Calculation
OF THE RETIREMENT PENSION

An example showing how a retirement pension is calculated

Suppose a person born in November 1941 becomes entitled to a retirement pension in December 2006. How much will the retirement pension be if the person's Statement of Participation shows the earnings entered in column I of the table on the back of this leaflet?

General rules

A retirement pension corresponds to 25% of a worker's average monthly adjusted (and non-excluded) pensionable earnings.

The pension for a person under age 65 is reduced, for life, according to an actuarial factor of 0,5% a month, up to a maximum reduction of 30% (at age 60). If a pension begins after age 65, it is increased in a similar manner.

A retirement pension may be increased in January each year if it is not already the maximum payable and the beneficiary made contributions to the Plan in the preceding year.

Disability pensions and surviving spouse's pensions are based on the retirement pension that would have been paid to the contributor, without taking into account the actuarial increase or decrease. The death benefit is a fixed, lump-sum payment of 2 500 $.

The pension calculation has three steps:

- **First step:** adjusting pensionable earnings

- **Second step:** determining the months and earnings to be used in the calculation

- **Third step:** actually calculating the pension

First step

Adjusting pensionable earnings

Before calculating the average monthly pensionable earnings, past yearly earnings must be adjusted to their current value. We do this by multiplying each year's pensionable earnings (shown in column I of the table) by the average of the maximum pensionable earnings for the year in which the pension begins and the 4 preceding years (AMPE - 5). The result of that operation is then divided by the maximum pensionable earnings (MPE) for the year being adjusted (shown in column II of the table).

For 2006, the person's earnings for 1966 (in our example, 3 267 $) would be adjusted as follows:

$$\frac{3\ 267\ \$ \times \text{AMPE-5 for 2006}}{\text{MPE for 1966}} = \frac{3\ 267\ \$ \times 40\ 540\ \$}{5\ 000\ \$} = 26\ 488,84\ \$$$

where

AMPE - 5 for 2006 =

$(39\ 100\ \$ + 39\ 900\ \$ + 40\ 500\ \$ + 41\ 100\ \$ + 42\ 100\ \$) \div 5 = 40\ 540\ \$$

After adjustment, the earnings of 3 267 $ for 1966 are valued at 26 488,84 $ in current (2006) dollars.

A similar adjustment must be made for each of the years in question. The results are shown in column III of the table.

Second step

Determining the months and earnings to be used for the calculation

A person's contributory period begins on the first day of the month that follows the month of his or her 18th birthday, but no earlier than 1 January 1966, and ends at the end of the earliest of the following months:

- the month preceding the one in which a retirement pension becomes payable;

- the one in which the beneficiary reaches age 70;

- the month in which the beneficiary dies.

In our example, the contributory period begins on 1 January 1966 and ends at the end of November 2006, that is, the month which precedes the month in which payment of the pension starts, for a total contributory period of 491 months. (See column V of the table.)

All the pensionable employment earnings during that period can be used in calculating the pension. However, the *Act respecting the Québec Pension Plan* allows the exclusion of the earnings made during 15% of the months in the contributory period. The months excluded are those in which the person's earnings are the lowest. In the example, a total of 74 months can be excluded (491 months x 15% = 74), representing earnings of 141 595,71 $, as shown in columns VI and VII of the table. Therefore, the pension will be calculated on the basis of the best 417 months (491-74 = 417) with the following earnings (1 494 756,27 $ - 141 595,71 $ = 1 353 160,56 $).

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Third step

Actually calculating the pension

In calculating the average monthly earnings, we must exclude the 74 months mentioned above from the contributory period and at the same time, subtract from the person's total earnings (1 494 756,27 $) the earnings for those 74 months of lowest earnings. As shown in column IV of the table, those months are the 12 months of 1966, 1967, 1968, 1969, 1972 and 1979 and 2 months in 1970. This gives the following result:

1 494 756,27 $ - 141 595,71 $ = 1 353 160,56 $.

The monthly retirement pension corresponds to 25% of the average monthly earnings for the best 417 months; it is calculated as follows:

$$\frac{(25 \times 1\ 353\ 160,56\ \$)}{100} \div 417 = 811,25\ \$$$

In our example, payment of the monthly retirement pension of 811,25 $ begins in December 2006. If the contributor had contributed the maximum amount for the 417 best months, that is, for 34 years and 9 months, he or she would receive the maximum payable in 2006, that is 844,58 $ a month. If the person in our example had reached age:

- **62** (36 months before age 65), the pension would be 665,23 $ a month, according to the following formula:

$$811,25\ \$ - \left[\frac{36 \times 0,5}{100} \times 811,25\ \$ \right] = 665,23\ \$$$

- **67** (24 months after age 65), the pension would be 908,60 $ a month, according to the following formula:

$$811,25\ \$ + \left[\frac{24 \times 0,5}{100} \times 811,25\ \$ \right] = 908,60\ \$$$

Table of earnings

Year	I Pensionable employment earnings $	II Maximum pensionable earnings $	III Adjusted annual earnings $	IV Adjusted monthly earnings $	V Months in the contributory period	VI Months excluded (15%)	VII Earnings excluded (15%) $
1966	3 267*	5 000	26 488,84	2 207,40	12	12	26 488,84
1967	3 332*	5 000	27 015,86	2 251,32	12	12	27 015,86
1968	3 659*	5 100	29 085,46	2 423,79	12	12	29 085,46
1969	3 899*	5 200	30 397,20	2 533,10	12	12	30 397,20
1970	4 225*	5 300	32 317,26	2 693,11	12	2	5 386,21
1971	4 422*	5 400	33 197,76	2 766,48	12		
1972	0*	5 500	0,00	0,00	12	12	0
1973	5 900	5 900	40 540,00	3 378,33	12		
1974	6 600	6 600	40 540,00	3 378,33	12		
1975	7 400	7 400	40 540,00	3 378,33	12		
1976	8 300	8 300	40 540,00	3 378,33	12		
1977	9 300	9 300	40 540,00	3 378,33	12		
1978	10 400	10 400	40 540,00	3 378,33	12		
1979	6 702*	11 700	23 222,14	1 935,18	12	12	23 222,14
1980	13 100	13 100	40 540,00	3 378,33	12		
1981	14 700	14 700	40 540,00	3 378,33	12		
1982	16 500	16 500	40 540,00	3 378,33	12		
1983	18 500	18 500	40 540,00	3 378,33	12		
1984	20 800	20 800	40 540,00	3 378,33	12		
1985	23 400	23 400	40 540,00	3 378,33	12		
1986	23 466*	25 800	36 872,54	3 072,71	12		
1987	24 113*	25 900	37 742,90	3 145,24	12		
1988	25 232*	26 500	38 600,20	3 216,68	12		
1989	26 101*	27 700	38 199,80	3 183,32	12		
1990	27 332*	28 900	38 340,46	3 195,04	12		
1991	29 954*	30 500	39 814,27	3 317,86	12		
1992	31 250*	32 200	39 343,94	3 278,66	12		
1993	31 782*	33 400	38 576,12	3 214,68	12		
1994	32 751*	34 400	38 596,67	3 216,39	12		
1995	34 900	34 900	40 540,00	3 378,33	12		
1996	33 333*	35 400	38 172,88	3 181,07	12		
1997	35 800	35 800	40 540,00	3 378,33	12		
1998	33 825*	36 900	37 161,67	3 096,81	12		
1999	34 283*	37 400	37 161,31	3 096,78	12		
2000	37 600	37 600	40 540,00	3 378,33	12		
2001	38 300	38 300	40 540,00	3 378,33	12		
2002	35 842*	39 100	37 162,01	3 096,81	12		
2003	36 575*	39 900	37 161,67	3 096,81	12		
2004	37 125*	40 500	37 161,67	3 096,81	12		
2005	37 675*	41 100	37 161,67	3 096,81	12		
2006	38 592#	42 100	37 161,99	3 378,36	11		
TOTAL			1 494 756,27		491	74	141 595,71

Earnings of 141 595,71 $ (for the 74 months of lowest earnings) must be subtracted from 1 494 756,27 $, which leaves total earnings of 1 353 160,56 $ for the remaining 417 months.

* The asterisk indicates that the contributor did not reach the maximum pensionable earnings for the year.

\# The pound sign indicates that the annual maximum pensionable earnings have been adjusted to correspond to the 11 months during which the contributor could contribute during the last year of work.