CRA: CPP Pension Paycheck Deduction Increasing in 2021

Description

Canada is considered one of the best places to live. The government takes very good care of its citizens, providing them with excellent infrastructure, work opportunities, government-funded healthcare, and it cares a lot about its retirees.

The government keeps introducing several measures to take care of its productive citizens, even if they can no longer work. Of course, the government can only provide so much support to retirees through tax money. Programs like the Canada Pension Plan (CPP) ensure that the government can lay the groundwork for Canadian retirees to enjoy a comfortable retired life.

CPP is a pension program funded by the working population in Canada and their employers. It is a mandatory retirement savings program. You must contribute a portion of your paycheck to the pension plan until you retire.

The CPP pays you a monthly pension based on how much and for how long you contributed to the fund when you retire. However, the CRA has been introducing certain enhancements to the CPP that you should know.

CPP updates might make your paycheck smaller this year

The maximum annual pensionable earnings is the ceiling at which your CPP contributions stop. You can't contribute more to your CPP beyond the ceiling, regardless of how much you earn. The ceiling has been changing the past few years, but the latest update is significantly higher than in previous years.

The ceiling was raised by 4.9% in 2021, unlike 3% in recent years. Based on the update, the maximum pensionable income is $61,600 in 2021, compared to $58,000 in 2020. The contribution rates for employees and employers also increased to 5.45% in 2020, up from 5.25% in 2020. Self-employed individuals will need to contribute 10.9% of their income to match the contribution rate.

The increased CPP contribution rate means that you will take home a little less from your paycheck than last year.

Why the smaller paycheck could be good in the long run

Nobody likes to pay taxes or any other charges that take out another chunk of their income. Canadians might not be too keen on the prospect of lower take-home income after the CPP enhancement. However, it could turn out to be better for you in the long run.

The Canada Revenue Agency (CRA) considers how long and how much you have contributed to your CPP when calculating how much in monthly pension payments you can receive. The more you contribute right now, the more you can earn a lot more through the pension when you retire. Additionally, these changes will provide immediate benefit to current retirees and boost their CPP as well.

Creating your own pension

Regardless of how much you receive through the CPP, the pension program is designed to cover only a part of your retirement income. You should create other revenue streams to supplement your pension. You can use your Tax-Free Savings Account (TFSA) to earn a secondary pension for yourself, provided that you use it to store a portfolio of reliable income-generating assets.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is one of the first names that come to mind if you are considering reliable income-generating assets. The Canadian bank is one of the oldest Canadian dividend stocks trading on the **TSX**. The stock has been paying its shareholders their dividends for the last 150 years without fail.

The financial institution has seen several market crashes during that time, but its wide economic moat allows TD to continue paying its shareholders.

Foolish takeaway

If you keep reinvesting your dividend income from the stock in your Tax-Free Savings Account (TFSA), you can unlock the power of compounding to significantly increase your capital.

With substantial assets held within your TFSA, you can create passive income through dividend earnings from your investment to supplement your CPP. It will take a carefully selected portfolio of reliable dividend stocks to successfully earn enough dividend income in your TFSA.

TD could be an excellent stock to begin building such a portfolio.

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