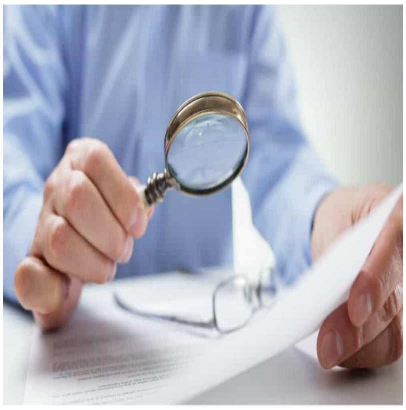

Canada Revenue Agency: Watch Out for This CPP Change. It Will Affect Your Paycheck

Description

Canada is one of the best places to live as a retiree. With several pension programs like the Canada Pension Plan (CPP) in place, older Canadian adults can trust in the government to ensure that they can earn some income, even after they stop working.

The CPP is not a publicly funded pension. It is a pension plan funded by the working population in the country and their employers. CPP is a mandatory retirement savings program in which everyone must contribute a portion of their paycheck until they retire.

When you retire, you can start collecting the CPP. The monthly CPP amount you receive depends on how long and how much you contribute to the pension fund before retiring. The government agency has introduced certain enhancements to CPP in recent years to provide better retirement income for Canadian retirees.

Crucial CPP update

One of the most crucial updates for the CPP is an increase in employer and employee contribution rates for the plan. The contribution rate for employees and employers until 2020 was 5.25% of the paycheck. After the 2021 CPP enhancement, the contribution rate has increased to 5.45% for both of them.

If you are a self-employed individual, your contribution rate is double, because you must cover the cost of both employer and employee CPP contributions. It means that you can end up taking out 10.9% of your paycheck to contribute to CPP.

Is the change a bad thing?

With the CPP update, you will end up taking home a little less from your paycheck than you did last year. Nobody likes the idea of taking a lower amount home from their paycheck, but the CPP update could be an excellent move. The CRA increasing CPP contributions right now means that it can pay current CPP recipients more in their pension income than they could before the update.

Additionally, increasing your CPP contributions right now means that you can earn a lot more through the pension program by the time you retire.

Create a secondary pension plan

The CPP and Old Age Security (OAS) are excellent retirement income plans. However, both of these were designed to partially cover your retirement income. It is crucial to set up a retirement nest egg that you can supplement with these pension plans. You can also use your Tax-Free Savings Account (TFSA) to create a secondary pension that is also tax-free.

Using your TFSA to store reliable income-generating assets like **Bank of Montreal** (TSX:BMO)(NYSE:BMO) can help you set up a secondary pension that can make you a wealthy retiree. Any earnings from investments held within a TFSA can grow without incurring any taxes. Additionally, you can withdraw funds from your TFSA without early withdrawal charges or tax penalties.

Using your TFSA contribution room to hold a portfolio of reliable dividend stocks could be an excellent way to set up a secondary pension plan. BMO is an excellent stock to begin building such a portfolio. The company has been paying its shareholders their dividends almost for the last 200 years.

While BMO might not be the biggest among the Canadian Big Six, it does deserve more attention, because of its balanced revenue stream that comes from both U.S. and Canadian banking operations. The company has a wide economic moat that can help it ride out the ongoing economic challenges and set it up for substantial growth with the post-pandemic world's gradual recovery.

Foolish takeaway

The CPP change might decrease your take-home income for now, but it will provide you with returns when you retire. Creating additional revenue streams can also help you boost your retirement income to supplement the pension plans. Using the TFSA to create a tax-free pension plan with investments like BMO could be an excellent way to add another revenue stream to fund your retirement.

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Date
2025/07/23
Date Created
2021/02/11
Author
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