

DEFINED BENEFIT VS DEFINED CONTRIBUTION PENSION PLANS 101

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Executive pension plans in Canada have traditionally been shaped more by legacy practices than by strategic intent. Historically, defined benefit (DB) plans dominated the landscape, offering predictable retirement income based on formulas tied to salary and years of service. However, evolving disclosure requirements and the growing financial burden of DB liabilities have prompted many companies to reassess these arrangements. Today, defined contribution (DC) plans are gaining traction, especially among TSX60 companies, reflecting a broader shift in executive compensation toward long-term, equity-based incentives.

Note: This briefing examines supplemental DB and DC pension plans offered to executives. These plans sit outside the registered pension framework and are not broadly available to all employees.

Understanding Defined Benefit vs Defined Contribution

DB plans guarantee retirement income based on a formula that typically includes pensionable earnings, years of credited service, and age at retirement. These plans place the investment and funding risk on the employer, creating substantial long-term liabilities on the company's balance sheet.

DC plans, by contrast, do not promise a fixed retirement income. Instead, the final value depends on total contributions and investment performance. Employees usually contribute a portion of their salary, with employers providing matching or fixed contributions.

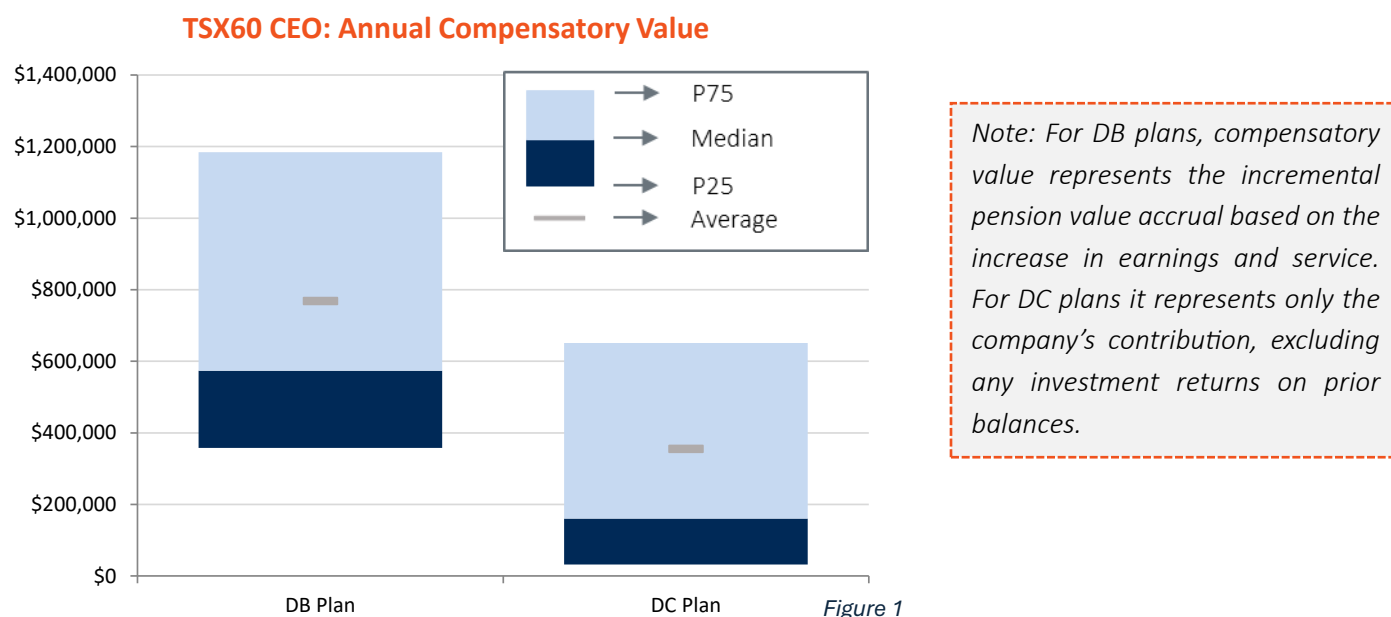


Key Difference and Financial Impact

One significant distinction between DB and DC plans is the leverage effect of pensionable earnings, especially for long-tenured executives. DB plans often use final average earnings, which can be substantially higher than career averages, leading to large pension values. Some companies attempt to mitigate this by implementing caps or adjusting formulas.

Data from TSX60 CEOs highlights the disparity: the median annual retirement income under DB plans is \$1.18 million, with a median accrued value of \$11.1 million- nearly 5x the \$2.33 million median accrued value for DC plans. DC plans typically involve employee-directed notional investments. Both are generally unfunded obligations.

The annual compensatory change, reported in the Summary Compensation Table, reflects the value accrued in a given year. This figure is significantly higher for DB plans compared to DC plans, underscoring the financial impact of DB arrangements [Figure 1]



DB plans are most common in regulated, capital-intensive sectors such as Financials, Telecommunications, and Utilities. Of the 23 TSX60 companies offering DB plans to their CEOs, over half are concentrated in these industries, including major banks and telecom providers. These firms often have the resources and stability to manage long-term pension obligations. The table below provides the total accrued value for largest CEO DB pension plans among the TSX60 [Figure 2].

Largest CEO DB Pension Plans Total Accrued

Rank	Company	Industry	Value (\$000's)
1	Power Corporation of Canada	Insurance	\$40,094
2	TELUS Corporation	Diversified Telecommunication Services	\$35,575
3	Imperial Oil Limited	Oil, Gas and Consumable Fuels	\$23,415
4	Royal Bank of Canada	Banks	\$21,229
5	Intact Financial Corporation	Insurance	\$19,322
6	The Toronto-Dominion Bank	Banks	\$19,106
7	Rogers Communications Inc.	Wireless Telecommunication Services	\$17,370
8	CAE Inc.	Aerospace and Defense	\$14,115
9	Alimentation Couche-Tard Inc.	Consumer Staples Distribution and Retail	\$13,477
10	Metro Inc.	Consumer Staples Distribution and Retail	\$11,931

Figure 2

Factors Influencing Pension Values:

The reported value of a pension plan, especially the annual compensatory change disclosed in the SCT, is influenced by key inputs used in calculating both DB and DC benefits.

Factors Affecting Pension Values	Affects DB?	Affects DC?	Impact on Pension Value
Pensionable Earnings	✓	✓	- Formula is based on salary alone, or base salary and annual bonus - Increases to either salary or bonus payout can increase the accrued value of the pension in a given year (greater impact on DB than DC).
Age & Credited Service	✓		- Each additional year of credited service increases entitlement under the DB formula, directly raising the overall pension value. - Age affects the actuarial present value of the pension: the closer a CEO is to retirement (i.e., age 65), the less discounting is applied, resulting in a higher reported value. <i>Note: DC plans are indirectly impacted by years of program participation, whereby contributions and investment returns accumulate over time.</i>
Actuarial Assumptions	✓		Actuarial assumptions, such as discount rates, inflation, and life expectancy, affect the underlying pension value but are generally viewed as non-compensatory (not reported in the summary compensation table)

TSX60 Practices

Among TSX60 companies, 32% offer DC plans to their CEOs, while 27% maintain DB plans. Notably, 30% of companies do not disclose any CEO pension arrangement [Figure 3]. This shift away from traditional pensions is influenced by several factors:

- Reduced need for retirement compensation:** The size of TDC is now multiples of what it has historically been, allowing independent wealth to be accumulated and often eliminating the need for companies to play a role in retirement planning or funding.
- Emphasis on long-term equity:** Generous long-term incentive plans (LTIPs), often with multi-year vesting periods, are increasingly seen as the primary wealth-creation vehicle for executives.
- Shareholder alignment:** Investors tend to prefer LTIP-based compensation over large pension entitlements, as equity is performance-linked and considered “at-risk.”
- Cost and financial impact:** As executive salaries and bonuses rise, the cost of funding DB plans can create a significant financial obligation for companies, potentially affecting performance metrics.
- Shifting career patterns:** With shorter average employment tenures and more multiple employer careers, the perceived value of traditional plans is arguable less than what it would be for one company career employees.

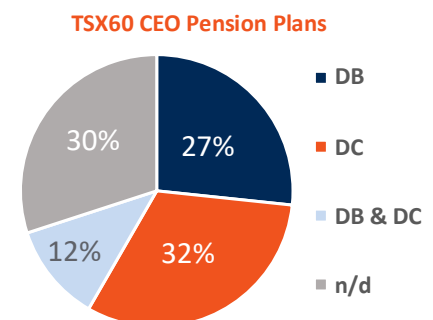


Figure 3

6. **Shifting competitive market landscape:** While older companies may display inertia with legacy DB plans, newer companies are more likely to turn to DC plans or avoid the use of a pension plan altogether.

Considering the shift from a DB to DC? Four methods include:

1. **Grandfathering:** existing employees remain in DB and only new hires are enrolled in DC plan
2. **Soft Freeze:** freezes credited service, but allows existing DB benefits to continue growing with earnings
3. **Hard Freeze:** immediately freezes any further accruals or earnings on existing accruals
4. **Deferred Share Units (DSUs):** grant of DSU and similar vehicles can be useful tools as part of the overall transition process

Conclusion

The Canadian executive pension landscape is evolving. While DB plans remain prevalent in certain sectors, many companies are transitioning to DC plans or eliminating pensions in favor of equity-based incentives. Regardless of the structure, retirement programs should align with a company's compensation philosophy, risk tolerance, and talent strategy. As long-term incentives gain prominence, organizations should evaluate the strategic role of pensions in attracting and retaining top executive talent.

Notes

- Source: Company Proxy Filings
- Unless otherwise noted, all values are in \$CAD
- TSX60 data reflects 2025 and 2024 proxy filings. Unless otherwise noted, figures are reflective of TSX60 CEO data