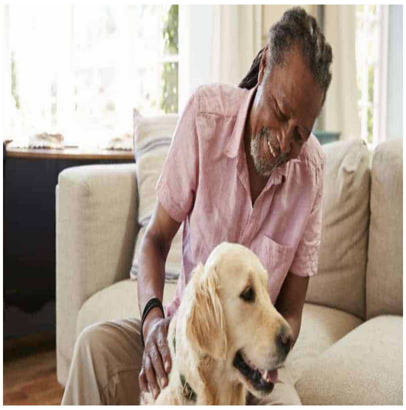

Inflation: Your CPP Payments Won’t Rise 6.9% in 2023

Description

Inflation: it’s the thorn in many retirees’ sides. While working Canadians can usually count on their income to rise over time, that’s not always the case with retirees. Most defined-benefit pension plans (the kind of plan the Canadian government offers its employees) pay a set amount for life. Other pensions sometimes see a boost when the investments in the plan do well, but it’s not a reliable effect.

There is one type of pension plan that is supposed to pay out more as the inflation rate rises: the Canada Pension Plan (CPP).

The CPP is inflation indexed, meaning that benefits go up when costs go up. Next year, retirees are likely to see some kind of increase in their CPP benefits. The government still hasn’t announced how much the increase will be, but we should hear about it soon.

While reading this, you may be thinking, “Great. Maybe my employment pension benefits won’t go up, but my CPP benefits will. So, I’m at least partially protected.” That’s technically true, but the thing is that Canada’s inflation rate is at a record-high level right now. Rising 6.9% year over year, the price level is running ahead of the likely increase in CPP benefits.

Why a 6.9% increase in benefits is unlikely

The reason why a 6.9% increase in CPP benefits is unlikely is because the CPP rates are calculated using whole-year averages, not the ending amounts in December. The formula the CPP uses to calculate rates is the average price level in year two divided by average price level in year one.

Based on this formula, the 2022 CPP rates increased by 2.7%, even though inflation was at 3.4% by the end of 2021. In 2023, we’ll likely see a similar thing occur. Inflation didn’t really start getting out of control until May this year. The inflation rates in January, February, March, and April were all lower than September’s 6.9% rate. So, the CPP will probably rise by less than 6.9% — unless inflation really runs wild in the coming months.

Could energy stocks help you beat inflation?

Having established that CPP benefits are unlikely to beat inflation, we can move on to the topic of how to stay ahead of price increases. The obvious idea here is to invest, but unfortunately, most investments aren't clearing inflation this year. Bonds yield less than the inflation rate, and stocks are actually going down.

There is one exception, though: oil stocks like **Suncor Energy** (TSX:SU).

Suncor Energy stock is up 33% this year, and its dividends have increased by 12%. Both the capital gains and the dividend increase are way ahead of the inflation rate.

If you know what's driving inflation this year, you'll immediately recognize the reason for Suncor's success: it makes money selling oil and gas, which are, by far, the fastest-rising goods this year. Suncor sells crude oil, which has risen in price this year, and natural gas, which has risen even more. It also operates gas stations, which sell gasoline, candy bars, and soda at ever-higher prices when the price level rises. The central banks are trying to get oil prices down by raising interest rates, but, unfortunately, international political factors are holding back the supply. Oil stocks are therefore likely to do reasonably well in the year ahead.

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