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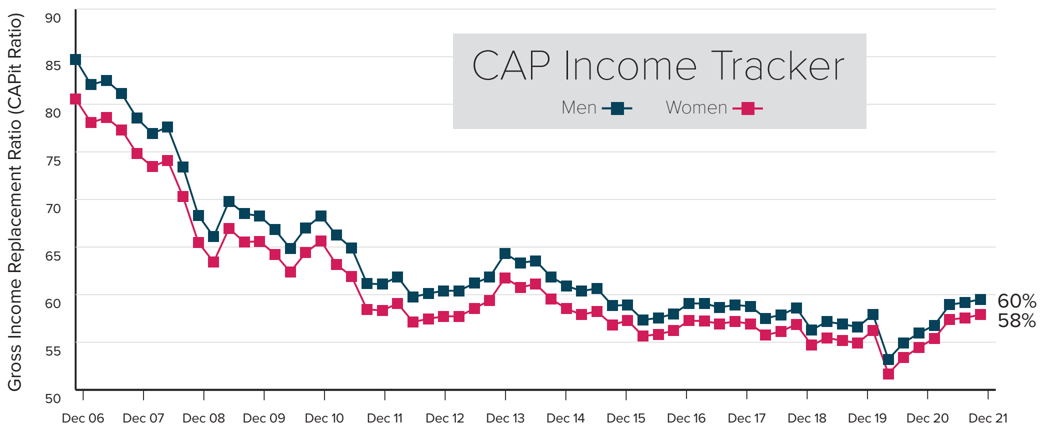
Capital Accumulation Plan Income Tracker

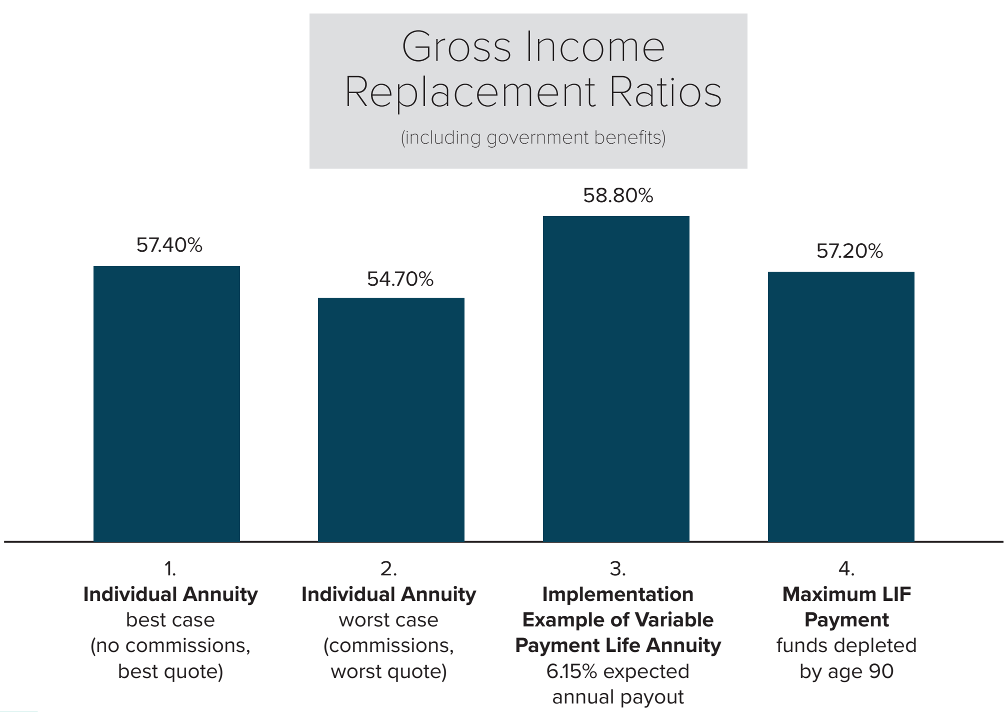
December 2021

Expansion of opportunities brings additional considerations

Despite muted investment returns in the third quarter, Capital Accumulation Plan (CAP) member outcomes improved as annuity rates continue to rise. A typical male CAP member retiring at age 65 at the end of September achieved a gross income replacement ratio of 59.5% and a female CAP member achieved 57.9% – a record high not seen since 2015.



While investment returns and annuity rates play significant roles in determining CAP member outcomes, retirement income options can play an equally important role. Over recent years, innovations and legislation in the CAP space have provided a new array of retirement income options for CAP sponsors and CAP members to consider. Below we take a closer look at the numbers for the current options available to CAP members.



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 $68,416 at September 30, 2021.

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The numbers show that there are significant discrepancies in lifetime income depending on the income option. Looking beyond the numbers there are other implications for CAP sponsors to consider, however, including fiduciary duties, eligible fund types, control of investment decisions, fees, time of conversion, and death benefits. Sponsors should take the time to understand the different solutions available today, as well as those on the horizon, to evaluate which will be of most interest and value to their members, and acceptable to the sponsoring organization.

Supporting members in using these vehicles to create retirement income should be given equal consideration. For employees, bringing together multiple sources of savings, retirement income, their expected expenses and any bequest preferences is a daunting task. Decumulation is also getting more complicated as many people have multiple employers during their career, are living longer and face a broader range of ways to decumulate their savings.

In this environment it is imperative that there are supports available to members to help them navigate these decisions. As we noted, there are significant financial implications depending on the options taken. Sophisticated modelling tools that are easy for members to use and understand, as well as one-to-one support are critical for helping members visualize the impact of their current planning and potential decumulation decisions (guaranteed vs. flexible, start dates, draw down rates, etc.).

As plan sponsors decide where they want to play in the decumulation space, the consideration of products needs to be evaluated in the context of the types of decisions members are facing and the level of support offered.

Assumptions

1. *Individual Annuity using the best rate on September 30 with no commission*
2. *Individual Annuity using the worst rate on September 30 for with a commission of 3%*
3. *An implementation example of Variable Payment Life Annuity through securities in a Mutual Fund with annual expected payout rate of 6.15%*
    - *Payment levels are assessed regularly and impacted by market conditions and unitholder redemptions (both voluntary and due to death)*
4. *Maximum LIF withdrawal rates with assets invested in a Balanced Fund that de-risks over 20 years using Eckler's long-term Capital Market Assumptions*
    - *Blend of male and female (50/50) mortality assumptions*

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Eckler is Canada's largest independent actuarial consulting firm. Based in Canada and the Caribbean, we are driven by our purpose to care and to do right by people so that together we can achieve a brighter, more secure future. We help plan sponsors take a progressive approach to defined contribution plan management to give members a realistic chance of achieving an appropriate level of income at retirement.