Retirees: CPP Enhancement Will Cost You Extra Money in 2021!

Description

I don’t think Canada Pension Plan (CPP) users would mind contributing extra to the fund in exchange for higher pension in retirement. In 2021, it would be the third time in as many years that users will have to give up a few dollars due to the CPP enhancements.

Starting January 1, 2019, and every year until 2023, the contribution rates of employers, employees, and self-employed individuals are gradually increasing. The total increase, from 4.95% in 2018, is 1% by 2023. Employers and employees share 50% of the contributions, while the self-employed contribute both the employee and employer portions.

CPP enhancements

The CPP enhancement from 2019 to 2023 is one of two phases in a seven-year phase-in program. Phase two, where a second, higher limit applies, starts in 2024. Let’s focus on phase one’s contribution rates to know the percentages and estimated maximum contributions this year and until 2023.

Year	Employer/employee rate & Amount	Self-employed Rate & Amount
2021	5.45% / $3,166.00	10.9% / $6,333
2022	5.70% / $3,432.00	11.4% / $6,864
2023	5.95% / $3,701.00	11.9% / $7,402

There’s also an earnings ceiling to consider every year. The estimated ceiling by 2023 is $65,700. If you earn less than the earnings ceiling, there will be no further rate increases. The CPP contribution rates for employers and employees will stay at 5.95%, while the self-employed contribution rate will remain 11.9%.

Monthly pay cut

The ongoing CPP enhancements or higher contributions should gradually increase the benefits. If you break down the contributions further, a user will contribute $22.33 per month more in 2021. In the next years, the monthly salary cut would be almost the same. For such an amount, the trade-off is higher benefits.

The CPP benefits will not change for Canadians who are retired, unemployed or non-contributors. However, the CPP enhancements will affect those who are working and making contributions in 2019 or later. People with an annual income of less than $3,500 (basic exemption amount) are not required to contribute to the CPP fund.

Centuries-old wellspring

Your CPP and the Old Age Security (OAS), for that matter, are not the end-all and be-all retirement incomes in Canada. While both pensions are for life, they may not be enough to cover all your financial needs in the golden years. You can enjoy a better quality of life if there's a separate wellspring to draw income.

A blue-chip asset like the **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) is tops on the list of ideal income stocks for retirees. This $50.71 billion financial institution and Canada's sixth-largest bank is a dividend aristocrat, no less. It commenced operations in 1867 then started paying dividends one year after. The dividend track record is now 152 years and sign the streak will stop.

A CIBC share costs $113.43 but will pay a hefty 5.15% dividend. If you have a 25-year investment window and $50,000 to invest, the capital will compound to $175,469.62. Assuming the yield remains constant within the period, you would have a pension-like of $9,036.69 per year.

Forced savings for higher pension

Working Canadians and their families will have more retirement once the CPP enhancements mature. The program framers intended to boost the maximum CPP retirement pension by about 50%. Treat the few dollars additional contribution in 2021 as forced savings for the future.

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