

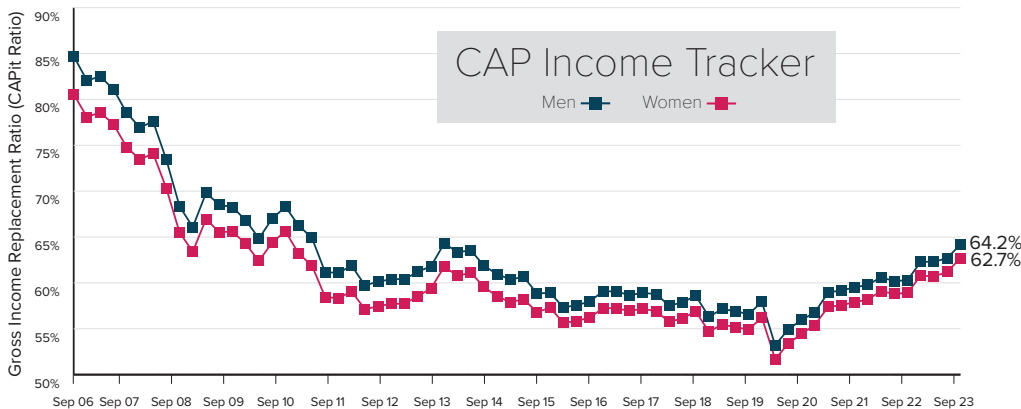
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Capital Accumulation Plan Income Tracker

October 2023

How much is enough?

Despite negative market returns, driven by a jump in annuity rates, Capital Accumulation Plan (CAP) member outcomes surged upward in the third quarter of 2023 and gross income replacement ratios remained at multi-year highs. A typical male member retiring at the end of September 2023 achieved a gross income replacement ratio of 64.2% and a female member achieved 62.7%.



Over the past three years, the gross income replacement ratio for a typical CAP member has surged upward on the back of decades high annuity payout rates, which despite market volatility, has helped improve the ability of CAP members to maintain their standard of living in retirement.

But the question remains: Is it enough? A 2023 CIBC poll shows that more than half of Canadians say they do not know how much they need to save for retirement and nearly two-thirds of working Canadians worry about running out of money during retirement. When we consider that for the first time in our history, there are more people over the age of sixty-five than there are under the age of 15, that's a lot of people for whom that question of "what is enough" is currently, or will soon become, critically important.

Despite the commonly held belief that a final earnings replacement rate of 70% is sufficient to maintain living standards in retirement, empirical evidence, discovered through the work of Dr. Bonnie-Jeanne MacDonald, reveals this to be false. In fact, the income replacement ratio needed for Canadians to maintain their living standard in retirement can vary considerably.

Dr. MacDonald developed an alternate solution, that plan sponsors can use to help members maintain their living standards in retirement, known as the [Living Standards Replacement Rate \(LSRR\)](#). The LSRR determines how well a person's living standards will be maintained after retirement by estimating how much money is spent to support living standards while working compared to how much they will have available to spend in retirement.

Plan sponsors can leverage tools like the LSRR to help members determine a savings target that more accurately reflects their unique circumstances. Providing members with a savings target based on living standard continuity will help employees know if they are on track to reach their personal retirement goals or act as a trigger to revisit their retirement plan.

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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.

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 September 30, 2023.

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