

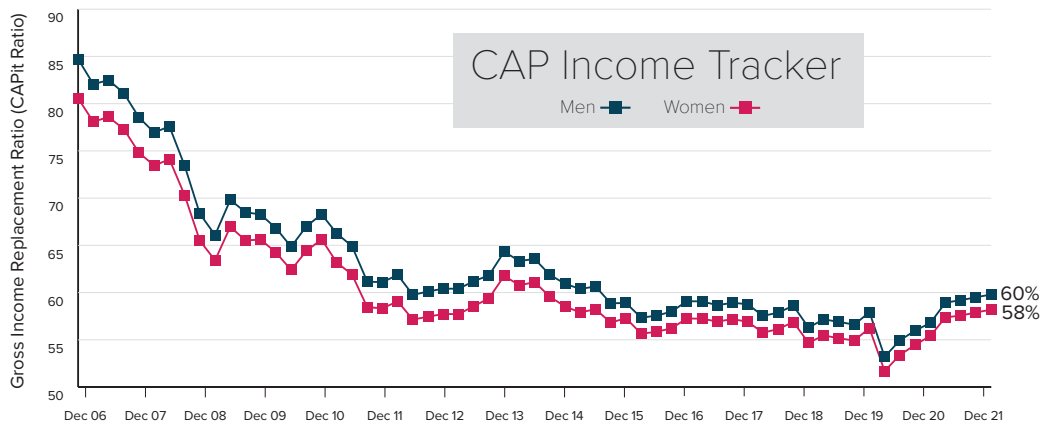
CAPit

Capital Accumulation Plan Income Tracker

February 2022

Increased focus on member outcomes

Despite uncertainties brought on by the Omicron coronavirus variant, markets held up in the last three months of 2021 and Capital Accumulation Plan (CAP) member outcomes continued to improve. A typical male member retiring at the age of 65 at the end of 2021 achieved a gross income replacement ratio of 59.9% and a female member achieved 58.2% - the highest levels we have seen in 7 years.



While CAP member outcomes continued to passively respond to changes in market returns and annuity rates, movement is afoot to further improve these outcomes through active decisions from both regulators and plan sponsors. In November, the FSRA/OSFI DC Technical Advisory Committee (TAC) put forward six recommendations (see table below) to CAPSA for strengthening the CAP Guidelines to improve the administration and investment of CAP programs. The first of the recommendations, highlights the importance of paying more attention to member outcomes rather than focusing solely on saving.

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, 2021.

FSRA/OSFI DC TAC Recommendations	Impact on member outcomes
1 Outcome-Focused Decision-Making: Highlight the concept of the purpose of a CAP plan by making it more resonant in plan governance activities	Embedding the plan outcome into the purpose of a CAP plan and putting more structure around governance activities will lead to plan sponsor decisions that are aligned with CAP members' retirement outcomes.
2 Member Engagement as a Pillar of Success: Include additional guidance for addressing the challenges of enhancing member engagement	Incorporating learnings from behavioural finance into how sponsors communicate with members to achieve improved outcomes.
3 Investments: Include more specific guidance into appropriate default fund selections and investment line-up design principles	Selecting default investment options that are aligned with the purpose of the plan to ensure the investments align with the desired outcomes.

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FSRA/OSFI DC TAC Recommendations	Impact on member outcomes
4 Administrator/Sponsor Responsibility: Administrators and sponsors of all CAPs should adhere to common standards of governance and responsibility to plan members	Easing the governance oversight of CAPs by ensuring consistent legislation, regulation and guidelines across all types of CAPs and across geographies to support the adoption and continuation of CAPs.
5 Value for Money: Highlight the importance of aiming to achieve value for money when making administration and investment decisions	Investment management fees and plan administration fees can erode CAP members' balance at retirement and income received in retirement, focusing on assuring value for the fees paid will enhance member outcomes.
6 Decumulation: Consider guidance to help support members during their decumulation phase	Members are faced with complex and difficult decisions at retirement that can lead to significant differences in their retirement incomes. Guidance and support to help members better understand their options and help with their decision making can lead to significantly improved outcomes.

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We expect Draft updates to the CAP Guidelines, including guidance on the decumulation of CAPs, to be released in the coming weeks. CAP plan sponsors will want to review updated guidance to consider the impact on plan administration and communication of their offering.