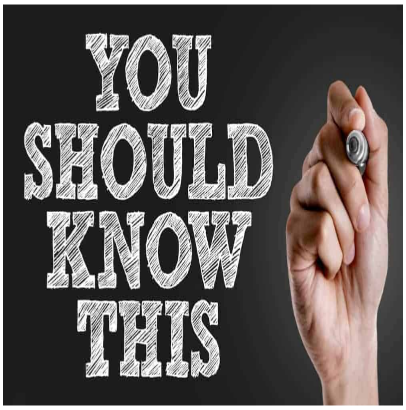

Canada Pension Plan 2021 Update: Big Changes Coming

Description

It's a government's responsibility to take care of a country's citizens. That includes infrastructure, employment opportunities, healthcare, and taking care of its retirees. People who have been productive members of society deserve to be taken care of when they are no longer capable of working. But the government can't just fund the whole retiree population out of its own pocket, and that's why programs like the CPP are created.

The CPP is a pension program funded by the working population (and their employers) and is a form of mandatory retirement savings. You fund the plan throughout your working life, and when you retire, you receive a CPP pension and benefits based on how much and how long you contributed to the program. The maximum annual pensionable earnings change almost every year, and you might expect some big changes for 2021.

Big CPP 2021 changes

The maximum annual pensionable earnings is the ceiling at which your CPP contribution stops. It's the amount beyond which you can't contribute more money to your CPP plan, no matter how much you are earning. It has been changing every year for the past two decades, but for 2021, the hike was significantly higher than it was in previous years.

Unlike the last few years, where the ceiling wasn't raised more than 3%, this year, it was raised by about 4.9%. The contribution rate had been static from 2003 to 2018, but it has also been increasing for the last three years. And unlike the previous 0.15% increments, the contribution rate has been increased by 0.2% for 2021.

Even if these changes and the contribution rate increases are only translating into a slightly lighter paycheque for you right now, you might appreciate it when you retire. Even now, these changes benefit the current retirees, and you can find solace in the notion that your 0.2% sacrifice is helping people.

The other retirement fund

The RRSP is another way the government has “helped” people prepare for their retirement. This tax-deferred account lets you grow your investments tax-free until you are retired (and in a lower tax bracket) while enjoying a sizeable tax deduction. A modest growth stock and a generous Aristocrat like **National Bank of Canada** (TSX:NA) can be instrumental in building your RRSP-based retirement fund.

The bank currently offers a decent yield of 3.9%. It’s one of the best growth stocks in the banking sector and has a 10-year CAGR of 12%. If the bank can maintain this growth rate, just $10,000 invested in it now can grow into about $300,000 in the next three decades. This is a realistic growth rate to maintain, especially if we consider how stable the Canadian banking sector is.

Foolish takeaway

With some decently sized nest eggs in your RRSP and TFSA (which can help you control your taxable income amount, and a sizeable CPP and OAS payout, you can enjoy a relatively comfortable retirement. Small financial sacrifices now (savings, higher CPP contributions) can translate into a well-funded retirement, and you can truly enjoy your golden years.

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