

The Conference
Board of Canada



Defined Benefit Pension Plans

Supporting Ontario's Economy

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Key findings

In this issue briefing, we examine the economic impact of defined benefit (DB) pension payouts to beneficiaries in Ontario. These pension payouts provide a significant contribution to both the Ontario and Canadian economy, along with providing financial security for millions of workers and retirees living in Ontario.

- DB pension plans provide retirees and their families with a predictable stream of income during retirement, which serves as a powerful driver of Ontario's economy.
- In 2023, DB pension plans supported an estimated 1.23 million Ontario retirees and their families, paying out an estimated **\$42.7 billion to beneficiaries** annually. DB pension plans offer a stable income stream, which in turn drives consumer spending, stimulates business growth, creates jobs, and generates tax revenues for all levels of government.
- When considering the direct, indirect, and induced impacts, the \$42.7 billion paid out in pension benefits generates **\$60.9 billion in economic output in Ontario**. This equates to \$1.43 in output generated for every dollar paid to beneficiaries.
- In 2023, the spending of DB pension payments on goods, services, and taxes contributed **\$34.6 billion to Ontario's gross domestic product (GDP)**—nearly double the GDP generated by the province's accommodation and food services industry, and representing 3.2 per cent of Ontario's total GDP.
- The spending by DB pension beneficiaries supported **251,900 full-time, full-year jobs in Ontario** in 2023—roughly equivalent to the population of Windsor—and **generated \$16.8 billion in wages and benefits**. This includes 49,500 jobs in the retail sector and 26,000 jobs in accommodation and food services.
- Within Ontario, DB payments to beneficiaries generated over **\$17.4 billion in government revenue**, including \$8.1 billion in federal taxes, \$6.3 billion in provincial taxes, and \$3.0 billion in municipal taxes in 2023. Overall, for every dollar paid to beneficiaries, \$0.44 was added to government revenue across Canada.
- The economic impacts discussed in this issue briefing only capture the effects of DB pension payments to beneficiaries. The overall economic impact would be even greater when factoring in investment activities and operational expenses, such as wages and office rental, of DB pension plans.

Supporting over 1.2 million retirees in Ontario

In 2023, DB pension plans supported an estimated 1.23 million Ontario retirees and their families, providing an average annual income of \$34,700 per retiree. This is 18 per cent higher than average retirement income of \$29,400 for all retirees in Ontario, with retirement income from employer and personal pensions and savings plans (excluding public sources).¹

Total DB pension payouts to beneficiaries in Ontario exceeded \$42.7 billion in 2023, accounting for 71 per cent of all retirement income from employer and personal pensions and savings plans (excluding public sources).² If a DB pension is viewed as a pay cheque, the total payouts would be roughly equivalent to the total wages paid in Ontario's construction sector and accommodation and food services sector combined.³ The payments to beneficiaries flow back into the Canadian economy, stimulating business growth and employment, and generating significant revenues for all levels of government.

Of the 1.76 million active DB pension plan members living in Ontario, 90 per cent (1.59 million) are enrolled in Ontario-registered plans, including well-known pension plans such as the Ontario Teachers' Pension Plan (OTPP), Ontario Municipal Employees' Retirement System (OMERS), Healthcare of Ontario Pension Plan (HOOPP), OPTrust, and University Pension Plan (UPP).^{4,5} The three largest DB pension plans in Ontario (OMERS, HOOPP, and OTPP) account for around 45 per cent of active members in the province.⁶

1 Retirement income includes income from employer and personal pensions and savings plans, such as defined benefit and defined contribution pensions and registered retirement savings plans. It does not include income received from government supports, such as the Canada Pension Plan (CPP) or Old Age Security (OAS).

2 The number of retired members and retirement income statistics were estimated using financial reports of DB pension plans and Statistics Canada data (Table 11-10-0094-01 and Table 11-10-0239-01).

3 Statistics Canada, Table 14-10-0064-01.

4 Statistics Canada, Table 11-10-0094-01.

5 Note that retired members are not considered active members. Active members are those who are currently contributing to a DB pension plan and/or have contributions made on their behalf by their employer.

6 Estimated using financial reports of DB pension plans and Statistics Canada data (Table 11-10-0094-01).

What is a defined benefit pension plan?

A DB pension plan provides members with a predictable stream of monthly income for the rest of their life when they retire. Typically, both the employee and employer contribute to the plan, and the contributions are pooled into a fund. The pension plan administrator is responsible for investing and managing or overseeing the fund.

DB pension payouts received in retirement are typically based on a formula that accounts for an employee’s salary and years of service, paying a fixed amount that is not tied to investment performance. Depending on the benefit formula of a DB pension plan, the payouts to retirees may increase over time to offset inflation, referred to as an indexed pension.

Defined contribution (DC) pension plans and other retirement savings accounts, such as Registered Retirement Savings Plans (RRSPs), differ from DB pension plans. In a DC pension plan, both employees and employers contribute to an individual retirement account, but the payouts received in retirement are not guaranteed and depend on the contributions made and investment returns generated. The responsibility for investment decisions rests with the individual.

Additionally, in a DC pension plan or other retirement savings accounts, the responsibility to ensure the savings last throughout retirement falls on the individual, whereas a DB pension guarantees a predictable stream of income for life.

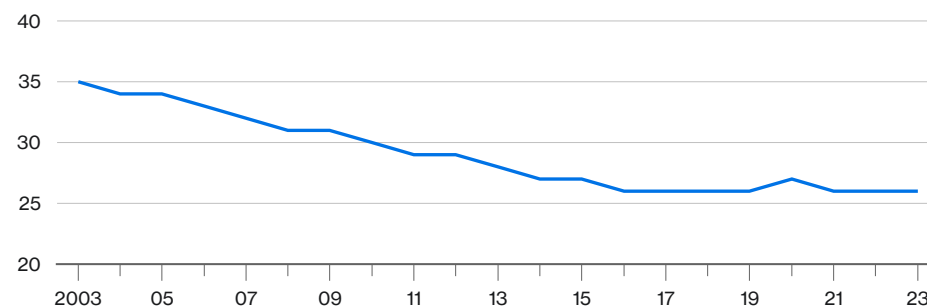
Fewer employees are covered by DB pension plans

Although the number of active members in DB pension plans has increased over the past decade, the number has not kept pace with overall employment growth, leading to a decline in the share of workers covered by DB pensions. In 2023, 26 per cent of employed workers in Ontario were members of a DB pension plan, down from 35 per cent two decades ago.⁷ (See Chart 1.)

The share of active DB pension plan members compared with all registered pension plan members in Ontario has also declined over the past decade, from 85 per cent in 2003 to 65 per cent in 2023. This has occurred because the number of non-DB pension plan members has increased more than the increase in the number of DB pension plan members.

Chart 1

Decline in the share of Ontario workers covered by DB pension plans (percentage of workers with DB pension plans)



Source: The Conference Board of Canada.

⁷ Statistics Canada, Table 11-10-0133-01; Statistics Canada, Table 14-10-0027-01.

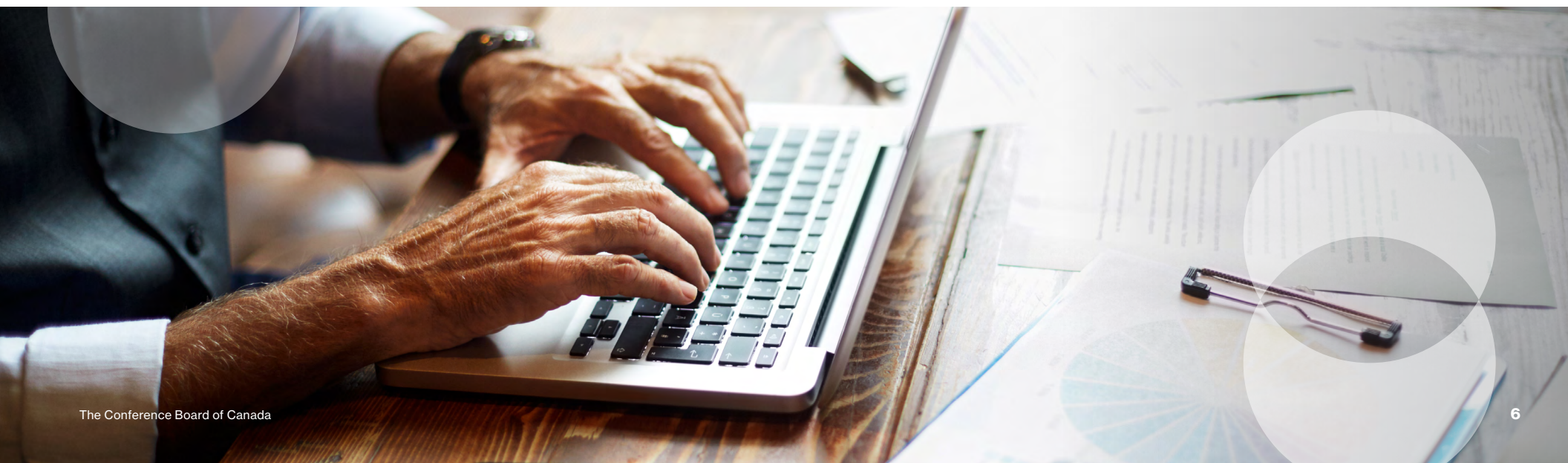
Investments play a key role in funding DB pension plans

In 2023, Ontario's DB pension plans held over \$770 billion in assets, diversified across bonds, equities, infrastructure, real estate, and other investments, both domestically and abroad.⁸ Investment returns fund up to 80 per cent of DB pension payouts, with the remainder coming from member and employer contributions.⁹ That is to say, of the \$42.7 billion of DB pension payouts, approximately \$8.5 billion comes from employee and employer contributions, while the remaining \$34.2 billion is generated from returns on pension plan investments.

While the assets and investment activities of DB pension plans are critical for generating the returns that fund pension benefits, and create significant economic impacts, this issue briefing considers only the economic impact of DB pension payouts to beneficiaries.

⁸ Financial Services Regulatory Authority of Ontario, "2023 Report on the Funding of Defined Benefit Pension Plans in Ontario." Does not include assets held by the Canada Pension Plan (CPP).

⁹ OPTrust, *Defined Benefit Pension Plans*.



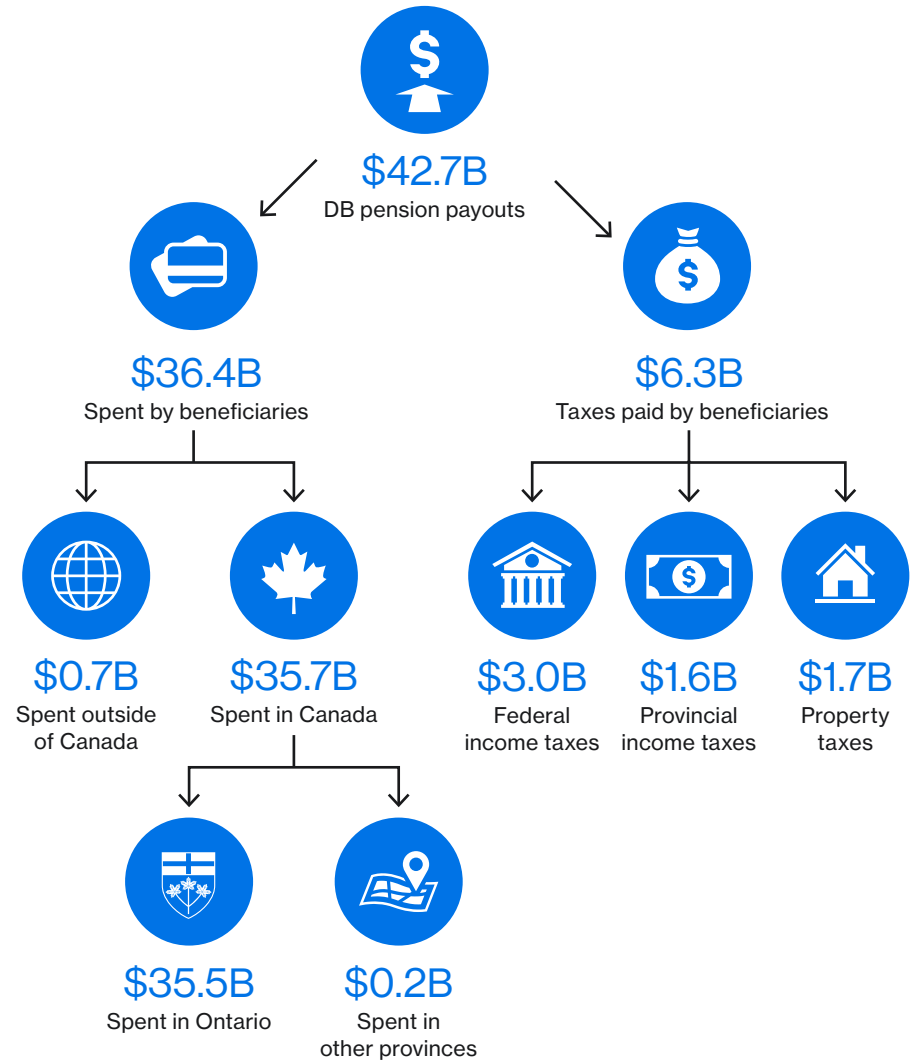
Economic impact of DB pension plans

Ontario beneficiaries received \$42.7 billion in benefits from DB pension plans in 2023. (See Appendix A for the detailed methodology.) Of this total, \$36.4 billion was spent within and outside of Canada by beneficiaries, and \$6.3 billion went to income and property taxes. Exhibit 1 breaks down the spending of DB pension payouts and the taxes paid by beneficiaries.

The economic impacts discussed in this section reflect only the direct, indirect, and induced effects of DB pension payments to beneficiaries when spent on goods, services, and taxes. The overall economic impact of DB pension plans would be significantly greater when including the pension plans' investment activities and operational expenses, such as wages for staff and rent for office space.

Exhibit 1

Breakdown of spending and taxes paid by beneficiaries of DB pension plans in Ontario



Source: The Conference Board of Canada.

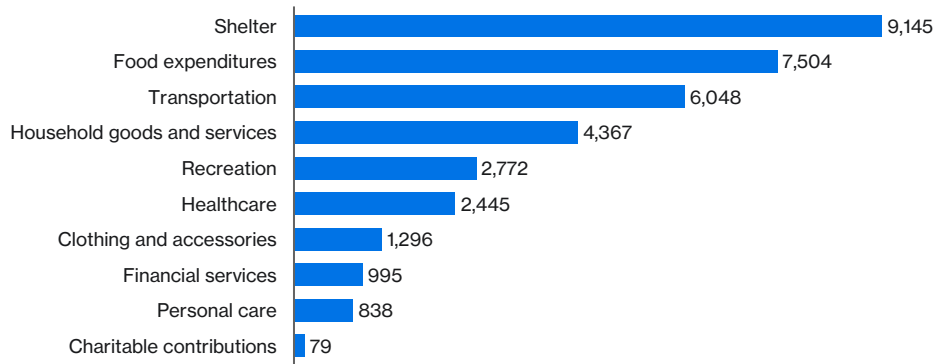
Shelter, food, and transportation are the largest spending categories

Over a quarter (26 per cent, \$9.1 billion) of DB pension payouts spent in Ontario in 2023 were spent on shelter expenses, including mortgages, rent, repairs and maintenance, and utilities. Food expenditures accounted for 21 per cent (\$7.5 billion) of spending, while transportation comprised 17 per cent (\$6.1 billion) and household goods and services made up 12 per cent (\$4.4 billion). (See Chart 2.)

Chart 2

Spending on shelter and food makes up nearly half of total spending by beneficiaries

(breakdown of DB pension payouts spent in Ontario, \$ millions, 2023)



Source: The Conference Board of Canada.

Using The Conference Board of Canada's Economic Impact Assessment (EIA) model, we estimate the total, direct, indirect, and induced impacts of DB pension payouts across five economic variables: economic output, GDP, employment, labour income, and government revenues (i.e., taxes).





What are direct, indirect, and induced impacts?

Direct impacts measure the economic activity attributable to the direct spending of DB pension payouts and taxes paid by beneficiaries. For example, this includes the immediate effects of retirees spending their DB pension payouts on food from a grocery store. This spending directly supports jobs and generates revenue at the grocery store.

Indirect impacts measure the supply chain impacts that the “direct impact” firms generate within the economy through their spending on goods and services. For example, when the grocery store owner purchases fruit and vegetables from farms, this spending supports additional jobs and economic activity in Ontario’s agriculture industry.

Induced impacts measure the knock-on effects when employees from directly and indirectly affected businesses spend their earnings and business owners spend their profits. For example, when grocery store clerks spend their earnings on goods and services, it generates additional output, employment, income, and tax revenues, benefiting a wide range of consumer-oriented industries.

Economic output

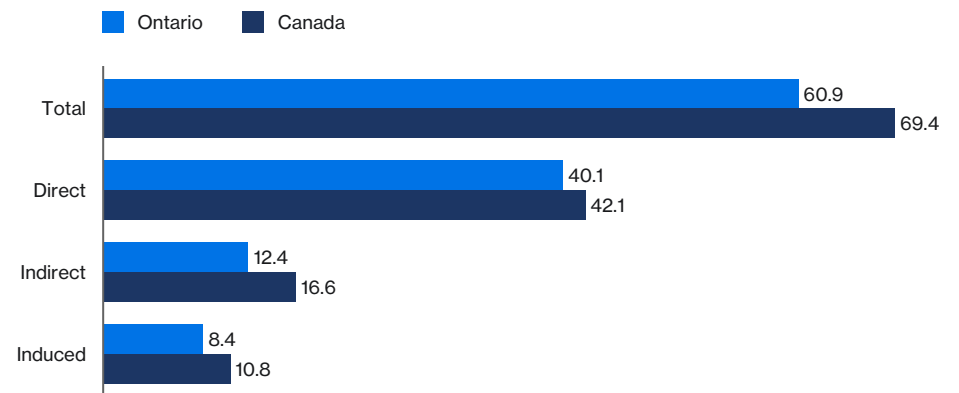
In 2023, Ontario DB pension payouts generated \$60.9 billion in economic output within the province, including the direct, indirect, and induced impacts, and \$69.4 billion nationally. Economic output represents the total value of all economic activity generated through the spending of these benefits on goods, services, and taxes, including the buying and selling of intermediate goods. It is the equivalent of all the sales or revenue generated as a result of the spending associated with Ontario DB pension payouts.

By comparing the ratio of economic output to spending, we can assess how far retiree spending ripples through the rest of the economy. We find that for every dollar paid in pension benefits, \$1.43 in economic output is created in Ontario, and \$0.19 is created in the rest of Canada, for a total of \$1.62.

Within Ontario, two-thirds of the economic output (\$40.1 billion) came from the direct impact of DB pension payouts, \$12.4 billion from indirect impacts, and \$8.4 billion from induced impacts. (See Chart 3.)

Chart 3

DB pension payouts in Ontario generated \$69.4 billion in economic output for Canada
(economic output, \$ billions, 2023)



Source: The Conference Board of Canada.

Gross domestic product

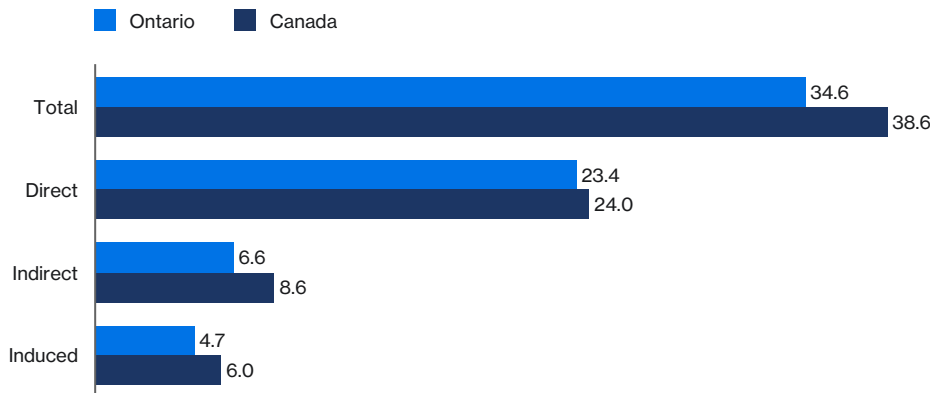
In 2023, the spending of pension benefits on goods, services, and taxes contributed \$34.6 billion to Ontario’s GDP—nearly double the GDP generated by the province’s accommodation and food services industry, and representing 3.2 per cent of Ontario’s total GDP.¹⁰ The spending of pension payouts by beneficiaries added \$38.6 billion to GDP nationally, representing 1.3 per cent of the country’s GDP.¹¹

Over two-thirds (67 per cent) of the GDP impact in Ontario (\$23.4 billion) was generated from the direct impact of DB pension payouts—\$6.6 billion from indirect impacts and \$4.7 billion from induced impacts. (See Chart 4.) To put this into perspective, the direct impact is similar in size to the GDP generated by Ontario’s insurance industry or energy sector.¹²



Chart 4

DB pension payouts in Ontario generated \$38.6 billion in GDP for Canada (GDP, \$ billions, 2023)



Source: The Conference Board of Canada.

In Ontario, the finance, insurance, and real estate sector realized the largest impact from the spending by beneficiaries, with a total impact of \$5.6 billion in GDP. The manufacturing sector followed, with a total impact of \$3.0 billion in GDP, and the retail sector with a total impact of \$2.8 billion.

Unlike economic output, GDP measures the net value-add of all final goods and services produced in a country, excluding intermediate goods and services to prevent double counting. A GDP multiplier above zero represents a net economic gain. Overall, each dollar paid out to a DB pension beneficiary contributed \$0.81 to Ontario’s GDP and \$0.90 to Canada’s.

¹⁰ Statistics Canada, Table 36-10-0402-02.

¹¹ Statistics Canada, Table 36-10-0104-01.

¹² Statistics Canada, Table 36-10-0402-02.

Employment and labour income

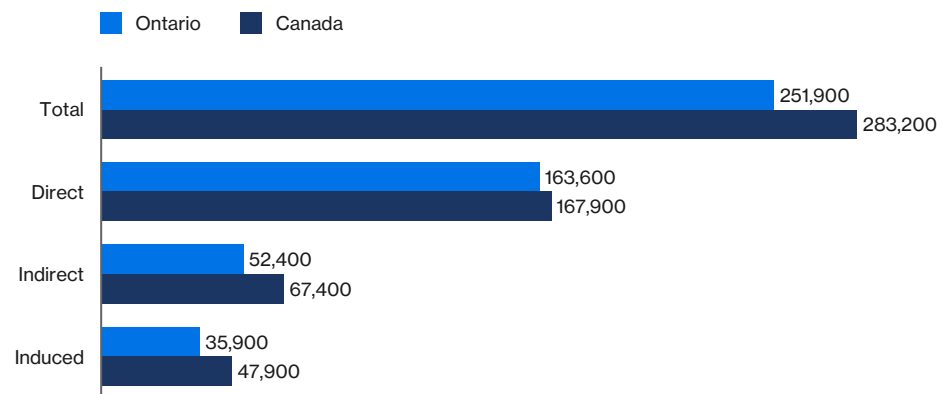
In 2023, the spending of DB pension payouts supported 251,900 full-time, full-year jobs in Ontario and 283,200 jobs nationally.¹³ This represents 3.8 per cent of full-time employment in Ontario and 1.7 per cent in Canada.¹⁴ To put this into perspective, the number of jobs created in Ontario is roughly equal to the population of Windsor,¹⁵ and the number of jobs created in Canada is comparable to the total number of Canadians employed by Canada’s banks.¹⁶



Of the jobs in Ontario, 163,600 were supported by direct spending, 52,400 by indirect, and 35,900 by induced. (See Chart 5.) To give an idea of scale, the employment supported by direct spending is greater than total employment at Ontario’s grocery and convenience stores and is five times larger than employment in the province’s motor vehicle manufacturing industry.¹⁷

Chart 5

DB pension payouts supported 251,900 jobs in Ontario (employment, full-time, full-year equivalent jobs,* 2023)



*numbers rounded to the nearest hundred.
Source: The Conference Board of Canada.

13 Our EIA model measures employment in person-years, which represents the number of full-time jobs in a one-year period. In real terms, this could be one person working for a full year or four people working for three months. This employment estimate does not include workers employed by a DB pension plan.

14 Statistics Canada, Table 14-10-0327-01.

15 Statistics Canada, Table 17-10-0155-01.

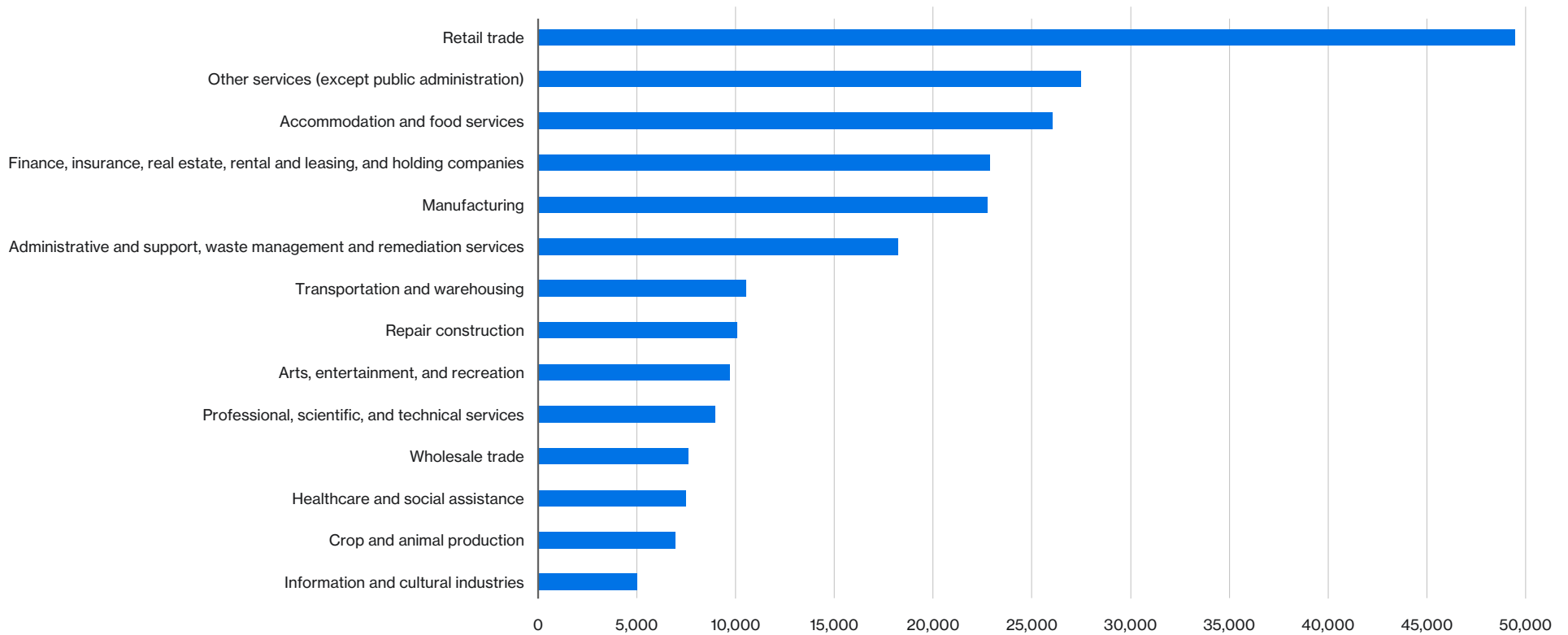
16 Canadian Bankers Association, “Focus: Banks as Employers.”

17 Statistics Canada, Table 14-10-0202-01.

Employment impacts were spread across industries within Ontario. Around 49,500 jobs were in the retail sector, 27,500 in other services, and 26,000 in accommodation and food services. (See Chart 6.)

Chart 6

DB pension payouts support 49,500 jobs in Ontario’s retail sector
 (industries with the most significant employment impacts,* full-time, full-year equivalent jobs, 2023)



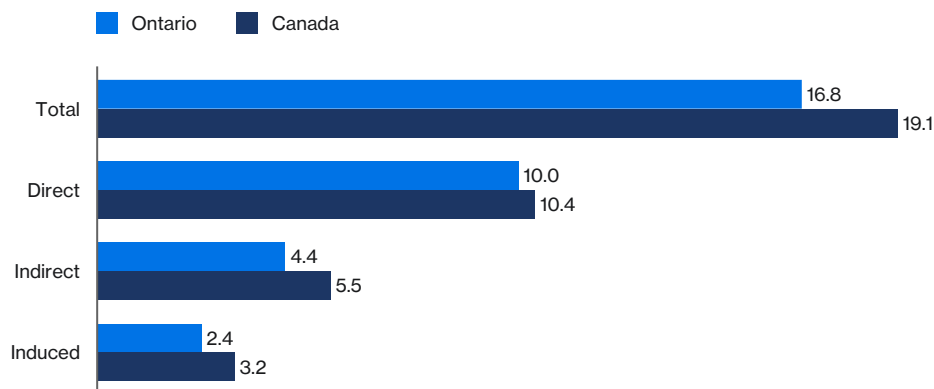
*includes direct, indirect, and induced impacts
 Source: The Conference Board of Canada.

The jobs created by DB pension payouts generated \$16.8 billion in labour income in Ontario and \$19.1 billion nationally. Labour income includes wages and benefits for salary earners and self-employed individuals. (See Chart 7.)

Chart 7

DB pension payouts generated \$16.8 billion in labour income in Ontario

(labour income, \$ billions, 2023)



Source: The Conference Board of Canada.

Government revenues

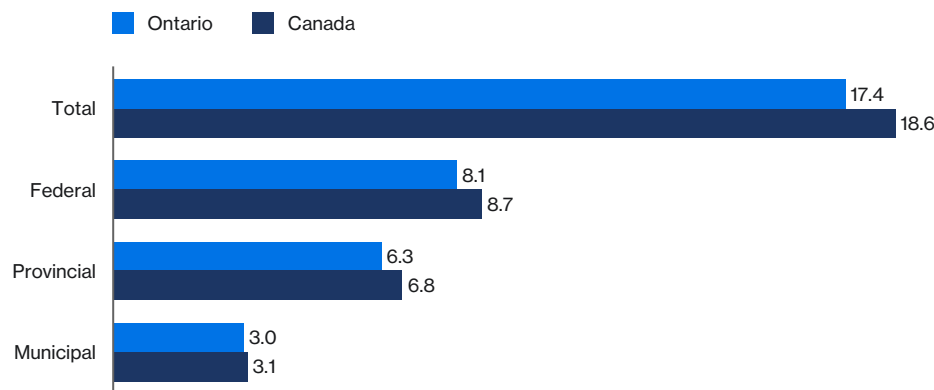
DB pension payouts generated \$18.6 billion in tax revenues across all three levels of government in Canada in 2023. Of this total, \$6.3 billion came directly from income and property taxes paid by beneficiaries in Ontario upon receiving their pension payments, while the remainder resulted from the economic activity stimulated by their spending. (See Chart 8.) For every dollar paid to a beneficiary, \$0.44 was added to government revenues.

Within Ontario, DB pension payouts contributed \$8.1 billion in federal taxes, \$6.3 billion in provincial taxes, and \$3.0 billion in municipal taxes. The provincial taxes alone would cover 3.2 per cent of Ontario’s 2023 provincial spending, excluding interest on debt.¹⁸

Chart 8

DB pension payouts in Ontario generated \$18.6 billion in government revenue for Canada

(government revenue,* \$ billions, 2023)



*includes direct, indirect, and induced impacts

Source: The Conference Board of Canada.

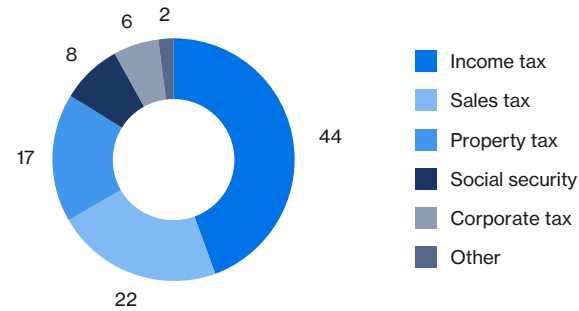
18 Government of Ontario, “Ontario Releases 2023-24 Public Accounts.”

Personal income taxes generated \$7.7 billion in government revenue for Ontario in 2023, representing 5.0 per cent of all personal income taxes collected in the province. Of this total, \$4.6 billion came from income tax paid by DB pension beneficiaries, and \$3.1 billion was from income tax paid by employees and self-employed individuals supported by pension spending. In addition, \$3.8 billion was generated in sales taxes, \$3.0 billion in property taxes, and \$1.5 billion in social security taxes, such as employment insurance. (See Chart 9.)

Chart 9

Income taxes accounted for 44 per cent of government revenue impacts in Ontario

(total government revenues generated by DB pension payouts,* per cent, Ontario)



*includes direct, indirect, and induced impacts

Source: The Conference Board of Canada.



Providing stability

In 2023, DB pension plans provided more than \$42.7 billion to beneficiaries in Ontario, of which around \$8.5 billion came from employee and employer contributions, and the rest from investment returns. Beneficiaries spent this money on goods, services, and taxes, making a substantial contribution to both the provincial and national economies. In Ontario alone, DB pension payouts generated \$60.9 billion in economic output and added \$34.6 billion to GDP in 2023, a significant contribution to the economy.

DB pension plans provide retirees and their families with a predictable and stable stream of income during retirement. In today's environment, where many Canadians feel unprepared for retirement and struggle to save due to the rising cost of living, DB pensions offer not only financial stability but also peace of mind by alleviating some of the stress around retirement planning. Almost 60 per cent of working Canadians with a workplace pension feel somewhat or very well prepared for retirement, compared with only a third of those without.¹⁹ Additionally, a strong pension system helps Canadians manage financial risk—crucial during times of economic uncertainty.²⁰ Increased confidence in financial security can, in turn, boost consumer spending and drive economic growth in the country.

19 Healthcare of Ontario Pension Plan, "2024 Canadian Retirement Survey."

20 Poloz, "Pensions in the Next Age of Uncertainty."



Appendix A

Methodology

This study employs The Conference Board of Canada's Economic Impact Assessment (EIA) model at the national and provincial levels to measure the impacts of the defined benefit (DB) pension payouts in Ontario. The model estimated the total, direct, indirect, and induced impacts of DB pension payouts across five economic variables: economic output, gross domestic product (GDP), employment, labour income, and government revenues (i.e., taxes).

The DB pension payouts to Ontario beneficiaries are derived from annual financial reports of DB pension plans, covering around 70 per cent of active DB pension plan members. Using this information, we estimate DB pension plans paid \$42.7 billion to Ontarian beneficiaries in 2023.

Of the \$42.7 billion in payouts, beneficiaries paid a total of \$4.62 billion in federal and provincial income taxes, estimated based on provincial and federal tax rates for the average annual DB pension payout.¹ Additionally, beneficiaries paid \$1.7 billion in property taxes, estimated using Statistics Canada's Survey of Household Spending.² The income taxes and property taxes paid by DB pension beneficiaries are included in the direct impact of economic output, GDP, and government revenues.

We factor in spending outside Ontario and Canada by using data from Statistics Canada's National Travel Survey,³ including spending by DB pension beneficiaries during their winters abroad. Of the \$42.7 billion in DB pension payouts (net of taxes at \$36.4 billion), \$35.7 billion was estimated to be spent in Canada—\$35.5 billion in Ontario, \$0.2 billion in other provinces—and \$0.7 billion abroad.

To analyze how DB pension payouts are spent across the economy, we developed a spending profile for Ontario retirees using data from Statistics Canada's Survey of Household Spending.⁴ While data were available for 2021, spending patterns that year were affected by COVID-19 (e.g., limited spending on travel and at restaurants). Instead, we used the 2019 spending breakdown and adjusted it to 2023 levels using Consumer Price indices.

The Conference Board's EIA model was developed using Statistics Canada's 2019 detailed input-output tables and multipliers. While 2020 multipliers are available, 2019 multipliers were used because they better represent the current structure of the Canadian economy, as 2020 marked the beginning of the COVID-19 pandemic.

1 Government of Canada, "Income Tax Rates for Individuals."

2 Statistics Canada, Table 11-10-0227-01.

3 Statistics Canada, "National Travel Survey (NTS)."

4 Statistics Canada, Table 11-10-0227-01.

Appendix B

Glossary of Terms

Active members: Active members are individuals currently contributing to the pension plan and/or having contributions made on their behalf by their employer.

Defined benefit (DB) pension plans: A pension plan in which the employer commits to pay their employee a fixed income after they retire for the rest of their life. Typically, both the employee and employer contribute to the plan, and the contributions are pooled into a fund. The employer or a pension plan administrator invests and manages this fund. DB pension payouts received in retirement are typically based on a formula that accounts for an employee's salary and years of service, paying a fixed amount that isn't tied to investment performance. The payouts to retirees may increase to offset inflation, often referred to as an indexed pension.

Direct impacts: Direct impacts measure the economic activity attributable to the direct spending of DB pension payouts and taxes paid by beneficiaries. For example, the immediate effects of beneficiaries spending their DB pension payouts on food from a grocery store. This spending directly supports jobs and generates revenue at the grocery store.

Economic output: Economic output measures the gross value of all economic activity. This measure includes all goods and services produced, both final and intermediate goods and services used to produce other goods and services.

GDP multiplier: The GDP multiplier captures the net economic impact of DB pension payouts. It is the ratio between the total DB pension payouts to Ontarians and the corresponding total GDP impact. It is calculated as GDP generated from \$1 of DB pension payouts.

Gross domestic product (GDP): GDP is a measure of an economy's overall economic activity (final value of goods and services produced). It is a value-added measure of economic activity.

Indirect impacts: Indirect impacts measure the supply chain impacts that the "direct impact" firms generate within the economy through their spending on goods and services. For example, when the grocery store owner purchases fruit and vegetables from farms. This secondary spending supports additional jobs and economic activity in Ontario's agriculture industry.

Induced impacts: Induced impacts measure the knock-on effects when employees from directly and indirectly affected businesses spend their earnings and business owners spend their profits. For example, when the grocery store clerk spends earnings on goods and services, it generates additional output, employment, income, and tax revenues, benefiting a wide range of consumer-oriented industries.

Labour income: Monetary compensation and benefits paid to wage and salary earners and self-employed individuals. Labour income is presented in gross terms before taxes and other deductions.

Output multiplier: The output multiplier captures the total/gross economic impact of total DB pension payouts. It is the ratio between the total DB pension payouts to Ontarians and the corresponding total economic output impact. It is calculated as the amount of output generated from \$1 of DB pension payouts.

Retired members: Retired members are those who receive benefits from the pension plan after they retire from their employment. Beneficiaries include retired members as well as spouses, partners, or other family members receiving DB pensions.

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