

**SUPPLEMENTARY REPORT TO THE**  
**2011** **REPORT OF THE CHIEF ACTUARY**  
**to the CEIFB Board of Directors**

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,

A handwritten signature in black ink, appearing to read 'Luc Taillon', with a horizontal line extending from the end of the signature.

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



# SUPPLEMENTARY REPORT

## A. BACKGROUND

On October 12, 2010, the Government of Canada announced the reintroduction of three Employment Insurance ("EI") pilot projects to help Canadians through the economic recovery.

The **Working While on Claim** pilot project allows EI claimants to earn the up to 40% of their weekly benefits or \$75, whichever is greater, up from 25% or \$50. This pilot project will continue until June 25, 2011.

The **Best 14 Weeks** pilot project calculates benefits based on the highest 14 weeks of insurable earnings over the year preceding a claim. This pilot project will continue until August 6, 2011.

The **Extended EI Benefits** pilot project will provide an additional 5 weeks of regular benefits, up to a maximum of 45 weeks, to 21 regions until September 15, 2012. This particular pilot project will conclude earlier in some regions if there is sustained economic recovery.

The 2011 Report of the Chief Actuary to the CEIFB Board of Directors submitted on October 29, 2010, was prepared in accordance with section 66(2) (e) of the *Employment Insurance Act* ("EI Act"), whereas the Board shall, in addition to the information provided under sections 66.1 and 66.2, set the premium rate based on any changes announced by the Minister of Human Resources and Skills Development ("HRSD") on or before September 30, 2010 to payments to be made as or on account of benefits under the *EI Act*. Since the October 12 announcement was made after September 30, this supplementary report was requested by the Board and has therefore been prepared to provide the Board with revised actuarial forecasts and estimates regarding the EI Operating Account and the 2011 forecast break-even rate.

Section 66(2)(f) of the *EI Act* provides for the Board to take into consideration any other information it considers relevant, enabling the Board to consider the estimated costs associated with the reintroduction of the EI pilot projects announced after September 30, 2010.

## B. ADDITIONAL INFORMATION PROVIDED BY THE MINISTER OF HRSD

On October 27, 2010, the following information on the expected additional costs related to the reintroduction of three EI pilot projects was provided by the Minister of HRSD. These forecasts are to be added to the information provided by the Minister of HRSD on September 30, 2010, in accordance with section 66.1 of the *EI Act* and reflected in the 2011 Report of the Chief Actuary to the CEIFB Board of Directors, submitted on October 29, 2010. The additional costs related to the continuation of the three EI pilot projects are estimated at \$26 million in 2010 and \$371 million in 2011.

| EI FINANCIAL SUMMARY - EXTENSION OF THE THREE EI PILOT PROJECTS                                |                   |   |                    |                     |
|--|-------------------|---|--------------------|---------------------|
| MEASURES   | Pilot #           | DATES                                   | (\$ Millions)      |                     |
|  |                   |   | 2010               | 2011 <sup>(1)</sup> |
|  |                   |   | (Jan. 1 - Dec. 31) | (Jan. 1 - Dec. 31)  |
| Increase EI entitlement by providing five additional weeks of benefits (Cap 45 weeks)          | #15               | September 12, 2010 - September 15, 2012 | \$0                | \$110               |
| Best 14 weeks of insurable earnings  | # 11<br>Extension | October 24, 2010 - June 25, 2011        | \$14               | \$173               |
| Increase the allowable earnings threshold and decrease the ER for new entrants and re-entrants | # 12<br>Extension | December 5, 2010 - August 6, 2011       | \$12               | \$88                |

### Notes

(1) Forecasted expenditures for 2011 are based on the 2010 Maximum Insured Earnings of \$43,200

The following is an updated version of table 2.2.1 found in subsection 2.2 of the 2011 Report of the Chief Actuary:

| TABLE 2.2.1 - HRSD ASSUMPTIONS               |                     |                       |                       |
|--|---------------------|-----------------------|-----------------------|
| (\$ MILLIONS)                                | ACTUAL<br>2009      | FORECAST<br>2010      | FORECAST<br>2011      |
| Pilot-Projects                               |                     |                       |                       |
| Best 14-Weeks                                | \$311               | \$300                 | \$206                 |
| Working-on-Claim Threshold/Entry Requirement | \$208               | \$213                 | \$100                 |
| 5 Additional Weeks (Regular)                 | \$160               | \$13                  | \$110                 |
| Transitional Measure                         | \$25                | \$25                  | \$19                  |
| <b>Sub-Total</b>                             | <b>\$704</b>        | <b>\$551</b>          | <b>\$435</b>          |
|  |                     |                       |                       |
| Budget 2009 Measures                         |                     |                       |                       |
| 5 Additional Weeks (Regular)                 | \$707               | \$715                 | \$80                  |
| Career Transition Assistance                 | \$2                 | \$75                  | \$55                  |
| Work-Sharing Enhancement                     | \$153               | \$135                 | \$25                  |
| EI Training (LMDA)                           | \$329               | \$500                 | \$171                 |
| <b>Sub-Total</b>                             | <b>\$1,191</b>      | <b>\$1,425</b>        | <b>\$331</b>          |
|  |                     |                       |                       |
| Additional Weeks (Long-Tenured)              | \$39                | \$732                 | \$320                 |
| <b>Total</b>                                 | <b>\$1,934</b>      | <b>\$2,708</b>        | <b>\$1,086</b>        |
| (\$ MILLIONS)                                | ACTUAL<br>2009-2010 | FORECAST<br>2010-2011 | FORECAST<br>2011-2012 |
| EBSM (Excluding Budget 2009 )                | \$2,106             | \$2,124               | \$2,125               |
| Administration Costs                         | \$2,031             | \$1,978               | \$1,770               |

For further details on the information provided by the Minister of HRSD on September 30, 2010, please refer to subsection 2.2 of the 2011 Report of the Chief Actuary to the CEIFB Board of Directors submitted on October 29, 2010.

## C. REVISED RESULTS

The following table provides a comparison of the results of the actuarial estimates and forecasts presented in the 2011 Report of the Chief Actuary, as of October 29, 2010, and the subsequent estimates and forecasts prepared by the Chief Actuary, as of November 5, 2010, based on the additional information provided by the Minister of HRSD on October 27, 2010.

| IMPACT OF CONTINUATION OF EI PILOT PROJECTS  |                        |                       |
|--|------------------------|-----------------------|
|  | As of<br>Oct. 29, 2010 | As of<br>Nov. 5, 2010 |
| <b>EI Operating Account (\$ Millions)</b>    |                        |                       |
| Cumulative Balance (as at December 31, 2010) | (\$8,448)              | (\$8,474)             |
| Cumulative Balance (as at December 31, 2011) | (\$9,987)              | (\$10,384)            |
|  |                        |                       |
| <b>2011 Forecast Break-Even Rates</b>        |                        |                       |
| Residents of all provinces except Quebec     | 2.65%                  | 2.68%                 |
| Residents of the province of Quebec          | 2.28%                  | 2.31%                 |

## D. REVISED EXECUTIVE SUMMARY

The Chief Actuary hereby presents an updated version of the Executive Summary of the 2011 Report of the Chief Actuary to the CEIFB, based on the additional information provided by the Minister of HRSD on October 27, 2010.

# 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<br>2009   | FORECAST<br>2010 | FORECAST<br>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           |
| <b>Total Employment Insurance Benefits</b>                      | <b>\$20,985</b>  | <b>\$20,616</b>  | <b>\$19,242</b>   |
| Administration Costs  | \$1,970          | \$1,991          | \$1,822           |
| Bad Debt Expense  | \$44             | \$30             | \$38              |
| <b>Total Expenditures</b>                                       | <b>\$22,999</b>  | <b>\$22,637</b>  | <b>\$21,102</b>   |
| Less: Penalties   | (\$28)           | (\$46)           | (\$41)            |
| Less: Interest on Overdue Accounts Receivable                   | (\$16)           | (\$15)           | (\$17)            |
| <b>Net Expenditures</b>   | <b>\$22,955</b>  | <b>\$22,576</b>  | <b>\$21,043</b>   |
| Premium Revenue   | \$16,910         | \$17,565         | \$18,815          |
| Funding for Budget 2009 Measures                                | \$1,190          | \$1,391          | \$318             |
| <b>Annual Surplus (Deficit)</b>                                 | <b>(\$4,855)</b> | <b>(\$3,620)</b> | <b>(\$1,909)</b>  |
| <b>Cumulative Surplus (Deficit)</b>                             | <b>(\$4,855)</b> | <b>(\$8,474)</b> | <b>(\$10,384)</b> |

### 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) |                  |
|---|------------------|
| Salaried Insurable Earnings (Excluding Quebec)          | \$369,738        |
| Salaried Insurable Earnings (Quebec)                    | \$120,494        |
| <b>Total Insurable Earnings</b>                         | <b>\$490,232</b> |
| Self-Employed Earnings (Excluding Quebec)               | \$131            |
| Self-Employed Earnings (Quebec)                         | \$62             |
| <b>Total Self-Employed Earnings</b>                     | <b>\$193</b>     |
| 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                                    | -                |
| <b>Forecast Break-Even Rates</b>                        |                  |
| residents of all provinces except Quebec                | <b>2.68%</b>     |
| residents of the province of Quebec                     | <b>2.31%</b>     |

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.

## E. ACTUARIAL OPINION

In my opinion, considering that this Supplementary Report to the 2011 Report of the Chief Actuary to the Canada Employment Insurance Financing Board was prepared pursuant to the *Canada Employment Insurance Financing Board Act* and the *Employment Insurance Act*:

- the data on which this report is based are sufficient and reliable;
- the methodology used is appropriate and consistent with sound actuarial principles; and
- the actuarial assumptions used are in aggregate reasonable, appropriate and set on a best estimate basis.

This report has been prepared, and opinions given, in accordance with accepted actuarial practice.



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

The Chief Actuary wishes to acknowledge the outstanding work performed by the following two individuals in regards to the preparation of the present report:



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Joseph Gabriel, FCIA, FSA  
Actuary  
Canada Employment Insurance Financing Board



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Mathew Lafrance  
Economist  
Canada Employment Insurance Financing Board

Ottawa, Ontario, Canada

5 November 2010