

# CAPit

## Capital Accumulation Plan Income Tracker

April 2019

### Replacement Income for CAPs Hits Lowest Levels

The fourth quarter of 2018 saw the largest decline since 2011 in a retiring member's ability to create secure retirement income. In fact, it's reached a new all-time low.

The close of 2018 saw replacement income for a female fall to 54.8% and 56.3% for a male. Of this, government programs steadily continue to replace about 32%. What's behind this decline? Decreased income a plan member can generate with their CAP.

In the fourth quarter, equity markets experienced one of their steepest declines in the last 10 years and member outcomes were further impacted by the surprise reduction in interest rates, which lead to lower annuity rates. To help mitigate the impact on CAP member outcomes, regulators have now turned their attention to the decumulation phase and are looking for ways to allow for and encourage plan sponsors to become more engaged in helping their CAP members retire successfully.

Here are two key examples:

**New forms of annuities** – The most recent federal budget paved the way for new forms of annuities that will provide more flexibility and security for plan members.

**Updates to CAPSA Guideline No. 8** – The recently updated CAPSA Guideline No. 8 encourages sponsors to provide retirement income projections. This will allow members to make more informed decisions and adjust their retirement planning accordingly. The updated Guideline also sets out the framework for sponsor responsibilities when allowing members to draw their retirement income directly from the plan, which provides the opportunity for plan members to benefit from plan sponsor oversight and negotiating power.

As a plan sponsor, you can support your employees in achieving financial wellness across the retirement spectrum. For younger employees, early planning is critical to helping them manage their finances and find the funds to save for retirement. For those nearing retirement, planning for the decumulation phase is equally important. Learning more about how you can support your employees with retirement income projections and being prepared when the new forms of annuities come to market, will ensure that your employees have the information and choices they need to achieve their retirement objectives.

### About the CAP Income Tracker

The CAP Income Tracker assumes the member made annual contributions at a rate of 10% starting at age 40, will receive maximum Old Age Security and Canada/Quebec Pension Plan payments, and will use their CAP account balance at retirement to buy an annuity. The member's CAP account is invested based on a balanced strategy. Salary has been adjusted annually in line with changes in the average industrial wage, and is set at \$65,661 as of December 31, 2018.

**Capital Accumulation Plans (CAPs)** are registered plans that permit members to make investment decisions among two or more options offered within the plan. They include defined contribution (DC) pension plans, deferred profit sharing plans (DPSPs), group registered retirement savings plans (RRSPs) and tax-free savings accounts (TFSA).

For more information on Eckler's CAP services, please contact **Janice Holman** at [jholman@eckler.ca](mailto:jholman@eckler.ca).

### About Eckler Ltd.

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