CRA Update: 1 Big CPP Pension Change You Should Know

Description

The Canada Pension Plan (CPP) is an important reason Canada is an incredible place to live as a retired citizen. After all the hard work you put in while you were working, you can rest assured that the government will take care of you for cultivating the relationship.

default watermark

The CPP is not a government-funded retirement fund like Old Age Security (OAS). People fund their CPP pension throughout their working life. If you are over 18 years old, not a resident of Quebec, and earn more than $3,500 per year, you are obligated by law to contribute to the CPP.

The CPP comes into effect at 65. However, you can begin collecting it when you turn 60 or defer it until you turn 70. Deferring the CPP is ideal, because it results in a higher monthly pension once you begin collecting the CPP.

The Canada Revenue Agency (CRA) has announced an update to the CPP that you should know to better budget your monthly income.

Major CPP change for 2021

The government agency announced that the Year’s Maximum Pensionable Earnings (YMPE) for 2021 will be different from last year. The YMPE is the threshold of your earnings that the CRA considers when calculating how much you can contribute to your CPP. The old YMPE in 2020 was set at $58,700. With the 2021 update, you can contribute up to $61,600 — $2,900 higher than 2020’s ceiling.

The contribution rates for employers and employees are up from 5.25% to 5.45% from this year. Since self-employed individuals do not get matching contributions, they have to contribute 10.9% to their CPP.

Creating a secondary retirement fund

The Registered Retirement Savings Plan (RRSP) is a secondary retirement fund that every Canadian should contribute to, but it is not compulsory.

RRSP contributions are tax deductible. It means that you can deduct your RRSP contributions in an income year to reduce the taxable income for that year, allowing you to pay income taxes on a lower overall amount.

The more money you can put away right now, the better your financial standing in retirement will be. An excellent way to make the most of your RRSP as a secondary retirement fund is to use the account to store high-quality and reliable income-generating assets that can appreciate over time and grow your wealth without incurring any taxes.

Fortis (TSX:FTS)(NYSE:FTS) could be an excellent asset to consider for this purpose. The Canadian Dividend Aristocrat has increased its dividends for almost 50 consecutive years, making it a reliable dividend-growth stock for any portfolio. The company plans to increase its dividends by 6% annually in the next five years.

It has low-risk, regulated, and diversified assets that generate predictable and reliable cash flows. Fortis can use its predictable revenues to fund capital growth programs and increasing shareholder dividends comfortably. The company expects to raise its rate base by about $10 billion in the next five years.

default watermark

Foolish takeaway

Fortis could use its higher rate base to support its earnings and increasing dividend payments to its shareholders. The stock is trading for $54.46 per share at writing, and it sports a juicy 3.71% dividend yield. It could be an ideal investment to consider if you are creating a secondary retirement portfolio through your RRSP.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/25
Date Created
2021/04/05
Author
adamothman

default watermark

default watermark