

## **CHAPTER 9**

### **Employment Insurance Overpayments—Human Resources and Skills Development Canada**

## Performance audit reports

This report presents the results of a performance audit conducted by the Office of the Auditor General of Canada under the authority of the *Auditor General Act*.

A performance audit is an independent, objective, and systematic assessment of how well government is managing its activities, responsibilities, and resources. Audit topics are selected based on their significance. While the Office may comment on policy implementation in a performance audit, it does not comment on the merits of a policy.

Performance audits are planned, performed, and reported in accordance with professional auditing standards and Office policies. They are conducted by qualified auditors who

- establish audit objectives and criteria for the assessment of performance,
- gather the evidence necessary to assess performance against the criteria,
- report both positive and negative findings,
- conclude against the established audit objectives, and
- make recommendations for improvement when there are significant differences between criteria and assessed performance.

Performance audits contribute to a public service that is ethical and effective and a government that is accountable to Parliament and Canadians.

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# Employment Insurance Overpayments—Human Resources and Skills Development Canada

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## Main Points

### What we examined

The Employment Insurance program, managed by Human Resources and Skills Development Canada, is one of the largest federal programs providing direct financial support to individuals. The Employment Insurance program provides short-term financial relief and other assistance to workers who lose their jobs. It also provides special benefits where necessary to individuals balancing work commitments with family responsibilities and personal illness. In the 2011–12 fiscal year, program officials processed 2.9 million Employment Insurance income benefit claims, resulting in \$16.1 billion in benefits paid.

Given the volume of Employment Insurance transactions, the complexity of Employment Insurance rules, and the need to ensure that payments are processed in a timely manner, a certain amount of overpayment is expected as part of the Employment Insurance program design. The Department is responsible for preventing, detecting, and investigating benefit overpayments. At 31 March 2012, the total amount of benefit overpayments owed, including penalties and interest, was \$662 million.

We examined the activities that Human Resources and Skills Development Canada undertakes to make informed decisions about where and how to invest its resources to minimize the loss associated with overpayments of Employment Insurance income benefits.

Audit work for this chapter was completed on 15 January 2013. More details on the conduct of the audit are provided in **About the Audit** at the end of the chapter.

### Why it's important

In delivering the Employment Insurance program, Human Resources and Skills Development Canada has to balance the objectives of providing individuals who have become unemployed with timely benefits while ensuring the correct amounts are paid out—no more and no less than the amounts to which claimants are entitled.

With so many beneficiaries and such a large amount of benefits paid annually, even a low rate of incorrect payments can lead to additional costs for the Employment Insurance program. Ensuring that payments

are accurate and that overpayments are quickly identified is fundamental to sound stewardship of the program and prudent management of Employment Insurance funds. Departmental data suggests that over one third of newly identified overpayments each year are due to fraud and misrepresentation. The Department must be vigilant in preventing, detecting, and investigating overpayments to ensure fairness, enhance trust and confidence in the program, deter abuse, and minimize costs to contributors.

#### **What we found**

- Human Resources and Skills Development Canada analyzes the trade-offs it must make to balance the timeliness of Employment Insurance payments with the need for accuracy. It uses various tools to determine and allocate the resources required to maintain service levels as volumes of applicants change. The Department has also quantified the recovery potential and considered various options for addressing its significant backlog of cases that have been investigated but are pending final review.
- The Department has various means of identifying overpayments for recovery, and it identified overpayments of \$295 million in the 2011–12 fiscal year. It uses a variety of automated programs and data matches, including a risk-based predictive model, to target its investigations and detect overpayments. Departmental data suggests that these investigative efforts facilitated the detection of close to 60 percent of new overpayments identified for recovery in the 2011–12 fiscal year.
- The Department has not used all the available information on overpayments and has done limited monitoring of the effectiveness of recovery actions to prioritize its activities to identify recoverable overpayments. This means that the Department may be missing opportunities to minimize costs to the program, in particular by seeking opportunities to cost-effectively identify and recover tens of millions of dollars more of overpayments each year.

**The Department has responded.** The Department agrees with our recommendation. Its response follows the recommendation at paragraph 9.25.

## Introduction

### Employment Insurance program

**9.1** The Employment Insurance program is one of the federal government's largest programs that provide direct financial support to individuals. The program provides short-term financial relief and other assistance to workers who lose their jobs, and special benefits to individuals who need assistance to balance work commitments with family responsibilities and personal illness. In the 2011–12 fiscal year, program officials processed 2.9 million Employment Insurance income benefit claims, resulting in \$16.1 billion in income benefits paid (Exhibit 9.1).

**9.2** Human Resources and Skills Development Canada is responsible for managing the Employment Insurance program. In doing so, it must balance the need to ensure prompt service, so that eligible claimants receive income support soon after becoming unemployed, with the need to ensure that the Employment Insurance income benefits paid are accurate. In balancing these two key objectives, the Department must exercise sound stewardship and accountability for the integrity of the program. To measure its success, the Department has two key performance targets for the program (Exhibit 9.1):

- Issue the first Employment Insurance payment or non-payment notification within 28 days of receiving an application at least 80 percent of the time; and
- Issue accurate payments at least 95 percent of the time.

**Exhibit 9.1** Employment Insurance program, 2011–12 fiscal year

<b>Volume</b>	Claims processed	2.9 million	
	Income benefits paid	\$16.1 billion	

<b>Performance</b>	<b>Performance indicator</b>	<b>Target</b>	<b>Result</b>
	Percentage of benefits paid within 28 days	80%	71%
	Payment accuracy	95%	95%

Source: Adapted from Human Resources and Skills Development Canada information

**Overpayments**—Employment Insurance income benefits paid to claimants who are not entitled to receive them. When overpayments are identified and the claimant is informed, they become debts owed to the Crown and are recorded as accounts receivable in the financial statements of the Employment Insurance Operating Account.

## Employment Insurance overpayments

**9.3** The overall size and volume of Employment Insurance transactions and the complexities in the rules related to income benefits result in **overpayments** that need to be identified and recovered. Because of the need to process payments in a timely fashion, a certain amount of overpayments is anticipated in the design of the program. Overpayments may occur when information used to process benefit payments is revised after the payments have begun (see paragraph 9.13).

**9.4** With so many beneficiaries and such a large amount of benefits being paid annually, even a low incorrect payment rate can lead to additional costs for the Employment Insurance program. Ensuring accurate payments and quickly and efficiently identifying and recovering any overpayments are fundamental to sound stewardship of the program and prudent management of Employment Insurance funds. The Department must be vigilant in preventing, identifying, and investigating overpayments to ensure fairness, to enhance trust and confidence in the program, to deter future abuse of the program, and to minimize the costs of the program for contributors.

## Focus of the audit

**9.5** This audit focused on activities of Human Resources and Skills Development Canada to make informed decisions about where and how to invest its resources to minimize the loss associated with overpayments of Employment Insurance income benefits.

**9.6** Since August 2005, the Canada Revenue Agency has been responsible for collecting Employment Insurance debts on behalf of Human Resources and Skills Development Canada. We did not assess the actions to recover overpayments. More details about the audit objective, scope, approach, and criterion are in **About the Audit** at the end of this chapter.



## Observations and Recommendation

**9.7** Human Resources and Skills Development Canada seeks to balance key Employment Insurance objectives—providing benefits in a timely fashion to individuals who become unemployed while, at the same time, ensuring that the correct amount is paid to claimants. Understanding what causes incorrect Employment Insurance payments and taking actions to identify them are critical for ensuring the recovery of overpayments. According to the financial statements of the Employment Insurance Operating Account, as of 31 March 2012, the total amount of accumulated benefit overpayments owed, including penalties and interest, was \$662 million (Exhibit 9.2). While this represents a small percentage of the billions of dollars paid in income benefits, it remains a significant amount owed to the Crown.

**Exhibit 9.2** Overpayments of Employment Insurance benefits, 2011–12 fiscal year

Opening balance—amount owed 1 April 2011	\$669 million
PLUS:	
Overpayments identified during year (overpayments of benefits paid in the current and prior years)	
Over 40% from new and revised information	
Close to 60% from investigations	+ \$295 million
Penalties and interest on existing and past overpayments	+ \$ 71 million
subtotal	\$1,035 million
LESS:	
Amount recovered during the year (including penalties and interest)	– \$311 million
Amount written off as uncollectable (including penalties and interest)	– \$ 62 million
Closing balance—total amount of overpayments owed 31 March 2012	\$662 million
LESS:	
Allowance for accounts that are doubtful for recovery, 31 March 2012	– \$432 million
Net accounts receivable owed 31 March 2012	\$229 million <sup>1</sup>

<sup>1</sup> This total does not add up exactly due to rounding.

Source: Adapted from the financial statements of the Employment Insurance Operating Account and other departmental data

**Directive on Receivables Management**

Through this directive, the Treasury Board expects, among other things, that

- financial resources are used appropriately and loss is minimized; and
- receivables are recognized promptly and pursued vigorously for collection.

**9.8** As explained in a note to the financial statements, Human Resources and Skills Development Canada estimates, through statistical extrapolation, the most likely amount of undetected Employment Insurance income benefit overpayments that occur each year. This estimate is part of the Department's efforts to determine payment accuracy. The Department estimated that \$578 million in undetected overpayments was paid out in the 2011–12 fiscal year.

**9.9** Recognizing the need to protect the funds of the Employment Insurance program and considering the Treasury Board's [Directive on Receivables Management](#), we examined the activities of Human Resources and Skills Development Canada to efficiently manage the risk of loss associated with Employment Insurance income benefit overpayments. Specifically, we examined how the Department analyzed the costs and impacts of resourcing decisions on Employment Insurance overpayments, identified overpayments to be recovered, and used available information to help it make informed decisions to minimize the risk of net loss associated with these overpayments.

**The Department analyzes trade-offs of competing objectives**

**9.10** We examined various departmental analyses and resourcing decisions concerning how Human Resources and Skills Development Canada prioritizes its Employment Insurance activities and considers trade-offs, particularly as they relate to minimizing the net loss of overpayments. We found that the Department has developed decision tools and conducted analyses that have considered the costs and impacts of overpayments when making resourcing and investment decisions in response to specific circumstances. Examples include the following:

- The Department uses resource models to determine and allocate available resources to maintain service levels as volumes of applicants change. These models consider the associated volumes of work related to managing overpayments as well as other factors, including program costs, potential overpayments for recovery, and overpayments that could be avoided.
- To address its significant backlog of investigated cases with potential overpayments that are pending final review, the Department quantified the potential recoveries and the overpayments that could be avoided and considered various resourcing options.

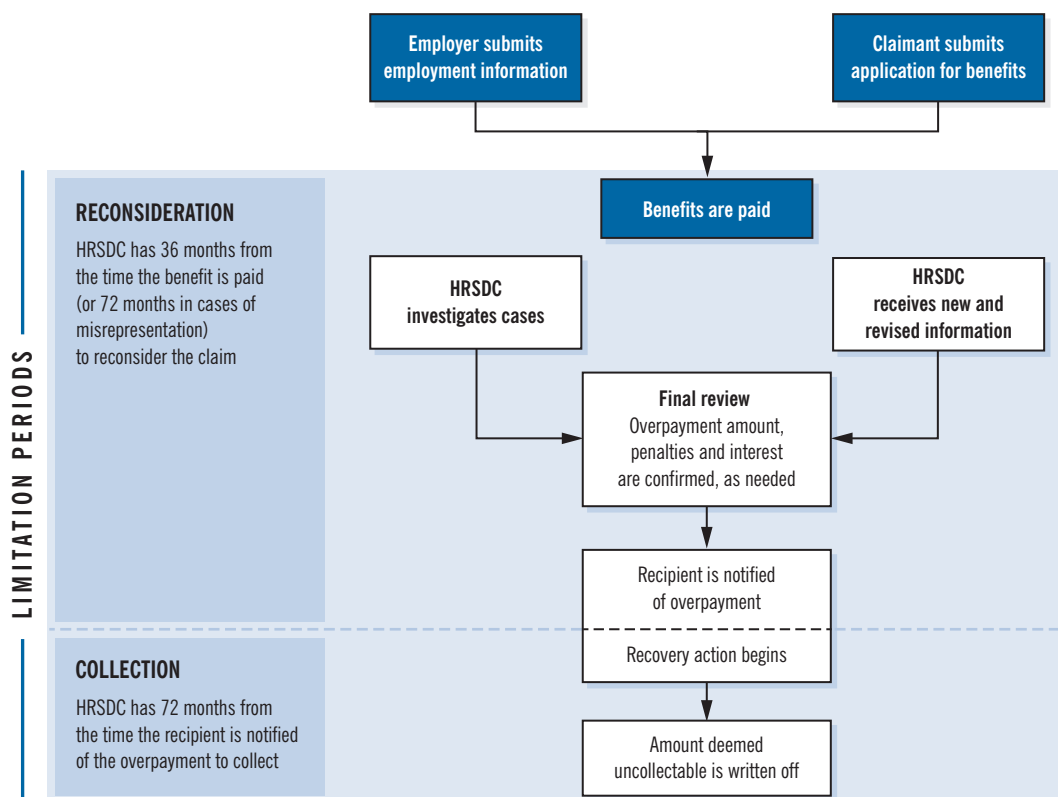
- As part of its efforts to meet an increased demand for Employment Insurance benefits, in the 2011–12 fiscal year the Department estimated the amount of overpayments that it would not be able to identify as a result of re-allocating resources from its investigation to its processing activities.
- The Department analyzed costs and potential savings it could generate if it obtained additional resources so it could investigate more cases and deal with the growing backlogs related to overpayments.

### **The Department identifies overpayments for recovery**

**9.11** In the 2011–12 fiscal year, the Department identified \$295 million in known overpayments of benefits paid during the year (or preceding years) that were eligible for recovery. It also charged \$71 million in interest and penalties on new and outstanding overpayments in cases where it considered that there were deliberate attempts to misrepresent the facts to receive Employment Insurance benefits for which the claimants were not eligible (Exhibit 9.2). Departmental data suggests that over one third of all newly identified overpayments in each of the last two fiscal years are due to fraud and misrepresentation (more than \$110 million each year).

**9.12** We examined the work of Human Resources and Skills Development Canada to identify overpayments of Employment Insurance income benefits to be recovered. We found that the Department achieves this through various means.

**9.13** Completed investigations as well as new or revised information received on claims may result in an overpayment being identified for recovery. Before a claimant is notified of an overpayment and a process for repayment is established, the case is reviewed internally. This final review confirms the anticipated impact of the new information or results of the investigation on benefit entitlement; calculates and confirms the overpayment amount, if any; and decides whether penalties or other sanctions are warranted in cases involving false or misleading representation. Under the *Employment Insurance Act*, Human Resources and Skills Development Canada has 36 months to reconsider the claim and to identify and inform the claimant that an overpayment has been made. In situations where the Department has reason to believe the overpayment was caused by false or misleading information, the timeline is extended to 72 months (Exhibit 9.3).

**Exhibit 9.3** Life cycle of an Employment Insurance income benefit overpayment (simplified)

Source: Adapted from Human Resources and Skills Development Canada (HRSDC) information

**9.14** Departmental data suggests that over 40 percent of the overpayments it identified in the 2011–12 fiscal year resulted from ongoing processing of new and revised information submitted by employers or recipients (see Exhibit 9.2). For example, claimants report regularly on their availability for work and on income earned. However, they may inform the Department only after they were no longer available for work. In such cases, the Department will assess the impact on eligibility to benefits already paid and, if an overpayment is identified, will notify the claimant and initiate recovery action.

**9.15** The Department also uses a variety of automated programs and data matches, including a risk-based predictive model to target its investigations and detect overpayments. These tools enable it to focus its investigative efforts on cases where there are most likely overpayments to be identified for recovery. Departmental data suggests that close to 60 percent of overpayments the Department identified for recovery in the 2011–12 fiscal year were detected through its investigative efforts (Exhibit 9.2).

**9.16** Also, as part of its efforts to monitor and assess its effectiveness and assess payment accuracy, the Department conducts quality reviews of Employment Insurance claims processed to understand the causes of incorrect payments, and addresses related systematic issues. The causes of incorrect payments can relate to claimant errors, employer errors, or departmental administrative errors.

#### **Opportunities remain to improve analyses and potentially recover more overpayments**

**9.17** We examined the nature of information available and used, the analyses and options used, and other considerations by the Department to make resource decisions that have an impact on Employment Insurance overpayments. We found that the Department had not conducted some analyses or taken some actions that would enhance its ability to minimize the net loss of overpayments.

**9.18 Use of overpayment information.** In the 2011–12 fiscal year, \$311 million of overpayments, interest, and penalties was recovered (see Exhibit 9.2). The Department has a significant amount of information on the factors related to overpayments that are typically recovered and those that are not (for example, the length of time before overpayments are identified, how overpayments are identified—by investigation or by new information provided to the Department, the involvement of fraud, and reasons for writing off the debts as uncollectable). However, we found that it has not fully used the information on overpayments to understand the factors that affect their causes, identification, and recovery.

**9.19** We also found that the Department’s monitoring of the effectiveness of recovery actions was limited. This monitoring would help the Department prioritize its analyses and activities to further identify overpayments for recovery. While the Canada Revenue Agency collects overpayments on behalf of Human Resources and Skills Development Canada, the Department has overall responsibility and must therefore ensure that the loss associated with Employment Insurance overpayments is minimized. Departmental data suggests that the likelihood of recovering overpayments is significantly greater within the first two years after notifying the claimant. As of 31 March 2012, there was \$662 million in the Department’s accounts receivable for Employment Insurance benefits (total overpayments owed, including interest and penalties). About half of this was from overpayment cases that were identified more than two years previously.

**9.20** Under the *Employment Insurance Act*, once the claimant is notified, the Department has six years to recover the overpayment,

after which time it is no longer collectable. The Department estimated that about two thirds of the \$662 million owed at 31 March 2012 was doubtful for collection. We noted that it writes off tens of millions of dollars in overpayments, penalties, and interest each year—\$62 million in the 2011–12 fiscal year (see Exhibit 9.2). These write-offs are largely due to overpayments that go beyond their statutory limitation period for collection. Departmental data indicates that in the 2011–12 fiscal year, over \$53 million was written off for this reason. We found that the Department had done little analysis to identify opportunities to minimize this loss.

**9.21 Cases pending investigation.** The Department's investigative function detects a significant portion (close to 60 percent) of all Employment Insurance overpayments identified for recovery each year. Departmental data shows that this function has a positive return on investment—depending on the information considered, anywhere from about three to over eight dollars is returned to the program in savings for each dollar invested in investigative efforts to identify overpayments. In March 2012, the Department reported an inventory of close to 400,000 cases pending investigations. Departmental data suggests that this inventory has a value of about \$200 million in potential overpayments, not including interest and penalties or cost reductions by avoiding future overpayments. The Department estimated that in the 2011–12 fiscal year, over 36,000 high-risk cases would expire without being fully investigated due to surpassing the statute limitation for reconsideration. Departmental data suggests that this could represent over \$20 million in lost overpayments, not including interest and penalties.

**9.22 Cases pending final review to confirm an overpayment.** Departmental data indicates that there was also a significant backlog of cases (over 200,000 by March 2012) pending final review to confirm the impact of new and revised information or a completed investigation on benefit entitlement and, where needed, to confirm an overpayment and notify the claimant. About one third of these cases (over 66,000) were the result of a completed investigation, and the risks to recovering associated overpayments have been identified (Exhibit 9.4). The Department does not know the likelihood or expected value of overpayments associated with the other two thirds of the inventory (about 134,000 cases), although it does process these in a timely fashion.

**9.23 Cost-effective options.** The Department's analyses indicate that its efforts to identify Employment Insurance overpayments for recovery have been cost-effective, although the estimated return on investment varies, depending on whether the analyses include such factors as future

overpayments avoided and the proportion of amounts owed that are recovered. Nevertheless, considering the cases pending investigation and those pending final review, as well as the amounts at risk of exceeding the limitation period for collection, we believe that opportunities exist to cost-effectively identify and recover tens of millions of dollars more of overpayments each year (Exhibit 9.5).

#### Exhibit 9.4 Many identified overpayments expire before being recovered

Investigations of current or prior claims are essential to protecting the Employment Insurance program. There is a significant backlog of cases for which the investigation is completed but the final review is pending. According to data from Human Resources and Skills Development Canada, by March 2012 this backlog reached over 66,000 cases—a 200 percent increase since March 2009. Departmental data suggests that the value of overpayments to be recovered from this backlog was more than \$34 million, not including penalties and interest.

The longer the investigated claims take to process, the greater the likelihood that associated overpayments will not be recovered. Under the *Employment Insurance Act*, the Department has either 36 or 72 months, depending on the circumstances, from the time the benefit is paid to reconsider it and notify the claimant of an overpayment (see paragraph 9.13). According to department estimates, over 1,500 cases expire each month (18,000 per year), for which the investigation has been completed and potential overpayment identified but for which the final review and notification was never completed. Departmental data suggests that this translates into close to \$10 million each year in overpayments that have been identified but cannot be recovered because they expire before they can be fully processed (not including interest and penalties).

Source: Adapted from Human Resources and Skills Development Canada information

#### Exhibit 9.5 Opportunities exist to identify and recover overpayments

Source of potential overpayment	Inventory of cases as of March 2012	Estimated value of inventory as of March 2012	Estimated unrecovered overpayments due to cases exceeding limitation periods, 2011–12 fiscal year
Cases written off for exceeding the limitation period for collection (see paragraph 9.20)	—	—	Over \$53 million
Cases pending investigation (see paragraph 9.21)	Close to 400,000	About \$200 million	Over \$20 million
Cases investigated that are pending final review (see paragraph 9.22 and Exhibit 9.4)	Over 66,000	More than \$34 million	Close to \$10 million

Source: Information derived from Human Resources and Skills Development Canada data.  
This data was not audited by the Office of the Auditor General of Canada.

**9.24** One approach to maximize recoveries may be for Human Resources and Skills Development Canada to analyze its existing information on past overpayments to better understand the characteristics of cases that offer the highest potential for the greatest returns. This would enable the Department to then assess cases pending investigation and those pending final review, and to target for identification and recovery those cases that are at risk of becoming uncollectable and those that offer the highest potential for the greatest returns. In the interim, the Department could develop projects to test actual returns on investment of targeted efforts to identify and recover funds from existing sources of potential overpayments. Such projects could assess actual returns to the program by year for different levels of investment.

**9.25 Recommendation.** Human Resources and Skills Development Canada should conduct a comprehensive analysis of Employment Insurance income benefit overpayments. Based on this analysis, it should pursue all opportunities to identify overpayments and to maximize their recovery, where it is cost-effective to do so.

**The Department's response.** Agreed. Human Resources and Skills Development Canada takes its responsibility seriously to ensure that overpayments related to the Employment Insurance program are effectively addressed. The Department will build on work undertaken to date to deepen its understanding of overpayments through conducting a comprehensive analysis on Employment Insurance overpayments and their net impact on the Employment Insurance Operating Account, by January 2014. Upon completion of the analysis, a work plan will be developed by 30 June 2014.



## Conclusion

**9.26** We concluded that Human Resources and Skills Development Canada has made informed decisions about how to minimize the loss associated with Employment Insurance income benefit overpayments, even though opportunities for improvement exist. The Department has conducted analyses and uses processes to balance competing objectives of the Employment Insurance program and efficiently manage activities that affect overpayments. It uses a risk-based approach and has developed various tools to estimate and identify overpayments for recovery.

**9.27** Nevertheless, the Department has not used all of the information available on Employment Insurance income benefit overpayments to minimize its potential loss. We believe that there are opportunities for the Department to cost-effectively recover additional tens of millions of dollars of overpayments each year if it improved its analyses and understanding of overpayments and determined how best to identify and recover them.

## About the Audit

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

As part of our regular audit process, we obtained management's confirmation that the findings reported in this chapter are factually based.

### Objective

The audit objective was to determine whether Human Resources and Skills Development Canada had made informed decisions about where and how to invest its resources to minimize the loss associated with Employment Insurance income benefit overpayments.

### Scope and approach

We examined Human Resources and Skills Development Canada's management activities, resource investment decisions, and associated analyses related to overpayments of Employment Insurance income benefits.

The audit approach included interviews, document review of analyses, and decisions about options and resource investments; review and analysis of management information; and some limited data analysis. In particular, we examined the nature of information available and used related to overpayments, the analyses and options used, and other considerations by the Department to make decisions related to new funding requests; streamlining and automation; achievement of efficiencies related to Budget 2012 reductions; and allocations for existing resources.

The audit excluded

- activities delivered under Part II of the *Employment Insurance Act* to help Canadians prepare for, find, and maintain employment;
- activities associated with administering and enforcing provisions of the *Employment Insurance Act* relative to overpayments made to higher-income claimants; and
- actions to recover overpayments of Employment Insurance income benefits.

## Criterion

Criterion	Sources
<b>To determine whether Human Resources and Skills Development Canada has made informed decisions about where and how to invest its resources to minimize the loss associated with Employment Insurance income benefit overpayments, we used the following criterion:</b>	
Human Resources and Skills Development Canada has efficiently managed the risk of loss associated with Employment Insurance income benefit overpayments.	<ul style="list-style-type: none"> <li>• <i>Auditor General Act</i></li> <li>• Directive on Receivables Management, Treasury Board</li> </ul>

Management reviewed and accepted the suitability of the criterion used in the audit.

## Period covered by the audit

The audit covered the Department's management activities and decisions that related Employment Insurance income benefit overpayments for the period between 1 April 2011 and 30 October 2012. To properly understand the current context and key decisions that current operations were based on, review and consideration of documentation, information, and decisions prior to this period were required. Audit work for this chapter was completed on 15 January 2013.

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## Appendix Recommendation

The following recommendation is found in Chapter 9. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
<b>Opportunities remain to improve analyses and potentially recover more overpayments</b>	
<b>9.25</b> Human Resources and Skills Development Canada should conduct a comprehensive analysis of Employment Insurance income benefit overpayments. Based on this analysis, it should pursue all opportunities to identify overpayments and to maximize their recovery, where it is cost-effective to do so. (9.17–9.24)	Agreed. Human Resources and Skills Development Canada takes its responsibility seriously to ensure that overpayments related to the Employment Insurance program are effectively addressed. The Department will build on work undertaken to date to deepen its understanding of overpayments through conducting a comprehensive analysis on Employment Insurance overpayments and their net impact on the Employment Insurance Operating Account, by January 2014. Upon completion of the analysis, a work plan will be developed by 30 June 2014.