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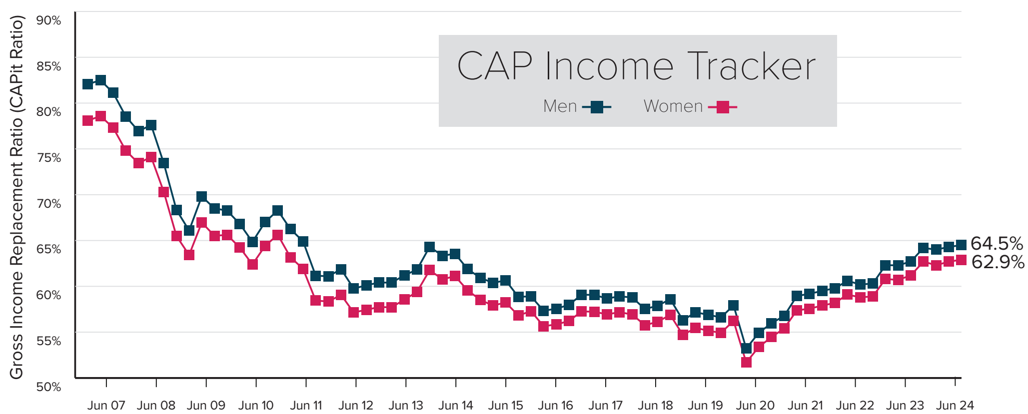
Capital Accumulation Plan Income Tracker

July 2024

Impact of rate cuts on retirees and near retirees

In the second quarter of 2024, outcomes for Capital Accumulation Plan (CAP) members continued to see an uptick as annuity rates rose. Gross income replacement ratios remain at multi-year highs, similar to, if not exceeding, the ratios we saw a decade ago. A typical male member retiring at the end of June 2024 achieved a gross income replacement ratio of 64.5% and a female member achieved 62.9%.



Interest rate cuts have a multifaceted impact on the economy and will affect each plan member differently depending on the type of debt they have and their sources of income or investments.

For retirees or near retirees, lower interest rates can translate into lower interest payments on existing debts such as mortgages, personal loans, or lines of credit. As such, they may find it easier to manage their debt obligations and add to their retirement savings with the increased cashflow.

Lower mortgage rates also present an opportunity for retirees looking to downsize, relocate, or access home equity lines of credit. However, lower rates may also contribute to higher home prices. While this is good news for those who already have suitable housing lined up, it could present a challenge for those who do not.

Given the negative correlation between interest rates and bond yields, however, for retirees and near retirees (who often have a shorter investment horizon) who rely on income from bond or fixed income investments, a decrease in interest rates may necessitate a change in spending plans or adjustments to their asset allocation to balance the need for income with the desire to preserve capital and mitigate risks.

The impact of interest rate cuts on retirees, and those nearing retirement, is nuanced and dependent on each person's specific financial situation. The potential benefits of debt reduction and housing affordability is often balanced against the challenges related to lower bond yields and investment outcomes.

Retirees and pre-retirees alike may need to adapt their financial plans and investment strategies to navigate the evolving economic landscape and seek financial advice to ensure a sound plan for achieving retirement goals.

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 $73,777 at June 30, 2024.

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