



## CRA 2021 Update: CPP Pension Is Rising!

### Description

Canada is a fantastic place to live as a senior citizen. The government has made remarkable efforts to create pension plans to provide its oldest citizens a more comfortable retired life. The Canada Pension Plan (CPP) is one of the best friends a retiree can have in this country.

Canadians spend their whole lives cultivating the CPP, and it is not a government-funded pension like the Old Age Security (OAS) program. You fund the CPP throughout your working life. If you're a Canadian 18 years or older, not a resident of Quebec, and earn more than \$3,500 a year, you are legally obligated to contribute to the CPP.

The CPP comes into effect when you turn 65. However, you can begin collecting it as early as 60 or defer it until 70. Many would-be retirees debate whether it's better to [start CPP at 60 or 70](#) because it affects the amount you receive.

The CPP amount you receive also depends on how much you contribute to the plan, and you can expect a positive development in CPP contributions.

## The CPP will increase from 2021

The Canada Revenue Agency (CRA) announced that the Year's Maximum Pensionable Earnings (YMPE) or earnings ceiling next year will change. The YMPE is the threshold of your income that the CRA considers when it calculates how much you can contribute to your CPP. The new threshold is set at \$61,600. It is \$2,900 higher than last year's \$58,700 ceiling.

The CRA has also increased the amount employers and employees need to contribute to the plan, based on this update. The contribution rates have increased by 0.2%. It means employers and employees each have to contribute 5.45% of the income to the CPP. Self-employed individuals don't get matching contributions from any employer. It means they need to contribute 10.9% to match the contribution rate.

## Creating your own pension

While the greater CPP contributions might not seem ideal right now, they will account for higher retirement income through the pension. Despite the increased CPP income you can receive, the plan is designed to partially cover your retirement income. It would be ideal for creating a secondary retirement income portfolio in your Tax-Free Savings Account (TFSA) to supplement your income.

Investing in a portfolio of income-generating assets like **InterRent REIT** ([TSX:IIP.UN](https://www.tsx.com/stocks/interrent-reit)) and storing them in your TFSA for the long run is an excellent way to achieve that goal. The investments can grow your account balance through reliable dividend payouts over the years. You can reinvest the dividends to unlock the power of compounding to substantially grow your retirement nest egg.

Additionally, any withdrawals from a TFSA are tax-free. You can rely on the dividend income from your TFSA and use the CPP and OAS as additional income. Using a TFSA for this purpose can also help you avoid the [15% OAS clawback](#).

InterRent could be an ideal asset to begin building such a TFSA portfolio. It is a high-quality Canadian growth stock that has had a prolific performance over the last decade. Given its returns, it might not look like a real estate stock. The company is exceptional when it comes to acquiring older buildings, renovating them, and increasing the value for unitholders.

The Real Estate Investment Trust (REIT) provided its shareholders with over 1,180% in returns in a decade. Its returns went as high as 1,600% before the pandemic struck. While the onset of COVID-19 took a hit on the company, it has started regaining momentum. Its excellent approach to business is allowing the company to begin climbing again.

Its continuous cash flows allow InterRent to continue paying its shareholders reliable dividends.

## Foolish takeaway

Preparing a tax-free revenue stream for your retirement can help you supplement your increased CPP payments. A dividend-income portfolio in your TFSA is ideal for this purpose, and InterRent can be an excellent addition to such a portfolio.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:IIP.UN (InterRent Real Estate Investment Trust)

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### **Date**

2025/07/02

### **Date Created**

2020/12/21

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