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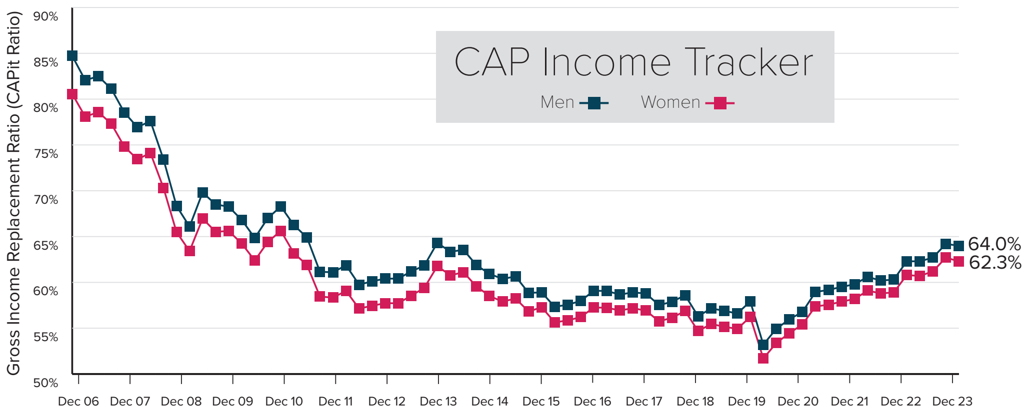
Capital Accumulation Plan Income Tracker

February 2024

An exciting addition to the Canadian decumulation landscape

Capital Accumulation Plan (CAP) member outcomes modestly declined in the fourth quarter as surging equity markets were not enough to offset the significant (-8%) decline in annuity rates. Nevertheless, gross income replacement ratios remain at multi-year highs. A typical male member retiring at the end of December 2023 achieved a gross income replacement ratio of 64.0% and a female member achieved 62.3%.



Despite the decline in headline inflation, many Canadians continue to struggle with the high cost of living. Saving for retirement (and saving enough) continues to be a challenge. The good news is annuities can offer many benefits to those in retirement including guaranteed income for life and, in the current high-yielding environment, income replacement ratios are generally high.

Annuities are not failsafe, however, and may not always keep pace with the cost of living. Historically, registered retirement income funds (RRIF) and life income funds (LIF) have been the retirement vehicles of choice for those seeking a greater degree of inflation protection through potential investment gains. Unfortunately, these too have some downside – especially in a volatile market where capital loss is a considerable risk.

Fortunately, another option is soon to be a reality in Canada. Variable payment life annuities (VPLAs), also known as dynamic pension pools, attempt to bridge the gap between a traditional life annuity and an RRIF or LIF by providing income for life through longevity pooling as well as the opportunity for income growth through market participation.

Not unlike a defined benefit pension plan, VPLAs pool plan member assets and invest those assets in the market. Members are then provided an income based on the performance of those assets and the mortality experience of the members in the pool. While variable, through economies of scale, access to higher-yielding assets, and longevity pooling, VPLAs provide a lifetime income as well as access to additional expected returns that can help provide inflation protection in retirement.

With the amendment to the *Income Tax Regulations* in 2021 and pension legislation for VPLAs now in place for several jurisdictions, VPLAs are now a viable possibility for Canadian retirees. Still to

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 December 31, 2023.

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come, however, are the regulations to set out the details of how these plans will work. Eckler hopes to see consultations on VPLA regulations for some jurisdictions in 2024.

Eckler is proud to be at the forefront of VPLA development and research in Canada by co-authoring research and advocating for an improved policy framework. Excitedly, we are working with the Public Employees Pension Plan in Saskatchewan, the largest defined contribution plan by assets in Canada, at the forefront of innovation, to bring the first VPLA to the Canadian pension landscape in decades.

VPLAs are an important and exciting evolution in the decumulation landscape in Canada and will provide a broader range of options for those entering retirement.

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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.