Retirees: CPP Payments Went up in 2022

Description

The Canada Pension Plan (CPP) enhancements took effect in 2019, although the federal government's information dissemination campaign started in 2016. While most CPP users are aware of higher contributions every year, the increase in 2022 is higher than usual.

Furthermore, this year's hike is also the largest in 30 years. Some groups requested postponement of the increase because of rising inflation, although it did not happen. The federal and provincial governments approved the multi-year plan.

Initially, the maximum pensionable earnings should have been $63,700. But since there were fewer lower income workers from the back half of 2020 and the first half of 2021, the ceiling increased 5.3% to $64,900. CPP contributions are based on the average weekly earnings throughout the year up until June 30 to the same amount during the previous 12 months.

Significant change

Employees, employers, and self-employed individuals will contribute more to the CPP in 2022. The maximum annual employee and employer contribution will be $3,499.80, while a self-employed user will contribute twice the amount ($6,999.60). Workers earning $3,500 (basic exemption amount) need not contribute to the CPP.

The increase in the employee and employer contribution rate to 5.7% is significant. Last year, the rate was 5.45% compared to 5.25% and 5.10% in 2019 and 2020. Under the enhanced plan, the increase in contribution from employees and employers will reach 5.95% of YMPE (year's maximum pensionable earnings) by 2023.

Fill the income gap

Assuming you're 65, have contributed a least 39 years, and are claiming the CPP today, the maximum monthly amount is $1,253.49 (2022). However, if you don't qualify for the max like most, the average amount for new beneficiaries is $702.77 (October 2021). Thus, if the replacement rate is only 25%, there's a shortfall of $2,108.31.

CPP users can fill the income gap with investment income. The simplest way to build retirement wealth is to hold income-producing assets in tax-advantaged investment accounts. Dividend stocks are eligible investments in a Tax-Free Savings Account (TFSA) and Registered Retirement Savings Plan (RRSP). Your balance should compound faster through dividend reinvesting.

Attractive income stocks

TELUS (TSX:T)(NYSE:TU) and **Gibson Energy** (TSX:GEI) are attractive options today. Both dividend stocks trade below $30 per share, and the average dividend yield is 5.2%. The pair should provide would-be investors with higher-than-average passive income.

Canada's second-largest telco is a Dividend Aristocrat owing to 18 consecutive years of dividend increases. The $40 billion company has yet to report its 2021 results, although management reported killer earnings in Q3 2021. Its president and CEO Darren Entwistle said TELUS boasts a superior world-leading mobile network. At $29.52 per share, the dividend yield is 4.43%.

Gibson Energy was a steady performer in 2021 with its 15.87% total return. If you invest today, the share price is $24.17, while the dividend yield is a lucrative 5.97%. The $3.29 billion oil infrastructure company has already been operating for more than seven decades.

Gibson will deploy approximately $150 million in growth capital on high-quality opportunities this year. Its senior vice president and CFO Sean Brown said the strong financial position and solid balance sheet would enable Gibson to return substantial excess capital to shareholders in 2022.

Higher replacement rate

CPP users should welcome the enhancements, despite the higher contributions. The replacement rate will jump from 25% to 33% of the average pre-retirement income soon.

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