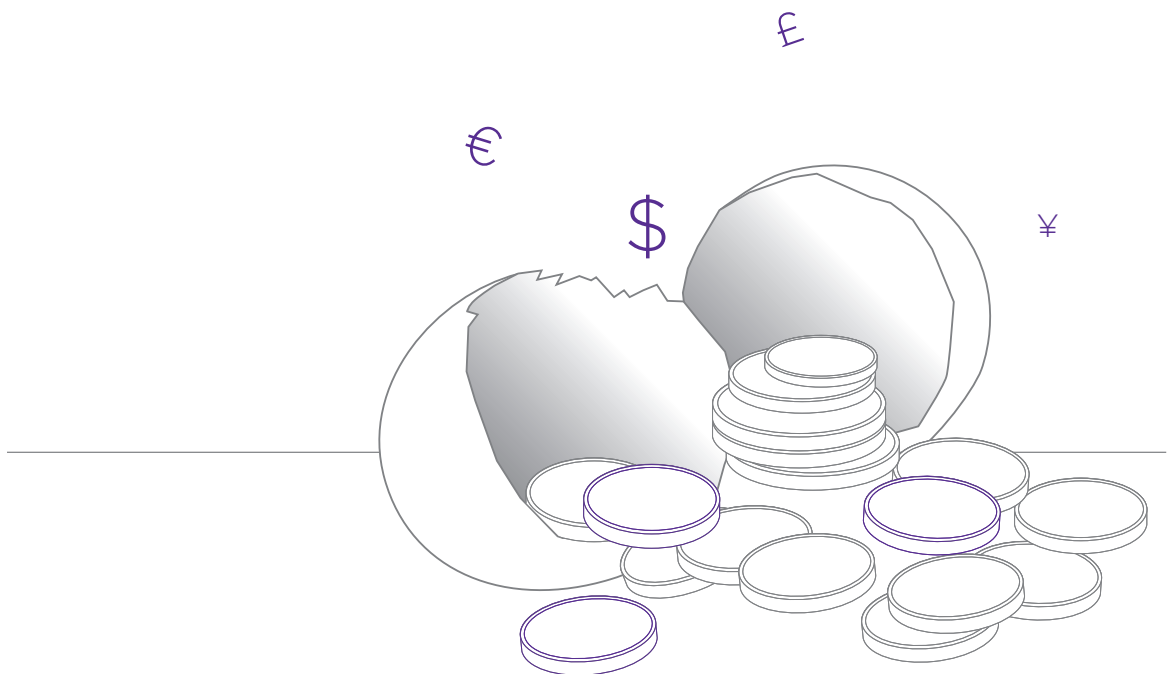


The DB pension promise:

# Keeping the faith

How plan members view their  
employer-sponsored nest egg

October 2011



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A handwritten signature in black ink that reads "Regina Baezner". The signature is fluid and cursive.

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A handwritten signature in black ink that reads "Scott MacDonald". The signature is bold and cursive.

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# Fulfilling the pension promise

Pension plan sponsors are grappling with a series of challenges, from threats of inflation and asset allocation strategies to volatility risk and interest rate risk. All need to be addressed and carefully managed in order to achieve one fundamental objective—the “pension promise.” The essence of that well-worn phrase is rather simple: to sustain the plan and ensure there are sufficient assets to satisfy future obligations to plan members.

While there is in-depth research that explores the pension industry from the plan sponsor perspective, it is the perceptions of the defined benefit (DB) plan members themselves that presented itself as an obvious information gap. Do plan members truly believe the pension promise? Or is there tremendous unease in light of economic circumstances and media coverage that makes headlines out of plan shortfalls? Are they ramping up savings in other investment vehicles to hedge their bets?

In an effort to discover potential disconnects between plan sponsor realities and those of the plan members, RBC Dexia Investor Services and Grant Thornton LLP sponsored a national survey to gauge the views of Canadians that participate in, or are currently benefitting from, a defined benefit pension plan. The results reveal a particularly high level of confidence in both the integrity and sustainability of defined benefit plans—regardless of whether the plan members participate in a private or public plan. Moreover, most respondents pat themselves on the back for having a rather high level of knowledge related to financial matters. And plan sponsors take note: employees highly value their DB plans.

The compelling results provide for interesting analysis and our Advisory Board panel contributed valuable industry expertise and context.

We are delighted to share the survey findings and hope you find this report to be relevant and insightful.

# Thank you

RBC Dexia and Grant Thornton LLP would like to thank the survey advisory board for contributing their time and insights. Without their guidance and expertise, this report would not have been possible.



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# Pension positive

## Plan members unaware of DB financial woes

### Canadians are an optimistic lot.

Despite financial uncertainties globally and interest rate lows domestically, Canadians with access to a defined benefit (DB) plan are confident that their pension savings will be there when they retire. In this DB Pension Member study sponsored by RBC Dexia and Grant Thornton LLP and conducted by Rogers Publishing Inc., the research findings also highlight that having a DB plan makes employees view their employer very positively—and that it's a factor in their job choice.

Amidst the optimism about the DB pension promise, however, lies a troubling reality: the majority of plan members in both the private and public sector are not aware of

much their DB plan is costing them and what kind of lifestyle it will afford them in retirement. The knowledge gaps are particularly worrisome given that the average

“Despite financial uncertainties globally and interest rate lows domestically, Canadians with access to a defined benefit (DB) plan are confident that their pension savings will be there when they retire.”

the challenges facing DB plans in Canada, including underfunding, insolvency and market volatility. They are also unclear about how

survey respondent is 50.5 years of age—and getting ever closer to retirement—and has been in their plan for an average of 17+ years.

### Key findings include:

- **83% trust** that when they retire their organization's DB plan will have sufficient money to pay them
- **85% are confident** that their employer's pension plan is competitive with other Canadian DB plans
- **58% say** the pension and retirement package was an important factor in their decision to join their current organization
- **Annual pension** statements and the human resources department top the list of information sources—far fewer members say they turn to the Internet for information on the plan
- **31% don't know** what percentage of their current annual income they will need to achieve their expected standard of living in retirement
- **38% don't know** what percentage of their salary they contribute to their DB pension plan
- **74% say** their DB plan is their primary vehicle for retirement savings
- **Private sector participants** (82% versus public sector 84%) are equally confident their DB plans will be there for them when they retire and that they'll get the expected benefits

# The DB pension promise: Keeping the faith

## How plan members view their employer-sponsored nest egg

**Canadians with access to a defined benefit (DB) plan** demonstrate overwhelming confidence that their pension savings will be there when they retire, according to the findings of this national DB pension member study. This

offer a DB plan, it also reveals a troubling reality. The majority of plan members in both the public and private sector are unaware of issues threatening the health of DB plans in Canada—underfunding, insolvency and market volatility. They also don't have

attracting employees. And yet it also contains worrying data about how little those same employees know and understand their plan, its costs and deliverables relative to them. And that is a major risk for employers, employees and the health of the DB pension system.

“The majority of plan members in both the public and private sector are unaware of issues threatening the health of DB plans in Canada.”

in-depth research, sponsored by RBC Dexia and Grant Thornton LLP and conducted by Rogers Publishing Inc., also highlighted that having a DB plan makes employees view their employer very positively—and that it's a factor in their job choice.

While the study contains a lot of good news for employers who

a clear grasp of the role their DB plan should play in their retirement, despite the fact that the average respondent is 50.5 years old and has been in the plan for 17.1 years.

Indeed, the results are a study in contrasts—the report provides significant positive data about the valuable role of DB plans in

To help navigate through the research results, this report draws on responses and reactions from an advisory board comprised of pension professionals and industry experts drawn from across Canada. The results showed advisory board members that there are knowledge gaps and that a lot of work needs to be done by DB plan sponsors (both private and public sector) to clearly communicate the value of the DB pension promise to employees and be more transparent about the challenges facing it.

# DB plan members

## By the numbers

To fully understand the implications of the data, it is important to have a clear picture of our respondents and what the average plan participant or non-participant looks like. Demographic influences, such as age and income level are strong factors that are prominent throughout the report. For example, the relatively high age of respondents paints a picture of individuals rapidly approaching retirement, with perhaps a more pressing interest in pension issues.

Data for the DB pension member study was collected online between April 28

and May 16, 2011. The study is based on survey results from 879 Canadians who participate in an employer- or union-sponsored DB pension plan. An additional 127 Canadians who are offered but do not participate in their employer- or union-sponsored DB pension plans also responded. The participant data is weighted according to Statistics Canada data, to accurately reflect the composition of DB plan members by gender, region and public versus private sector.

The table below outlines some of the key demographics for all respondents.

	DB participant	DB non-participant
Number of respondents	879	127
Average age	50.5	50.1
Average household income (CAD)	\$96,200	\$80,000
Gender (men versus women)	50% vs. 50%	33% vs. 67%
Proportion with post-secondary education	89%	88%
Average time in DB pension plan	17.1 years	N/A
Currently receiving a DB pension	17%	N/A
Public versus private	64% vs. 36%	54% vs. 43%
Union versus non-union	52% vs. 48%	40% vs. 57%
Average number of employees in organization	24,536	10,210

*As a note, some response categories in this report do not add up to 100% due either to the rounding of numbers or questions that allowed respondents to provide multiple responses.*

# Member satisfaction and confidence in DB plans

One of the main goals of the research is to gauge whether or not DB plan members are happy with their plans—and whether they're confident the benefit will be there when they retire. Great news for sponsors of DB plans in Canada—survey results show that not only are plan members very confident about their pensions, they actually think of their employers more positively because of the DB plan offered.

Eighty-three percent of respondents say they trust that when

they retire their organization's DB plan will have sufficient money to pay them (see Figure 1). Moreover, 85% are confident that their employer's pension plan is competitive to other Canadian DB plans (see Figure 2).

Those high confidence levels were not limited to public sector plan members with what are often perceived as "gold-plated" pension plans. Private sector participants (82% versus public sector 84%) are equally confident their DB plans will be there for

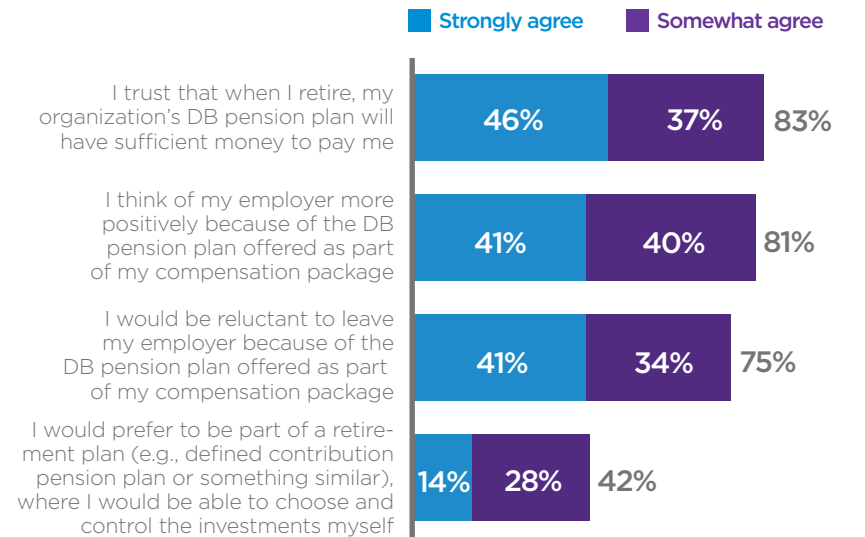
them when they retire and that they'll get the expected benefits.

Even more good news for sponsors of DB plans—employees tend to have a more favourable view of their employer because of the plan. Eighty-one percent agreed with the statement, "I think of my employer more positively because of the DB pension plan offered as part of my compensation package." And a further 75% say that their DB plan makes them reluctant to leave their employer.

While Canadian plan members have put their trust in their employer and their DB plan, their confidence is worrying, especially given the fact that they appear to be unaware of some of the major issues currently affecting the health and viability of DB plans, particularly in the private sector (i.e., underfunding, plan wind-downs and employer insolvency).

Just how out of the loop are they? When asked what they recall reading, seeing or hearing about company or union pension plans in Canada, only 5% of current DB plan members say they recall hearing about underfunding problems or deficits in DB plans, and only 4% cited that DB

**Figure 1** Statements regarding DB pension plans





plans are becoming more rare and being phased out. As well, very small proportions of members recall hearing that DB plans are converting to defined contribution (DC) plans (5%), that the numbers of DB plans is declining (3%) or that employers want to opt out of plans and reduce benefits (2%).

Members of the advisory board, who are particularly well versed in pension issues, were impressed by the high levels of optimism about the pension promise, particularly among members of private sector pension plans. Yet they were concerned about the vast majority of plan members who appear to be in the dark about the major issues facing DB pension plans, particularly given their high levels of confidence their pension will be there when they retire.

“I am surprised how many are so confident that their pension plan is competitive,” remarked Ian Markham, senior consulting actuary with Towers Watson. “I can’t imagine no one knows what the issues are,” he said, adding that pensions have been in the headlines more over the past decade in the wake of the financial crisis and high-profile cases of pension underfunding in the private sector, such as Nortel and Stelco.

However, such problems have escaped the notice of members who are highly optimistic their plans will be there for them when they retire. “The fact that DB pension plans are in decline doesn’t seem to make an impact on how

people feel about their plans,” said Rosemary McClean, senior vice-president, member services at the Ontario Teachers’ Pension Plan.

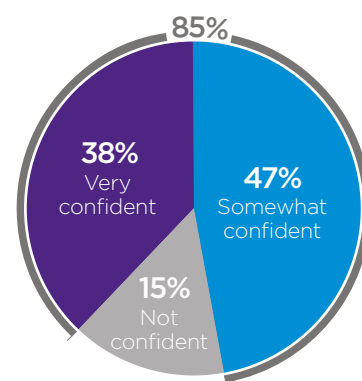
Scott MacDonald, head, pension, insurance & FI product at RBC Dexia wonders about the role of the employer in communicating with members about the health of their plans and specific issues facing it, particularly post-financial crisis. “It would be very interesting to see how transparent the employers are around communicating market conditions,” he said.

While plan members are confident about their plans, quite a few (42%) still say they would prefer to be part of a pension plan that allows them to choose their own investments, for example, a DC plan. And while 58% said they disagreed with this point of view, only 21% did so strongly. Advisory board members questioned whether plan members really understand their DB plan when so many say they would prefer to make investment choices on their own. And what does such a finding say about their understanding of the real value of a DB plan?

What is clear is that respondents appear to be focused on long-term sustainability. When asked how they would prefer their plan’s assets to be managed, 69% opted for a balanced portfolio and 20% opted for lower risk, while only 3% would prefer a higher-risk profile.

For the advisory board, these results show that neither plan members nor plan sponsors can

**Figure 2** Confidence in DB pension plans



afford to keep their heads in the sand when it comes to issues that could affect their pension benefits.

“Plan members just want to sit back and not have to worry,” said Stephanie Griffith, executive vice-president, Bilsland Griffith Benefit Administrators. “DB plans are complex and hard to understand, and it’s scary to see a report about underfunding—you think it won’t be there.”

At the same time, sponsors have a big responsibility. “The results showed me that simply sponsoring a DB pension plan, regardless of the features, builds trust and optimism in an organization,” said Derek Dobson, CEO and plan manager of the CAAT Pension Plan. But employee confidence and optimism doesn’t come for free. “Employers have to take that optimism and trust to heart and ensure that they manage these plans sustainably so they can properly fund those obligations. If they want to be successful long term, maintaining that trust is paramount.”

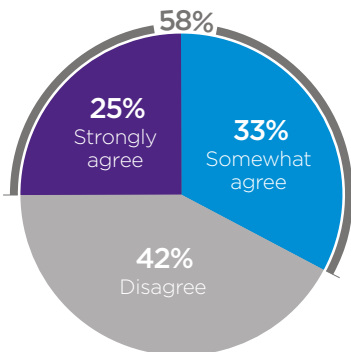
# The role of DB plans in attraction and retention

While DB plan members might close their eyes and ears to issues that could negatively impact their pensions, one thing is very clear: the prospect of a DB pension is a big part of why they took the job. Fifty-eight percent of respondents agree that the pension and retirement package was an important factor in their decision to join their current organization (see Figure 3). This is especially true among those in the public sector (63% versus 49% in the private sector).

Clearly, prospective employees are drawn to a DB plan, especially in times of economic uncertainty. The fact that DB plans can play such

**Figure 3** Influence of pension/recruitment package in joining current organization

The pension and retirement package was an important factor in my decision to join my current organization



an important part in attracting employees was welcome news for the advisory board, many of whom are industry veterans. “This is truly something that DB plan sponsors can leverage,” said Gretchen Van Riesen, principal, GVR Consulting. “It refutes the perception I’ve always had that pensions are a retention tool and not a means of attracting employees, at least amongst private sector organizations offering pension plans.”

While a DB plan can help draw prospective employees, the data again shows significant knowledge gaps around how DB benefits work. Moreover, there is a lack of clarity around who is eligible and how to enroll. This is particularly evident among the 127 survey respondents that do not participate in their DB plan. Approximately two in five (41%) report that their plan is mandatory, but when asked why they do not participate, just 10% report it is because they are not yet eligible. Overall among participants, 84% say their plan is mandatory, while just 16% report it is voluntary. In addition to not yet being eligible, an equal number (10%) cite lack of information as the reason they’re holding back from joining their

employer’s DB plan—and another 9% say they prefer the company’s DC option and have opted for that, even though they could have chosen the DB option. Eight percent are instead saving on their own through registered retirement savings plans (RRSPs) or through their bank.

Given what industry professionals know and understand about the high value of DB plans, the results caught members of the advisory board off guard. “I am surprised to see there are so many reasons a person would not participate in a DB plan—I’d think it would just be a question of eligibility,” said McClean. “To me, it shows they don’t really know why, which reinforces the result that so many people aren’t sure whether their DB plan is mandatory or voluntary.” Specifically, the fact that 10% are holding back because of a lack of information and communication was significant for the advisory board, as was the number of people who opted for a DC plan or RRSP savings over an employer-sponsored DB plan. They were also concerned about a low level of understanding about the benefits of a DB plan—a lack of understanding that is prevalent throughout the research.

# Member understanding of the DB plan

In gauging how much plan members know about their DB benefit, we first set out to determine how respondents perceive their own financial skills. Overall, they tend to rate themselves highly, with 24% rating their knowledge of financial matters as excellent or very good. Just over half (53%) say their understanding of financial matters is “somewhat good” and only 22% admitted their knowledge of financial matters is poor or that they have no understanding.

Respondents also rate their knowledge of their DB plan quite highly, with 42% calling it excellent or very good and only 15% rating it as poor or no understanding (see Figure 4). Furthermore, nearly half, 49%, say they have an excellent or very good grasp of how much they will be receiving in retirement, while only 15% admit they don’t have a good handle on it. Plan knowledge appears to increase with length of time enrolled in the plan, jumping from 39% who have been in their DB plan for just up to five years, to 57% of those enrolled the longest (more than 20 years). Those closer to retirement are also more likely to report a high level of knowledge (55+ 55% versus 43% of those 18 to 34 years of age.)

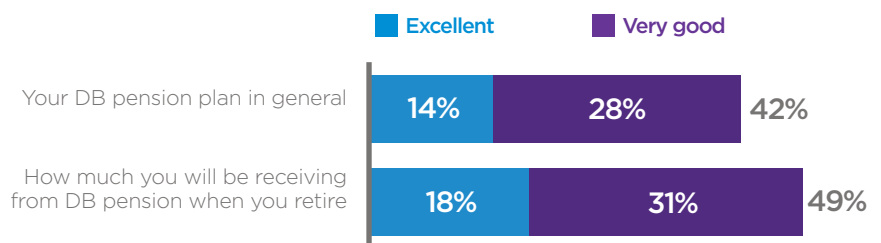
While respondents think they have a clear understanding of their plan, many don’t appear to know how much it is costing them. When asked what percentage of their salary they contribute to their DB pension plan, a significant 38% say they don’t know.

The knowledge levels of plan members rang true for Emilian Groch, CEO of the Alberta Teachers’ Retirement Fund Board. “It’s hard to effectively communicate with plan members and to get them to understand things—it’s not until the moment they retire that they

have fostered new ideas to sustain DB plans into the future, added A. Marc Deschamps, senior audit partner for pensions at Raymond Chabot Grant Thornton LLP.

However, advisory board members noted that employees who don’t fully understand how a DB plan works also risk making poor decisions. Debera Tomalty, treasurer of IBM Canada Region for IBM Canada, said, “For a company like ours, if you ask the Generation Y workers coming in, many would say they don’t expect to stay with you for more than six months,”

**Figure 4** Understanding of DB pension plan



get a true sense of what their plan is and isn’t.” Such belated interest is surely one of the reasons contributing to the decline in DB plans faster than anyone anticipated. Earlier interest and participation on the part of plan members could

she explained, noting that short-term thinking means they don’t choose to join the DB plan they’re offered. “Then they end up staying for years and it turns out they haven’t made the right decisions up front to join the plan.”

# Information and communication needs

Most members say they are satisfied with the frequency and quality of the information they receive about their DB plan. They are most satisfied with their hard-copy statements (79%), followed by access to the website (74%) and other educational materials provided about the plan (70%) (see Figure 5). However, some verbatim comments point to a sense of overall dissatisfaction with the level and timing of communication provided to plan members. A number commented that they only see a yearly statement and little educational material.

When they do need information, where are they going to find it? Annual pension statements top the list of information sources used by plan members (65%),

followed by the human resources department (53%). Fewer respondents cited the Internet as a source of information—30% said they head to their union or corporate site for pension information, while only 2% go to the pension plan site. Younger plan members (aged 18-34) are more likely (38%) to report going to the website for information than their older cohorts (aged 55 or older: 26%).

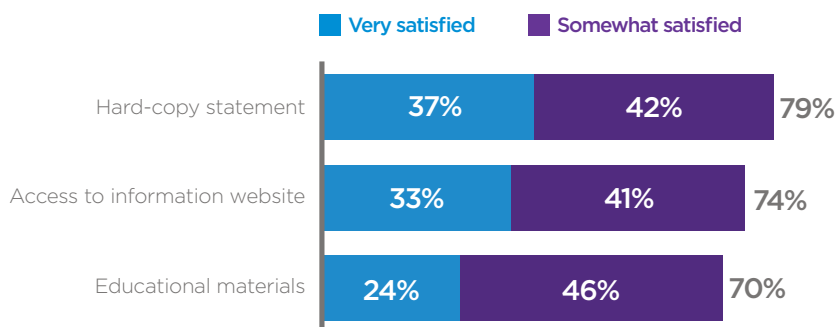
The advisory board were somewhat dismayed by the low numbers of individuals heading to the web. “I find the lower website numbers in the research disappointing,” said Griffith. Her organization recently revamped a client’s website and added more information and tools at members’ request.

“We have seen a huge uptake in traffic on our website,” McClean said. “They can go there for information and to do pension estimates and apply to retire online. As long as you build a practical site they can use and it’s easy to understand, members will go to the web. Plan members don’t want to spend hours trying to figure it out.”

For Martin Rochette, senior partner with Norton Rose, the number of plan members who still rely on their paper statement was as he expected. “In my experience, plan members won’t go to the website to look at the DB benefit—they’d rather go to their statements. If they want to know what they have, they look at their statement. If they want to know about plan administration or committee meetings, they go to the web.”

Lower usage numbers for the Internet could just reflect reality according to Van Riesen. “I don’t think pensions are everyone’s first order of business every day,” she said. “It’s similar to their dental plan. They want to know when they need to know. So, you have to have it well organized so they can find the information they need when they need it. And if you don’t, you’re toast.”

**Figure 5** Satisfaction with frequency/quality of information



# The role of the DB plan in retirement

For most plan members, their DB plan will be the key to their retirement—74% say it is their primary vehicle for retirement savings. On average, members expect 55.7% of their retirement income to come from their DB plan (see Figure 6). They expect a further 17.2% to come from government sources, such as Canada Pension Plan (CPP) or Old Age Security (OAS). Another 12.6% is expected to come from RRSPs. It appears, on average, that participants in the public sector will be relying more heavily on their DB plan than those in private sector plans (59.7% versus 48.6%).

The average age that members plan to retire is 61.4—below the standard retirement age of 65, but higher than it has been in the past—respondents already retired did so at age 58.2 on average.

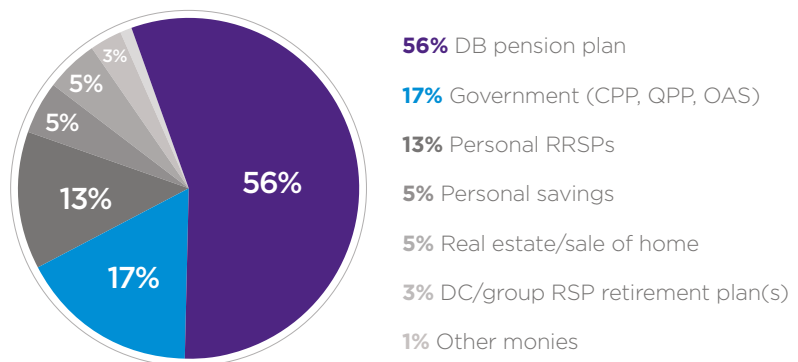
Another key finding—31% say they don't know what percentage of their current annual income they will need to achieve their expected standard of living in retirement. Among the rest, the average income replacement income ratio is 68.0%. When asked if they are on track to retire at their target age, 84% said yes while 8% said no.

Although many display optimism around their desired retirement date, they are less certain about whether or not they are on track to meet their savings goals with only 71% saying they are on track—23% said “definitely.”

careful with their funds they should be able to live independently and pay the bills.

“These numbers would suggest that 59% of respondents expect to have a better standard of living in

**Figure 6** Sources of retirement income



Many plan members expect to enjoy themselves and live well in retirement. Asked which of the following best describes their standard of living during retirement, 16% said they expect to do whatever they want, including unlimited travel, without any serious financial concerns (see Figure 7). Just over two in five (43%) expect careful money management to allow them to do some travelling and things they can't while they are working. A further 37% said that by being

retirement,” said Dobson, adding that those who mentioned they need to be careful with savings expect to do things they could not while earning a full income.

Other advisory board members had concerns about an apparent lack of clarity among respondents around the role of government benefits like CPP and OAS. And given that the average respondent reports a total household income of \$96,200 a year (\$80,000 for non-participants)

## Section five: The role of the DB plan in retirement

CPP and OAS might not play as large a role in their retirement income as they anticipate due to government clawbacks.

This knowledge gap around government retirement benefits was not surprising to Regina Baezner, a pension and benefit practice leader at Grant Thornton LLP. “I would say that the average client in the private sector doesn’t really look at OAS and CPP—in terms of debating whether it’s going to be there when they retire, it’s not a question they ask. They don’t factor these benefits into their retirement discussions.”

“We are seeing issues around people’s choices when they retire,” Griffith said. “They look at the DB plan on its own in isolation from government benefits. Our plan doesn’t offer joint survivor benefits without a reduction, for example. They forget that when their spouse dies all these benefits stop coming, or at least a significant portion does. They don’t look at this—and they make the wrong decisions.”

According to Randy Bauslaugh, national practice leader, pensions & benefits at McCarthy Tétrault LLP, these figures show a basic lack of financial literacy skills. “I really think that people in Canada and mature economies don’t understand how much you need to save for retirement,” he said. “As a result, they have a very optimistic view of the future. It’s not just math—it’s also an understanding of the different financial benefits out there and how to use them.”

Such knowledge gaps are also another threat to the survival of DB plans. Plan members who are unaware of the cost of the benefit and of what role it will play in retirement are ill-equipped to engage in important discussions with employers and unions around challenges such as underfunding. Said Griffith, “In the next three years, plans aren’t going to get the returns they need. So, major money needs to go into some of them. Someone has to pay. Limiting enrollment in the future also

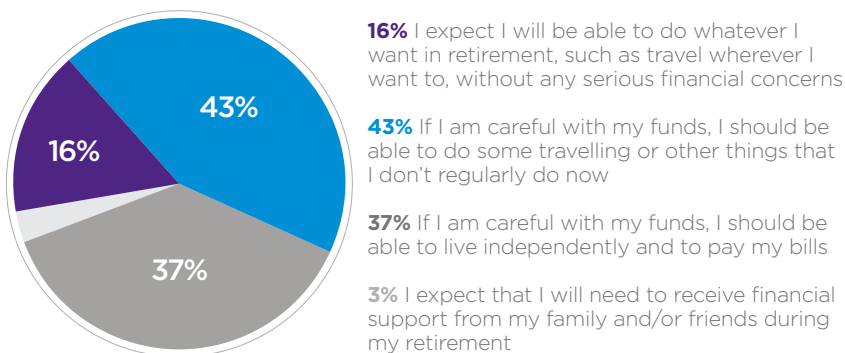
won’t help underfunded plans today.” Plan members need to understand the value and true costs of the pension benefit to make informed decisions—and employers have a responsibility to communicate the reality of DB plans today, including underfunding issues.

Employers who don’t do this could face lawsuits in the future, said Rochette. “Employers have to look closely at what kind of promises they make, because employees seem to rely so heavily on what they say or do not say. If you don’t deliver the promise, they will come back at you and what you should have done will haunt you.”

### Conclusion

While Canadian DB plan members are optimistic about their retirement benefits, it looks as if there is work to do on both sides of the pension promise. Plan sponsors need to focus on communicating the risks and realities facing DB plans to bridge the knowledge gaps. At the same time, it may be incumbent on members themselves to become more informed—to understand how this component of their financial futures works and, more importantly, what it will mean to them when they retire. Better education and communication would help plan members decipher the relevance and value of their DB pension plan. And it might also ensure that the DB pension promise remains intact for generations of employees to come.

**Figure 7** Expected standard of living during retirement





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RBC Dexia's innovative solutions include global custody, fund and pension administration, shareholder services, distribution support, securities lending and borrowing, reconciliation services, compliance monitoring and reporting, investment analytics, and treasury services.



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