2011 EMPLOYMENT INSURANCE PREMIUM RATE

Report of the CEIFB Board of Directors

November 12, 2010

CEIFB CANADA EMPLOYMENT INSURANCE FINANCING BOARD

- The CEIFB Board of Directors has set the 2011 EI premium rate for residents of all provinces, with the exception of Quebec, at $1.78 per $100 of insurable earnings. The EI premium rate for Quebec residents is set at $1.41.
- The CEIFB Chief Actuary reports that the 2011 forecast break-even rate for residents of all provinces, with the exception of Quebec, is determined to be $2.68 per $100 of insurable earnings. After applying the premium reduction for residents of a province with a provincial parental leave plan, the forecast break-even rate for Quebec residents is determined to be $2.31 per $100 of insurable earnings.
- The EI Operating Account is expected to have an annual deficit of $1.9 billion in 2011, and a cumulative deficit of $10.4 billion as at December 31, 2011.

The Canada Employment Insurance Financing Board (CEIFB) was established in 2008 to assume a stewardship role with respect to the financing of the Employment Insurance (EI) program. Among its responsibilities, the CEIFB is to set the EI premium rate and to manage, for the benefit of the EI program, any surplus EI funds that will accrue. My fellow Board members and I are honoured to have been given this responsibility by Parliament. It is our pleasure to present this inaugural rate-setting report, which establishes the EI premium rate for 2011 and provides a detailed analysis supporting the selection of this rate.

David A. Brown, C.M., Q.C.
Chair of the Board of Directors
Canada Employment Insurance Financing Board

The CEIFB protects the integrity of EI financing by setting the premium rate for the upcoming year and managing any surplus funds for the exclusive benefit of the EI program.

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The CEIFB sets the premium rate to ensure that the new EI Operating Account, which was created by the Government of Canada with an effective date of January 1, 2009, breaks even over time. In any given year, there is a legislated limit on the size of the premium rate adjustment.

A NEW MECHANISM FOR SETTING CANADA'S EI PREMIUM RATE

Established as a Crown corporation under the 2008 *Canada Employment Insurance Financing Board Act*, the Canada Employment Insurance Financing Board (CEIFB) operates at arm's length from the Government of Canada to ensure that all Employment Insurance (EI) premiums and related revenues are used exclusively for the purposes of Canada's EI program.

A NEW EI OPERATING ACCOUNT

With the enactment of the 2010 *Jobs and Economic Growth Act*, Parliament created a new EI Operating Account to account for all credits and charges made under the *Employment Insurance Act* after December 31, 2008. (In creating this new account, Parliament also officially closed the previous EI account as of December 31, 2008.) The EI Operating Account is a tracking account in the Accounts of Canada for the revenues and expenditures of the EI program, ensuring that its financing is managed in a transparent fashion.

EI premium revenues are paid into the Consolidated Revenue Fund (CRF) and accounted for by crediting the EI Operating Account. Benefits and other expenses of the EI program are paid out of the CRF and charged to the EI Operating Account. When the EI Operating Account is in a surplus position, these funds will be paid out of the CRF to the CEIFB and charged to the EI Operating

Canada's EI program

The EI program provides temporary financial assistance to unemployed Canadians while they look for work or upgrade their skills, and to those who are sick, pregnant, or caring for a newborn, adopted child or seriously ill family member. Operated by the Government of Canada, the EI program is funded by Canadian employers and employees through a premium charge based on employee insurable earnings.

Account. When these funds are required to pay benefits, the CEIFB will make a payment to the CRF—to be credited to the EI Operating Account. This report, for ease of understanding, may make reference to payments paid into or out of the EI Operating Account.

PRIMARY RESPONSIBILITIES OF THE CEIFB

The CEIFB's four main functions are to:

- set the EI premium rate for the upcoming year in a transparent fashion
- maintain the indexed reserve target
- manage any surplus EI premium funds for the exclusive benefit of the EI program
- report publicly on the financing status of the EI program

SETTING THE EI PREMIUM RATE

In 2010, the task of setting Canada's EI premium rate was transferred from the Canada Employment Insurance Commission to the CEIFB. Through the rate-setting process, the CEIFB is to ensure that the new EI Operating Account breaks even over time.

The CEIFB Chief Actuary is responsible for determining the forecast EI break-even rate for the upcoming year—that is, the rate required to produce the level of EI premium revenues needed to ensure that the total amount credited is equal to the total amount charged to the EI Operating Account after December 31, 2008 up to the end of the 2011 calendar year. The forecast EI break-even rate is based on information provided by the Minister of Human Resources and Skills Development and the Minister of Finance, as well as assumptions developed by the Chief Actuary from historical data. The economic and demographic assumptions provided by the Department of Finance are derived from an average of a survey of major private sector forecasters. The Chief Actuary is required by the *Employment Insurance Act* to use these assumptions when calculating this rate.

The role of the Governor in Council
On the joint recommendation of the Minister of Human Resources and Skills Development and the Minister of Finance, the Governor in Council can change the annual maximum increase or decrease in EI premium rate per $100 of insurable earnings.

The Chief Actuary's report must be submitted to the Board of Directors of the CEIFB no later than October 31 of each year.

The Chief Actuary is required to use the information provided by both Ministers as of September 30. However, when subsequent information relevant to the determination of the break-even rate and its components is provided, the Board of Directors can ask the Chief Actuary to make use of this information.

On October 12, 2010 the Government of Canada announced the reintroduction of three EI pilot projects to help Canadians through the economic recovery in 2010 and 2011. The Board of Directors asked the Chief Actuary to incorporate this information, the impact of which is now presented in a Supplementary Report of the Chief Actuary. This rate-setting report by the Board reflects the reintroduction of EI pilot projects and their impact on program expenditures, the break-even rate and its components, and the EI operating Account cumulative deficit.

The Annex to this report presents the Executive Summary of the Chief Actuary's Supplementary Report reflecting this latest information.

While the break-even rate calculated by the Chief Actuary is a significant determinant of the EI premium rate, it is not the only factor. The original legislation limited the annual change in the EI premium rate to 15 cents for each $100 of insurable earnings. However, pursuant to section 66(8) of the *Employment Insurance Act*, the Governor in Council may change this annual maximum if doing so is considered to be in the public interest. On September 30, 2010, the Government announced its intention to limit the increase or decrease of the EI premium rate to 5 cents in 2011 and 10 cents in subsequent years. These new maximum variation levels have since been enacted by an Order in Council dated October 28, 2010. In addition, the Government announced it would undertake consultations with Canadian individuals and businesses on how the EI rate-setting mechanism might be further improved to ensure more stable and predictable rates going forward.

The annual rate-setting cycle

Sep. 30
The CEIFB receives data from the Minister of Finance and the Minister of Human Resources and Skills Development.

Oct. 31
The CEIFB Chief Actuary's report is submitted to Board of Directors of the CEIFB. Based on the projected surplus or deficit, funds are transferred to or from the CEIFB.

Nov. 14
The CEIFB publishes its rate-setting report.

MAINTAINING THE INDEXED RESERVE TARGET

To help stabilize EI premium rates within the legislated parameters, the federal government has indicated its intention to provide the CEIFB with a $2 billion payment to establish an indexed reserve target. Once established, the indexed reserve target will be taken into consideration when determining the forecast EI break-even rate.

The reserve target and its indexation formula have not yet been established. Had the $2 billion been provided to the CEIFB in 2010, in accordance with the legislation, it would have been returned to the government by October 31, 2010. There is no impact on EI premium rate from the postponement in establishing the indexed reserve target.

MANAGING AND INVESTING SURPLUS EI PREMIUM FUNDS

The CEIFB is to maintain an independently administered fund—separate from the Government of Canada's general revenues—to hold and manage surplus EI premium revenues. Any surplus revenues in excess of the indexed reserve target will be used to reduce future premium rates.

With respect to the surplus or deficit position of the EI Operating Account, there are two possibilities:

- If the Minister of Finance projects a surplus in the EI Operating Account by the end of the current year, the excess funds are transferred from the federal government's Consolidated Revenue Fund (CRF) to the CEIFB, and are to be charged to the EI Operating Account on or before October 31. The CEIFB will hold and invest any such assets for the exclusive benefit of the EI program and will return them when the funds are needed for EI expenditures. To the extent surplus EI funds are not needed to pay benefits they will be returned to employers and employees over time through a reduction in premium rates. There is a legislated limit with respect to the maximum change in EI premium rate in any one year.

- If the Minister of Finance projects a deficit in the EI Operating Account by the end of the current year, the CEIFB transfers money from its reserve (that is, its assets minus its liabilities) to the CRF; these funds are to be credited to the EI Operating Account on or before October 31. Should there be a deficit in the EI Operating Account and there are insufficient assets held by the CEIFB, EI benefits would continue to be paid out of the CRF. The CEIFB is required to eliminate any deficit in the EI Operating Account by gradually increasing the premium rate over time, within the legislated annual limit.

REPORTING PUBLICLY ON THE FINANCIAL STATUS OF THE EI PROGRAM

As part of its mandate, the CEIFB is committed to establishing a clear and transparent process for setting the EI premium rate and ensuring that Canadians have a clear understanding of its role in the stewardship of the EI program financing. In addition to publishing quarterly financial statements, the CEIFB is required to report annually to the Government of Canada, Parliament and the public to ensure that the financing of Canada's EI program is fully transparent. The CEIFB's rate-setting report must be made public by November 14 of each year.

The maximum possible EI premium rate for 2011 is determined by the 2010 premium rate and the legislated limit on year-to-year rate changes, which is 5 cents per $100 of insurable earnings for 2011.

2011 EI PREMIUM RATES AND EI OPERATING ACCOUNT PROJECTIONS

To determine the EI premium rate for 2011, the CEIFB must consider not only the Chief Actuary's forecast break-even rate, but also the statutory limitation on the year-to-year change in the EI premium rate. For more on how the EI premium rate was established, see the **Analysis of the rate calculation** section of this report.

FORECAST BREAK-EVEN RATE FOR 2011

The forecast break-even rate, as reported by the Chief Actuary, should generate just enough premium revenue to ensure that the amounts credited and charged to the EI Operating Account after December 31, 2008 and up to the end of 2011 are equal, and that the fair market value of the CEIFB's reserve (after one has been established) is equal to its indexed reserve target.

Using the information provided on September 30 and the announcement of the reintroduction of three EI pilot projects, the Chief Actuary has calculated that the 2011 forecast break-even rate for residents of all provinces, other than Quebec, is $2.68 per $100 of insurable earnings.

Any province with a program that provides maternity, parental and adoption (MPA) benefits to its residents and meets the requirements of the *Employment Insurance Act* and *Employment Insurance Regulations* may be eligible for a lower EI premium rate. For this reason, the EI premium rate for Quebec residents is reduced.

Therefore, the Chief Actuary has calculated that the 2011 forecast break-even rate applicable for Quebec residents is $2.31 per $100 of insurable earnings.

LEGISLATED LIMITS ON RATE CHANGES

As mentioned previously, while the break-even rate calculated by the Chief Actuary is a significant determinant of the EI premium rate, it is not the only factor. Legislated limits apply as well. New limits were set in the fall of 2010, capping the increase or decrease of the EI premium rate to 5 cents in 2011 and 10 cents in subsequent years. These levels have been enacted in accordance with the *Employment Insurance Act*. In 2009—in response to the recession—the Government froze the 2010 premium rate at $1.73 per $100 of insurable earnings, the same level as in 2009. Consequently, the maximum possible premium rate for 2011 is $1.78 per $100 of insurable earnings (or $1.73 plus 5 cents).

2011 PREMIUM RATES FOR RESIDENTS OF PROVINCES OTHER THAN QUEBEC

Employees and self-employed voluntary contributors

For residents of all provinces except Quebec, the CEIFB has set the EI employee premium rate for 2011 at $1.78 per $100 of insurable earnings. Self–employed Canadians residing outside the province of Quebec who voluntarily join the EI program will pay premiums at the same employee rate of $1.78 per $100 of self-employed earnings.

In accordance with section 4 of the *Employment Insurance Act*, the annual maximum insurable earnings (MIE) is set at $44,200 for 2011, compared to $43,200 for 2010. The MIE refers to the maximum earnings against which EI premiums are charged, as well the maximum for which benefits can be provided. This amount is indexed annually using the growth in the average weekly earnings as published by Statistics Canada. Thus, an increase in premiums paid by employees is a combination of any change in the EI premium rate, as well as the impact of any change in the MIE (for those at the maximum level of insurable income). In 2011, the most an employee residing outside the province of Quebec might pay in premiums is $786.76—an increase of $39.40 over 2010.

Employers

Employers contribute 1.4 times the employee amount in EI premiums. The 2011 maximum EI premium payable by an employer established outside the province of Quebec will be $1,101.46 per employee whose income is equal to or greater than the MIE—an increase of $55.16 over 2010.

2011 PREMIUM RATES FOR QUEBEC RESIDENTS

Employees and self-employed voluntary contributors

In accordance with the *Employment Insurance Act* and *Employment Insurance Regulations*, and as requested by the Canada Employment Insurance Commission, the Chief Actuary has determined that, for 2011, residents of Quebec are entitled to a $0.37 premium reduction per $100 of insurable earnings. (Details on this calculation can be found in the Chief Actuary's report.)

As a result of that reduction, the EI employee premium rate for residents of the province of Quebec in 2011 is set at $1.41 for each $100 of insurable earnings (or $1.78 minus $0.37). The most an employee residing in the province of Quebec might pay in EI premiums for 2011 will be $623.22—an annual increase of $35.70 over 2010, when the premium rate was 1.36% and the MIE was $43,200.

Self-employed residents of Quebec are entitled to MPA benefits through the Quebec Parental Insurance Plan (QPIP). They may choose, however, to participate in the EI program to access other special benefits such as sickness and compassionate care benefits. Self-employed individuals who voluntarily join the EI program will pay premiums at the employee rate of $1.41 for each $100 of self-employed earnings.

Employers

In 2011, Quebec employers will pay $872.51 in EI premiums per employee whose income is equal to or greater than the MIE—an increase of $49.98 over 2010.

EI OPERATING ACCOUNT PROJECTIONS

With the 5-cent limit on the increase in EI premiums and including the impact of the reintroduction of EI pilot projects, the deficit in the EI Operating Account for 2011 is expected to be $1.9 billion; the cumulative deficit as at December 31, 2011, is expected to be $10.4 billion.

The forecast break-even rate for a given year is derived from the sum of the upcoming year break-even rate and the account balance break-even rate.

ANALYSIS OF THE RATE CALCULATION: CHIEF ACTUARY'S FORECAST BREAK-EVEN RATE

The forecast break-even rate, together with the legislated limits, are the most significant determinants of the annual EI premium rate. To calculate this rate, the Chief Actuary focuses on a number of additive components, some of which depend on economic forecasts and others that represent actual financial results.

The forecast break-even rate must be calculated on a one-year forward-looking basis. It must include repayment, over a single year, of any deficit in the EI Operating Account since January 1, 2009, or the liquidation of any surplus over a single year.

The 2011 forecast break-even rate is derived from the sum of two principal rates: the **upcoming year** break-even rate and the **account balance** break-even rate.

UPCOMING YEAR FORECAST BREAK-EVEN RATE

The upcoming year forecast break-even rate equates forecast EI premium revenues with the EI program expenses expected to be charged to the EI Operating Account in 2011.[1] In determining this rate, the Chief Actuary must consider two primary factors: the base rate and the MPA rate.

Base rate

This rate corresponds to the costs of providing EI benefits, excluding MPA benefits, to individuals in all provinces. The calculation of this rate is largely dependent on economic conditions.

[1] EI program expenses have three principal components: **Part I benefits**, which include regular benefits, sickness benefits, MPA benefits, compassionate care benefits and fishing benefits; **Part II benefits**, which provide financial assistance to help eligible persons reintegrate into the labour market; and **administration costs** associated with the *EI Act* and the *CEIFB Act*, paid out of the Consolidated Revenue Fund and charged to the EI Operating Account. Administration costs amounted to approximately 9% of program spending in 2010.

MPA rate

This rate accounts for EI MPA benefits paid to the residents of provinces and territories without a provincial MPA insurance plan (that is, all provinces except Quebec). In general, the calculation of this rate is dependent on relatively stable demographic factors.

ACCOUNT BALANCE BREAK-EVEN RATE

The account balance break-even rate reflects the adjustments required for changes in the assets and liabilities of the CEIFB as well as its mandate to manage the indexed reserve target. It includes the following three factors:

- Anticipated cumulative surplus/deficit of the EI Operating Account as at December 31, 2010;
- Reserve target that ensures the market value of the CEIFB's reserve is equal to its indexed target as at December 31, 2011; and
- Anticipated investment income for calendar year 2011.

Cumulative surplus/deficit rate

This rate reflects the premium adjustment required to account for any surplus or deficit accrued in the EI Operating Account between January 1, 2009, and December 31, 2010. This information is provided by the Minister of Finance. The cumulative balance figure in 2010 includes the payment from the CRF to the EI Operating Account of approximately $2.6 billion of the $2.9 billion in funding of Economic Action Plan initiatives from *Budget 2009* that provided enhanced EI benefits in 2009 and 2010.[2]

Reserve target rate

This rate reflects the break-even adjustment required to ensure that the fair market value of the CEIFB's reserve is equal to its indexed target as at December 31, 2011. As no reserve fund has yet been established, no adjustment is required in 2011.

Investment income rate

This rate reflects the premium adjustment to include any expected return on investment income earned by the CEIFB on excess premium revenues. As the CEIFB has no assets to manage yet, and therefore expects no investment income in 2011, this amount is nil. Should investment income be generated in the future, this portion of the rate would have the impact of reducing the overall break-even rate.

[2] As part of Canada's Economic Action Plan, *Budget 2009* included several temporary special measures that provided additional support through enhanced EI benefits. These measures included extending all regular benefit entitlements by five additional weeks, providing income benefits to long-tenured workers participating in longer-term training, and extended work-sharing agreements along with greater flexibility in the eligibility criteria. The five-week extension of regular benefit entitlements under *Budget 2009* replaced the similar pilot project implemented in 2006. As a result of the October 12 announcement the project is now reintroduced.

RATE-SETTING COMPONENTS: OVERVIEW

UPCOMING YEAR BREAK-EVEN RATE	
Factors	
Base rate	Corresponds to the cost of EI benefits, excluding MPA benefits, for residents of all provinces.
MPA rate	Accounts for the cost of EI MPA benefits paid to the residents of provinces without a provincial MPA insurance plan (that is, all provinces except Quebec)

ACCOUNT BALANCE BREAK-EVEN RATE	
Factors	
Cumulative surplus/deficit rate	Reflects the cumulative surplus/deficit in the EI Operating Account since January 1, 2009. When the cumulative balance is in a surplus position, this will reduce the overall break-even rate. When the cumulative balance is in a deficit, this will increase the overall break-even rate.
Reserve target rate	Ensures that the CEIFB's $2 billion reserve is equal to its indexed target value.
Investment income rate	Reflects any investment income earned by the CEIFB on excess premium revenues. This will have the impact of reducing the overall break-even rate.

2011 BREAK-EVEN RATE

Break-even rate calculations for 2011

Although a reserve target has not yet been established and there is no investment income to report, both elements are included in the calculations below. This will simplify their implementation in future rate-setting reports, which may have to address all factors related to the rate-setting components.

Description	**Rate per $100 of insurable earnings**
UPCOMING YEAR BREAK-EVEN RATE	
Base rate The break-even rate for all EI expenditures, excluding the cost of providing EI MPA benefits, expected to be incurred in 2011.	$1.58
MPA rate The break-even rate for all MPA expenditures expected to be incurred in 2011.	$0.37
ACCOUNT BALANCE BREAK-EVEN RATE	
Cumulative surplus/deficit rate Any surpluses or deficits that have accrued in the EI Operating Account from January 1, 2009, to December 31, 2010.	$0.73
Reserve target Rate As no payments have been made to the CEIFB to establish a reserve, this factor is nil.	–
Investment income rate As it is assumed that the CEIFB will have no investments (and therefore no income) in 2011, this factor is nil.	–
Account balance break-even rate *(sum of all related factors)*	$0.73
FORECAST BREAK-EVEN RATE FOR 2011	
Forecast break-even rate for Quebec *(base rate + account balance rate)*	$2.31
Forecast break-even rate for all provinces except Quebec *(base rate + MPA rate + account balance rate)*	$2.68

CEIFB BOARD OF DIRECTORS' INDEPENDENT REVIEW

As part of the rate-setting process, the CEIFB Board of Directors commissioned an independent review of the methodology proposed to be used by the Chief Actuary for his report, to confirm its compliance with legislation and accepted actuarial practices. This review was completed before the end of October 2010 and confirmed that the proposed methodology was compliant.

SUMMARY

In accordance with section 4 of the *Employment Insurance Act* and the corresponding statutory formula, the Chief Actuary reported that the maximum annual insurable earnings for 2011 is to be set at $44,200, compared to $43,200 for 2010.

The CEIFB Chief Actuary reported that, including the pilot project's reintroduction, the 2011 forecast break-even rate for residents of all provinces, with the exception of Quebec, is $2.68 per $100 of insurable earnings. The 2011 forecast break-even rate for Quebec residents is $2.31 per $100 of insurable earnings.

In accordance with the *Employment Insurance Act,* the maximum increase in the EI premium rate from 2010 to 2011 is set at 5 cents per $100 of insurable earnings. The 2010 EI premium rate was set by legislation at $1.73 per $100 of insurable earnings for residents of all provinces except Quebec, and at $1.36 per $100 of insurable earnings for residents of Quebec.

The CEIFB Board of Directors has therefore set the 2011 EI premium rate at:

- $1.78 per $100 of insurable earnings for residents of all provinces except Quebec, compared to $1.73 for 2010; and

- $1.41 per $100 of insurable earnings for Quebec residents, compared to $1.36 for 2010. This rate accounts for the $0.37 premium rate reduction—identical to the 2010 reduction—as determined by the Chief Actuary and as requested by the EI Commission in recognition of MPA benefits provided by the QPIP.

In accordance with the above 2011 forecast break-even rates and the corresponding EI premium rates, the EI Operating Account is expected to have an annual deficit of $1.9 billion in 2011, and a cumulative deficit of $10.4 billion as at December 31, 2011.

MAXIMUM PREMIUMS AND EI OPERATING ACCOUNT BALANCE: KEY RESULTS

	MAXIMUM EMPLOYMENT INSURANCE PREMIUMS								EMPLOYMENT INSURANCE OPERATING ACCOUNT ($ millions)	
	Residents of all provinces except Quebec				Quebec residents					
	Employees and self-employed*			Employers	Employees and self-employed*			Employers		
Year	Premium rate (A)	Annual maximum insurable earnings (B)	Maximum annual premium (A) x (B) =(C)	Maximum annual premium 1.4 x (C)	Premium rate (A)	Annual maximum insurable earnings (B)	Maximum annual premium (A) x (B) =(C)	Maximum annual premium 1.4 x (C)	Annual surplus (deficit)	Cumulative surplus (deficit)
2009	1.73%	$42,300	$731.79	$1,024.51	1.38%	$42,300	$583.74	$817.24	($4,855)	($4,855)
2010	1.73%**	$43,200	$747.36	$1,046.30	1.36%	$43,200	$587.52	$822.53	($3,620)***	($8,474)***
2011	1.78%	$44,200	$786.76	$1,101.46	1.41%	$44,200	$623.22	$872.51	($1,909)***	($10,384)***

* Since January 31, 2010, self-employed workers have been able to voluntarily opt in to the EI program to receive EI special benefits for those who are sick, pregnant, or caring for a newborn, adopted child or seriously ill family member. To access these benefits, individuals must be registered with the program for at least one year before filing an EI claim. As a transitional measure, those who have registered on or before April 1, 2010, will be able to make a claim for benefits as early as January 1, 2011.

** Legislated freeze on EI premium rate as per *Budget 2009* legislation.

*** Projected.

ANNEX:
EXCERPTS FROM THE CHIEF ACTUARY'S 2011 SUPPLEMENTARY REPORT (NOVEMBER 5, 2010)

5 November 2010

Directors of the Canada Employment Insurance Financing Board

Ottawa, Canada

Dear Directors,

The 2011 Report of the Chief Actuary was submitted to the CEIFB Board of Directors on October 29, 2010. The report was prepared in accordance with section 66 of the *Employment Insurance Act* and therefore reflected the benefit provisions of the Employment Insurance program as of September 30, 2010.

However, pursuant to the announcement of the Minister of Human Resources and Skills Development on October 12, 2010, regarding the reintroduction of three Employment Insurance pilot projects, and in accordance with subsection 66(2)(f) of the *Employment Insurance Act*, the Board has requested from the Chief Actuary that a Supplementary Report be prepared in order to reflect the additional information provided to the Board of Directors on October 27, 2010 by the Minister.

I am pleased to provide this Supplementary Report, dated November 5, 2010, which may be taken into consideration in support of the Board's mandate to set the 2011 Employment Insurance premium rate.

Yours sincerely,

Luc Taillon, FCIA, FSA
Chief Actuary
Canada Employment Insurance Financing Board

EXECUTIVE SUMMARY

A. PURPOSE OF THE REPORT

Pursuant to section 14 of the *Canada Employment Insurance Financing Board Act*, this report has been prepared by the Chief Actuary to provide the Board of Directors of the Canada Employment Insurance Financing Board (CEIFB) with the actuarial forecasts and estimates necessary to set the Employment Insurance (EI) premium rate for 2011 under section 66 of the *Employment Insurance Act*.

Budget 2010 established the new EI Operating Account which will account for all credits and charges made under the *Employment Insurance Act* after December 31, 2008.

The premium rate is to be set by the Board on or before November 14 to generate just enough premium revenue during the upcoming year to ensure that, at the end of that year:

- the total amounts credited to the EI Operating Account after December 31, 2008 are equal to the total amounts charged after that date; and
- the fair market value of the Board's reserve, or its financial assets less its liabilities, is equal to the indexed reserve target.

However, section 66(7) of the *Employment Insurance Act* sets out the limit by which the premium rate may vary from one year to the next to five one-hundredths of one per cent (0.05%) for 2011 and ten one-hundredths of one per cent (0.10%) for subsequent years.

Additionally, In accordance with the *Budget 2008* legislation that created the CEIFB, an indexed reserve target will not be taken into account until the initial $2.0 billion payment to establish the Board's reserve may be paid out of the Consolidated Revenue Fund on the requisition of the Minister of Finance.

B. MAIN FINDINGS

The following estimates are based on the EI benefit provisions, as of September 30, the information provided to the Board on September 30 by the Minister of Human Resources and Skills Development Canada and the Minister of Finance, and the assumptions derived from historical data by the Chief Actuary. In addition it reflects the information provided on October 27 following the October 12 announcement related to the reintroduction of three Employment Insurance pilot projects.

In 2011 it is expected that expenditures will total $21.1 billion, a 6.7% decline from $22.6 billion in 2010. The decline is mostly attributed to Employment Insurance benefit payments, which are expected to decrease by 6.6% to $19.2 billion from $20.6 billion. The decrease in benefit payments is a result of fewer beneficiaries, as the economy recovers from the global recession and the unemployment rate falls to 7.7% from 8.1%. The decline in beneficiaries is partially offset by a higher base average weekly benefit rate, due to the expected wage-growth of 1.91% and the 2.31% increase in the maximum insurable earnings to $44,200 from $43,200. The decrease in benefit payments is also the result of the Economic Action Plan initiatives announced in *Budget 2009* that are scheduled to end in 2011.

The opening balance of the EI Operating Account, which must be taken into account in the 2011 forecast break-even rate, is expected to be a cumulative deficit of $8.5 billion. The deficit is mainly due to the impact of the economic downturn that began in late 2008 on Employment Insurance expenditures and revenues, as well as the freeze of the 2010 premium rate at the 2009 level of 1.73% of insurable earnings.

The Chief Actuary has determined that the forecast break-even rate that should generate enough premium revenues to ensure that, at the end of the year, all amounts credited and charged to the EI Operating Account after December 31, 2008 are equal is **2.68%** for residents of all provinces except Quebec for 2011. Based on the premium rate reduction for maternity-parental-adoption benefits of 0.37%, the corresponding forecast break-even rate for residents of Quebec is **2.31%** for 2011 or 2.68% less 0.37%.

TABLE I – SUMMARY OF THE EMPLOYMENT INSURANCE OPERATING ACCOUNT
($ MILLIONS)

	ACTUAL 2009	FORECAST 2010	FORECAST 2011
Income Benefits			
Regular	$14,118	$13,598	$12,497
Fishing	$261	$268	$273
Work-Sharing	$265	$179	$50
Sickness	$1,018	$1,039	$1,084
Maternity-Parental-Adoption	$3,032	$3,112	$3,263
Compassionate Care	$10	$10	$11
Less: Repayments	($206)	($211)	($186)
Sub-Total	$18,499	$17,996	$16,993
Employment Benefits and Support Measures	$2,487	$2,619	$2,249
Total Employment Insurance Benefits	**$20,985**	**$20,616**	**$19,242**
Administration Costs	$1,970	$1,991	$1,822
Bad Debt Expense	$44	$30	$38
Total Expenditures	**$22,999**	**$22,637**	**$21,102**
Less: Penalties	($28)	($46)	($41)
Less: Interest on Overdue Accounts Receivable	($16)	($15)	($17)
Net Expenditures	**$22,955**	**$22,576**	**$21,043**
Premium Revenue	$16,910	$17,565	$18,815
Funding for *Budget 2009* Measures	$1,190	$1,391	$318
Annual Surplus (Deficit)	**($4,855)**	**($3,620)**	**($1,909)**
Cumulative Surplus (Deficit)	**($4,855)**	**($8,474)**	**($10,384)**

C. SENSITIVITY OF RESULTS

Two of the most relevant assumptions used to determine the forecast break-even rate are the unemployment rate, which is provided by the Minister of Finance, and the Beneficiary-to-Unemployed, or B/U, ratio, which is estimated each year by the Chief Actuary of the CEIFB.

Assuming all other assumptions remain constant, a variation in the unemployment rate of one-tenth of a percentage-point (0.10%) would have an expected net impact of $170 million on the balance of the EI Operating Account.

Assuming all other assumptions remain constant, a variation in the B/U ratio of one-half of a percentage-point would have an expected $129 million net impact on the balance of the EI Operating Account.

Assuming all other assumptions remain constant, a one-hundredth percentage point (one-cent) change in the premium rate would have an expected $117 million net impact on the balance of the EI Operating Account.

D. CONCLUSION

Based on the assumptions of the relevant economic and demographic variables as provided by the Minister of Finance, the expenditure estimates provided by the Minister of Human Resources and Skills Development Canada, and the assumptions derived from historical data by the Chief Actuary of the CEIFB, it is the opinion of the Chief Actuary that the rate which would generate sufficient premium revenue to ensure that, at the end of 2011, the amounts credited and charged to the EI Operating Account after December 31, 2008 are equal is:

- **2.68% for residents of all provinces except Quebec; and**
- **2.31% for residents of the province of Quebec.**

Section 66(7) sets out the limit by which the premium rate may vary from one year to the next to five one-hundredths of one per cent (0.05%) for 2011 and ten one-hundredths of one per cent (0.10%) for subsequent years. Therefore, for 2011, the premium rate cannot increase by more than 0.05% above the 2010 rate of 1.73%, or **1.78%** for residents of all provinces except Quebec. Based on the premium reduction of 0.37% for the maternity, parental and adoption benefits provided by the Quebec Parental Insurance Plan, the corresponding premium rate for residents of Quebec would be **1.41%**.

Given the difference between the forecast break-even rate and the maximum legislative premium rate, should the Board set the Employment Insurance premium rate for 2011 at the maximum level then it is expected that costs would exceed revenues by $1.9 billion, resulting in a cumulative deficit in the EI Operating Account of $10.4 billion as of December 31, 2011.

TABLE II – 2011 FORECAST BREAK-EVEN RATES ($ MILLIONS)	
	FORECAST 2011
Salaried Insurable Earnings (Excluding Quebec)	$369,738
Salaried Insurable Earnings (Quebec)	$120,494
Total Insurable Earnings	**$490,232**
Self-Employed Earnings (Excluding Quebec)	$131
Self-Employed Earnings (Quebec)	$62
Total Self-Employed Earnings	**$193**
Wage-Loss Premium Reduction	$894
Employee Premium Refund (%)	1.003%
Break-Even Rates	
1) Upcoming Year Rate	
A) Base	1.58%
B) Maternity-Parental-Adoption	0.37%
2) Account Balance Rate	
A) Cumulative Surplus/Deficit	0.73%
B) Reserve Target	–
C) Investment Income	–
Forecast Break-Even Rates	
residents of all provinces except Quebec	**2.68%**
residents of the province of Quebec	**2.31%**

It is important to note that assumptions are not predictions and eventual differences between future experience and assumptions will be analyzed and taken into account in subsequent reports.

The information presented in this report, which has been prepared in accordance with the relevant legislation and accepted actuarial practices, has been provided to the Board of Directors of the CEIFB on November 5, 2010 in support of their mandate to set the 2011 EI premium rate on or before November 14, 2010.

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