



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

### Description

If you are an individual nearing retirement or on the verge of withdrawing the Canada Pension Plan (CPP) payout, you would have heard about the CPP enhancement. The enhancement program is expected to deliver additional benefits to pensioners as it promises to increase CPP payments from one-fourth of your income to one-third of your income.

As a working Canadian individual, you are required to contribute to the CPP every time you get paid. Since January 2019, the contributions towards the CPP have increased to help you build a more secure retirement.

On January 1, 2021, the [CPP contribution rate](#) has risen from 5.25% to 5.45% of your pensionable earnings. For self-employed Canadians, this figure will rise to 10.9%. This means the maximum annual CPP contributions for 2021 stand at \$3,166 up from \$2,898 in 2020.

While an increase in CPP premiums will result in higher payouts during retirement we will see how this cost burden will impact soon-to-be retirees in 2021.

### CPP will benefit future beneficiaries

Driven by the ongoing increase in CPP contributions, an individual earning \$54,000 will see annual payouts increase from \$13,500 to \$18,000 which is substantial. However, in order to receive higher payments, you will need to contribute to this program for a period of 40 years.

The enhancement program began in 2019 which means you will have to wait until 2059 to see your pension grow to replace one-third of your pensionable income. So, if you are closer to retirement the enhanced contributions could very well be a net loss. On the other hand, the CPP payments will increase marginally due to the higher rates.



XSP data by [YCharts](#)

## Maximize RRSP contributions

One way to offset the higher tax bill that is associated with the CPP enhancement is by making contributions to an RRSP. The contributions towards this registered account are tax-sheltered and you can contribute up to 18% of your income to your RRSP. So, if you earn \$54,000 each year, you can contribute \$9,720 towards your RRSP.

So, large tax deductions will help you offset slight increases with respect to the CPP enhancements. For example, if your marginal tax rate is 25%, you will save about over \$2,430 by contributing towards your RRSP.

Once you make an RRSP contribution, you should look to buy investments that will help you generate solid returns over the long term. One of the top investment vehicles for investors with a multi-year horizon is ETFs such as the **iShares Core S&P 500 Index Fund** ([TSX:XSP](#)).

Retail investors who lack the time and expertise to pick individual stocks should [look to buy ETFs](#) that will lower their risk by a significant margin. The XSP provides you exposure to 500 of the largest companies south of the border including **Apple, Amazon, Alphabet, and Tesla**.

This ETF is currency hedged, insulating investors from any foreign exchange fluctuations. The fund also has a low management expense ratio of 0.1%. In the above chart, we can see the ETF has almost tripled in market value in the last decade, easily surpassing gains of the **iShares S&P/TSX 60 ETF**.

An investment of \$10,000 in the XSP ETF in March 2011 would have ballooned to \$27,930 today. A similar investment in the iShares S&P/TSX 60 ETF would be worth less than \$14,000 today.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:XIU (iShares S&P/TSX 60 Index ETF)

## PARTNER-FEEDS

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

## Category

1. Investing

## Date

2025/08/27

## Date Created

2021/03/26

## Author

araghunath

default watermark

default watermark