

CAPit

Capital Accumulation Plan Income Tracker

April 2020

Retirement dreams fade – what can you do to help your members?

As equity markets and interest rates have continued to fall over the past few weeks, so too have the near-term retirement plans of many Canadians. At the end of March, someone turning 65 would see their gross replacement ratio fall to an all-time low of 53.2% for men and 51.7% for women. What can you do to help your DC plan members with the new reality they face?

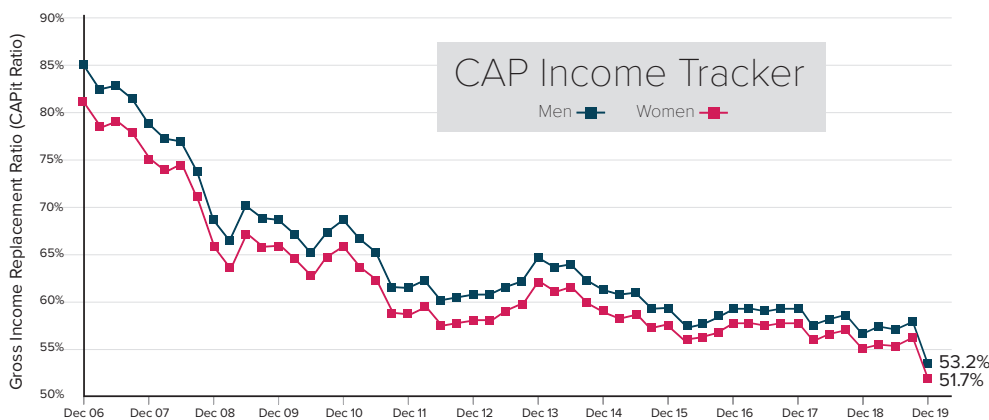
During times of market volatility, it's common for members to feel overwhelmed, but the worst thing a member can do is overreact. While it is always a good strategy to periodically review exposure to stocks and bonds, it is now critical that plan members take this opportunity to ensure their investment options remain aligned with their savings goals. Staying invested during volatile times is key. Very few have been lucky enough to get the timing right on as to when to leave the equity markets and when to buy back in. Encourage your members to stay the course.

Many members will be invested in target date funds. Target date funds, while professionally managed to help members de-risk their investment allocations over time as members move closer to retirement, are not all performing equally. In fact, the year-to-date performance of funds maturing in 2020 have variances as large as 6%. You can help your members by understanding your target date fund's philosophy, its objectives and how your members are faring. And, while it's always a good practice to regularly communicate with your membership, it is especially important to do so during times like these.

It is also likely that many who had planned to retire in the next year or so, will now delay retirement and remain in the workplace. How can you keep those members engaged in work and positively contributing to the organization? Giving them support to redefine what their retirement looks like, and how they can get there, will be key. Employers should look to provide their members with the confidence that while this may have been a significant shift in what they were expecting, they can maintain a level of control by proactively managing their future.

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 \$67,738 at March 31, 2020.





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In the past few years, many employers have also started looking at the decumulation phase of retirement planning and evaluating their role in supporting members through that phase of their retirement planning journey. A lot of what has been lost in the stock markets could be replaced by allowing members to decumulate at the preferred group fees they benefit from during the accumulation phase. This is the time to explore those options and consider introducing this valuable benefit. Not only do members benefit financially, the ease of transition and the peace of mind of plan sponsor oversight can go a long way to helping recoup those retirement dreams.

In addition to a decline in retirement savings, some members may also be experiencing reduced employment or household income. While the government has announced financial stimulus plans to help Canadians who are required to stay at home, it won't address the needs of everyone. In the short term, plan sponsors may consider a potential change to withdrawal restrictions for registered retirement savings plans and tax-free savings accounts so the savings can be accessed as a source of emergency funding.

What COVID-19 has taught us is that the proverbial "rainy day" sometimes comes sooner, and with more intensity, than we may have anticipated... While a good retirement plan and sound investment strategy are key components, a holistic approach that supports all aspects of financial wellness will be key to providing members with the information and confidence they need to weather the storm.

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