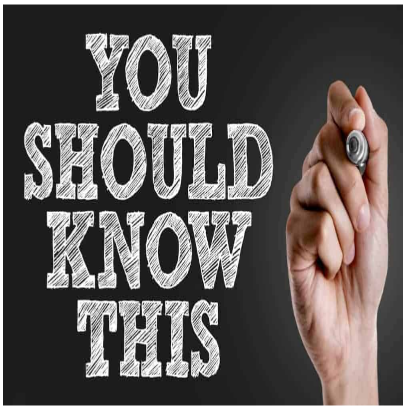

CRA Update: The 2021 CPP Pension Change You Must Know

Description

The Canada Revenue Agency (CRA) always announces significant changes as the year ends. Towards the end of 2020, the government agency began reminding Canada Pension Plan (CPP) users that it will be making major changes to the pension plan in 2021.

The change took effect on January 1, 2021, and resulted in a contribution limit for the plan. The recent update is the third such change since CRA started enhancing CPP in 2019.

The update is a mandatory increase in contribution rates. It means that the Year's Maximum Pensionable Earnings (YMPE) for 2021 has gone up to $61,600. In 2019, the amount was $57,400, and it increased to $58,700 last year. The increase in YMPE is the result of gradually growing CPP contribution rates in the enhanced CPP.

Let's take a closer look at the CPP pension updates you must know.

Higher contribution rates for five years

The CRA is changing CPP contributions to ensure that Canadians will have access to more substantial retirement income in the future. The enhanced CPP has an overall contribution rate increase from 2019 to 2023 as 1%. However, CPP users will contribute more each year.

The employee and employer contribution rate is 5.45% after the update. Self-employed individuals will have to contribute double the amount, because they cover both the employee and employer contributions. The CRA is keeping the Year's Basic Exemption (YBE) amount the same at $3,500 for 2021.

The CRA also adjusts the ceiling for maximum pensionable earnings each year. If your income exceeds YMPE, the agency will not require or even let you make additional contributions. These CPP changes are designed to ensure that benefits can keep pace with rising living costs.

Greater payout in 2021

The CPP amount you receive depends on how long and how much you contributed to the plan. Most pensioners do not receive the maximum benefits. The maximum benefits that Canadian CPP users can receive at 65 years old is $1,203.75. However, the average monthly payment for new beneficiaries as of October 2020 is $689.17.

The annual pension of someone at age 65 and beginning payment today is $8,270.04. The CPP will still leave most Canadian retirees with a substantial income gap, despite the increase. It would be better to defer your CPP until you are 70 if you can for a higher payout.

A dividend stock for more retirement income

There are other ways you can boost your retirement income to live a more comfortable retired life besides deferring your CPP for a higher payout. Between the Old Age Security (OAS) and CPP, you can get a good chunk of retirement income. However, adding another revenue stream might be necessary to meet your lifestyle requirements.

A Tax-Free Savings Account (TFSA) with a portfolio of reliable dividend stocks like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) can be ideal for this purpose. Saving and investing in established dividend payers like TD can help you secure your financial well-being during retirement.

TD is Canada's second-largest bank, and it has a massive 164-year dividend streak. The company has never failed to pay its shareholders their dividends for so long, making it a reliable income-generating asset for your dividend income TFSA portfolio.

The stock is trading for $73.85 per share at writing, and it pays its shareholders at a juicy 4.28% dividend yield. Saving up and investing in the stock can help you begin setting up a highly profitable TFSA portfolio.

Foolish takeaway

Using your dividend income to reinvest in reliable dividend stocks, in the long run, can help you create a massive secondary pension. By the time you retire, you can begin using the payouts to supplement your higher CPP contributions. TD can be an excellent stock to begin building such a TFSA portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/07/24
Date Created
2021/02/02
Author
adamothman