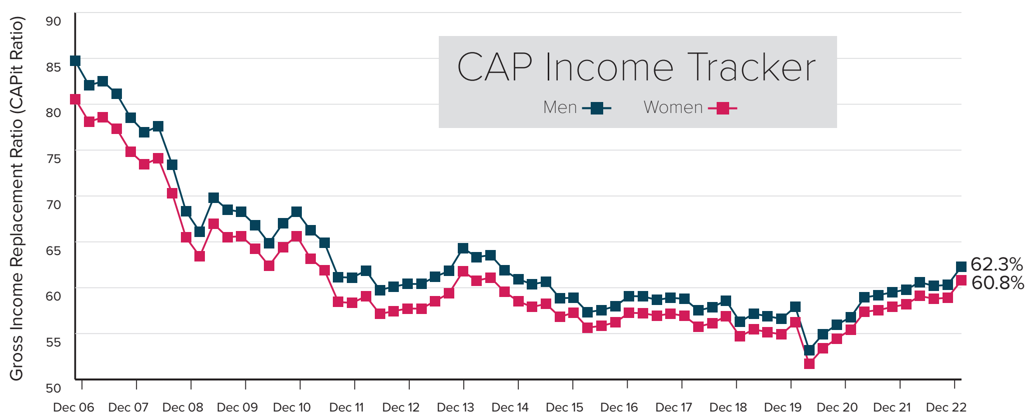
CAPit

Capital Accumulation Plan Income Tracker

February 2023

Annuities: The explanation between market declines and improving member outcomes

Driven by market increases coupled with the continued rise in annuity rates, Capital Accumulation Plan (CAP) member outcomes increased significantly in the fourth quarter. A typical male member retiring at the end of December 2022 achieved a gross income replacement ratio of 62.3% and a female member achieved 60.8%, levels not seen in over 8 years.



Looking back at 2022, balanced portfolios experienced the worst annual returns in 15 years yet member outcomes improved significantly.

Against this backdrop, it is hard to imagine income replacement ratios rising to multi-year highs. However, the dichotomy between market returns and CAPit ratios can be explained by looking at annuities – or more specifically, the income annuities are generating in the current market environment. While rising rates have been a headwind to financial markets, they have been a boon to annuities.

The chart below plots the annual income generated from annuities for males and females against the return of a traditional balanced portfolio over the past year. Here you can see that while a balanced portfolio has lost approximately 10% in 2022, annuity income has risen an astonishing 22%.

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 $69,377 at December 31, 2022.

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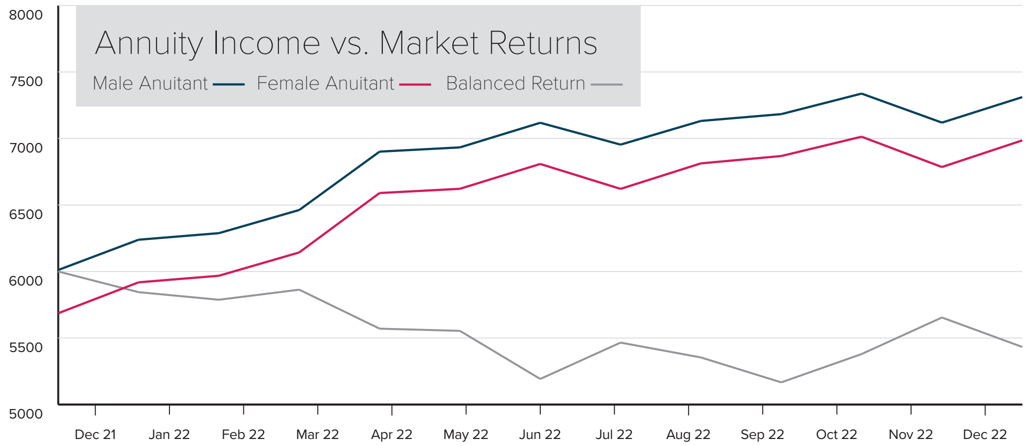

Balanced portfolio returns have certainly fared better in many periods historically and 2022 was not a typical year. However, with interest rates marching upward, it is important to recognize the value in annuities. Not only are annuities providing members with a significant level of income, that income is guaranteed for life. Moreover, as studies have proven, having a steady income stream through retirement can have a significant positive impact on mental and physical well-being.

While annuities have always been a retirement income option, education and unbiased, conflict free retirement planning advice that includes all income options, is crucial to ensuring members have the information they need to make critical decisions about all available options for income replacement in retirement.

Assumptions

- *Balanced Portfolio: 40% FTSE Universe Bond Index; 30% S&P/TSX Capped Composite Index; 30% MSCI World Index $CAD*
- *Balanced Portfolio had a starting value of $6,000 as at December 31, 2021*

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