Canada Pension Plan: 1 Massive Change for 2021!

Description

Towards the end of 2020, the Canada Revenue Agency (CRA) trumpets were blaring to remind Canada Pension Plan (CPP) users of a massive change in 2021. Effective January 1, 2021, the CPP contribution limit will increase again. It is the third such increase since the start of the pension's enhancements in 2019.

Due to the mandatory increase, the Year's Maximum Pensionable Earnings (YMPE) for 2021 is now $61,600. In 2019 and 2020, the YMPE was $57,400 and $58,700. The increase in the YMPE is the effect of the gradually increasing contribution rates under the "enhanced CPP."

Higher contribution rates for five years

The rationale for increasing CPP contributions is to ensure Canadians will have more retirement income in the future. Under the enhanced CPP, the overall contribution rate increase from 2019 to 2023 is 1%. However, CPP users will contribute more each year.

Since the employee and employer contribution rate is 5.45%, the annual salary cut per user is $3,166.45. The employer will match an employee's contribution. A self-employed individual will contribute $6,332.90 this year, or $536.90 more than in 2020. Meanwhile, the CRA will keep the Year's Basic Exemption (YBE) constant at $3,500.

Note the CRA adjusts the ceiling of the maximum pensionable earnings every year. If your income exceeds the YMPE, the tax agency won't require or allow you to make additional contributions. Also, changes in CPP ensure that benefits keep up with the cost of living.

Higher payout in 2021

The amount of CPP payments usually depends on your contributions and how long you made them. Most pensioners don't receive the maximum benefit. For 2021, the maximum monthly benefit at age 65 is $1,203.75. However, the average per month only $689.17 for new beneficiaries as of October 2020.

The annual pension of someone at age 65 and starting payment today is $8,270.04. Despite the increasing yearly amounts, the CPP will leave most retirees with a large income gap. You can elect to take your CPP at 70 to gain a 42% permanent increase.

Elite dividend payer

Retirement planning requires a well-constructed strategy. Your CPP (plus Old Age Security) is an integral part and will constitute not more than 50% of pre-retirement income. If you want to maintain your priorities and lifestyle choices throughout retirement, you need more than just the CPP pension.

Save and invest in established dividend payers to secure your financial health. An elite income stock is **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). Canada's second-largest bank pays a 4.19% dividend and boasts of a 164-year dividend track record. A $197,500 position will produce $689.60 in monthly passive income.

If you hold the TD stock for 20 years and keep reinvesting the dividends, the capital will compound to $448,836.18. This $136.93 billion is among the 10-largest banks in the United States. Nearly 70% of the bank's operations are in the wealthiest states, too. Over the last 10 years, TD achieved a 13% CAGR in earnings, making it a dream investment.

Avoid financial dislocation

Financial woes await Canadians who are optimistic about the CPP paying for all financial needs in retirement. Save money, let it grow, and build your nest egg while you have time. It could spell trouble if you don't act and leave everything to chance.

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cliew