



CPP: Higher Deductions Coming to Your 2022 Paycheque

Description

Are you a salaried employee earning an annual paycheque of around \$65,000? Then you've got to read this. Service Canada is bringing big changes to the Canada Pension Plan (CPP) in 2022. You could see a higher-than-expected deduction in your paycheque for the second year in a row. This could sting, as inflation is at its 13-year high, and the government is gradually removing stimulus money.

2022 CPP changes

As part of a multi-year enhancement plan announced in 2019, Service Canada has been increasing the CPP contribution at a pre-determined rate. It increased this rate to 5.7% in 2022 from 5.45% last year. But what is not pre-determined is the maximum pensionable earnings. The agency calculates this amount by comparing the average weekly earnings in the 12 months ending June 30 with the previous year.

As the pandemic impacted lower-income earners, fewer were added to the above formula in the last two years. Hence, the 2022 maximum pensionable income increased by \$3,300 to \$64,900, instead of a \$2,100 increase to \$63,700, according to the [National Post](#). Even in 2021, the maximum pensionable income increased by \$2,900.

What do 2022 CPP changes mean to your paycheque?

Your employer deducts the employee contribution along with the employer contribution and puts it towards CPP and gives it to Service Canada. If you earn \$65,000 annually, your employer will deduct \$3,500 in CPP contribution from your 2022 paycheque, a \$333 increase from 2021, and a \$600 increase from 2020. The maximum CPP contribution amount increased by 11% in 2022 and 9% in 2021 compared to 5% in 2020.

What happens with this CPP contribution? Service Canada invests that money on your behalf towards retirement and gives you a monthly pension when you turn 65. And just so you know, the CPP payout

is taxable. You have no control over where the agency invests your money. But you get a guaranteed CPP amount from the government.

How to cope with rising CPP contributions

While CPP payouts might partially help you with retirement, what about the current paycheque deductions? If your salary does not grow at the same pace as your CPP contributions, it might reduce your real income. You can cope with this growth by focusing a portion of your investment portfolio on [passive investing](#).

Enbridge stock

Enbridge ([TSX:ENB](#))([NYSE:ENB](#)) has a 6.55% annual dividend yield on the date of this writing. It has a history of paying regular dividends for more than 40 years, of which it increased dividends in the last 26 years. If you invest \$10,000 in Enbridge now, you can earn \$655 in annual dividend income. That will reduce the impact of rising CPP contribution on your current income.

Enbridge has also been increasing its dividend, but it lowered its growth rate from 9.8% in 2020 to 3% in 2021 and 2022. This reduction comes after Enbridge took a hit from the pandemic as lower volumes of oil were transmitted. But the dividend growth could increase once Enbridge's ongoing pipeline projects come online in 2023.

BCE stock

You can also diversify your passive-income portfolio with **BCE** ([TSX:BCE](#))([NYSE:BCE](#)). Unlike Enbridge, BCE maintained its dividend-growth rate at around 5%, even during the pandemic. While Enbridge struggles to build more pipelines, BCE has accelerated its investment in building 5G infrastructure. Once the infrastructure begins to pay off BCE could see more cash inflows. This could convert into an accelerated [dividend-growth rate](#) in the future.

BCE has a 5.3% dividend yield as of this writing. This could convert \$10,000 into \$530 in annual dividend. But BCE could also give you returns through capital appreciation, as it rides the 5G wave. The stock surged 21% last year. It could see such bouts of growth as and when there are advancements in 5G applications.

Final thoughts

The world of investing has something to offer for every financial need, short term and long term. You need to set realistic goals and look for the right stocks. And I will keep giving you ideas on ways to optimize your savings for a better financial future.

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