



How Much Income Will Your CPP Pension Provide in 2021?

Description

The Canada Pension Plan Investment Board (CPPIB) has the mandate to invest the Canada Pension Plan (CPP) fund today [for users' financial security tomorrow](#). CPP contributors expect the CPPIB to fulfill its task and maximize returns on contributions without undue risk or loss.

As of December 31, 2020, the CPP fund is \$475.7 billion. Over the last decade, the annualized rate of return (net nominal) is 10.8%. Meanwhile, enhancements are currently ongoing. Contributions are increasing and have begun in January 2019. Once the phase-in is complete after seven years (2019-2025), the maximum CPP retirement pension will increase by about 50%.

The increase in CPP benefits depends on how much and how long you contributed to the fund. However, the enhancements will affect only those who work and contribute in 2019 or later. CPP benefits of retirees, non-contributors, and the unemployed will not change or increase.

Higher contributions

The employer and employee contribution rate in 2021 is 5.45% (times two for self-employed individuals). If you're an employee, the year's maximum CPP contribution is \$3,166.45 or \$268.35 higher than in 2020. Thus, you can expect a salary cut of \$22.37 monthly if you contribute the maximum amount.

The maximum annual allowable earnings will increase to \$61,600 from \$58,700 the previous year. In 2022 and 2023, employer and employee contribution rates will increase to 5.70% and 5.95%. The monthly salary cut will more or less be the same as in 2021.

CPP pension 2021

Canadians beginning work in the next several years will benefit the most from the pension's enhancements. The replacement level will increase overall. Instead of 25%, the CPP will replace 33% of the average work earnings.

For 2021, the maximum CPP monthly benefit (age 65) is \$1,203.75 or \$14,445 yearly. However, the majority of users are not qualified to receive the maximum benefit. You should have contributed enough and in 83% of 47 working years. On average, the majority will receive \$689.17 per month or \$8,270.04 per year.

Long-term investing

The CPP is the [base layer of retirement savings](#) for most Canadians, and therefore, it would be best to have other income sources. You can adopt the CPPIB's long-term investment strategy to boost retirement income. If you have savings, let the money work for you by investing in income-producing assets.

In Q4 2020, the CCPIB increased its holdings in the **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), or Scotiabank, by 45% to four million shares. The move aligns with the board's long-term horizon and strategy to pick assets that are less vulnerable to volatility. Scotiabank has endured the worst recession in recent memory,

The third-largest bank in Canada showed its resiliency and ability to absorb short-term changes due to the health crisis. I suppose it was one reason the CPPIB increased its stake in the \$86.64 billion bank. I also think the high-yield and dividend track record were among the considerations. Scotiabank yields a hefty 5.03% and has been paying dividends consistently for 188 years.

Option for baby boomers

The CPP enhancements will have no immediate effects on baby boomers. Note that the increased benefits are over the long term. However, this generation can still receive more by postponing the take-up date to age 75. The incentive is a 42% permanent increase in pension payments.

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