

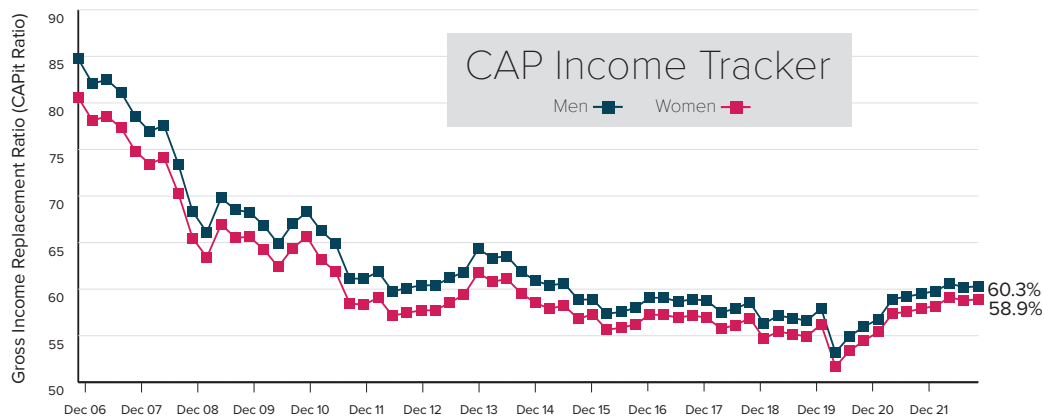
# CAPit

## Capital Accumulation Plan Income Tracker

October 2022

### CAP member protection in an inflationary environment

Soaring annuity rates, at levels not seen in decades, shielded members from the modest investment market declines seen in the third quarter. As a result, Capital Accumulation Plan (CAP) member outcomes saw modest increases in the same quarter. A typical male member retiring at the end of September 2022 achieved a gross income replacement ratio of 60.3% and a female member achieved 58.9%.



In the current environment, inflation is top of mind for all Canadians, particularly those nearing or already in retirement. For those already in retirement, ensuring their savings can support their needs is especially critical. The good news is, there are protective mechanisms available.

Among them is the beneficial effect of rising interest rates when purchasing annuities. Higher rates lead to locking in higher annuity payments. The Canadian Pension Plan ("CPP") and Old Age Security ("OAS") also provide a "buffer" as they are both indexed to inflation. However, while both do provide a level of protection, they take different approaches to indexation which can have a financial impact.

CPP rate increases are calculated once per year based on the average increase in inflation over the year divided by the average price level of the prior year. OAS rate increases on the other hand, are calculated four times per year based on the average change in inflation over a three-month period.

With this current approach it may take longer for CPP payments to catch up to inflation. Nevertheless, assuming inflation does not continue to increase significantly, both payments should increase to the level of inflation over time.

Interestingly, OAS payments were historically calculated on a 12-month basis. However, the government switched to a 3-month period in the 1970's to combat the significant rise in inflation seen during that period. It is worth noting that the government has taken an additional step this year to bolster OAS payments for individuals by providing an automatic 10% increase for seniors aged 75 and older.

While the effects of inflation have impacted us all, retirees with fixed incomes can find it even more difficult to bear. Adjustments to CPP and OAS are an incredibly valuable benefit to our social security and ensure that at least a portion of retirees' income will keep pace with rising prices.

### 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 September 30, 2022.

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