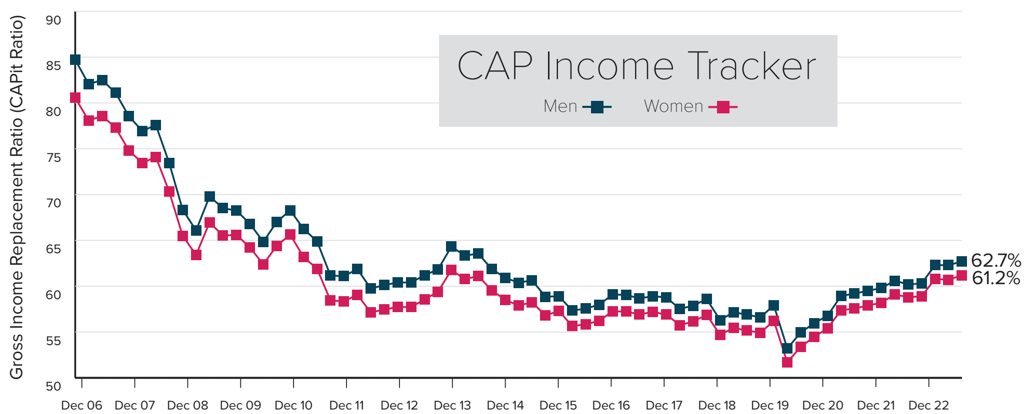
# CAPit

## Capital Accumulation Plan Income Tracker

July 2023

## Worry-free retirement

Capital Accumulation Plan (CAP) member outcomes continued their march upward in the second quarter of 2023, driven by increasing annuity rates and positive equity market returns. Gross income replacement ratios are at highs not seen for almost a decade. A typical male member retiring at the end of June 2023 achieved a gross income replacement ratio of 62.7% and a female member achieved 61.2%.




In the current economic environment, Canadians remain concerned about their ability to save for retirement. Top of mind is the risk that they will not have enough savings to carry them through their retirement years. The good news is there are ways to mitigate this risk. Annuities are one option worth exploring. The not-so-good news is that relatively few Canadians are taking advantage of the financial stability annuities can provide.

While interest rates are at the highest levels we have seen in over a decade, and correspondingly so too are the value of annuities, for many Canadians, there is still a lack of knowledge coupled with many misconceptions. Premiums are too high relative to the income provided, you lose out if you die early, you can make more money investing on your own, are just some of the most commonly cited misconceptions.

Yet, we can see from the chart below that across most years in retirement, annuities provide more income compared to drawing down from a LIF – even if the maximum withdrawals are taken. Some Canadians (if they live beyond age 90) will also outlive their money if they take the maximum LIF withdrawals each year and that retail investment fees also erode retirement income.

### *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 $71,209 at June 30, 2023.

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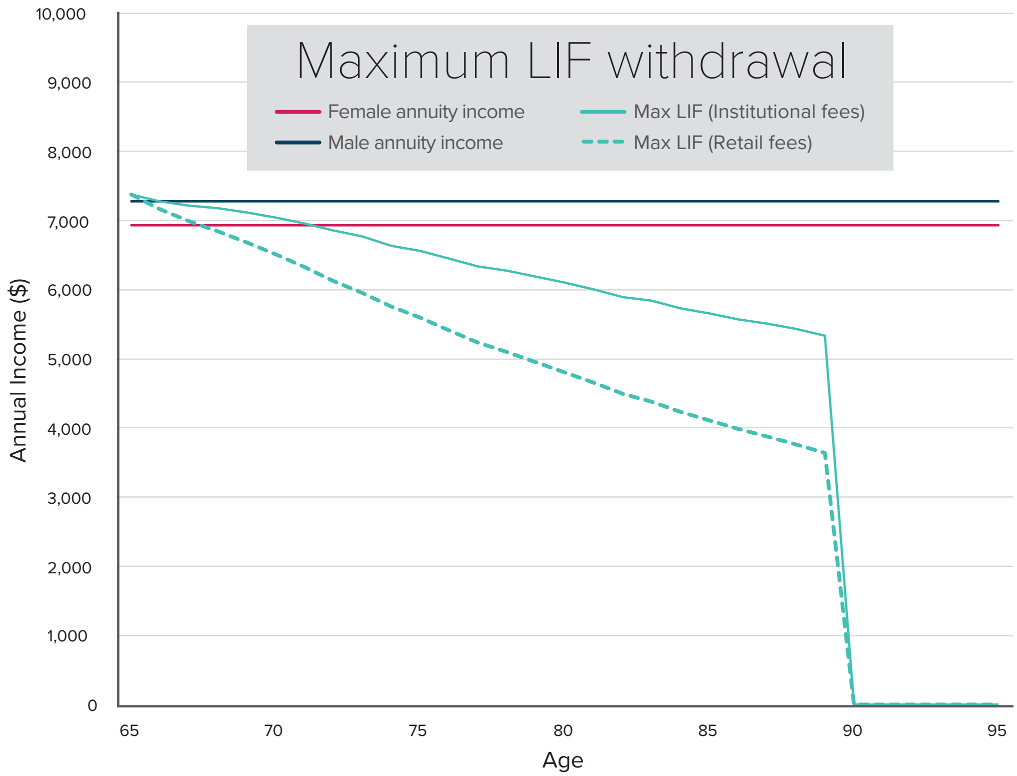


### ECKLER LTD.

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.

According to a recent CIBC poll, nearly two thirds of working Canadians worry about running out of money during retirement and more than one-third are delaying their retirement plans over concerns about retirement income adequacy. That's a lot of CAP members worried about retirement and staying in the workforce longer than they want to.

We encourage CAP sponsors to look to defined benefit plan sponsors for inspiration on the benefits of annuitizing. Last year saw another record year for annuity purchases among DB plan sponsors who are embracing the value of annuitization as an effective risk mitigation strategy.

To support employee financial wellness and ensure their workforce has the knowledge – and the income – to retire when they want, and how they want, CAP sponsors should help members understand the role of guaranteed income in retirement as well as educate members on the benefits of annuities and other guaranteed sources of income. Reviewing the tools and information provided by your record keeper is a good place to start.

Assumptions:

- $100,000 starting balance
- Invested 40/50/10 in global equity/universe bonds/cash from age 65-70, moving to 20/70/10 over 20 years from age 70-90
- Eckler's 2023 stochastic model of capital market returns
- LIF fees: institutional 0.35%, retail 2.0%
- Single life, 10-year guarantee annuity rates at June 30, 2023 estimated by Eckler.