



CPP Pension Users: 1 Crucial Change in 2021 That Might Affect Your Paycheck

Description

This year is the mid-point of phase one of the Canada Pension Plan (CPP) enhancements. It's a [crucial change](#) for CPP pension users, as it affects paychecks again in 2021. The contribution amounts are higher due to the increase in contribution rates.

CPP users must note that the enhancements are in two phases. The first phase is from 2019 to 2023. Thus, expect higher contribution rates in the next two years. After this year's increase, the employee and employer contribution rates are 5.7% and 5.95%.

Higher pay cut

As a result of the higher \$3,166.45 maximum employee and employer contribution (\$6,332.90 for self-employed), the annual Year's Maximum Pensionable Earnings (YMPE) will also increase. From \$58,700, it will now be \$61,600. You can no longer make additional CPP contributions if your income is above the YMPE.

Phase two will commence in 2024 and phased in after 2025. If your income is below the YMPE, the contribution rate in the two years is 5.95%. However, it's 4% for CPP users earning more than the YMPE. Canadians whose earnings are equal to or below the Year's Basic Exemption (YBE) of \$3,500 need not contribute to the CPP.

Higher CPP payout

The new CPP enhancements took effect in 2019, although the announcement was back in 2016. If you're a pension contributor, the changes will ensure the CPP can continue to pay fund pension benefits to future generations. Once the phase-in is complete, the CPP will replace up to 33.33% of the average pre-retirement income instead of 25%.

In 2021, the maximum CPP monthly payout for a new recipient starting the pension at age 65 is \$1,203.75. However, only few users receive the maximum amount. The average monthly amount is

\$689.17 (as of October 2020). Thus, the annual CPP pension amount at age 65 is \$8,270.04.

If you find the average annual pension too small to live in retirement, consider starting your payments at 70. The [delay option](#) will increase your CPP pension permanently by 42%. Your annual benefit will jump to \$11,743.46. Also, it reduces the income gap you need to fill to live comfortably in retirement.

Exciting income stock

Renewable energy space is one of the exciting sectors in 2021. **Brookfield Renewable Partners** ([TSX:BEP.UN](#))([NYSE:BEP](#)) is one of the top-notch income stocks CPP users can consider to supplement the pension. Investors are optimistic the incoming Biden administration favours renewable energy stocks, because the clean energy revolution will begin.

Momentum is on the side of Brookfield Renewable after two successive years (2019 and 2020) of more than 70% gains. Last year, the utility stock rewarded investors with a 77% total return. Over the long term, management expects to deliver an average annual total return of about 15%.

At \$57.37 per share, this \$15.76 billion company pays a decent 2.56% dividend. However, dividend growth looms on the horizon. Brookfield Renewable's capacity should double in the years ahead due to its development pipeline. It will play a vital role in carbon emission reduction as more countries, including Canada, prioritize the fight against global warming.

CPP isn't enough in retirement

Welcome the enhancements because the replacement level will increase when you retire. However, it's still a must to have other income sources besides the pension. Your lifestyle will change drastically if you don't have sufficient financial resources.

CATEGORY

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