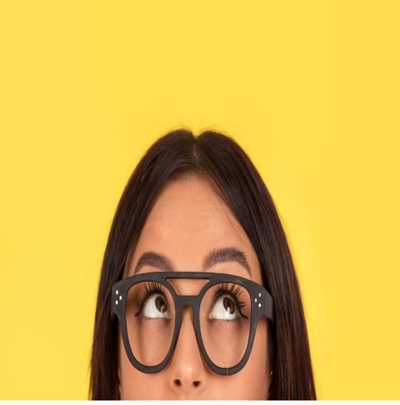

CPP Pension Users: How to Increase Your CPP Payments by 42%

Description

The Canada Pension Plan (CPP) is a vital component of your retirement income. In 2020, the maximum payments for Canadian seniors starting the CPP at the age of 65 was just over $14,000 on an annual basis.

Your CPP payouts in retirement depend on various factors including the amount you have contributed to the pension plan as well as the duration of these contributions. However, there is a way to increase these payouts by as much as 42% if you delay taking your CPP until the age of 70.

For every month you delay the CPP, you will receive an additional 0.7%. So, if you delay the pension plan by three years, your CPP will increase by 25.2%.

It is not advisable to only depend on your CPP payments in retirement, as it is not enough to lead a comfortable life in retirement. This means you need to ensure to develop multiple income streams that will help you delay your CPP payouts.

One way to create an additional tax-free income stream is by holding blue-chip dividend-paying stocks in your TFSA (Tax-Free Savings Account).

Royal Bank of Canada stock is a top TFSA pick that can supplement your TFSA

Royal Bank of Canada (TSX:RY)(NYSE:RY) is the second-largest company on the TSX in terms of market cap. It has been a solid wealth creator for investors in the last two decades.

For example, a $10,000 investment in RY stock at the start of 2000 would have ballooned to $173,387 today after accounting for dividend reinvestments. Comparatively, a similar investment in the S&P 500 would have been worth just $36,274 today.

RY stock is trading at $105, which is just 4.5% below its 52-week high. Its sports a healthy forward yield of 4.12%, which means a $50,000 investment in the stock will help you derive over $2,000 in annual dividend payouts.

The company released its fiscal fourth quarter of 2020 results and reported a year-over-year earnings decline of 11%, while return on equity fell 16.8%.

One of the key revenue and earnings drivers for RY in Q4 was its capital markets division. Net income in capital markets rose 44% due to the corporate and investment banking segments as well as lower compensation. Total net income was up 1.4% on a sequential basis.

Royal Bank of Canada has been a top investment for shareholders. Despite its huge size, the stock has created value for shareholders by dividend growth as well as by capital appreciation.

In the last 10 years, RY stock has generated returns at an annual rate of 11.5%. While historical returns don't matter much, there is no reason why Royal Bank of Canada will not be able to sustain this growth rate or even deliver higher returns.

The Foolish takeaway

RY's yield of 4.12% is enough to start a predictable stream of passive income. It has recently reclaimed its start-of-the-year valuation and continues to remain attractive.

Royal Bank of Canada stock is trading at a forward price-to-earnings multiple of 11, and analysts expect its EPS to grow by 9.4% in 2021 and 8.8% in 2022. We can see that the stock is still cheap, especially after accounting for its dividend yield.

RY stock is just an example of a company that has helped investors grow long-term wealth. You can instead identify similar blue-chip companies on the TSX and create a portfolio of dividend-paying companies for your TFSA.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

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