

2012 EMPLOYMENT INSURANCE PREMIUM RATE

Report of the CEIFB Board of Directors
November 14, 2011

- The CEIFB Board of Directors has set the 2012 EI premium rate for residents of all provinces, with the exception of Quebec, at \$1.83 per \$100 of insurable earnings. The EI premium rate for Quebec residents is set at \$1.47.
- The CEIFB Chief Actuary reports that the 2012 forecast break-even rate for residents of all provinces, with the exception of Quebec, is calculated to be \$2.56 per \$100 of insurable earnings. The forecast break-even rate for Quebec residents is calculated to be \$2.20 per \$100 of insurable earnings.
- For the first time since its establishment, the EI Operating Account is expected to break even on an annual basis in 2012. This would maintain the cumulative deficit at \$8.8 billion as at December 31, 2012.

My fellow Board members and I are pleased to present this second rate-setting report, which establishes the EI premium rate for 2012 and provides a description of the process 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.

CONTENTS

The Rate-Setting responsibility of the CEIFB	2
Setting EI premium rates	
2012 EI premium rates and EI Operating Account projections	4
Forecast break-even rates for 2012	
2012 rate for residents of provinces other than Quebec	
2012 rate for Quebec residents	
EI Operating Account projections	
The break-even rate calculation for 2012	7
Upcoming year forecast break-even rate	
Account balance break-even rate	
CEIFB Board of Directors' Independent Review	
Summary	10
Annex 1: Additional responsibilities of the CEIFB	12
Annex 2: Maximum premiums and EI Operating Account balance	14
Annex 3: Executive summary of the Chief Actuary's 2012 report (Amended)	15

The CEIFB sets the premium rates to ensure that the EI Operating Account, created in the accounts of the Government of Canada, breaks even over time. In any given year there is a legislated limit on the size of the premium rate adjustment.

THE RATE-SETTING RESPONSIBILITY OF THE CEIFB

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 federal government to ensure that all Employment Insurance (EI) premiums and related revenues are used exclusively for the purposes of Canada's EI program.

The CEIFB's four main functions are to:

- set EI premium rates 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 EI PREMIUM RATES

Every October 31st, the CEIFB's Chief Actuary forecasts the EI premium break-even rate for the coming year. The break-even rate is the rate forecasted to produce EI premium revenues during the year equal to the sum of the amount forecast to be charged to the EI Operating Account during the year, plus any accumulated deficit in the account or minus any accumulated surplus.

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. Managed by the Government of Canada, the EI program is funded by Canadian employers and employees through a premium charge based on employee insurable earnings.

The EI Operating Account was created by Parliament in 2010 to account for all credits and charges made under the *Employment Insurance Act* after December 31, 2008. It is a tracking account in the Accounts of Canada for the revenues and expenditures of the EI program.

The forecast EI break-even rate is calculated using information provided by the Minister of Human Resources and Skills Development and the Minister of Finance, and assumptions developed by the Chief Actuary according to historical data. The economic and demographic projections provided by the Department of Finance represent the averaging of major private-sector forecasts, and the Chief Actuary is required by the *Employment Insurance Act* to use these in calculating the break-even rate.

While the break-even rate is a significant determinant of the EI premium rate, it is not the only factor. Legislation also limits the annual change in the EI premium rate. Recently the Governor in Council changed this limit to five cents for each \$100 of insurable earnings for 2012 in accordance with section 66(8) of the *Employment Insurance Act*.

The Board of Directors sets the premium rates using the Chief Actuary's calculation of the break-even rate and the legislated limit.

The other three main responsibilities of the CEIFB are briefly described in Annex 1 to this report.

The annual rate-setting cycle

September 30

The CEIFB Chief Actuary receives data from the Minister of Finance and the Minister of Human Resources and Skills Development.

October 31

The CEIFB Chief Actuary's report is submitted to the Board of Directors of the CEIFB.

November 14

The CEIFB publishes its rate-setting report on or before that date.

2012 EI PREMIUM RATES AND EI OPERATING ACCOUNT PROJECTIONS

To determine the EI premium rates for 2012, 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.

FORECAST BREAK-EVEN RATES FOR 2012

Using the information provided on September 30, the Chief Actuary has calculated that the 2012 forecast break-even rate for residents of all provinces, other than Quebec, is \$2.56 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. Currently the province of Quebec is the only province with such a program. Consequently, the EI premium rate for Quebec residents is to be reduced by the MPA rate of \$0.36.

The Chief Actuary has calculated that the 2012 forecast break-even rate for Quebec residents is \$2.20 per \$100 of insurable earnings (\$2.56 less \$0.36).

For more on how the break-even rate is determined, see **The break-even rate calculation for 2012** section of this report

2012 RATE FOR RESIDENTS OF PROVINCES OTHER THAN QUEBEC

Employees and self-employed voluntary contributors

For residents of all provinces except Quebec, the Board of Directors has set the EI employee premium rate for 2012 at \$1.83 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 \$1.83 per \$100 of insurable earnings.

In accordance with the *Employment Insurance Act*, the annual maximum insurable earnings (MIE) is set at \$45,900 for 2012, compared to \$44,200 for 2011. The MIE refers to the maximum earnings for which EI premiums are deducted, 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 2012, the maximum an employee residing outside the province of Quebec might pay in premiums is \$840—an increase of \$53 over 2011.

Employers

Employers contribute 1.4 times the employee amount in EI premiums. The 2012 maximum EI premium payable by an employer established outside the province of Quebec will be \$1,176 per employee whose income is equal to or greater than the MIE—an increase of \$75 over 2011.

2012 RATE FOR QUEBEC RESIDENTS

Employees and self-employed voluntary contributors

In accordance with the Canada-Quebec Agreement and with the *Employment Insurance Act* and *Employment Insurance Regulations*, the Chief Actuary has determined that, for 2012, residents of Quebec are entitled to a \$0.36 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 Board of Directors has set the EI employee premium rate for residents of the province of Quebec in 2012 at \$1.47 for each \$100 of insurable earnings (\$1.83 minus \$0.36). The maximum an employee residing in the province of Quebec might pay in EI premiums for 2012 will be \$675—an annual increase of \$52 over 2011, when the premium rate was \$1.41 and the MIE was \$44,200.

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 employees who voluntarily join the EI program will pay premiums at the employee rate of \$1.47 for each \$100 of insurable earnings.

Employers

In 2012, Quebec employers will pay \$945 in EI premiums per employee whose income is equal to or greater than the MIE—an increase of \$72 over 2011.

EI OPERATING ACCOUNT PROJECTIONS

For the first time since its establishment, the EI Operating Account is expected to break even on an annual basis in 2012; this would maintain the cumulative deficit as at December 31, 2012 at \$8.8 billion.

The forecast break-even rate for 2012 is derived from the sum of the upcoming year break-even rate and the account balance break-even rate.

THE BREAK-EVEN RATE CALCULATION FOR 2012

The forecast break-even rate together with the legislated limit 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. As well, for each year, it must generate sufficient funds to repay any deficit accumulated in the EI Operating Account since January 1, 2009. In years for which there is a surplus in the EI Operating Account, the rate must incorporate the liquidation of that surplus.

The 2012 forecast break-even rate is derived from the sum of two principal rates: the **upcoming year forecast** 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 2012.¹ In determining this rate, the Chief Actuary must consider two sub-components: the base rate and the MPA rate.

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 7% of program spending in 2011.

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.

MPA rate

This rate accounts for EI MPA benefits paid to the residents of provinces 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 sub-components:

- the anticipated cumulative surplus/deficit of the EI Operating Account as at December 31, 2011;
- the reserve target that ensures the market value of the CEIFB's reserve is equal to its indexed target as at December 31, 2012; and
- the anticipated investment income for calendar year 2012.

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, 2011. This information is provided by the Minister of Finance.

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, 2012. As no reserve fund has yet been established, no adjustment is required in 2012.

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 2012, 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.

RATE-SETTING COMPONENTS: AN OVERVIEW

UPCOMING YEAR FORECAST BREAK-EVEN RATE	
Sub-Components	
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	
Sub-Components	
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.



2012 FORECAST BREAK-EVEN RATE	
Break-even rate calculations for 2012	
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 components of the rate-setting mechanism.	
Description	Rate per \$100 of insurable earnings
UPCOMING YEAR FORECAST 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 2012.	\$1.47
MPA rate The break-even rate for all EI MPA expenditures expected to be incurred in 2012.	\$0.36
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, 2011.	\$0.73
Reserve target Rate As no payments have been made to the CEIFB to establish a reserve, this sub-component is nil.	–
Investment income rate As it is assumed that the CEIFB will have no investments (and therefore no income) in 2012, this sub-component is nil.	–
Account balance break-even rate (sum of all related sub-components)	\$0.73
FORECAST BREAK-EVEN RATES FOR 2012	
Forecast break-even rate for Quebec (base rate + account balance rate)	\$2.20
Forecast break-even rate for all provinces except Quebec (base rate + MPA rate + account balance rate)	\$2.56

CEIFB BOARD OF DIRECTORS' INDEPENDENT REVIEW

As part of its oversight responsibility over the rate-setting process, the CEIFB Board of Directors commissioned a two-part independent review covering the Chief Actuary's methodology and its application to the 2011 premium rate calculation for his report. This was to confirm its compliance with legislation and accepted actuarial practices. The results of the methodology review, reported last year, confirmed that the Chief Actuary's methodology was compliant. Subsequent to the report, the review of how the methodology was applied was conducted and it confirmed that the methodology was applied in a compliant manner in the production of the 2011 report.

SUMMARY

In accordance with section 4 of the *Employment Insurance Act* and the corresponding statutory formula, the Chief Actuary determined that the maximum annual insurable earnings for 2012 is to be set at \$45,900, compared to \$44,200 for 2011.

The Chief Actuary also determined that the 2012 forecast break-even rate for residents of all provinces, with the exception of Quebec, is \$2.56 per \$100 of insurable earnings. The 2012 forecast break-even rate for Quebec residents is \$2.20 per \$100 of insurable earnings.

In accordance with the *Employment Insurance Act*, the maximum increase in the EI premium rate from 2011 to 2012 is set at 5 cents per \$100 of insurable earnings. The 2011 EI premium rates were set at \$1.78 per \$100 of insurable earnings for residents of all provinces except Quebec, and at \$1.41 per \$100 of insurable earnings for residents of Quebec.

The CEIFB Board of Directors has therefore set the 2012 EI premium rate at:

- \$1.83 per \$100 of insurable earnings for residents of all provinces except Quebec;
- \$1.47 per \$100 of insurable earnings for Quebec residents. This rate is the result of subtracting the \$0.36 premium rate reduction, as determined by the Chief Actuary in recognition of MPA benefits provided to Quebec residents, from the \$1.83 EI premium rate for residents of all provinces except Quebec.

In accordance with the above 2012 forecast break-even rates and the corresponding EI premium rates, the EI Operating Account is expected to break even on an annual basis in 2012, for the first time since its establishment; this would maintain the cumulative deficit at \$8.8 billion as at December 31, 2012.

Annex 2 provides these results in tabular format while Annex 3 presents the amended Executive summary of the Chief Actuary's 2012 report.

ANNEX 1: ADDITIONAL RESPONSIBILITIES OF THE CEIFB

In addition to rate-setting, the CEIFB is mandated with three other responsibilities as described below.

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 2011, in accordance with the legislation, it would have been returned to the government by October 31, 2011. There is no impact on the 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**, on or before October 31, the excess funds are transferred from the federal government's Consolidated Revenue Fund (CRF) to the CEIFB, and a corresponding charge is made to the EI Operating Account. The CEIFB will hold and invest any such assets for the exclusive benefit of the EI program and will return them to the EI Operating Account when they are needed to fund 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 rates 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 this deficit through the premium rate-setting process described in this report.

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 operation 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.

ANNEX 2: MAXIMUM PREMIUMS AND EI OPERATING ACCOUNT BALANCE

Year	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		
	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	\$732	\$1,025	1.38%	\$42,300	\$584	\$817	[\$4,855]	[\$4,855]
2010	1.73%**	\$43,200	\$747	\$1,046	1.36%	\$43,200	\$588	\$823	[\$3,073]	[\$7,928]
2011	1.78%	\$44,200	\$787	\$1,101	1.41%	\$44,200	\$623	\$873	[\$918]***	[\$8,846]**
2012	1.83%	\$45,900	\$840	\$1,176	1.47%	\$45,900	\$675	\$945	\$32 ***	[\$8,813]**

Note: Operating Account amounts may not add up due to rounding.

* 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, were 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 3: EXECUTIVE SUMMARY OF THE CHIEF ACTUARY'S 2012 REPORT (*Amended*)

14 November 2011

Board of Directors of the Canada Employment Insurance Financing Board

Ottawa, Canada

Dear Directors,

Pursuant to section 14 of the *Canada Employment Insurance Financing Board Act*, I am pleased to submit the 2012 report on the forecasts and estimates for the purposes of section 66 of the *Employment Insurance Act*. Please note that the estimates presented in this report are based on the Employment Insurance benefit provisions as of September 30, 2011. Further, following the recent announcement by the Government and at the request of the Board of Directors, I am providing revised estimates of the expected balance of the EI Operating Account based on a 2012 maximum Employment Insurance premium rate increase of 5 cents per \$100 of insurable earnings.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Luc Taillon', with a horizontal line underneath.

Luc Taillon, F.C.I.A., F.S.A.

Chief Actuary

Canada Employment Insurance Financing Board

EXECUTIVE SUMMARY (AMENDED)

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 with the actuarial forecasts and estimates necessary to set the Employment Insurance premium rate for 2012 under section 66 of the *Employment Insurance Act*.

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 Employment Insurance 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.

Subsection 66(8) of the *Employment Insurance Act* provides the Governor in Council with the authority to set the limit by which the premium rate may increase or decrease from one year to the next. In November of 2011, the Government of Canada announced that the annual change in the premium rate would be limited to 5 cents per \$100 of insurable earnings in 2012.

Additionally, in accordance with the *Budget 2008* legislation that created the Canada Employment Insurance Financing Board, 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 Employment Insurance benefit provisions, as of September 30, 2011, the information provided to the Board on September 30, 2011 by the Minister of Human Resources and Skills Development and the Minister of Finance, and the assumptions derived from historical data by the Chief Actuary.

In 2012 it is expected that expenditures will total \$20.2 billion, a 0.4% decrease from \$20.3 billion in 2011. Regular Employment Insurance benefit payments are expected to decrease by 1.1% to \$11.7 billion from \$11.8 billion. This decrease in benefit payments is mainly the result of an expected unemployment rate decrease from 7.5% in 2011 to 7.2% in 2012. The decline in the unemployment rate is partially offset by a higher average weekly benefit rate, due to the expected wage-growth of 2.8% and the 3.8% increase in the maximum insurable earnings to \$45,900 in 2012 from \$44,200 in 2011. The decrease in benefit payments is also the result of the Economic Action Plan initiatives, which ended in 2011, and the phasing out of a number of pilot-projects, scheduled to end in 2012.

The opening balance of the Employment Insurance Operating Account as of December 31, 2011, which must be taken into account in the 2012 forecast break-even rates, is expected to be a cumulative deficit of \$8.8 billion. This cumulative deficit is mainly due to the impact of the economic downturn that began in 2008, the Government freeze of the 2010 premium rate at the 2009 level of 1.73% as well as the decision by the Government to limit the premium rate increase to 0.05% in 2011.

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 Employment Insurance Operating Account after December 31, 2008 are equal is 2.56% for residents of all provinces except Quebec for 2012. Based on the premium rate reduction for maternity-parental-adoption benefits of 0.36%, the corresponding forecast break-even rate for residents of Quebec is 2.20% for 2012, or 2.56% less 0.36% .

TABLE I – SUMMARY OF THE EMPLOYMENT INSURANCE OPERATING ACCOUNT (\$ MILLIONS)			
	ACTUAL 2010	FORECAST 2011	FORECAST 2012
Income Benefits			
Regular	\$13,313	\$11,803	\$11,672
Fishing	\$253	\$259	\$271
Work-Sharing	\$159	\$45	\$30
Sickness	\$1,029	\$1,079	\$1,140
Maternity-Parental-Adoption	\$3,070	\$3,122	\$3,307
Compassionate Care	\$11	\$11	\$12
Less: Repayments	(\$217)	(\$206)	(\$152)
Sub-Total	\$17,617	\$16,112	\$16,280
Employment Benefits and Support Measures	\$2,583	\$2,239	\$2,120
Total Employment Insurance Benefits	\$20,200	\$18,351	\$18,400
Administration Costs	\$1,868	\$1,914	\$1,778
Bad Debt Expense	\$44	\$30	\$28
Total Expenditures	\$22,112	\$20,295	\$20,207
Less: Penalties	(\$47)	(\$52)	(\$52)
Less: Interest on Overdue Accounts	(\$15)	(\$16)	(\$17)
Net Expenditures	\$22,050	\$22,227	\$20,138
Premium Revenue	\$17,395	\$18,760	\$20,170
Funding for <i>Budget 2009</i> Measures	\$1,582	\$550	\$0
Annual Surplus (Deficit)	(\$3,073)	(\$918)	\$32
Cumulative Surplus (Deficit)	(\$7,928)	(\$8,846)	(\$8,813)

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 ratio, or B/U, ratio, which is estimated each year by the Chief Actuary of the Canadian Employment Insurance Financing Board.

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 \$174 million on the balance of the Employment Insurance Operating Account.

Assuming all other assumptions remain constant, a variation in the B/U ratio of one-half of a percentage-point (0.5%) would have an expected \$126 million net impact on the balance of the Employment Insurance Operating Account.

Assuming all other assumptions remain constant, a one-hundredth percentage point (0.01% of insurable earnings or \$0.01 per \$100 of insurable earnings) change in the premium rate would have an expected \$121 million net impact on the balance of the Employment Insurance 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, and the assumptions derived from historical data by the Chief Actuary of the Canada Employment Insurance Financing Board, it is the opinion of the Chief Actuary that the Employment Insurance forecast break-even rates which would generate sufficient premium revenue to ensure that at the end of 2012 the amounts credited and charged to the Employment Insurance Operating Account after December 31, 2008 are equal are:

- **2.56% of insurable earnings for residents of all provinces except Quebec; and**
- **2.20% of insurable earnings for residents of the province of Quebec.**

As announced by the Government, under the authority of subsection 66(8) of the *Employment Insurance Act*, an Order in Council limits the variation in the premium rate from 2011 to 2012 to five one-hundredths of one per cent (0.05%) of insurable earnings. Therefore, for 2012, the premium rate cannot increase by more than 0.05% above the 2011 rate of 1.78%, or 1.83% of insurable earnings for residents of all provinces except Quebec. The corresponding maximum premium rate for residents of Quebec would be 1.47% of insurable earnings, or 1.83% less the premium reduction of 0.36% for the maternity, parental and adoption benefits provided by the Quebec Parental Insurance Plan.

Given that the 2012 forecast upcoming year break-even rate is anticipated to be 1.83% (the rate which should generate sufficient premium revenue to cover expenditures expected to be incurred in 2012) and that this rate is identical to the maximum 2012 legislated premium rate of 1.83%, should the Board set the 2012 Employment Insurance premium rate at the maximum level of 1.83%, the 2012 revenues and expenditures of the Employment Insurance Operating Account would consequently be expected to be almost identical (expected annual surplus of \$32 million in 2012) and therefore the cumulative deficit of the Employment Insurance Operating Account as of December 31, 2012 would remain unchanged from December 31, 2011 at \$8.8 billion.

TABLE II – 2012 FORECAST BREAK-EVEN RATES (\$ MILLIONS)	
Salaried Insurable Earnings (Excluding Quebec)	\$388,758
Salaried Insurable Earnings (Quebec)	\$119,643
Total Insurable Earnings	\$508,401
Self-Employed Earnings (Excluding Quebec)	\$121
Self-Employed Earnings (Quebec)	\$43
Total Self-Employed Earnings	\$163
Wage-Loss Premium Reduction	\$927
Employee Premium Refund (%)	0.94%
Break-Even Rates (as a % of Insurable Earnings)	
1) Upcoming Year Rate	
A) Base	1.47%
B) Maternity-Parental-Adoption	0.36%
Sub-Total (Upcoming Year)	1.83%
2) Account Balance Rate	
A) Cumulative Surplus/Deficit	0.73%
B) Reserve Target	0.00%
C) Investment Income	0.00%
Forecast Break-Even Rates	
residents of all provinces except Quebec	2.56%
residents of the province of Quebec	2.20%

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 Canada Employment Insurance Financing Board in support of their mandate to set the 2012 Employment Insurance premium rate on or before November 14, 2011.

CONTACT INFORMATION

Canada Employment Insurance
Financing Board
350 Albert Street, Suite 315
Ottawa (ON) K1R 1A4
Canada

Phone: 613-943-7162
Fax: 613-943-7163
Email: info@ceifb-ofaec.ca
Website: www.ceifb-ofaec.ca