



## CPP Pension Users: 2021 Enhancement Will Bump Up Your CPP Payouts

### Description

The first phase of the Canada Pension Plan (CPP) enhancements enters the mid-point in 2021. For CPP pension users, it means higher contributions again. The [trade-off](#) for higher contribution rates, however, is higher CPP payouts.

In 2019, the maximum and average monthly amount a new recipient could receive starting at age 65 is \$1,154.68 and \$679.16. Note that last year, both amounts increased to \$1,175.83 and \$710.41, respectively. The Canada Revenue Agency (CRA) should be announcing the revised amounts soon for 2021 due to the higher contributions.

### What the CPP changes bring

The CPP enhancements will bear fruits in the future for retirees. Proponents of the seven-year enhancement (2019 through 2025) in two phases wanted to make sure Canadians will have enough in retirement. Once the program is complete, the replacement level will increase. Rather than replacing one-fourth of the average lifetime earnings, the enhanced CPP can cover 33.33%.

Had you been following the enhancements, pensions have been increasing slowly, beginning in 2019. CPP increases are cumulative, such that if you earned at the yearly annual maximum pension earnings (YAMPE) level for the seven years, your maximum retirement pension in 2026 would swell to \$1,207.83.

The maximum will increase by \$14.98 for each year of additional earnings at the 2026 YAMPE level and beyond (up to a maximum of 40 years). But over a 45-year phase-in period, no one will receive a maximum retirement pension higher than 50% until 2065.

### Notice to baby boomers

CPP pensioners who are thinking of starting pension payments earlier than 2025 will not benefit from the enhancements. Fortunately, for each year of pensionable earnings beyond 2024, your maximum

CPP retirement pension should be 1.3% more than under the current rules. It's the millennials or younger generation that will benefit the most when they retire.

While the enhanced CPP offers little value to baby boomers as well as generation Xers, there's a way to bump up the pension. If you belong to this group, delaying the payments until 70 has an incentive. Your CPP pension will increase permanently by 42%. Millennials or the younger generations will benefit the most when they retire.

## Remedy to fill the CPP's shortfall

Relying on the CPP pension alone in retirement is [a terrible idea](#). Whether you benefit from the enhancements or not, you need to fill the income gap since the CPP is a partial replacement, not full, of your pre-retirement income. Your best remedy is to save and invest.

**National Bank of Canada** ([TSX:NA](#)), the sixth-largest in Canada and the leading bank in Quebec, is a dependable income stock for CPP pensioners. This \$24.07 billion financial institution pays a decent 3.96% dividend and keeps its payout ratio in check (less than 50%). The bank stock has a fantastic dividend-growth streak, which makes it a dividend all-star.

The dividend all-star has raised its dividends for ten consecutive years. If not for the huge but necessary loan-loss provision in 2020, income growth should have been 8%. Nonetheless, the \$2.08 billion net income for fiscal 2020 was respectable. In terms of stock performance, National Bank's total return in 2020 is 4%.

## Legislation to strengthen the CPP

Bill C-26 is the legislation that pertains to CPP enhancements. It became effective in 2019. CPP pension users must understand that the upgrades would strengthen the pension for future generations.

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