating a second retirement fund

A long-term horizon with how you use your money right now can provide you with substantial benefits by the time you retire. While the CPP will provide you with consistent retirement income, it is designed to take care of a portion of your retirement income. It would be best if you created more revenue streams for a comfortable retirement income, and that is where income-generating assets like **Fortis Inc.** (TSX:FTS)(NYSE:FTS) come in.

Buying and holding shares of reliable dividend stocks in your Tax-Free Savings Account (TFSA) can help you create a massive retirement nest egg. With enough savings in a TFSA, you can enjoy tax-free retirement income that can help you retire a wealthy investor. A stock like Fortis makes an outstanding investment to consider for this purpose.

Fortis is an outstanding long-term buy for several reasons. It is a utility operator providing an essential service to its customers. The nature of its service allows Fortis to earn revenue and generate substantial cash flows regardless of the economic circumstances. The result is slow but steady growth through capital gains.

Additionally, the company generates enough cash flow to finance its growing dividends. Fortis is a Canadian Dividend Aristocrat with a 47-year dividend growth streak. The company expects to grow its dividends by at least 6% by 2025. When many businesses are slashing expenses, Fortis announced its plans for a five-year $800 million capital investment plan.

Buying and holding its shares in your TFSA can help you create a second retirement fund that can grow until you retire. Additionally, you can earn passive income through its dividend payouts to boost your retirement income through a better CPP.

Foolish takeaway

The increasing CPP premiums might not seem like good news right now. However, it can have a significant long-term payoff. Investing in a portfolio of dividend stocks and storing it in your TFSA can further increase your retirement income. I think Fortis is a staple investment for the dividend income TFSA portfolio.

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Date
2025/07/06
Date Created
2020/12/14
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