Canada Pension Plan: Your CPP Payments Might Increase in 2021!

**Description**

Canadians are well heeled to navigate the COVID-induced recession. Government transfers such as Employment Insurance (EI) and Canada Revenue Benefit (CRB) will be available until September 25, 2021. Meanwhile, Canada Pension Plan (CPP) users will have to sacrifice a little beginning in January 2021.



CPP payments are increasing slightly due to higher contribution rates, a mandate by the ongoing pension enhancements. The employee and employer contribution rates will rise from 5.25% to 5.45%, while the self-employed contribution rate will increase from 10.5% to 10.9%.

## Maximum pensionable earnings

As a result of the announced increase, the CPP contribution limit will likewise increase. Instead of $58,700, the maximum pensionable earnings for 2021 will be $61,600. Contributors who earn more than the new ceiling, or $61,600, in 2021 aren't required or permitted to make additional CPP contributions.

The Canada Revenue Agency (CRA) follows a legislated formula when calculating the new ceiling. Those earning $3,500 (basic exemption amount) or below don't have to contribute. For the rest, it means a smaller paycheck in 2021.

## Absolute amounts

The maximum employer and employee contribution to the CPP for 2021 will be $3,166.45 each, while the amount is double, or $6,322.90, for a self-employed individual. Remember, the CPP enhancements next year aren't the last. The full rollout is seven years, and it began in 2019.

## Who benefits the most?

The CPP enhancements from 2019 to 2025 will result in more financial support for Canadians after they retire. Pension contributions will gradually increase for all employees and employers during the inclusive years. However, the impact or effect of the enhancements depends on which generation a user belongs to.

Canadians 30 years old or below will benefit the most, as the enhancements slowly make their way through the CPP's system. Baby boomers and generation Xers that follow them stand to gain less than the younger generations, like the millennials or generation Z.

Also, consider higher contributions as forced savings. Hassan Yussuff, president of the Canadian Labour Congress, want users to give the new enhancements time to deliver the benefits. When you retire, the CPP guarantees you'll get something out of the system.

## A must for CPP users

Whether you belong to the older or younger generation, it's a must to supplement your CPP with investment income. The pension will partially, not entirely, cover your financial needs in retirement. Thus, it's your lookout to fill the income gap. Among well-loved income stocks is **National Bank of Canada** (TSX:NA).



The $24.12 billion financial institution is not one of the Big Five, but it packs a mean dividend-growth streak. National Bank belongs to the dividend all-star list, because it has raised its dividends for 10 consecutive years. Currently, this bank stock pays a respectable 3.96% dividend.

National Bank holds a leading position in Quebec, although its reach in Canada is slowly increasing. For the fiscal year 2020 (ended October 31, 2020), net income fell to $2.08 billion, or 10.3%, versus fiscal 2019. The income growth should have been 8% if not for the significant loan-loss provisions.

## Far better pension

It would be best for CPP users to re-evaluate their budgets from here on out. The enhancements until 2023, or phase one, involve a series of higher contribution rates. Don't trouble yourself, because the rewards in the future are far better.

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