Response on the financing of Employment Insurance and recent measures

Ottawa, Canada
October 9, 2014
www.pbo-dpb.gc.ca
The mandate of the Parliamentary Budget Officer (PBO) is to provide independent analysis to Parliament on the state of the nation’s finances, the government’s estimates and trends in the Canadian economy; and upon request from a committee or parliamentarian, to estimate the financial cost of any proposal for matters over which Parliament has jurisdiction.

A number of concerns surrounding the Employment Insurance program have been communicated to PBO by Members of Parliament.

This report answers the following questions on EI administration:

**Question 1:** How far above forecast break-even rates are legislated EI premium rates in 2015 and 2016?

**Question 2:** How much extra revenue does this contribute to the budget outlook?

**Question 3:** What is the job impact of the Small Business Job Credit and the EI premium rate freeze?

**Question 4:** Why has access to employment insurance fallen?

**Question 5:** By how much could access or benefits be increased at current EI premium rates while keeping the account in balance?

**Question 6:** What was the cost of the Canadian Employment Insurance Financing Board?

Prepared by: **Scott Cameron and Helen Lao**

Any errors or omissions are the responsibility of the authors. We thank Mostafa Askari, Jason Jacques, Negash Haile and Jean-François Nadeau for comments. Please contact Mostafa Askari (email: mostafa.askari@parl.gc.ca) for further information.
SUMMARY ANSWERS AND RECOMMENDATIONS

**Question 1:** How far above forecast break-even rates are legislated rates in 2015 and 2016?
- PBO estimates that legislated EI premium rates are higher by 13 cents in 2015 and 28 cents in 2016. Budgeted rates are then lower by 13 cents in 2017 and 12 cents in 2018 to gradually eliminate the resulting surplus in the EI Operating Account.

<table>
<thead>
<tr>
<th>Table 1: Comparison of budgeted rates and PBO’s forecast break-even rates.</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget 2014</td>
<td>1.88</td>
<td>1.88</td>
<td>1.47</td>
<td>1.47</td>
<td>-</td>
</tr>
<tr>
<td>Break-even (PBO)</td>
<td>1.75</td>
<td>1.60</td>
<td>1.60</td>
<td>1.59</td>
<td>1.59</td>
</tr>
<tr>
<td>Difference</td>
<td>0.13</td>
<td>0.28</td>
<td>-0.13</td>
<td>-0.12</td>
<td>na</td>
</tr>
</tbody>
</table>

Sources: Parliamentary Budget Officer, Finance Canada.

**Question 2:** How much extra revenue does this contribute to the budget outlook?
- PBO estimates that freezing premium rates contributes $5.0 billion extra to the budgetary balance outlook from 2014-15 to 2018-19, or $4.4 billion to the budgetary outlook, net of the Small Business Job Credit.

<table>
<thead>
<tr>
<th>Table 2: Contribution of rate freeze to fiscal plan</th>
<th>2014-15</th>
<th>2015-16</th>
<th>2016-17</th>
<th>2017-18</th>
<th>2018-19</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgetary Contribution</td>
<td>0.5</td>
<td>2.7</td>
<td>3.2</td>
<td>-0.8</td>
<td>-0.7</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Source: Parliamentary Budget Officer.

**Question 3:** What is the job impact of the Small Business Job Credit and the EI premium rate freeze?
- PBO estimates that the Small Business Job Credit will create 200 new full-time equivalent jobs in 2015 and 600 new jobs in 2016. PBO estimates the premium rate freeze will reduce full-time equivalent employment by 2,000 jobs in 2015 and a further 8,000 jobs in 2016.

- Over a longer outlook, any employment created or lost in 2015 and 2016 is mostly offset by equal and opposite changes to premium rates after 2016 as a result of the 7-year break-even rate-setting mechanism.

**Question 4:** Why has access to the employment insurance program fallen?
- Fewer workers are participating in the EI program as a result of a persistent restructuring of the labour market following the recession that began in fall 2008. The post-recession labour market is characterised by:
  - a high share of temporary workers (who do not qualify for EI), and
  - a high share of long-term unemployed workers (who exhaust their EI benefits).

**Question 5:** By how much could access or benefits be increased with the surplus from freezing rates?
- To date in 2014, 38 per cent of unemployed workers have been eligible to collect EI. The $3.0 billion annual surplus in the EI Operating Account could be used to extend access to an additional 10 per cent of the unemployed (130,000 workers), either temporarily in 2015 and 2016, or permanently if the premium rate is not reduced in 2017.
• PBO’s latest forecast for the average regular EI benefits payment in 2015 is $440 per week. Benefits could be enhanced for existing recipients of regular benefits by increasing the wage replacement rate from 55 per cent of insurable earnings to 68 per cent (an average increase of $100 per week).

**Question 6: What was the cost of the CEIFB?**

- The CEIFB (Canadian Employment Insurance Financing Board) was established to set the EI premium rate and manage a reserve fund.
- The CEIFB operated from 2010 to 2013 at a cost of $4.2 million, which was funded out of EI revenues (Table 3). During this time, the rates were set instead by the Governor in Council and the reserve fund was never established.

**Table 3: Administration costs of the abolished CEIFB**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Total</th>
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<tbody>
<tr>
<td>Cost</td>
<td>277</td>
<td>1,649</td>
<td>1,733</td>
<td>546</td>
<td>4,202</td>
</tr>
</tbody>
</table>

Source: Public Accounts of Canada.

**CONSIDERATIONS FOR PARLIAMENTARIANS**

The rate freeze announced in September 2013 and confirmed in September 2014 threatens the success of the government’s objectives to create a more stable and transparent premium rate-setting mechanism, and to ensure EI revenues are no higher than required for EI benefits and labour market support measures. PBO has identified several key issues that parliamentarians should consider, which could help overcome the potential failure to achieve these goals:

1. **Transparency in fiscal impact costing**

   The government typically costs new policy measures that affect the consolidated revenue fund and publishes these costs in the budget. The government did not publish its estimate of the fiscal impact of the premium rate freeze.

   **Recommendation:** Parliamentarians should request that the government publish the estimated fiscal impact of the premium rate freeze. In the future, it would be best practice if the government were to publish the full estimated fiscal impact of all new measures.

Parliamentarians should also request that the government publish a reconciliation of future forecast break-even rates and actual break-even rates (as was required of the CEIFB) so that the ex-post contribution to the budget outlook in 2014-15, 2015-16, and 2016-17 may be scrutinized.

2. **Uncertainty and reporting requirements**

   There are significant differences in the assumptions used by PBO, Finance Canada, and the Chief Actuary to forecast the EI Operating Account. These assumptions can lead to large differences in the forecast break-even rate, particularly at the longer horizons required by the 7-year break-even rate.

   Neither the current reports of the CEIC (Canada Employment Insurance Commission) and Chief Actuary, nor the annual budget papers, provide an official 7-year outlook for parameters that are used to forecast the budget premium rate planning assumption for 2017, and that will ultimately be used to set the rate. If the rate in 2017 is misestimated, it could require several years of capped increases or decreases to rates to eliminate the resulting surplus or deficit in the account. This acts against the goal of stable premium rates.

   **Recommendation:** Parliamentarians should request that the government’s annual reporting requirements be augmented by official estimates of forecast trends in the EI program and labour market, including assumptions to arrive at the 7-year break-even rate. This should be done as soon as possible so that assumptions may be scrutinized and challenged to avoid a surplus or shortfall in the budget planning assumption.

3. **Pro-cyclicality of the 7-year break-even rate**

   The break-even mechanism will require lower contributions during good times and higher contributions during bad times. While the Governor in Council could restrict increases during a future recession, the mechanism will still call for the rate to be increased soon afterward, potentially during a tenuous recovery.

   **Recommendation:** Parliamentarians should re-examine whether pro-cyclicality is appropriate for a program tied so closely to the success of the labour market.
BACKGROUND AND ANALYSIS

1 RECENT POLICY CHANGES

Beginning in Budget 2008, the government made several changes to the financing and administration of the Employment Insurance program. All changes were made with the intent to improve the transparency and certainty of the premium rate-setting mechanism, and ensure that the contributions from workers are used only for expenses of the EI program.

Creation of an independent board and a new break-even rate. The Canada Employment Insurance Financing Board Act, 2008 created the CEIFB to implement an improved EI premium rate-setting mechanism and manage a separate reserve fund that could be used to finance the EI program during downturns to maintain rate stability. The CEIFB was to set the premium rate at the forecast break-even rate for the upcoming year so that the account balanced over time. The forecast was to be prepared by a chief actuary hired by the CEIFB, reporting to the CEIFB board of directors, who would make the final decision. The CEIFB began operating in 2010.

A new EI Operating Account. In July 2010, the Jobs and Economic Growth Act eliminated the Employment Insurance Account, a consolidated specified purpose account within the Accounts of Canada to notionally track EI revenues and expenses, and deemed it closed retroactively to December 31, 2008. The notional surplus in the EI Account was $57.2 billion when it was closed.

The act created a new EI Operating Account to account for all credits and charges made under the Employment Insurance Act after December 31, 2008.

Recession, deficits, and a cap. In its first year, the new EI Operating Account accumulated a $4.9 billion deficit as a result of high unemployment following the global financial crisis. The rate setting mechanism would have required large increases in premium rates in 2010, 2011, 2012, and 2013 to eliminate this deficit. The Canada Employment Insurance Financing Board Act initially limited rate increases to 15 cents. Budget 2009 froze the rate for 2010 at its 2009 level. In an October 2010 Order in Council, the government limited the rate increase to 5 cents in 2011 and future increases to 10 cents. The 2011 Economic and Fiscal Update announced that the increase for 2012 would again be limited to 5 cents. The Jobs, Growth and Long-term Prosperity Act, 2012 (Bill C-38) formally changed the 10 cent limit to 5 cents. With the rate increases limited, a large deficit accumulated in the account, reaching as high as $9.2 billion in 2011 (Table 4).

<table>
<thead>
<tr>
<th>Table 4: EI premium rate cap and account balances</th>
</tr>
</thead>
<tbody>
<tr>
<td>dollars per $100 of insurable earnings, unless noted</td>
</tr>
<tr>
<td>2009</td>
</tr>
<tr>
<td>Break-even rate forecast</td>
</tr>
<tr>
<td>Legislated</td>
</tr>
<tr>
<td>Annual balance ($b)</td>
</tr>
<tr>
<td>Cumulative deficit ($b)</td>
</tr>
<tr>
<td>Sources: Public Accounts of Canada, Office of the Superintendent of Financial Institutions.</td>
</tr>
</tbody>
</table>

A 7-year break-even rate and the dissolution of the independent board. Bill C-38 also provided for the premium rate to move to a 7-year break-even rate after the account came into balance, and in the meantime provided for the rate to continue to be set annually by the Governor in Council on the joint recommendation of the Minister of ESDC (Employment and Social Development Canada) and the Minister of Finance. The Jobs and Growth Act, 2012 (Bill C-45) temporarily suspended the CEIFB effective March 7, 2013. The CEIFB was permanently dissolved with the Economic Action Plan Act, 2013.

From a cap to a freeze. The Economic Action Plan Act, No. 2, 2013 (Bill C-4) amended the Employment Insurance Act to freeze the EI Premium Rate at 1.88 in 2014, 2015, and 2016. The policy announcement was accompanied by a report from the Chief Actuary updating the status of the EI Operating Account. With the data in this report, PBO was able to show that, barring a significant unexpected economic decline, a rate of 1.88 in 2015 and 2016 would be a premium rate increase compared to the rates that would have been set prior to Bill C-38 and Bill C-4 and that it
would contribute considerable extra revenue to the budget outlook. PBO reported this in its Fall Economic and Fiscal Outlook Update on October 25, 2013.1

The latest Chief Actuary report setting the rate for 2015 has confirmed PBO’s estimates. The Employment Insurance Act prior to recent changes would have required the rate to be set at $1.62 per $100 in 2015. The Chief Actuary projected that a rate of $1.88 in 2015 will eliminate the cumulative deficit of the EI Operating Account that accrued during the recession and contribute a further $3.5 billion toward the government’s fiscal plan in calendar-year 2015, which is a significant contribution to the budget balance for fiscal years 2014-15 and 2015-16.

By freezing rates at $1.88 for 2015 and 2016, contributions will be higher than required to pay for expenses of the EI program and the premium rate in 2017 will need to be reduced by 36 cents according to PBO’s projection (41 cents according to the Finance Canada’s projection in Budget 2014) to eliminate the surplus that will accumulate. This is a much bigger rate change than would have been required had rates been set at forecast break-even rates in 2015 and 2016.

2 PBO’S BREAK-EVEN RATE PROJECTION

PBO provides an independent assessment of the EI Operating Account in its twice-annual Economic and Fiscal Outlook reports.

PBO forecasts the break-even rate using a similar method as the annual reports of the Chief Actuary. Insurable earnings are forecast using our projection for wages and salaries and the expected annual maximum yearly insurable earnings thresholds. Benefits are forecast using a projection of the number of unemployed workers, the proportion of unemployed workers that will qualify for EI benefits (the beneficiaries-to-unemployed ratio, or B/U ratio), and average benefit payments, which grow with average weekly earnings. The break-even premium rate is then chosen to ensure revenues equal expenses, including benefits, administration expenses, and Part II labour market support measures. The break-even rate is the year-ahead rate for 2015, when the account comes to balance, and then a rolling 7-year ahead break-even rate in each remaining year of the outlook. Our full methodology is described in PBO (2010).

PBO’s current forecast of the break-even rate is given in Table 5, along with Finance Canada’s forecast of legislated rates published in Budget 2014 and the Chief Actuary’s forecast for the year-ahead break-even rate in 2015.

Table 5: Break-even premium rates PBO

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget 2014</td>
<td>1.88</td>
<td>1.88</td>
<td>1.47</td>
<td>1.47</td>
<td>-</td>
</tr>
<tr>
<td>PBO break-even rate</td>
<td>1.75</td>
<td>1.60</td>
<td>1.60</td>
<td>1.59</td>
<td>1.59</td>
</tr>
<tr>
<td>Chief actuary break-even rate</td>
<td>1.62</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Sources: Parliamentary Budget Officer, Finance Canada, OSFI (2014).

PBO expects the break-even rate to be $1.75 per $100 of insurable earnings for 2015 and $1.60 for 2016. According to PBO’s assumptions, premium rates are higher by 13 cents in 2015 and 28 cents in 2016. Legislated rates must be moved lower than break-even in 2017 and 2018 to gradually eliminate the account surplus that accumulates under the freeze.

PBO forecasts higher break-even rates than the Chief Actuary. This is a result of our different assumptions for the economic outlook and the outlook of the EI program, most importantly the unemployment rate and the B/U ratio.

A comparison of PBO’s assumptions and the Chief Actuary’s assumptions for 2015 is given in Table 6.

Table 6: Forecast assumptions for 2014

<table>
<thead>
<tr>
<th></th>
<th>Unemployment Rate</th>
<th>B/U Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBO</td>
<td>6.9</td>
<td>42.5</td>
</tr>
<tr>
<td>Chief Actuary</td>
<td>6.6</td>
<td>39.3</td>
</tr>
</tbody>
</table>

Sources: Parliamentary Budget Officer; OSFI (2014).

The Chief Actuary uses Finance Canada’s assumption for the unemployment rate (the

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1 See PBO (2013a) and PBO (2013b).
average private sector outlook), which is considerably lower than PBO’s assumption (6.6 per cent and 6.9 per cent, respectively). The sensitivity of expenses to a 0.3-percentage point change in unemployment is roughly $0.5 billion. This difference is responsible for 5 cents of the difference between the premium rate projections of the PBO and the Chief Actuary for 2015.

The Chief Actuary’s assumption of the B/U ratio is also lower than PBO’s assumption (39.3 and 42.5 per cent, respectively). This is responsible for 6 cents of the difference between the break-even premium rate projections.

Compared to the premium rate forecast in Budget 2014 (and reaffirmed during the September 2014 announcement of the Small Business Job Credit), PBO estimates that the rate freeze contributes an extra $0.5 billion to fiscal year 2014-15, $2.7 billion in 2015-16, and $3.2 billion in 2016-17 (Table 7). Revenues over the medium-term beyond 2016-17 are reduced because of the need to unwind the surplus that will accumulate in the account.

Table 7: Contribution of rate freeze to fiscal plan

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgetary Contribution</td>
<td>0.5</td>
<td>2.7</td>
<td>3.2</td>
<td>-0.8</td>
<td>-0.7</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Source: Parliamentary Budget Officer.
Note: EI premium rates are set on a calendar year. Therefore a lower rate than the break-even rate in 2015 contributes to fiscal year 2014-15.

PBO has only limited public data on EI administration. We must assume that the B/U ratio gradually returns to its average over the decade leading up to the recession, adjusted for measures. The Chief Actuary has access to the latest models and detailed information from ESDC. This suggests PBO’s assumption of the B/U ratio could be too high for 2015, in which case the rate freeze contributes a greater amount to the budget outlook than estimated in Table 7.

PBO’s projection of the EI Operating Account balance is given in Table 8. By keeping rates higher than necessary in 2015 and 2016, the EI Operating Account will need to run an annual deficit in 2017, 2018, and 2019, and possibly beyond, to eliminate the surplus that will accumulate.

Table 8: Annual balance of EI Operating Account with the rate freeze

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual balance</td>
<td>3.4</td>
<td>3.2</td>
<td>3.6</td>
<td>-0.8</td>
<td>-0.7</td>
<td>-0.6</td>
</tr>
<tr>
<td>Cumulative balance</td>
<td>-1.5</td>
<td>1.8</td>
<td>5.4</td>
<td>4.6</td>
<td>3.8</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Source: Parliamentary Budget Officer.

For comparison, Table 9 shows the balances in the EI Operating Account under the break-even rate. The annual balance varies slightly from zero past 2015 to counter 7-year trends in the labour market, but otherwise the account is roughly balanced on an annual basis.

Table 9: Annual balance of the EI Operating Account with break-even rates

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual balance</td>
<td>3.4</td>
<td>1.5</td>
<td>-0.5</td>
<td>-0.5</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Cumulative balance</td>
<td>-1.5</td>
<td>0.0</td>
<td>-0.5</td>
<td>-1.0</td>
<td>-0.7</td>
<td>-0.4</td>
</tr>
</tbody>
</table>

Source: Parliamentary Budget Officer.

3 Employment Assessment of the Small Business Job Credit

On September 11th, 2014, the government announced the Small Business Job Credit, which will reduce EI premiums for businesses with an annual EI contribution of less than $15,000. The government has announced this will have a cost of $550 million over the next two years.

Macroeconomic impact on employment

PBO has estimated the creation of jobs by the Small Business Job Credit using Finance Canada’s fiscal multiplier for EI premium rate changes.

These job estimates are the macro-economic increase in employment resulting from an increase in aggregate demand and supply as a result of
higher after-tax business incomes (that is, the dollar increase in real GDP of leaving an extra dollar of EI revenues in the hands of business owners).

Finance Canada’s most recent public estimate of the fiscal multiplier for EI premium rate changes is 0.6, that is, a one dollar reduction in EI revenues would increase real GDP by 60 cents. This suggests businesses will adjust their purchases of inputs, including labour, by less than the full amount of the tax reduction.

PBO’s estimate of the job impact of the Small Business Job Credit is given in Table 10. We estimate that the Small Business Job Credit would create 200 jobs in 2015 and 600 additional jobs in 2016.

Table 10: Job creation of the Small Business Job Credit

<table>
<thead>
<tr>
<th>number of net new full-time-equivalent jobs</th>
<th>2015</th>
<th>2016</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance Canada multiplier (0.6)</td>
<td>200</td>
<td>600</td>
<td>800</td>
</tr>
</tbody>
</table>

Sources: Parliamentary Budget Officer, Finance Canada (2011).

Table 10 is presented in terms of net new jobs. Net new jobs represent the increase in the level of employment each year, less the jobs that were created in the previous year. For example, PBO estimates the level of employment in 2015 is higher by 200 jobs and the level of employment in 2016 is higher by 800 jobs. The net new jobs created is therefore 200 in the first year and 600 in the second year, or a total of 800 net new jobs.

An alternative way of presenting the job impact of the measure is in person years. Person years summarizes both the number of jobs created and the duration of employment. PBO’s estimate of the impact of the Small Business Job Credit measured in person years would be the sum of the increase in the level of employment in the first year (200 jobs) and the increase in the level of employment in the second year (800 jobs), or 1,000 person years in total. These jobs are created at an average cost of $550,000 per person year.

Over a longer outlook, there are few, if any, net employment effects from this measure, or any measure that reduces revenues or increases expenses of the EI Operating Account under the 7-year break-even rate-setting mechanism. Job creation in 2015 and 2016 will be offset by equal and opposite premium rate increases after 2016 to make up for the $550 million cost of the program.

Firm-level impact on employment

PBO’s macroeconomic approach to assessing the employment response of a decrease in EI premiums does not consider closely the impact of the policy on marginal incentives to hire or fire employees at the firm level. The effects of the policy would be small relative to the overall costs of increasing or reducing a firm’s labour force. These effects on employment are further reduced by displacement (for example, assisting SMEs could give them a competitive advantage over larger corporations, that may scale back output and employment in response) and forestalling (for example, a company may wait to expand its labour force until premium rates drop even further to 1.47 in 2017).

4 Employment Assessment of the Premium Rate Freeze

An alternative baseline against which to compare employment would be the break-even premium rates that would have been set in 2015 and 2016 before the rates were frozen in Bill C-4. PBO estimates the effect of the rate freeze is a net reduction in full-time-equivalent employment of 2,000 jobs in 2015 and 8,000 jobs in 2016 (Table 11).

Table 11: Job reductions of the EI freeze

<table>
<thead>
<tr>
<th>number of net full-time-equivalent jobs eliminated</th>
<th>2015</th>
<th>2016</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance Canada multiplier (0.6)</td>
<td>2,000</td>
<td>8,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

Sources: Parliamentary Budget Officer, Finance Canada (2011).

Like the Small Business Job Credit, most of the employment effects of the premium rate freeze are temporary, and are offset by lower premium

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rates beyond 2016 when the surplus in the cumulative account is gradually eliminated.

5 USING THE FISCAL ROOM TO INCREASE ACCESS OR ENHANCE BENEFITS

In 2014, only 38.0 per cent of unemployed workers have received EI benefits, compared to 46.6 per cent in 2007 (Figure 2a). The decrease in access has largely been the result of a persistent restructuring of the labour market following the recession that began in fall 2008, rather than government administrative measures such as the changes to suitable employment and reasonable and customary efforts to obtain suitable employment in Bill C-38 implementing Budget 2012.

The post-recession labour market can be characterized by a high share of temporary workers (who do not qualify for EI), and a high share of long-term unemployed (who exhaust their EI benefits). The increase in the share of these workers is shown in Figure 2b and Figure 2c, respectively.

The projected annual surplus contribution of over $3.0 billion in EI premiums could be used to temporarily extend access to the EI program to a further 10 per cent of the unemployed (130,000 workers) in 2015 and 2016, or permanently if the rate is not lowered in 2017. This would bring the total of unemployed persons with access to benefits from 39.5 to 51.5 per cent in 2015, according to the Chief Actuary’s forecast of the B/U ratio.

An increase in access could be accomplished by policies such as reducing the qualifying number of hours of insurable employment (currently between 420 and 700 hours depending on the unemployment rate in the place of residence) or reducing the labour force attachment period.


Alternatively, benefits could be enhanced for existing recipients by increasing the wage replacement rate from 55 per cent of insurable earnings to 68 per cent (an average increase of $100 per week above PBO’s latest forecast for the
average regular EI benefits payment of $440 per week in 2015).

These enhancements were estimated using an average of the results of PBO’s EI simulations and the sensitivities of the EI program to the Chief Actuary’s assumptions, as published in the 2015 Actuarial Report on the Employment Insurance Premium Rate (Table 12).

Table 12: Chief Actuary and PBO sensitivities

<table>
<thead>
<tr>
<th>Variation (percentage points)</th>
<th>Budget impact ($millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PBO</td>
</tr>
<tr>
<td>1.0 ppt increase in B/U ratio</td>
<td>280</td>
</tr>
<tr>
<td>0.05 ppt increase in premium rate</td>
<td>750</td>
</tr>
</tbody>
</table>

Sources: Office of the Parliamentary Budget Officer, Office of the Superintendent of Financial Institutions (2014).

6 COST OF THE CEIFB

The Canadian Employment Insurance Financing Board was established in 2008 to set the EI premium rate and manage a reserve fund.

The Board’s purpose was to improve the transparency and independence of EI financing, and to ensure that EI premiums were used exclusively for the EI program.

The Board operated from June 2010 until March 2013, during which a cost of $4.2 million in administration expenses was charged to the EI Operating Account (Table 13).

Table 13: Administration costs of the abolished CEIFB

<table>
<thead>
<tr>
<th></th>
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</tr>
</tbody>
</table>

Sources: Public Accounts of Canada.

The CEIFB made recommendations for the premium rate for 2011, 2012, and 2013; however, rates were instead set by the Governor in Council according to 5 cents limits. The reserve fund was never established. The requirement for a reserve fund was eliminated in 2012 by the Jobs, Growth and Long-term Prosperity Act, 2012. The CEIFB was suspended in the Jobs and Growth Act, 2012 and dissolved in the Economic Action Plan Act, 2013.

REFERENCES


