



## CPP Pension Users: 2021 Enhancement Will Make Your Payout Bigger

### Description

The ongoing Canada Pension Plan (CPP) enhancements aim to ensure retirement financial security for plan users or contributors. The rollout began in 2019, and the phase-in of the enhanced benefits would be in seven years or 2025. For all employees, employers, and self-employed, pension contributions are gradually increasing.

Based on the CPP rate table, the employee and employer contribution rate for 2021 will increase to 5.45% from 5.25% in 2020. It means, too, that the new self-employed contribution rate will be 11.9% from 10.5%. The [enhancements will reduce paychecks](#) once more, although the payouts would be bigger when you retire.

### Impact on financial well-being

A report by the Canadian Institute of Actuaries and the Society of Actuaries said the CPP enhancements would translate to a 44% increase in benefits by 2070. The authors of the study also noted that 62 cents of every dollar of new CPP benefits earned by a user would make its way into a senior's pocket.

The same report estimated that 9% of CPP users would be overly prepared for retirement, especially middle-income earners with workplace pensions. However, and despite the enhancements, the study projects that nearly 25% of Canadians are still not ready to sustain their living standards in retirement.

Also, retirement experts say the enhancements' impact would be significant if you're 30 years old or less. Retiring [baby boomers](#) can expect their CPPs to replace 25% of the average pre-retirement income. For the younger generation, the replacement level will increase to 33.3% after the enhancements.

### Average CPP payout in 2021

Under the enhanced plan, the contributions until 2023 will be applied up to a maximum annual income

ceiling. The ceiling also rises most years using an established formula. For 2021, the Year's Maximum Pensionable Earnings (YMPE) will be \$61,600. You can't make contributions if your income reaches this limit.

If you're 65 today and starting the CPP payments, the maximum CPP monthly payment amount is \$1,203.75 (\$1,175.83 in 2020). Since most users don't qualify for the maximum benefits, a new beneficiary can expect to receive \$689.17 (as of October 2020), on average.

Most Canadians supplement their CPP and Old Age Security (OAS) pensions with investment income. The **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)), the dividend pioneer, is among the favourite income stocks of retirees. Canada's fourth-largest bank has been paying dividends since 1829, even during the harshest recessions and economic downturns.

Currently, BMO's market capitalization stands at \$49.88 billion, while the share price is \$76.67. If you purchase this investor-friendly stock today, the dividend yield is \$4.26. The dividends should be safe as BMO maintains a less than 60% payout ratio. A \$150,000 investment will generate \$6,390 in annual income.

Similarly, the capital could swell through the power of compounding. If your holding period is 20 years, you would have a nest egg of \$345,498.11. BMO proved its resiliency again in 2020. The stock price has sunk to as low as \$37.13 in March 2020 but has since substantially appreciated. Its price today is 1.7% higher than it was a year ago.

## Income gap

While the enhanced CPP increases the core guaranteed income, it leaves a considerable income gap. Users must have other income sources to have the desired quality of life in retirement.

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