

CAPit

Capital Accumulation Plan Income Tracker

January 2021

Reflecting on 2020 and looking forward to 2021

During the last quarter of 2020, Canadians continued to experience the disruption brought on by the COVID-19 pandemic. Defined contribution (DC) plan members who experienced the least amount of interruption to their income levels continued to save for retirement, recovering most of what was lost earlier in the year, and kept pace with the trajectory of CAPit. For a typical male DC plan member retiring at age 65 at the end of 2020, their gross income replacement ratio was 56.8%. For a female DC plan member, the ratio was 55.4%. However, compared to a year ago, these replacement ratios are still down by 1%.

Despite the personal disruption experienced by all Canadians, the financial impact of the pandemic has not been the same for everyone. Members with jobs that require face-to-face interaction and those employed in industries that have been hit hardest by lockdown measures have been more financially vulnerable than those able to work remotely. While the market resilience in 2020 has generally cushioned DC member retirement outcomes, if a typical plan member retiring at the end of 2020 had stopped making plan contributions in March, their income replacement ratio would have been reduced by up to 0.5% for life.

Plan sponsors should remain mindful of these divergent effects of COVID-19 on plan members when developing a communication and education strategy for 2021. While all members will benefit from education on COVID-19 related tax considerations, members who have been more financially impacted may require help with strategies to pay down debt and others might look for guidance on how to invest any extra savings.

Recent vaccine developments have been promising and markets have responded positively to the outcome of the U.S. presidential election but it is difficult to predict the curve of the COVID-19 pandemic, and its impact on the future of markets. Providing members with the information and resources they need to manage their finances protects them from the potential on-going effects of the pandemic in 2021 and helps them develop the confidence and the habits they need to tackle future financial disruptions for a lifetime.

THE CAP INCOME TRACKER

The CAP Income Tracker assumes the member made annual contributions at a rate of 10% starting at age 40, will retire at 65, 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 December 31, 2020.

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