

POLICY NUMBER: POL-124

**Chapter:
CLAIMS**

**Subject:
PENSION REPLACEMENT BENEFITS**

**Effective Date:
June 23, 2005**

**Last Update:
December 11, 2025**

REFERENCE:

Workers Compensation Act R.S.P.E.I. 1988, Cap. W-7.1, Sections 43, 50(4), 50(5)
Workers Compensation Board Policy, POL-154, Annuity

PURPOSE STATEMENT:

The purpose of this policy is to explain eligibility, calculation and payment of pension replacement benefits.

DEFINITION:

In this policy:

“Defined benefit” when referring to a registered employer sponsored plan means a pension plan that provides a pension at retirement based on a specific formula such as, for example, 2% of average earnings for each year of service.

“Defined contribution” when referring to a registered employer sponsored plan means a pension or retirement savings plan that provides for worker, if any, and employer contributions to be deposited into an account on behalf of the worker to be invested and accumulated until retirement with the proceeds of the account being available to purchase a pension or annuity at retirement.

“Estimated earnings” means the wages as determined by the Workers Compensation Board that a worker with an impairment or pending impairment is capable of earning when actual wages do not reflect the worker’s ability to earn.

“Pension replacement benefits” means the amount of pension benefit, under the Canada Pension Plan, Quebec Pension Plan or a registered employer sponsored pension plan a worker can demonstrate to the satisfaction of the Workers Compensation Board they have lost as the result of the compensable injury.

“Registered employer sponsored pension plan” means a pension or retirement savings plan that is sponsored by the employer and is registered under the *Income Tax Act* for Canada.

“Unreduced pension” means a pension that is available at an age earlier than the normal retirement age but that is not reduced for the fact that the pension is paid earlier and for a longer period.

POLICY:

Guiding Principles

1. The Workers Compensation Board (WCB) provides pension replacement benefits to eligible workers who have lost part of their pension benefits under the Canada Pension Plan (CPP), Quebec Pension Plan (QPP) or a registered employer-sponsored pension plan (ESPP), due to a workplace injury.
2. This policy applies to workers who qualify for extended wage loss benefits before January 1, 2019. For those who qualify after that date, eligibility is set out in WCB policy, POL-154, Annuity.

Eligibility Criteria

3. To be eligible for pension replacement benefits, the WCB must verify that the worker:
 - Received wage loss benefits after January 1, 1992, which ended when they turned 65 or older.
 - Did not receive a permanent partial or total disability pension for the injury.
 - Is eligible for pension benefits through CPP, QPP, or an employer-sponsored pension plan.

- Can show that the loss of earning capacity resulting from a workplace injury caused a loss of CPP, QPP, or ESPP benefits.

Application for Pension Replacement Benefits

4. Workers whose wage loss benefits will end at age 65 will receive a six-month notification, which includes information about eligibility for pension replacement benefits.
5. Workers must apply for pension replacement benefits in writing and provide information to demonstrate their loss of pension income.

Calculating Pension Replacement Benefits

6. The WCB will use external actuarial expertise in the calculation of pension replacement benefits.
7. To calculate the pension benefits lost because of a workplace injury, the WCB determines the amount of pension benefits the worker would have received if the loss of earning capacity due to the injury hadn't happened. Once calculated, they can be compared to the pension that the worker could have earned using the estimated capable earnings and the worker's actual pension benefits payable to determine if a loss of benefits occurred as a result of the workplace injury.
8. The calculation will be based on the assumption that, if not for the workplace injury:
 - The worker would have continued working with the same employer.
 - The worker's earnings would have increased, until retiring at age 65.
 - The worker would have continued to contribute to the CPP, QPP, or ESPP based on the projected earnings increases as established in #9.

Establishing Earnings Increases to Age 65

9. The worker's pre-injury earnings are established based on the worker's actual income at the time of the workplace injury, up to the maximum annual earnings limit for that year. The pre-injury earnings, capped at the maximum annual earnings limit for that year, are then adjusted annually to current day dollars to estimate what the worker's earnings would have been at age 65.

- **For loss of CPP or QPP benefits**, pre-injury earnings will be adjusted every year on January 1st based on the same percentage increase as the CPP and QPP Maximum Pensionable Earnings amount.
 - **For loss of ESPP benefits**, pre-injury earnings will be adjusted every year on January 1st based on the change in the Average Weekly Earnings Industrial Aggregate for all employees in Prince Edward Island at June 30 of the year previous.
10. If a worker's claim is reopened due to a recurrence of symptoms, pre-injury earnings will be calculated as set out in WCB policy POL-86, Temporary Wage Loss Benefits.

Loss of Canada Pension Plan or Quebec Pension Plan Retirement Benefits

11. The WCB will presume that a worker would have started to receive a pension benefit from the CPP or QPP at age 65.
12. The WCB will estimate the CPP benefits a worker would have received had the injury not occurred. This estimate will be compared to the actual CPP benefits received, and the worker will be compensated if a loss is determined.
13. Where a worker receives a pension benefit from CPP or QPP at an age other than 65, the estimate of pension benefits payable will be adjusted accordingly.

Loss of Registered Employer Sponsored Pension Plan (ESPP) Benefits

Defined Benefit Plans

14. The WCB will presume that the worker would have started to receive a pension benefit from the ESPP at age 65. Where a worker receives a pension benefit from an ESPP at an age other than 65, the estimate of pension benefits payable will be adjusted accordingly.
- If a worker chooses to start their pension before age 65, the WCB will compare the potential benefit that could have been earned at the later of the retirement date or the date at which an unreduced pension would have been available and the actual benefit, both indexed to age 65.

15. The WCB will calculate the difference between the potential pension benefit that could have been earned and the actual pension benefit received to determine the amount of lost ESPP benefits.
16. If the worker's ESPP provides the opportunity for continued accrual while the worker is determined to be disabled, any accrual or contributions during this period will be factored into the calculation of any potential ESPP benefits lost.

Defined Contribution Plans (including Group and Pooled Retirement Savings Plans)

17. The WCB will presume that the worker would have started to receive pension benefits at age 65.
18. The WCB will calculate the difference between the pension benefit that the worker could have earned, and the actual pension benefit received to determine the amount of lost pension benefits.
19. For plans that contain both defined benefit and defined contribution portions, the pension replacement benefit will be calculated for each portion separately and will be added together.

Payment of Pension Replacement Benefits

20. Pension replacement benefits are paid for the worker's lifetime and are non-transferable after death.
21. The WCB will not index pension replacement benefits.
22. If the total pension replacement benefit is calculated to be 40% or less of the Maximum Annual Earnings (MAE) in the year in which the lump sum was requested, the worker will have the option to receive the amount in the form of recurring payments, or a one-time lump sum payment.

The WCB will use actuarial expertise in the calculation of the one-time lump sum payment amount.

23. If the total pension replacement benefit exceeds 40% of the MAE in the year in which the lump sum was requested, the benefit will be paid out in monthly recurring payments.

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24. Workers with annual pension replacement benefits of less than \$500 will be paid annually as a lump sum.
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HISTORY:

December 11, 2025 – The policy was amended to provide a one-time lump sum payment option for qualifying workers.

January 23, 2025 – The policy was amended to clarify determination of pre-injury earnings, update annual earnings adjustment provisions, and enhance clarity and understanding for staff and clients.

December 10, 2020 – Non-substantive changes to definitions.

October 23, 2019 - Non-substantive changes to definitions and age requirements.

July 12, 2019 - Non-substantive changes to reference maximum annual earnings.

January 24, 2019 – Amended to reflect legislative changes to provide an annuity retirement benefit for those workers who qualify on or after January 1, 2019.

March 31, 2016 – The policy was amended to include retirement saving plans when determining the loss of pension benefits experienced by injured workers.

October 28, 2015 – The policy was amended to reflect the change in the factor (decreased to 1.8% from 2.1%) used to calculate a rate of salary increase before retirement when calculating pension replacement benefits. The calculation was performed as required by this policy.

September 28, 2010 – The policy was updated as a result of the 60 month policy review process. No substantive changes were made to the policy during this review. However, the policy was amended to reflect the change in the factor (increased to 2.1% from 2%) used to calculate a rate of salary increase before retirement when calculating pension replacement benefits. The calculation was performed as required by this policy (every five years beginning on the date this policy came into effect).

Board of Directors Approval Date: June 23, 2005
