

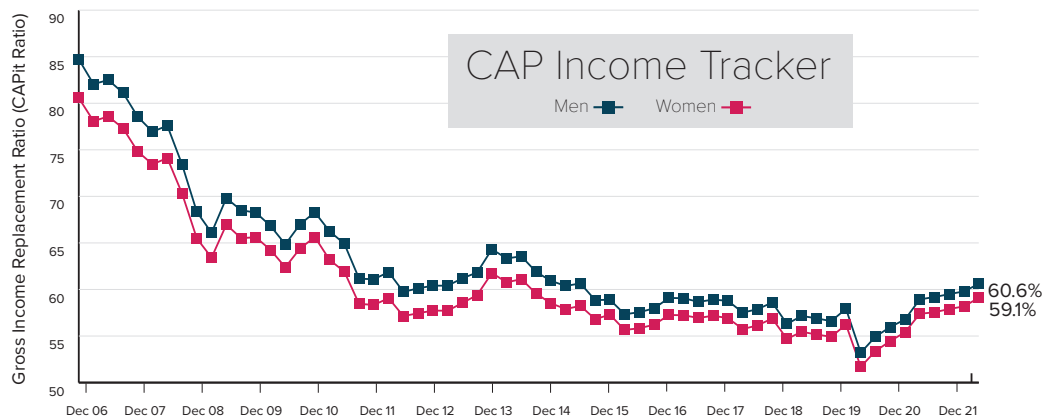
# CAPit

## Capital Accumulation Plan Income Tracker

May 2022

### The Difficulty in Predicting Outcomes

Given the negative events of late – Russia’s invasion of Ukraine, surging inflation and renewed COVID-19 outbreaks – it will be surprising to most to learn that Capital Accumulation Plan (CAP) member outcomes continued to improve in the first quarter of the year. A typical male member retiring at the end of March 2022 achieved a gross income replacement ratio of 60.6% and a female member achieved 59.1% – levels not seen since 2015.



While members will have likely seen a decline in their investment portfolios since the start of the year, an upward trend in gross income replacement ratios is likely adding to that surprise.

However, interestingly, rising interest rates, which have been a big contributor to investment market declines, have had a positive effect on annuity rates. As a result, the decline in portfolio value is being cushioned by higher annuity payouts.

CAP member outcomes have also benefitted over the past few years from another unexpected trend. Canadian plan members have reduced their home country bias, mirroring the shift in institutional portfolios out of Canadian equities. Exposure to Canadian equities declined from 23% of member account balances in 2010 to just 11% in 2020<sup>12</sup>. In view of the fact that Canadian equities have underperformed the global market over the last decade<sup>3</sup>, this shift has provided a welcome buffer for CAP plan members.

Planning for, and creating retirement income, can be a complex and daunting process. Understanding the many factors that affect member outcomes, and how they may interact, requires depth of knowledge and sophisticated tools. Providing plan members with financial wellness education, tools and support is critical to ensuring they achieve the outcomes they want in retirement.

1 Per Sun Life’s 2021 ‘Designed for Savings’ report. <https://www.sunlife.ca/workplace/en/group-retirement-services/insights/data-and-case-studies/designed-for-savings/>

2 Does not include exposure to Canadian equities within Balanced, Target Risk or Target Date offerings.

3 Period ending March 31st, 2022. Comparing the MSCI World Index in Canadian dollars to the S&P/TSX Composite Index.

### 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 March 31, 2022.

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