



## CPP: Your First Step to Retirement Planning

### Description

It is never too early to plan your retirement. Service Canada starts doing it from your very first salary. It has designed the Canada Pension Plan (CPP) to help you through the different stages of your life, from working to retirement. The program has three elements:

- Contribution
- Tax deduction
- Payout

Throughout your working life, Service Canada gives you tax benefits. When you retire, it gives you a pension. The agency aims to pay you 33% of your average weekly income as the CPP payout. For a higher payout, you need to save more and for a longer time. Hence, Service Canada introduced the CPP enhancement program in 2019. Here I will discuss the changes to the CPP in 2021.

## Two changes to the CPP in 2021

Every year, Service Canada determines the CPP contribution and payout after adjusting for taxes.

- The first change is that Service Canada has increased the contribution limit from 5.25% in 2020 to 5.45% in 2021.
- The second change is it has increased the maximum pensionable earnings from \$58,700 to \$61,600.

Your employer will deduct the CPP on any income you earn between \$3,500 and \$61,600. These two changes will increase your CPP contribution whether or not your salary increases. Let's see how.

Scenario 1: In 2021, Adam got a promotion and his salary increased to \$60,000 from \$55,000 last year. His CPP contribution increased by \$375.5 to \$3,079 (5.45% of \$56,500) in 2021 from \$2,704 last year.

Scenario 2: In 2021, Annie's employer was hit by the pandemic. Her employer retained her salary at

\$50,000. Even then, her CPP contribution increased by \$93 to \$2,534 (5.45% of \$46,500) in 2021 from \$2,441 last year.

A higher CPP contribution reduces your [tax bill](#). These changes might look just a few hundred dollars, but they multiply significantly in the long term.

## The maximum CPP payout for 2021

You can claim your CPP payout as early as age 60, or you can delay it till you turn 70. However, your CPP payout will depend on your average weekly income, CPP contribution, and the age you start collecting your payout. For [2021](#), the maximum monthly pension you can receive at age 65 is \$1,203.75, and the average monthly CPP amount is \$ 619.75. Note that the CPP payout is taxable.

Now \$1,200 a month is not sufficient to make ends meet, especially in old age when your medical and convenience expenses are high. Remember, Service Canada can only cover up to 33% of your income with the CPP program. You have to arrange for the remaining 67% income by yourself.

## Create a tax-free pension with the TFSA

You can fill the gap with a Tax-Free Savings Account (TFSA) pension that is opposite to the CPP. You pay tax on the TFSA contribution, but your withdrawal is tax-free. As you contribute to the CPP, you can contribute \$100/month to the TFSA. In the latter option, you can decide where to invest.

When building a TFSA pension, consider diversifying your portfolio across growth and dividend stocks and ETFs. You can start by investing in the **iShares S&P/TSX Capped Information Technology Index ETF** ([TSX:XIT](#)).

The tech ETF buys large, mid, and small-cap technology stocks trading on the Toronto Stock Exchange. The ETF gives you a balanced risk-reward ratio to a volatile sector like tech. It has exposure to disruptive stocks like **Shopify**, which is changing the face of retail. It has also invested in traditional growth stocks like **Constellation Software** that enjoy stable earnings per share that grows at a compounded annual growth rate (CAGR) of around 16%. This year, the ETF added the stock of cryptocurrency mining company **Hut 8 Mining**.

## Final thoughts

The XIT ETF is a good option for millennials and middle age group who are willing to take risks but in a controlled environment. The ETF has surged 8.2% year to date with the potential to grow as it has a balanced exposure in future technologies. If you are nearing retirement, instead of XIT, you might want to consider dividend options like **Enbridge**, which has a juicy dividend yield of 7%.

### CATEGORY

1. Investing
2. Personal Finance
3. Tech Stocks

## TICKERS GLOBAL

1. TSX:XIT (iShares S&P/TSX Capped Information Technology Index ETF)

## PARTNER-FEEDS

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