



CRA Update 2021: 1 Crucial CPP Pension Change to Know

Description

The Canada Pension Plan (CPP) is the retirement pension of most working Canadians and one of two foundations of retirement planning in Canada. While the Old Age Security (OAS) is the cornerstone or the first level, the CPP is closer to would-be retirees' hearts.

All your contributions throughout your working life return to you in the form of a monthly taxable benefit. The CPP partially replaces the average pre-retirement income, up to the extent of 25%. Payments typically start at 65, the standard retirement age, although you can [take it as early as 60](#) when it becomes available.

This year, it's the third time that employers and employee contribution rates are increasing in as many years. For self-employed individuals, the rate is two times that of the employee contribution. In 2021, CPP users must be aware of an important change in the pension. You should pay attention, because it affects the pension, particularly the computation of benefits.

YMPE 2021

All Canadians in the workforce, age 18 and earns more than \$3,500, are obligated to contribute to the CPP. The federal government sets the year's maximum pensionable earnings (YMPE) every year. YMPE refers to the maximum salary amount on which a user needs to contribute to the CPP.

Understanding the term *YMPE* is a must. It's an important factor in a member's regular contribution formula. For 2021, the YMPE is now \$61,600 from \$58,700 in 2020. A member's contribution is 7.4% of the annual salary, up to the YMPE, plus 10.5% of the annual salary above the YMPE.

Note that the annual salary pertains to the regular base salary and excludes overtime pay and any other special payments. The CPP uses a legislated formula to arrive at the new YMPE. It usually reflects the growth in average weekly wages and salaries in Canada (June 30th cut-off).

The YMPE is unlikely to decrease in future years, although future increases could not be as much due to the pandemic. It will depend on the country's workforce's wage profile when the employment rate

returns to normal.

Backup income source

Many Canadians have contributed to their Registered Retirement Savings Plans (RRSP) to have a backup income source in retirement. The best part is that RRSP contributions are tax deductible. Your [money grows tax-free](#) until you withdraw the funds in the future.

Telus ([TSX:T](#))([NYSE:TU](#)) is among the preferred choices of RRSP investors. The \$34.83 billion telecommunications company pays a fantastic 4.82% dividend. This telco stock is a must-have in a passive-income portfolio of CPP users. The 5G network rollout soon should further boost Telus's corporate profile.

Investing in Telus has incredible perks. First, the business will endure regardless of the market environment. Second, cash flows are recurring and stable. Expect the current 15 million customer connections (wireless, internet, residential network access lines, and TV) to increase further in the coming years. Lastly, since Telus is recession-proof, dividend payouts should be lasting.

Contribution ceiling

The CPP is the second level of Canada's retirement system after the OAS. All the enhancements that are happening are for the best interest of all members. It would be best to familiarize yourself with the YMPE changes to know the CPP contribution ceiling every year.

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