Canada Pension Plan: You May Have to Pay More Next Year to CPP!

### Description

When it comes to growing your money over time, one of the most common analogies you might have heard is planting a seed and watering the slowly growing plant. While this analogy beautifully describes the long-term growth of investments and highlights the importance of consistency, it doesn't take into account the limitation of investment funds.



You do indeed "water the plant" that is your investment, but you only have a limited amount of water, i.e., your income. And the more water you use for growing a plant for tomorrow, the less you'll have left for other necessities.

That's how you should (pragmatically) perceive your RRSP and Tax-Free Savings Account (TFSA) contributions. But there are also compulsory contributions that you have to make in your financial future. These are the CPP contributions, and they've just experienced a hike.

## Higher CPP contributions

CPP is one of the pensions you receive when you retire, and unlike other pensions that are funded primarily by the government, this one is funded by you and your employer. And if you are self-employed, it's funded just by you. CPP contributions are compulsory and are deducted automatically from your paycheque. The employer is also obligated to match those contributions.

The contribution rate for the CPP was 5.25% for the last year. This year, you will have to pay 5.45% of your income (over a year) to the CPP. If you are self-employed, you'll have to pay 10.9% to the plan because you are your own employer and are essentially "matching" your 5.45% contributions.

While these slightly higher CPP contributions might seem like an additional financial burden now, anything that helps grow your retirement income is a boon.

## Your other retirement income

No matter how generous your pensions, they only make up part of your retirement income. The rest comes from your RRSP and TFSA funds. These are the trees you have to water now so you can enjoy their fruits when you retire. But to eat the right fruit, you have to plant the right seed, that is, invest in the right company. One company that you might consider investing in for your retirement is **Algonquin Power and Utilities** (TSX:AQN)(NYSE:AQN).

Unlike other renewable energy companies that saw a rise in their market value after the pandemic crash or since 2019, Algonquin has been growing quite consistently for the past decade. Its 10-year compound annual growth rate (CAGR) is 20.6%, and it has been growing its dividends for the past six years. The yield is also quite decent at 3.88%. Its growth rate and dividends combined with its business model make it a dependable long-term holding.

## Foolish takeaway

Companies like Algonquin that offers an adequate combination of dividends and growth can be a powerful asset for your retirement. If you choose to reinvest the dividends, you can keep growing the number of your shares in the company over time, and when you retire, you can create a passive income stream from the dividends.



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