



CPP Pensioners: Here's How the New Increase Will Affect Your Payouts in 2021

Description

The third enhancement to the Canada Pension Plan (CPP) will take effect in January 2021 such that users are contributing more again. However, a higher payout is the upside for pensioners upon retirement. The Canada Revenue Agency (CRA) hasn't announced the maximum CPP pension payment for next year, although it should be higher than 2020.

CPP payouts

To give users an idea, the maximum CPP payments in 2020 and 2019 were \$1,175.83 and \$1,154.68, respectively. Since most pensioners don't receive the maximum, the average monthly pensions were \$679.16 and \$710.41. Note the increases in the maximum and average payouts were 4.6% and nearly 2%.

The CPP enhancements, which began in January 2019, are for seven years (phase one and two). Once the phase-in is complete, the result is an increase of up to 50% in retirement pension for those making enhanced contributions for 40 years.

The CRA computes the CPP amount based on two main things: your income from age 18 to 65 and if you made the proper contributions in those years. If you want an estimate of your CPP payments, register for the service and obtain a CPP personal access code from Service Canada. Sign into your My Service Canada Account on the CRA's website.

Increasing contribution rates

Phase one of the CPP enhancements is from 2019 to 2023. The employee and employer contribution rate in 2021 is 5.45%, from 5.25% in 2020. For self-employed individuals, the rate is double or 10.9%. In the ensuing two years, the rates are 5.70% and 5.95%. The basic exemption amount is constant at \$3,500 during the period.

The yearly maximum pensionable earnings (YMPE) are increasing too. The amount in \$61,600 in

2021. The YMPE specifies the earnings amount that can be used in calculating CPP contributions each year. If your income exceeds the YMPE, you can't make additional CPP contributions.

CPP is inadequate in retirement

Many retired Canadians rely on the CPP and the Old Age Security (OAS) as income sources. However, it would be [best to have a larger income stream](#) to have more financial cushion in retirement. A perennial choice is **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)).

This bank stock is an ideal wellspring for retirees. Your investment income could be for life. BMO is the first-ever company to pay dividends. Its dividend track record stretches as far back as 1829, or 191 years. The fourth-largest bank in Canada pays a 4.38% dividend and maintains a payout ratio of less than 60%.

A \$150,000 investment will produce an annual income of \$6,570. If your horizon is 25 years, your nest egg could grow as much as \$438,049.89. BMO is a Dividend Aristocrat. It's also one of the highly regarded buy-and-hold stocks on the TSX. Analysts are bullish about BMO because of rising earnings and strong fundamentals.

Higher replacement level

The CPP enhancements aim to grow the replacement level gradually. Instead of 25%, the pension payments will replace one-third of the average work earnings. As such, the impact is positive and significant, especially to the millennials or younger generation. The same goes for the disability, post-retirement, and survivor's pensions. Thus, in exchange for smaller paychecks in the coming years, CPP users can expect higher pension amounts in retirement.

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