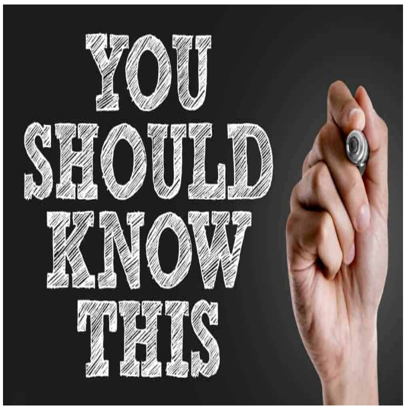

Canada Revenue Agency: 1 Important CPP Change to Know

Description

The Canada Pension Plan (CPP) is one of the two foundations for retirement income for Canadian retirees. The Old Age Security (OAS) is a government-funded retirement program for Canadians. But the CPP is likely closer to older Canadian adults, because they spend their lives funding this retirement fund.

The contributions you make towards the CPP during your working life will return to you in the form of a monthly but taxable benefit. The CPP has been designed to partially replace your average pre-retirement income. The standard uptake for CPP begins at 65. You can consider collecting it as early as 60 or defer it until you turn 70.

2021 marks the third consecutive year that the Canada Revenue Agency (CRA) has increased the employee and employer contribution rates. Self-employed individuals have to make both the employer and employee contributions, effectively paying double of an employee contribution.

The CRA introduced another key change to the CPP this year, and you should pay attention to it, because it may affect your benefits.

The CPP change in 2021

Every Canadian above 18 and earning more than $3,500 is obligated to contribute to the CPP. The federal government sets the Year's Maximum Pensionable Earnings (YMPE) each year. The YMPE is the maximum salary amount on which a CPP user needs to contribute to the program.

It is crucial to understand what the YMPE means. For 2021, the CRA has set the YMPE at $61,600. The amount increased from $58,700 last year. A CPP member's contribution is 7.4% of their annual salary until they reach the YMPE and an additional 10.5% of the annual salary over the YMPE.

The annual salary refers to an individual’s basic salary. It does not include their overtime pay, bonuses, or any other special payments. The CPP uses a legislated formula to calculate the YMPE. It typically reflects the growth of average weekly salaries in the country.

It is unlikely that the government will increase the YMPE in the coming years. However, you could expect to see further increases in the future, depending on the wage profile as the economy improves.

Creating a secondary retirement fund

The OAS and CPP are designed to partially replace your active income. Creating a secondary retirement fund is crucial if you want to enjoy a comfortable life in retirement with financial freedom. Investing in a Tax-Free Savings Account (TFSA) and using it as an investment vehicle to store income-generating assets like **Telus** (TSX:T)(NYSE:TU) could be an excellent way to go.

Telus is an industry titan among Canadian telecom operators. It could be an ideal investment for your TFSA portfolio. At writing, it is trading for $25.75 per share, and it sports a juicy 4.83% dividend yield. The telco stock is a must-have for your TFSA portfolio due to its attractive dividend yield and discounted valuation.

The stock has recovered drastically after the February and March 2020 pullback. Despite rallying after the broad market pullback, it is trading for a 5.57% discount from its all-time high. The rollout of 5G technology could drastically boost its valuation in the future, potentially making it an ideal long-term pick.

Foolish takeaway

The CPP makes a crucial part of a Canadian’s retirement pensions along with the OAS. Being aware of the changes made to the CPP could be vital in helping you make more well-informed financial decisions. Additionally, creating a secondary retirement fund through income-generating stocks like Telus could help you set up a more comfortable retired life.

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