

2011

REPORT OF THE CHIEF ACTUARY to the CEIFB Board of Directors

October 29, 2010

29 October 2010

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 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, 2010.

Following 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 information on the supplementary costs of these pilot projects provided to the Canada Employment Insurance Financing Board on October 27, 2010, I will be providing the Board of Directors shortly with a Supplementary Report with updated estimates, for their consideration in the preparation of the 2011 Employment Insurance premium rate-setting report.

Yours sincerely,

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

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 with the actuarial forecasts and estimates necessary to set the Employment Insurance premium rate for 2011 under section 66 of the *Employment Insurance Act*.

Budget 2010 established the new Employment Insurance 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 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.

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 Employment Insurance benefit provisions, as of September 30, 2010, the information provided to the Board on September 30, 2010 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 2011 it is expected that expenditures will total \$20.7 billion, an 8.3% decline from \$22.6 billion in 2010. The decline is mostly attributed to Employment Insurance benefit payments, which are expected to decrease by 8.3% to \$18.9 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 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 pilot-projects and the Economic Action Plan initiatives announced in *Budget 2009* that are scheduled to end in 2011.

The opening balance of the Employment Insurance Operating Account, which must be taken into account in the 2011 forecast break-even rates, is expected to be a cumulative deficit of \$8.4 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 **2.65%** 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 **2.28%** for 2011 or 2.65% less 0.37%.

| TABLE I - SUMMARY OF THE EMPLOYMENT INSURANCE OPERATING ACCOUNT | | | |
|---|------------------|------------------|------------------|
| (\$ MILLIONS) | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| Income Benefits | | | |
| Regular | \$14,118 | \$13,572 | \$12,126 |
| 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 | \$17,970 | \$16,622 |
| Employment Benefits and Support Measures | \$2,487 | \$2,619 | \$2,249 |
| Total Employment Insurance Benefits | \$20,985 | \$20,590 | \$18,871 |
| Administration Costs | \$1,970 | \$1,991 | \$1,822 |
| Bad Debt Expense | \$44 | \$30 | \$38 |
| Total Expenditures | \$22,999 | \$22,611 | \$20,731 |
| Less: Penalties | (\$28) | (\$46) | (\$41) |
| Less: Interest on Overdue Accounts Receivable | (\$16) | (\$15) | (\$17) |
| Net Expenditures | \$22,955 | \$22,550 | \$20,672 |
| Premium Revenue | \$16,910 | \$17,565 | \$18,815 |
| Funding for Budget 2009 Measures | \$1,190 | \$1,391 | \$318 |
| Annual Surplus (Deficit) | (\$4,855) | (\$3,594) | (\$1,538) |
| Cumulative Surplus (Deficit) | (\$4,855) | (\$8,448) | (\$9,987) |

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 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 \$170 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 would have an expected \$129 million net impact on the balance of the Employment Insurance 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 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 premium rate which would generate sufficient premium revenue to ensure that at the end of 2011 the amounts credited and charged to the Employment Insurance Operating Account after December 31, 2008 are equal is:

- **2.65% for residents of all provinces except Quebec; and**
- **2.28% for residents of the province of Quebec.**

Section 66(7) of the *Employment Insurance Act* limits the variation in the premium rate 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. The corresponding premium rate for residents of Quebec would be **1.41%**, or 1.78% less the premium reduction of 0.37% for the maternity, parental and adoption benefits provided by the Quebec Parental Insurance Plan

Given the difference between the forecast break-even rate and the maximum legislative premium rate, should the Board set the 2011 Employment Insurance premium rate at the maximum level then it is expected that costs would exceed revenues by \$1.5 billion, resulting in a cumulative deficit in the Employment Insurance Operating Account of \$10.0 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 |
| 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 | 1.55% |
| 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 | 2.65% |
| residents of the province of Quebec | 2.28% |

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 2011 Employment Insurance premium rate on or before November 14, 2010.

MAIN REPORT

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GLOSSARY OF TERMS

| | | |
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| Account Balance Rate | BE _{AB} | One of the two components included in the forecast break-even rate, it includes the cumulative surplus/deficit rate, the reserve target rate and the investment income rate. |
| Actuary | | A business professional specialized in the application of mathematics to financial risk. In Canada, the term Actuary refers to a fully pledged Fellow of the Canadian Institute of Actuaries. |
| Administration Costs | | Costs related to the administration of both the <i>EI</i> and <i>CEIFB Acts</i> . |
| Average Weekly Benefits | AWB | The average rate of weekly benefit payments, equal to total benefits paid divided by the number of benefit weeks paid. |
| Average Weekly Earnings | AWE | Derived from Statistics Canada Survey of Employment, Payrolls and Hours; the average weekly earnings, including overtime, of non-farm payroll employees. |
| Bad Debt | | Included in annual EI expenditures, it is equal to the outstanding overpayments and penalties that have been written off and the change in the annual allowance for doubtful debts. |
| Base Rate | BE _B | One of the two components included in the upcoming year rate; the employee premium rate that should generate just enough premium revenue to cover expected EI expenditures in the upcoming year, excluding the cost of providing MPA benefits. |
| Beneficiaries to Unemployed Ratio | B/U | The proportion of unemployed persons in a given period who are receiving EI regular benefits. |
| Benefit Repayments | | If a claimant's income for a tax year exceeds 1.25 times the annual MIE then they are required to repay 30% of the lesser of the total benefits paid to the claimant, excluding special benefits and Part II benefits, or the amount by which the claimant's income exceeded the repayment threshold. |
| Board's Reserve | BR | The financial assets less the financial liabilities of the CEIFB. |
| Canada Employment Insurance Financing Board | CEIFB | A Crown corporation responsible for setting the EI premium rate and investing any EI surpluses, established by the CEIFB Act that came into force on June 20, 2008. The CEIFB reports to Parliament through the Minister of HRSDC. |
| Canada Revenue Agency | CRA | Federal agency responsible for the collection of EI premiums. |
| Chief Actuary | | Officer of the Board under the direction of the Chief Executive Officer of the CEIFB; a Fellow of the Canadian Institute of Actuaries. |
| Compassionate Care Benefits | | EI benefits payable to eligible beneficiaries who must care for a family member who is seriously ill with a significant risk of death. |
| Consolidated Revenue Fund | CRF | Aggregate of all public moneys that are on deposit at the credit of the Receiver General. |

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| Covered Earnings | CE | Sum of the insurable earnings of salaried employees and earnings of self-employed who voluntarily joined EI contributors that are below the MIE. |
| Covered Self-Employed | | Self-employed who have voluntarily joined the EI program |
| Cumulative Surplus/Deficit Rate | | One of the three components of the account balance rate; should generate sufficient premium revenues or premium savings to ensure that, excluding any investment income and any EI expenditures expected to be incurred in the upcoming year, there is no cumulative balance in the EI Operating Account at the end of the upcoming year. |
| Economic Action Plan of Canada | EAP | Economic stimulus delivered by <i>Budget 2009</i> |
| EI Expenditures | EXP | All amounts charged to the EI Operating Account under subsection 77(1) of the <i>EI Act</i> . |
| EI Operating Account | EIOA | New account established in the accounts of Canada that includes all credits and charges made under the <i>EI Act</i> on or after January 1, 2009; cumulative balance is to be taken into consideration by the Chief Actuary in forecast break-even rate calculation. |
| EI Premium Revenues | REV | Total employee, employer and self-employed premium contributions, equal to the premium rate, based on province of residence, times total insurable earnings times the 2.4 multiple (for insured earnings of paid-workers only) less wage-loss reduction and employee refunds. |
| Employed | EMP | Sub-set of the labour force; those who, during the reference week, did any paid work in the context of an employer-employee relationship or self-employment; includes unpaid family work. |
| Employee Premium Refund | EPR | Employee premium contributions above the maximum annual limit, due to, for example, working for multiple employers in a given tax year. |
| Employment Benefits and Support Measures | EBSM | Benefits paid under part II of the <i>EI Act</i> that provide financial assistance to eligible persons to help them re-integrate into the labour market and to third parties to help them provide employment assistance services to unemployed workers and employed persons if they are facing a loss of their employment. |
| Employment Insurance | EI | Federal program that provides temporary financial assistance for unemployed Canadians while they look for work or upgrade their skills; also assists Canadians who are sick, pregnant or caring for a newborn or adopted child, as well as those who must care for a family member who is seriously ill with a significant risk of death. |
| Fishing Benefits | FB | EI benefits payable to eligible self-employed fishers. |

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|---|-------------------|---|
| Forecast Break-Even Rate | BE | Employee EI premium rate that should generate just enough premium revenue to ensure that, at the end of the year, the amounts credited and charged to the EI Operating Account after December 31, 2008 are equal, and the fair market value of the Board's reserve is equal to its indexed reserve target. |
| Human Resources and Skills Development | HRSD | Federal department responsible for the management and operation of the EI program. |
| Income Benefits | | EI benefits paid under part I of the <i>EI Act</i> ; includes regular, fishing, work-sharing and special benefits. |
| Indexed Reserve Target | BR _{IT} | Amount of the payment made under section 70.1 of the <i>EI Act</i> , indexed annually, on a compound basis, beginning in the year in which that payment is made, in accordance with regulations. |
| Insurable Earnings | | Income level of a salaried employee up to the maximum insurable earnings |
| Investment Income Rate | | One of the three components included in the account balance rate; the reduction in the forecast break-even rate for any expected returns on the Board's invested assets. |
| Labour Force | LF | Sub-set of the working-age non-institutionalized civilian population who, during the reference week, were either employed or unemployed. |
| Labour Force Survey | LFS | Statistical survey conducted each month by Statistics Canada during a reference week, usually the week containing the 15 th day of the month; used to capture data about the labour market. |
| Labour Market Development Agreement | LMDA | Agreements between the Federal Government and Provinces to provide funding that enables provinces and territories to design and deliver skills and employment training programs, such as job creation partnerships and targeted wage subsidies, as well as services for unemployed Canadians, particularly those who are eligible for Employment Insurance (EI) benefits. |
| Maternity, Parental and Adoption Benefits | MPA | EI benefits payable to eligible beneficiaries who are pregnant or caring for a newborn or adopted child. |
| Maximum Insurable Earnings | MIE | Income level up to which EI premiums are contributed; determines the limit on weekly EI benefit payments; indexed annually using the growth in average weekly earnings ending June 30 in the previous year, as per section 4 of the <i>EI Act</i> . |
| MPA Rate | BE _{MPA} | One of the two components included in the upcoming year rate; the employee premium rate that should generate just enough premium revenue to cover expected EI MPA expenditures in the upcoming year; the provincial plan reduction applied to the EI premium rate for Quebec residents. |
| Paid-Worker | PW | Sub-set of the employed population; those in an employer-employee relationship who contribute to the EI program; also known as salaried employees. |

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|--------------------------------|------|--|
| Participation Rate | | Ratio of the labour force to the working-age population. |
| Penalties | | Imposed on claimants, any person acting on behalf of a claimant or an employer for knowingly providing false or misleading information. |
| Pilot-Projects | | Temporary modifications that test whether possible amendments to the EI Act or the regulations would make them more consistent with current industry employment practices, trends or patterns or would improve service to the public. |
| Population | POP | Civilian, non-institutionalized population 15 years of age and over. |
| Premium Rate | PR | Annual rate set by the Board of Directors of the CEIFB that determines the level of employee and self-employed premium contributions based on covered earnings; lower in Quebec compared to rest of Canada due to premium reduction for QPIP; employers contribute 1.4 times the employee rate. |
| Provincial Plan | PP | Plan established under a provincial law that provides for the payment of any allowances, money or other benefits to insured persons for illness, injury, quarantine, pregnancy, child care or compassionate care that reduces or eliminates EI special benefits ordinarily payable to those persons. |
| Quebec Parental Insurance Plan | QPIP | Mandatory provincial program that provides MPA benefits in place of benefits provided by EI to eligible residents in Quebec, including self-employed workers. |
| Regular Benefit Weeks | RBW | Aggregate of the number of weeks of regular EI benefits paid to eligible beneficiaries. |
| Regular Benefits | RB | EI benefits payable to eligible beneficiaries who have lost their job through no fault of their own, such as due to shortage of work or seasonal or mass lay-offs. |
| Reserve Target | | Amount to be paid in accordance with Section 70.1 of the EI Act and indexed annually starting with the year the payment is made. |
| Reserve Target Rate | | One of the three components included in the account balance rate; the employee premium rate that should generate premium revenue equal to the annual indexed target of the Board's reserve as of the end of the upcoming year; until the initial payment, expected to be \$2 billion, is made to the EI Operating Account from the CRF, the reserve target rate is not applicable. |
| Self-Employed | SE | Sub-set of the employed population; those not in an employer-employee relationship; includes individuals who operate their own business; contribute to the EI program only on voluntary basis, to access special benefits. |
| Self-employed total earnings | | Sum of all covered earnings of self-employed who have voluntarily joined the EI program |

| | | |
|-------------------------------|-----------|--|
| Sickness Benefits | | EI benefits payable to eligible beneficiaries who are unable to work due to illness, injury or quarantine. |
| Special Benefits | SB | Includes sickness, MPA and compassionate care EI benefits. |
| Special Measures | | Temporary enhancements to the EI program; part of Canada's Economic Action Plan. |
| T1 | T1 | CRA form used by individuals to file their personal income tax return; provides EI premium data by province of residence. |
| T4 | T4 | Report prepared by employers of deductions remitted to CRA; includes statement of remuneration paid, or slips, and summary of remuneration paid; province of employment. |
| Total Insurable Earnings | TIE | Aggregate of wages and salaries earned, up to the annual MIE, for all insured employment. |
| Total Self-Employed Earnings | TSEE | Sum of income from self-employment of all covered self-employed workers, up to the MIE. |
| Total Wages and Salaries | TWS | Estimate of all compensation paid to employees less supplementary labour income, or payments made by employers for the future benefit of their employees, included in the labour income component of Gross Domestic Product. |
| Unemployed Population | UN | Sub-set of the labour force; includes those who are temporarily laid-off with expectation of a recall, those who are without work but have actively looked for work in the last four weeks and those with a new job expected to start within four weeks. |
| Unemployment Rate | UR | Ratio of the number of unemployed to the labour force; also known as the jobless rate. |
| Upcoming Year Rate | | One of the two components of the forecast break-even rate; includes the base rate and the MPA rate and is the employee premium rate that should generate just enough premium revenue to cover EI expenditures in the upcoming year. |
| Variable Administration Costs | VAC | Direct EI administration costs incurred to provide Provincial Benefits, namely MPA benefits, covered by a Provincial Plan. |
| Wage-Loss Premium Reduction | R_{WLR} | Reduction of the premium contributions of employers who offer a qualified wage-loss replacement plan, or sick leave, that reduces EI special benefits otherwise payable. |
| Week Weight | WW | Aggregate of benefit processing days in a given period, equal to the regular benefit weeks paid in a particular day by the total number of regular benefit weeks paid in that week, from Sunday to Thursday. |
| Work-Sharing Benefits | WS | EI income benefits paid to eligible workers willing to work a temporarily reduced work-week to avoid temporary lay-offs due to a reduction in the normal level of business activity caused by factors that are beyond the control of the employer. |

SECTION I

INTRODUCTION

1.1. INTRODUCTION

This is the first Actuarial Report of the Chief Actuary of the Canada Employment Insurance Financing Board (“CEIFB”) to the Board of Directors of the CEIFB (“the Board”) following the tabling of the *Canada Employment Insurance Financing Board Act* (“CEIFB Act”), which came into force on June 20, 2008. Pursuant to the *CEIFB Act* and to the amendments to the *Employment Insurance Act* (“EI Act”), the CEIFB will be responsible for:

- Implementing an improved Employment Insurance (“EI”) premium rate-setting mechanism that will ensure that EI revenues and expenditures break even over time;
- Managing a separate account, where any EI premium revenues that exceed EI expenditures from January 1, 2009 onward will be held and invested until they are returned to contributors through lower premium rates in subsequent years; and
- Maintaining an indexed reserve as a contingency fund in order to support relative premium rate stability within legislated parameters.

The Chief Actuary of the CEIFB is an officer of the Board under the direction of the Chief Executive Officer who shall, under section 14(3) of the *CEIFB Act*, for the purposes of setting the EI premium rate under section 66 of the *EI Act*, provide the Board on or before October 31 with:

- the forecast break-even rate for the following year and a detailed analysis in support of the forecast; and
- the forecast fair market value of the Board’s reserve, or its financial assets less its financial liabilities, at the end of the following year.

The forecast break-even rate for the following year is the rate that should generate enough premium revenue during that year to ensure that at the end of the 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 forecast fair market value of the Board’s reserve is equal to its target.

This report, prepared in accordance with section 14(3) of the *CEIFB Act*, presents to the Board the actuarial forecasts and estimates of the Chief Actuary of the CEIFB in regards to the forecast break-even rate for 2011 and the forecast cumulative balance of the EI Operating Account as of December 31, 2011, based on the information provided by the Ministers of Human Resources and Skills Development (“HRSD”) and Finance to the Board on or before September 30, 2010 and assumptions derived from historical data by the Chief Actuary.

In addition, this report presents the 2011 premium rate reduction for residents of Quebec¹, as per section 69(2) of the *Employment Insurance Act*, and the 2011 annual Maximum Insurable Earnings (“MIE”). The Canada Employment Insurance Commission (“CEIC”) entered into an agreement with the CEIFB, to have the CEIFB perform calculations for the CEIC as per subsection 28(4) of *Department of Human Resources and Skills Development Act*, for the purpose of sections 4 and 69 of the *Employment Insurance Act*.

¹ Due to the Quebec provincial plan for maternity, parental and adoption benefits, known as the Quebec Parental Insurance Plan. For further details, please refer to sub-section 3.3 *Provincial Plan*.

1.2. BACKGROUND

On June 29, 2005, Bill C-43, an *Act to implement certain provisions of the budget tabled in Parliament on February 23, 2005* (“*Budget 2005*”), came into force and amended section 66 of the *EI Act*². Previously, the EI Commission, with the approval of the Governor in Council on the recommendations of the Ministers of HRSD and Finance, would set the premium rate at a rate the Commission considered would ensure sufficient revenue over a business cycle to cover the charges to the EI Account and maintain relative stability over the business cycle.

The *Budget 2005* amendments introduced a new rate-setting mechanism based on the principles of transparency and of balancing premium revenues with expected program costs. Under this new mechanism, the Commission had the legislative authority to set the premium rate, taking into account the principle that just enough premium revenue should be generated to cover payments made during that year. The Chief Actuary of HRSD would calculate annually, on a forward-looking basis, the estimated break-even rate for the coming year based on the economic assumptions provided by the Minister of Finance on or before September 30 of that year. Surpluses, deficits and notional interest credited to the EI Account would not factor in to the break-even rate calculation. The EI premium rates for 2006 to 2009 were set by the Commission using this mechanism.

As part of the Government’s commitment to improve the management and governance of the EI financing, the Government of Canada announced in *Budget 2008* the creation of a new independent Crown corporation, the CEIFB, which would be responsible for implementing a new rate-setting mechanism. Unlike the rate-setting mechanism introduced in *Budget 2005*, the new mechanism would take into account any surpluses or deficits that arise on a go-forward basis, starting January 1, 2009, to ensure that EI revenues and expenditures balance over time.

The 2009 EI premium rate was set by the EI Commission on November 14, 2008 at \$1.73 per \$100 of insurable earnings based on the economic forecasts provided by the Minister of Finance on September 30, 2008, the Chief Actuary’s report and public input. As part of Canada’s Economic Action Plan (“EAP”) in response to the global economic downturn, Bill C-10, the *Budget Implementation Act, 2009* (“*Budget 2009*”), amended section 66 with section 222 whereby the 2010 EI premium rate was maintained at the 2009 level.

Bill C-9, the *Jobs and Economic Growth Act* (“*Budget 2010*”), amended the *EI Act* with section 70.2, which established in the accounts of Canada a new account, the EI Operating Account. All credits and charges under the *EI Act* on or after January 1, 2009, are deemed to have been credited or charged to the EI Operating Account. As part of the responsibilities of the CEIFB, the Chief Actuary is to take into consideration any cumulative surplus or deficit in the EI Operating Account in calculating the forecast break-even rate.

² For further details on this and other historical changes to the EI program, please refer to *Appendix I*.

1.3. LEGISLATIVE FRAMEWORK

The *EI Act* and the *CEIFB Act* include the following dates by which various responsibilities related to the setting of the EI premium rate must be met. For further details, please refer to *Appendix II*.

September 30

The Minister of HRSD is to provide the Board with the information prescribed in section 66.1(1) of the *EI Act*. The Minister of Finance is to provide the Board with the information prescribed in sections 66.2(1) and 77.1 of the *EI Act*.³

October 31

Under section 14(3) of the *CEIFB Act* and for the purposes of section 66 of the *EI Act*, the Chief Actuary shall provide the Board with the forecast of the break-even rate for the following year, along with a detailed analysis in support of the forecast and the forecast fair market value of the Board's reserve at the end of the following year. The Chief Actuary is to provide the source of the data, the actuarial and economic assumptions and the actuarial methodology used in the forecasts.

Any payments between the Board and the Consolidated Revenue Fund ("CRF") under section 77.1 of the *EI Act* are to be made on or before this date. This is to account for the difference between the forecast amounts credited and charged to the EI Operating Account in 2010 (year to date, plus estimate covering the remainder of 2010) and the estimate total amounts credited and charged to the EI Operating Account as of December 31, 2009.

November 14

Under section 66 of the *EI Act*, the Board is to set the premium rate for the following year in order to generate just enough premium revenue during that year to ensure that the amounts credited and charged to the EI Operating Account after December 31, 2008 are equal and the Board's reserve is equal to the indexed target amount.

Section 66(7) sets out the limit by which the premium rate may vary from one year to the next. The Governor in Council, on the joint recommendation of the Ministers of HRSD and Finance, may change the maximum percentage by which the premium rate can increase or decrease. In 2010, pursuant to section 66(8) of the *EI Act*, the maximum percentage was changed to five one-hundredths of one per cent (0.05%) for 2011 and ten one-hundredths of one per cent (0.10%) for 2012 and later.

The Board shall make public a report that sets out the premium rate, as well as a detailed analysis in support of that rate, the information provided to the Board by the Chief Actuary under section 14(3) of the *CEIFB Act* and by the Minister of HRSD under 66.1(1) of the *EI Act* and any other information the Board took into account.

November 30

The Governor in Council may, under section 66.3(1) of the *EI Act*, on the joint recommendation of the Ministers of HRSD and Finance, substitute a premium rate for the following year that is different from the one set by the Board, if the Governor in Council considers it to be in the public interest, or set the premium rate for the following year if the Board has not set one by November 14.

³ For further details, please refer to sub-section 2.2 *Economic and Demographic Assumptions*.

SECTION II

METHODOLOGY AND DATA

2.1. METHODOLOGY

The forecast break-even rate, as determined by the Chief Actuary, is the rate that, based on the relevant assumptions, should generate sufficient premium revenues to ensure that at the end of the year the amounts credited and charged to the EI Operating Account after December 31, 2008 are equal.

The forecast break-even rate is calculated as the ratio of total expenditures for the year to the revenue base, or covered earnings (salaried employees insurable earnings and covered self-employed earnings). A complete description of the revenue base included in the forecast break-even rate calculation and the actuarial projections are available in section III of this report while section IV provides a complete description and the actuarial projections of the expenditures.

EI benefits and covered earnings are projected using the expected growth rates in the relevant economic and demographic variables applied to the base-year, the last year for which complete data is available. For EI benefits, the base-year is calendar-year 2009. The exception to this is regular benefits, which uses 2008 as a base-year, as the 2009 regular benefit data was adversely affected by the sudden increase in the claim volume associated with the economic downturn. To ensure the forecast is consistent with current trends, the year-to-date expenditures for calendar-year 2010, as of September 30, 2010 (three quarters of the year), are included in the projections. The base-year for covered earnings, for which complete T1 and T4 data is available, is tax-year 2008. Complete data on covered earnings for tax-year 2009 will not become available until January 2011.

The assumptions used in projecting revenues and expenditures from the base-year are provided by the Ministers of HRSD and Finance on or before September 30 or are derived by the Chief Actuary from historical data provided by HRSD, Statistics Canada or the Canada Revenue Agency ("CRA").

The forecast break-even rate calculated in this report is broken down into two main components. The first main component, the upcoming year rate, is for the EI expenditures expected to be incurred in 2011. It does not include any credits or charges from prior to January 1, 2011 and is equivalent to the one-year forward-looking break-even rate of the previous premium rate-setting mechanism.

Since 2006, the Province of Quebec has been responsible for providing maternity, parental and adoption ("MPA") benefits to the residents of Quebec. As a result, employees and employers in the Province of Quebec pay a reduced premium rate that reflects the savings to the EI program. In accordance with the agreement signed between the Government of Canada and the Quebec Government in March 2005, the break-even rate for MPA expenditures, which include MPA benefit payments and the variable administration costs ("VAC") related to the delivery of MPA benefits, are calculated separately from the break-even rate for all other EI expenditures. Therefore, the upcoming-year rate is the sum of:

- the base rate, or the break-even rate for all EI expenditures, excluding the cost of EI MPA benefits, expected to be incurred in 2011; and
- the MPA rate, or the break-even rate for all EI MPA expenditures expected to be incurred in 2011.

The sum of the base and the MPA rates represents the break-even rate that should generate sufficient premium revenues to cover the expected costs to the EI program to be incurred in 2011.

The second main component of the forecast break-even rate, the account balance rate, takes into account the assets and liabilities of the Board as well as its commitment to manage the indexed target reserve. It includes the following three components:

- the cumulative surplus/deficit rate, which takes into consideration any amounts credited or charged to the EI Operating Account between December 31, 2008 and December 31, 2010 and balances the Account;
- the reserve target rate, which ensures that the fair-market value of the Board's reserve is equal to its indexed target as of the end of the upcoming year; and
- the investment income rate, which takes into account the expected return in 2011 on the Board's invested assets.

Unlike the base and MPA rates, which are calculated as a separate ratio of expenditures to covered earnings, only the aggregate of the three components of the account balance rate are calculated as a ratio to covered earnings rather than separately as three distinct ratios. Depending on the cumulative balance in the EI Operating Account, this could either increase or decrease the break-even rate.

In accordance with the *Budget 2008* legislation that created the Canada Employment Insurance Financing Board, the initial payment to establish the Board's reserve, expected to be \$2.0 billion, may be paid out of the Consolidated Revenue Fund on the requisition of the Minister of Finance. Until the \$2.0 billion is transferred from the CRF to the EI Operating Account, the reserve target rate does not apply. Also, as the current cumulative balance of the EI Operating Account is negative, there are no investments to be taken into account and the investment income rate does not apply.

It should be noted that interest is not to be charged on any negative balance in the EI Operating Account.

The sum of these five components equals the forecast break-even rate prescribed in section 66 of the *EI Act*.

| COMPOSITION OF THE FORECAST BREAK-EVEN RATE | |
|--|-------------------------------|
| UPCOMING YEAR | ACCOUNT BALANCE |
| BASE | CUMULATIVE SURPLUS/DEFICIT |
| | RESERVE TARGET |
| MPA | INVESTMENT INCOME |

2.2. ECONOMIC AND DEMOGRAPHIC ASSUMPTIONS

For a complete list of all assumptions used in the preparation of the actuarial estimates of EI expenditures and revenues presented in this report, including those derived from historical data by the Chief Actuary, please refer to *Appendix III*.

A. HUMAN RESOURCES AND SKILLS DEVELOPMENT

Under section 66.1(1) of the *EI Act*, the Minister of HRSD shall provide the Board, on or before September 30 of each, with:

- the forecast change in payments to be made under sections 77(1) (a), (b) or (c) of the *EI Act* during the following year if any changes to the payments to be made are announced;
- the forecast administration costs to be paid under sections 77(1) (d) and (f) of the *EI Act* during the following year, including any forecast change in those costs resulting from any change to the payments to be made under sections 77(1) (a), (b) or (c); and
- the total amounts charged to the EI Operating Account as of the last day of the most recent month for which that total is known.

In accordance with section 66.1(1), for the purposes of determining the 2011 premium rate under section 66, the Minister of HRSD has provided the Board with the following information:

| TABLE 2.2.1 - HRSD ASSUMPTIONS | | | |
|--|---------------------|-----------------------|-----------------------|
| (\$ MILLIONS) | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| Pilot-Projects | | | |
| Best 14-Weeks | \$311 | \$286 | \$33 |
| Working-on-Claim Threshold/Entry Requirement | \$208 | \$201 | \$12 |
| 5 Additional Weeks (Regular) | \$160 | \$13 | \$0 |
| Transitional Measure | \$25 | \$25 | \$19 |
| Sub-Total | \$704 | \$525 | \$64 |
| | | | |
| <i>Budget 2009 Measures</i> | | | |
| 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 |
| Sub-Total | \$1,191 | \$1,425 | \$331 |
| | | | |
| Additional Weeks (Long-Tenured) | \$39 | \$732 | \$320 |
| Total | \$1,934 | \$2,682 | \$715 |
| (\$ MILLIONS) | ACTUAL 2009-2010 | FORECAST 2010-2011 | FORECAST 2011-2012 |
| EBSM (Excluding <i>Budget 2009</i>) | \$2,106 | \$2,124 | \$2,125 |
| Administration Costs | \$2,031 | \$1,978 | \$1,770 |

B. DEPARTMENT OF FINANCE

Under section 66.2(1) of the *EI Act*, the Minister of Finance shall provide the Board, on or before September 30 of each year, with the following:

- the most current forecast values of the economic variables relevant to the determination of the forecast break-even rate for the following year;
- the forecast amounts to be credited and charged to the EI Operating Account for the current year and an estimate of the total amounts credited to the Account as at December 31 of the previous year; and
- the amount of any payments to be made between the Board and the CRF on or before October 31 .

In accordance with section 66.2(1), for the purposes of determining the 2011 forecast break-even rate under section 66, the Minister of Finance has provided the Board with the following information:

| TABLE 2.2.2 - DEPARTMENT OF FINANCE ASSUMPTIONS | | | |
|---|----------------|------------------|------------------|
| (THOUSANDS) | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| Working-Age Population (POP) | 27,309 | 27,714 | 28,066 |
| Labour Force (LF) | 18,372 | 18,640 | 18,897 |
| Employed (EMP) | 16,849 | 17,138 | 17,440 |
| Paid-Workers (PW) | 14,147 | 14,433 | 14,666 |
| Self-Employed (SE) | 2,702 | 2,705 | 2,774 |
| Unemployed (UN) | 1,523 | 1,502 | 1,457 |
| | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| Unemployment Rate (UR) | 8.30% | 8.10% | 7.70% |
| Average Weekly Earnings (AWE) | \$823.25 | \$849.75 | \$866.00 |

These projections are consistent with the definitions of the corresponding seasonally-adjusted quarterly estimates in the Labour Force Survey ("LFS") as published by Statistics Canada and are based on a consensus of a survey of private sector forecasters.

With the exception of self-employed fishers⁴ and, as of January 31, 2010, self-employed persons who enter into a voluntary agreement with the Commission to access special benefits⁵, only those who are in an employer-employee relationship contribute to the EI program, therefore, for the purposes of forecasting covered earnings and EI benefit payments, PW is used as an estimate for the insured population.

⁴ For further details, please refer to sub-section 4.2 *EI Benefits Part I – F. Fishing Benefits*

⁵ For further details, please refer to sub-section 3.6 *Self-Employed Insurable Earnings* and 4.2 *EI Benefits Part I – H. Special Benefits*.

SECTION III

REVENUES

3.1. MAXIMUM INSURABLE EARNINGS

Section 4 of the *EI Act* states that the annual MIE, the income level up to which EI premiums are contributed, will be set at \$39,000, beginning in 1996, until this threshold is surpassed by the amount calculated based on the growth in the twelve month average of the monthly Average Weekly Earnings ("AWE"), as reported by Statistics Canada, for the period ending June 30 in the preceding year.

In 2007, the calculated amount was \$40,041.56, the first time the \$39,000 threshold had been exceeded. The MIE was set equal to \$40,000, the nearest multiple of \$100 for the calculated amount.

The unrounded MIE for 2011 is equal to the unrounded MIE from 2010 (\$43,268.88) multiplied by the average of the AWE for each month for the twelve month period ending June 30, 2010 (\$835.58) divided by the average of the AWE for each month for the twelve month period ending June 30, 2009 (\$816.88).

$$\begin{aligned}
 \text{MIE}_{2011} &= \text{MIE}_{2010} \times \frac{\text{AWE}_{2010}}{\text{AWE}_{2009}} \\
 &= \$43,268.88 \times \frac{\$835.58}{\$816.88} \\
 &= \$44,259.17
 \end{aligned}$$

Rounded down to the nearest multiple of \$100, the MIE is **\$44,200** for 2011. This is an increase of \$1,000 or 2.3% from the 2010 MIE of \$43,200.

| TABLE 3.1.1 - MAXIMUM INSURABLE EARNINGS ⁶ | | | | | |
|---|--|--|----------------------------------|---|----------|
| Year | 12-month AWE as of June 30 Two- Years Previous | 12-month AWE as of June 30 Previous Year | Calculated MIE (unrounded) | MIE rounded down to nearest \$100 | % change |
| 2006 | \$698.33 | \$713.38 | \$37,897.08 | \$39,000 | - |
| 2007 | \$713.87 | \$741.41 | \$40,041.56 | \$40,000 | 2.60% |
| 2008 | \$738.13 | \$758.45 | \$41,143.87 | \$41,100 | 2.80% |
| 2009 | \$758.53 | \$781.58 | \$42,394.37 | \$42,300 | 2.90% |
| 2010 | \$800.37 | \$816.88 | \$43,268.88 | \$43,200 | 2.10% |
| 2011 | \$816.88 | \$835.58 | \$44,259.17 | \$44,200 | 2.30% |

⁶ The 12-month AWE average may not correspond to the latest Statistics Canada published figures since historical data is regularly adjusted retroactively.

3.2. INSURABLE EARNINGS

Insurable earnings refer to the total amount of wages and salaries of salaried employees, up to the annual MIE, earned by a person employed in insured employment, as defined in section 5 of the *EI Act*, on which EI premiums are contributed. This is the revenue base for the calculation of the break-even rate, as premium revenues (“REV”) are equal to the aggregate of all earnings from insured employment, or Total Insurable Earnings (“TIE”), multiplied by the premium rate (“PR”). Both employees and employers contribute to the EI program, however employer premiums are equal to 1.4 times the employee premiums. Therefore, a multiplier of 2.4 is used to calculate premium revenues.

$$\text{REV} = 2.4 \times \text{PR} \times \text{TIE}$$

Insurable earnings are derived from total EI premium revenue assessed by CRA, adjusted for late processing. As mentioned earlier, 2008 is the most recent tax-year for which complete tax data related to insurable earnings is available. Insurable earnings for tax-year 2009 will be available in January 2011, although preliminary data is currently available. The derivation of insurable earnings for the base tax-year from the CRA statement of premium revenue is included in *Appendix IV*.

The premium rate is set equal to the break-even rate (“BE”) when the premium revenue generated by that rate is equal to the expenditures (“EXP”).

$$\text{REV} = 2.4 \times \text{BE} \times \text{TIE} = \text{EXP}$$

From this, the forecast break-even rate calculation, in its simplest form, can be expressed as the following:

$$\text{BE} = \frac{\text{EXP}}{2.4 \times \text{TIE}}$$

Insurable earnings are projected from the base-year multiplied by the change in the insured population, as determined by PW, and the change in the average insurable earnings, as determined by the sum of the change in MIE and AWE weighted by the proportion of insurable earnings above and below the annual MIE, respectively.

CRA provided final data on the distribution of insurable earnings by income range for tax-year 2008 and preliminary data for tax-year 2009. From this, the percentage of insurable earnings that were earned by salaried employees with an annual income below the MIE or an annual income above the MIE was determined. The insurable earnings of those with employment income below the MIE (“% below”) are affected in subsequent years by the growth in AWE, while those with income above the MIE (“% above”) are affected by the increase in the MIE index.

For 2010 and 2011, the percentage above and below are forecasted based on a linear regression of the historical distribution, from 1996 to 2009, to the ratio of AWE to MIE.

The formula for projecting insurable earnings for year T is as follows:

$$\text{TIE}_T = \text{TIE}_{T-1} \times (\text{PW}_T / \text{PW}_{T-1}) \times [(\% \text{ above}) \times (\text{MIE}_T / \text{MIE}_{T-1}) + (\% \text{ below}) \times (\text{AWE}_T / \text{AWE}_{T-1})]$$

TABLE 3.2.1 - TOTAL SALARIED INSURABLE EARNINGS

| Year | PW | % y/y | AWE | % y/y | MIE | % y/y | % above MIE | % below MIE | TIE (\$ Millions) |
|------|--------|-------|----------|-------|----------|-------|----------------|----------------|----------------------|
| 2008 | 14,491 | 1.7% | \$810.50 | 2.9% | \$41,100 | 2.8% | 58.79% | 41.21% | \$451,609 |
| 2009 | 14,147 | -2.4% | \$823.25 | 1.6% | \$42,300 | 2.9% | 57.73% | 42.27% | \$451,251 |
| 2010 | 14,433 | 2.0% | \$849.75 | 3.2% | \$43,200 | 2.1% | 57.84% | 42.16% | \$472,295 |
| 2011 | 14,666 | 1.6% | \$866.00 | 1.9% | \$44,200 | 2.3% | 57.88% | 42.12% | \$490,232 |

3.3. PROVINCIAL PLAN

Section 69(2) of the *EI Act* states that the EI Commission shall make regulations to provide a system for reducing employer and employee premiums when the payment of any allowances, money or other benefits to insured persons under provincial law for illness, injury, quarantine, pregnancy, child care or compassionate care would in effect reduce or eliminate the special benefits payable to those persons under sections 22 or 23 of the *EI Act*.

A Provincial Plan is a plan, established under a provincial law, that provides for the payment of provincial benefits and in respect of which an agreement has been entered into between the Government of Canada and the province to establish a system for reducing employer and employee premiums.

In 2001, the *Act respecting parental insurance* was passed by the Quebec National Assembly, after which the governments of Canada and Quebec entered into an agreement on March 1, 2005⁷, whereby the Province of Quebec would be accept responsibility for providing MPA benefits to residents of Quebec. Since January 1, 2006, the Quebec Parental Insurance Plan ("QPIP") has provided MPA benefits to residents of Quebec.

The EI legislation and regulations includes a mechanism to reduce the EI premium contributions in the province based on the savings to the EI program so that the Government of Quebec can collect premiums for its own program. The premium reduction for the MPA provincial plan in the province of Quebec is equal to the ratio of EI MPA costs, including EI MPA benefits and the VAC related to EI MPA benefits to the insurable earnings outside the province of Quebec.

As the premium rate in Quebec is different compared to the rest of Canada due to the MPA premium rate reduction, the premium revenue calculation previously introduced must be amended as follows, with total insurable earnings divided between the insurable earnings of residents of Quebec ("TIE_Q") and the insurable earnings of residents of all provinces except Quebec ("TIE_{APEQ}"):

$$REV = 2.4 \times (PR_Q \times TIE_Q + PR_{APEQ} \times TIE_{APEQ})$$

The premium rate is set equal to the break-even rate when the revenues generated by that rate are equal to expenditures. The break-even rate that applies to residents of all provinces except Quebec is the sum of two rates, one for base, or non-MPA, expenditures ("BE_B") and one for MPA expenditures ("BE_{MPA}"). For residents of Quebec, the break-even rate that applies excludes the MPA rate.

$$REV = 2.4 \times [BE_B \times TIE_Q + (BE_B + BE_{MPA}) \times TIE_{APEQ}] = EXP$$

Both components of the forecast break-even rate are separate and independent from each other. The premium revenue generated from the base rate is equal to base expenditures, or total EI expenditure less cost of providing EI MPA benefits, and the premium revenue generated by the MPA rate is equal to the EI MPA expenditures.

⁷ The Canada-Quebec Final Agreement on the Quebec Parental Insurance Plan can be found at http://www.hrsdc.gc.ca/eng/cs/comm/hrsd/news/2005/AGREEMENT_Final_Version.pdf

$$BE_B = \frac{EXP - MPA}{2.4 \times (TIE_{APEQ} + TIE_Q)}$$

$$BE_{MPA} = \frac{MPA}{2.4 \times TIE_{APEQ}}$$

While premiums are remitted by the employer based on province of employment, or a T4 basis, eligibility for the provincial plan is based on province of residence. Therefore, for the purposes of calculating the separate base and MPA components of the break-even rate, insurable earnings are split between Quebec and all other provinces using the distribution of premium contributions based on T1 tax returns as per CRA.

Appendix V discusses the methodology used to forecast the T1-based distribution of insurable earnings between the province of Quebec and all provinces other than Quebec.

| TABLE 3.3.1 - T1 SPLIT OF SALARIED INSURABLE EARNINGS | | | | | |
|---|-------------|--------------------------|------------|------------|---------------|
| Year | % T1 Quebec | % T1 All Other Provinces | (MILLIONS) | | |
| | | | TIE | TIE Quebec | TIE All Other |
| 2008 | 23.77% | 76.23% | \$451,609 | \$107,336 | \$344,273 |
| 2009 | 24.56% | 75.44% | \$451,251 | \$110,820 | \$340,431 |
| 2010 | 24.58% | 75.42% | \$472,295 | \$116,080 | \$356,215 |
| 2011 | 24.58% | 75.42% | \$490,232 | \$120,494 | \$369,738 |

3.4. WAGE-LOSS REPLACEMENT

Normally, EI premium contributions paid by the employer are equal to 1.4 times the premiums deducted by the employer on behalf of the employee, referred to as the employer multiplier. However, under section 69 (1) of the *EI Act*, the employer multiplier can be reduced when employees are covered under a qualified short-term disability plan, or Wage-Loss Replacement (“WLR”) plan, which reduces EI special benefits otherwise payable, with at least 5/12 of the reduction passed on to the employees.⁸

In accordance with EI regulations, there are four distinct categories of qualified WLR plans for which reduced rates can be established. The first two categories are cumulative paid sick leave plans. Category 1 allows a minimum monthly accumulation of 1 day and a total maximum accumulation of 75 days, while category 2 allows a minimum monthly accumulation of 1 2/3 days and a total maximum accumulation of 125 days. The final two categories are weekly indemnity plans where the full entitlement to sick coverage becomes effective as soon as a worker is hired and remains fixed. Category 3 has a maximum benefit period of at least 15 weeks. Category 4 has a maximum benefit period of at least 52 weeks, however this reduction is only available to public and para-public employers of a province.

The reduction rates are determined for each category based on the three-year average of the ratio of the estimated EI savings due to reduced sickness benefit payments, to insurable earnings. The corresponding multipliers used by the employer to calculate the employer premiums payable based on the employee premiums are equal to the ratio of the employer premium rate less the reduction to the employee rate. For 2010, the employer premium reductions for all provinces except Quebec⁹ for each category of WLR plan were \$0.28, \$0.41, \$0.40 and \$0.43 per \$100 of insurable earnings with multipliers of 1.238, 1.163, 1.169 and 1.151, respectively.

Net EI premium revenues are equal to gross premium revenues, or the insurable earnings times the premium rate and the multiplier, less any deductions, such as the premium reduction for WLR plans (“ R_{WLR} ”). The expression for EI premium revenues is amended as follows:

$$REV = 2.4 \times [PR_Q \times TIE_Q + PR_{APEQ} \times TIE_{APEQ}] - R_{WLR}$$

The relation between revenues and expenditures, including the cost of the wage-loss premium reduction, when the premium rate is set at the break-even rate is expressed by the following:

$$REV = 2.4 \times [BE_B \times TIE_Q + (BE_B + BE_{MPA}) \times TIE_{APEQ}] - R_{WLR} = EXP$$

From this, the calculation of the base rate that should generate premium revenue equal to the expected cost of all EI expenditures, excluding the cost of providing EI MPA benefits, is revised as such:

$$BE_B = \frac{EXP - MPA + R_{WLR}}{2.4 \times (TIE_{APEQ} + TIE_Q)}$$

⁸ EI premium contributions are paid by employers and employees at a ratio of 7/12 and 5/12 respectively

⁹ There are separate multipliers for employers who deduct premiums for QPIP. For the complete tables of reduced multipliers, please refer to http://www.servicecanada.gc.ca/eng/cs/prp/0300/0300_060.shtml

For 2010 and 2011, the proportion of insurable earnings covered by a qualified WLR plan and the average rate of premium reduction, derived from data provided by CRA for tax-year 2009 (see *Appendix VI*), are used to estimate the premium reduction.

| TABLE 3.4.1 - WAGE-LOSS PREMIUM REDUCTION | | | | |
|---|------------------------|------------------------|---------------|-----------------------------|
| Year | % IE Covered by WLR | % Average Reduction | (\$ MILLIONS) | |
| | | | TIE | Premium Reduction WLR |
| 2009 | 48.0% | 0.37% | \$451,251 | \$801 |
| 2010 | 48.0% | 0.38% | \$472,295 | \$861 |
| 2011 | 48.0% | 0.38% | \$490,232 | \$894 |

The employer premium reductions are determined annually by the Chief Actuary in accordance with the EI Act and Regulations through a distinct actuarial report.

3.5. EMPLOYEE PREMIUM REFUND

While an insured employee will contribute EI premiums on insurable earnings in a given tax year up to the annual MIE limit, some employees may exceed the maximum contribution.

If, for example, an employee has had more than one employer in a given year, the combined premium contributions deducted by each employer may be greater than the maximum annual premium contribution. This overpayment of employee premium contributions will be refunded when the employee files a T1 tax return in the following year.

An overpayment may also result when an employee's province of residence is different than their province of employment, provided that one province has a provincial plan, where the reduced EI premium rate applies, and the other does not. Employers deduct EI premiums on behalf of the employee using the premium rate determined by the province of employment. When the employee files a T1 return, however, the annual premium contributions are calculated using the premium rate determined by the province of residence.

For the purposes of the forecast break-even rate calculation, employee premium refunds are expressed as a ratio of refunds to gross premium revenues, or insurable earnings multiplied by the premium rate before the wage-loss premium reduction is subtracted. With the employee premium refund ratio ("EPR"), EI premium revenues are expressed as the following:

$$REV = 2.4 \times [PR_Q \times TIE_Q + PR_{APEQ} \times TIE_{APEQ}] \times (1 - \% EPR) - R_{WLR}$$

Replacing the premium rates with the break-even rates and setting revenues equal to expenditures, the above identity is re-written as follows:

$$REV = 2.4 \times [BE_B \times TIE_Q + (BE_B + BE_{MPA}) \times TIE_{APEQ}] \times (1 - \% EPR) - R_{WLR} = EXP$$

From the above equation, the base rate of the forecast break-even rate calculation can be expressed by the following formula:

$$BE_B = \frac{(EXP + R_{WLR}) / (1 - \% EPR) - MPA}{2.4 \times (TIE_{APEQ} + TIE_Q)}$$

Note that the expenditures are divided by the employee refund ratio before MPA is subtracted, as the employee refund does not factor into the MPA rate calculation, in accordance with the formula laid out in the Canada-Quebec Agreement.

As stated in sub-section 3.3, provinces with a provincial benefit plan are subject to a premium reduction that reflects the savings to the EI program. As with eligibility for the provincial plan, the reduction is based on province of residence. However, premium contributions are deducted by the employer on behalf of the employee and the contribution rate is based on the province of employment. When an employee files a T1 tax return with CRA, EI contributions owing are calculated based on province of residence, resulting in a refund if there is a difference between the premium rate in the province of employment (T4) and the province of residence (T1). As the employee refunds provided by CRA as per the premium statements are on a T4 basis, it has to be adjusted for T1 to balance with the premium reduction due to QPIP.

For 2009 to 2011, the employee premium refund ratio is equal to the three-year average of the adjusted ratio from 2006 to 2008, or 1.003% of gross premiums, as calculated in *Appendix VII*.

3.6. SELF-EMPLOYED EARNINGS

Since January 31, 2010, under *The Fairness for the Self-Employed Act*, self-employed workers have been able to voluntarily opt in to the EI program to receive EI special benefits¹⁰ for those who are sick, pregnant or caring for a newborn or adopted child, or caring for a seriously ill family member. To access these benefits, one will have to 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.

Self-employed residents of Quebec are able to access MPA benefits through QPIP, however they may voluntarily opt in to the EI program to access other special benefits, including sickness and compassionate care.

Participants in the self-employed EI program will contribute premiums based on their self-employed earnings, up to the annual MIE, at the employee rate which corresponds to their province of residence. The 2.4 multiplier is not used, as there are no employer premium contributions on self-employed earnings. As with the earnings of insured salaried employees, self-employed earnings must be split between the earnings of residents of Quebec ("TSEE_Q") and the earnings of residents of all provinces except Quebec ("TSEE_{APEQ}").

With the inclusion of the earnings of self-employed workers voluntarily participating in the EI program, EI premium revenues are now expressed by the following:

$$REV = 2.4 \times [PR_Q \times TIE_Q + PR_{APEQ} \times TIE_{APEQ}] \times (1 - \% EPR) + [PR_Q \times TSEE_Q + PR_{APEQ} \times TSEE_{APEQ}] - RWLR$$

$$REV = 2.4 \times [BE_B \times TIE_Q + (BE_B + BE_{MPA}) \times TIE_{APEQ}] \times (1 - \% EPR) + [BE_B \times TSEE_Q + (BE_B + BE_{MPA}) \times TSEE_{APEQ}] - RWLR = EXP$$

The calculation of the base and MPA components of the break-even rate are then amended as follows:

$$BE_B = \frac{(EXP + RWLR) / (1 - \% EPR) - MPA}{2.4 \times (TIE_{APEQ} + TIE_Q) + (TSEE_{APEQ} + TSEE_Q)}$$

$$BE_{MPA} = \frac{MPA}{2.4 \times TIE_{APEQ} + TSEE_{APEQ}}$$

The expenditure side of both the base and MPA components is not affected by the inclusion of the self-employed earnings, only the revenue side.

2010 is the first year for which self-employed can enter into an agreement with the EI Commission through Service Canada to participate in the EI program and contribute EI premiums. As final data on self-employed premium contributions will not become available until 2012, the base-year for self-employed earnings will have to be estimated. Some of the assumptions used are derived from the experience in Quebec, as self-employed residents of Quebec have contributed to QPIP since 2006, although on a mandatory basis.

¹⁰ Special benefits, as defined in sub-section 4.2 *EI Benefits Part I – H. Special Benefits*, exclude regular, fishing and work-sharing benefits.

Based on an internal HRSD study on the profile of the self-employed in Canada, the 2007 average earnings for the profile of the cohort of self-employed expected to participate in the program is derived and then projected to 2011 based on the average growth rate in self-employed earnings from 2003 to 2007. The number of self-employed contributors in the program was estimated based on the available year-to-date participants, projected to the end of 2011 based on the current weekly trend in new enrolments. Self-employed earnings are then estimated based on the projected average earnings multiplied by the projected number of self-employed contributors, adjusted for periods while on claim.

| TABLE 3.6.1 - SELF-EMPLOYED EARNINGS | | | |
|--------------------------------------|------------------------|------------------|--------------------------------------|
| Year | Number of Participants | Average Earnings | Self-Employed Earnings (\$ Millions) |
| 2010 | 5,899 | \$25,697 | \$152 |
| 2011 | 9,738 | \$26,185 | \$193 |

As with the insurable earnings of salaried employees, the earnings of the self-employed must be divided between provinces with and without a provincial plan, for the purposes of calculating the MPA rate as well as for forecasting self-employed special benefit payments. Until more data is made available by CRA, the average self-employed earnings for participants in Quebec and for participants in all provinces other than Quebec will be equal and the distribution of total self-employed earnings will be based on the year-to-date enrolment data, separated by province of residence.

| TABLE 3.6.2 - SELF-EMPLOYED EARNINGS (BY PROVINCE) | | | |
|--|------------|--------|----------------|
| Year | (MILLIONS) | | |
| | Total | Quebec | Outside-Quebec |
| 2010 | \$152 | \$34 | \$117 |
| 2011 | \$193 | \$62 | \$131 |

Further details on the derivation of the self-employed earnings are available in *Appendix VIII*.

SECTION IV

EXPENDITURES

4.1. EXPENDITURES

As stated earlier, the forecast break-even rate is the ratio of EI expenditures to the revenue base, or covered earnings (sum of salaried employee insurable earnings and covered self-employed earnings). Now that the estimate of the revenue base has been developed, this report will examine the expenditures side of the forecast break-even rate. EI expenditures include part I (Income Benefits) and part II (Employment Benefits and Support Measures) benefit payments, administration costs and doubtful debts. EI benefits may also include temporary spending initiatives, such as the pilot-projects announced in *Budget 2005* or the special measures announced in *Budget 2009* as part of Canada's EAP in response to the global economic downturn. The costs associated with the *Budget 2009* measures, however, are to be funded by a \$2.9 billion payment made from the CRF to the EI Operating Account, which was transferred on August 1, 2010. The \$2.9 billion is based on the estimated total cost of the measures, as presented in *Budget 2009*.

Although penalties and interest on overdue accounts receivable are considered revenues, for the purposes of the break-even rate calculation they are included as credits on the expenditures side of the equation.

| TABLE 4.1.1 - EI EXPENDITURES | | | |
|----------------------------------|-----------------|------------------|------------------|
| (\$ MILLIONS) | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| EI Benefits – Part I (Income) | | | |
| Regular | \$14,118 | \$13,572 | \$12,126 |
| Fishing | \$261 | \$268 | \$273 |
| Work-Sharing | \$265 | \$179 | \$50 |
| Special | \$4,060 | \$4,162 | \$4,358 |
| Less: Repayments | (\$206) | (\$211) | (\$186) |
| Sub-Total | \$18,499 | \$17,970 | \$16,622 |
| EI Benefits – Part II (EBSM) | \$2,487 | \$2,619 | \$2,249 |
| Total Benefits | \$20,985 | \$20,590 | \$18,871 |
| Administration Costs | \$1,970 | \$1,991 | \$1,822 |
| Bad Debt | \$44 | \$30 | \$38 |
| Total Expenditures | \$22,999 | \$22,611 | \$20,731 |
| Less: Penalties | (\$28) | (\$46) | (\$41) |
| Less: Interest | (\$16) | (\$15) | (\$17) |
| Less: <i>Budget 2009</i> Funding | (\$1,190) | (\$1,391) | (\$318) |
| Net Expenditures | \$21,765 | \$21,159 | \$20,354 |

| TABLE 4.1.2 - MPA EXPENDITURES | | | |
|--------------------------------|----------------|------------------|------------------|
| (\$ MILLIONS) | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| EI MPA Benefits | \$3,032 | \$3,112 | \$3,263 |
| VAC | \$16 | \$17 | \$18 |
| MPA Expenditures | \$3,049 | \$3,129 | \$3,281 |

4.2. EI BENEFITS PART I

EI benefits paid under part I of the *EI Act*, or income benefits, include regular benefits, which provide temporary financial assistance for unemployed persons, fishing benefits for self-employed fishers and work-sharing benefits for workers willing to work a temporarily reduced work-week to avoid lay-offs. Income benefits also include special benefits for those who are sick, pregnant or caring for a newborn or adopted child, or caring for a seriously ill family member.¹¹

EI benefit payments are equal to the average weekly benefit rate multiplied by the number of benefit weeks paid, which corresponds to the number of EI claimants, or beneficiaries, and the average claim duration.

A. AVERAGE WEEKLY BENEFITS

The average weekly benefit (“AWB”) rate is equal to benefit payments divided by the number of benefit weeks paid for each part I benefit type.

Weekly benefit payments are normally equal to 55% of the insurable earnings of a claimant in the last 26 weeks divided by the greater of the number of weeks worked or a minimum divisor between 14 and 22 determined by the regional unemployment rate. The maximum amount payable is determined by the MIE. For 2011, the maximum weekly benefit is 55% of the \$44,200 annual MIE divided by 52, or \$468.

The family supplement provides additional benefits to low-income families with children, based on net family income up to a maximum of \$25,921 per year and the number of children in the family and their ages. The maximum family supplement is up to 80% of insurable earnings, but cannot exceed the maximum benefit rate.

As with the average insurable earnings, the change in AWB is determined by the sum of the change in MIE and AWE weighted by the proportion of insurable earnings above and below the annual MIE, although the split is based on claims rather than contributors.

$$\% \text{AWB}_T / \text{AWB}_{T-1} = [(\% \text{ above}) \times (\text{MIE}_T / \text{MIE}_{T-1}) + (\% \text{ below}) \times (\text{AWE}_T / \text{AWE}_{T-1})]$$

Based on the growth in AWE and MIE, the annual AWB growth rates for all benefit types are forecasted at 2.7% and 2.1% for 2010 and 2011, respectively.

| TABLE 4.2.1 - AVERAGE WEEKLY BENEFIT GROWTH FACTORS | | | |
|---|----------------|------------------|------------------|
| | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| Average Weekly Earnings | \$823.25 | \$849.75 | \$866.00 |
| % Change | 1.60% | 3.20% | 1.90% |
| MIE | \$42,300 | \$43,200 | \$44,200 |
| % Change | 2.90% | 2.10% | 2.30% |
| Proportion Above MIE | 46.83% | 46.11% | 46.62% |
| Proportion Below MIE | 53.17% | 53.89% | 53.38% |

¹¹ For further details on Employment Insurance benefits, please refer to the Service Canada website at: <http://www.servicecanada.gc.ca/eng/sc/ei/index.shtml>

B. WEEK-WEIGHT

The EI benefit payment processing week runs from Sunday to Thursday, however payments are not evenly distributed across the week. The first day of the week accounts for the largest proportion of benefit payments. In 2009, approximately 70% of regular benefits on average were processed on Sunday. The average daily distributions for regular benefits are shown in the following table:

| TABLE 4.2.2 - DISTRIBUTION OF REGULAR BENEFITS | |
|---|-----------------|
| | 2009 Average |
| Sunday | 69.81% |
| Monday | 14.53% |
| Tuesday | 7.41% |
| Wednesday | 4.66% |
| Thursday | 3.59% |
| TOTAL | 100.00% |

EI benefit expenditures can vary from one period to the next due to the number of processing days. The presence of one additional Sunday has the impact of nearly an additional week of expenditures. The week-weight ("WW") is the sum of the daily distribution of benefit payments for a given period of time. The weight has a range of 4 to 5 weeks for a month, 12 to 14 weeks for a quarter and 51 to 53 weeks for a year. Statutory holidays that interrupt the processing of EI benefit payments will have an impact on the week-weight. Using the average daily distribution from the base year, the week-weight is estimated at 52.00 for 2010 and 2011.

| TABLE 4.2.3 - WEEK-WEIGHTS BY QUARTER | | | | | |
|---------------------------------------|-------|-------|-------|-------|-------|
| YEAR | Q1 | Q2 | Q3 | Q4 | TOTAL |
| 2009 | 12.92 | 13.00 | 13.10 | 13.03 | 52.06 |
| 2010 | 13.00 | 12.95 | 13.05 | 13.00 | 52.00 |
| 2011 | 13.00 | 12.97 | 13.04 | 13.00 | 52.00 |

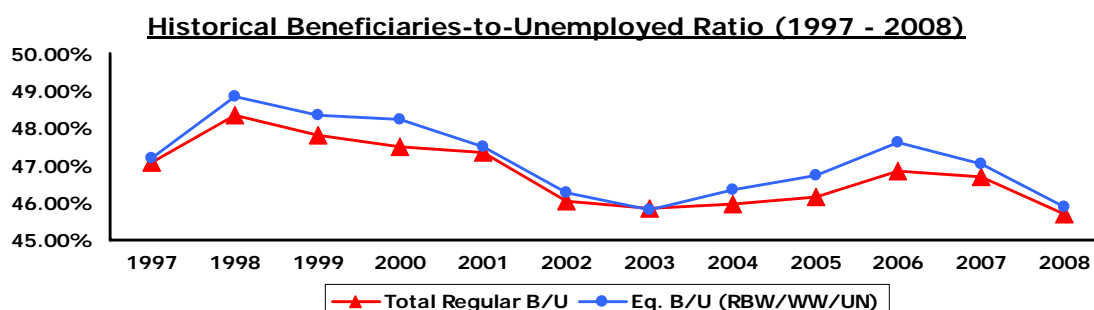
C. BENEFICIARY-TO-UNEMPLOYED RATIO

Beneficiaries, as reported by Statistics Canada, refers to the number of active claimants in a given month who receive EI benefits during the reference week of the LFS, usually the week containing the 15th day of the month. The Beneficiary-to-Unemployed (“B/U”) ratio represents the proportion of unemployed persons in a given period who are receiving EI regular benefits.

For the purposes of forecasting regular benefit payments, the number of beneficiaries are estimated by dividing the total number of regular benefits weeks (“RBW”) paid by the week-weight.

There are several reasons why the numerator of the B/U ratio, the number of regular beneficiaries, is estimated from regular benefit weeks in place of the beneficiary count produced by Statistics Canada. For one, the beneficiary count represents the number of people receiving EI benefits in a particular week, the LFS reference week. This count could include more or fewer beneficiaries in a given month compared to the same month in a previous year simply due to the timing of the reference week. The estimate based on benefit weeks eliminates this issue by taking benefit payments from the entire month into account. Also, there is a two-month lag in the reporting of the preliminary beneficiary count, which is then revised two months afterwards. Benefit week data is available immediately following the end of the month and is not subject to revision. Finally, as the benefit weeks are directly linked to the benefit payments, the estimated beneficiary count more closely corresponds to the expenditures than the beneficiary count reported by Statistics Canada.

As illustrated by the graph below, from 1997 to 2008 the B/U has been relatively stable. Note that, for comparison purposes, the B/U ratios calculated from benefit weeks have not been adjusted for the impact of temporary spending initiatives (discussed further in the next section) as the beneficiary count is also impacted by these measures.



The 2010 B/U ratio includes year-to-date actual benefit week and unemployment data, as of September 30. The remaining three months are forecasted based on the three-year average B/U ratio (adjusted for pilot-projects and special measures, based on the data provided by HRSD) for the fourth-quarter, from 2005 to 2007. The 2008 fourth-quarter is excluded due to the impact of the economic downturn in late 2008 on unemployment, which lowered the B/U ratio because of the interval in the payment of regular benefits associated with the sudden influx of new EI claims.

As the monthly benefit weeks used to calculate the B/U ratio are not adjusted for seasonality, the seasonally unadjusted number of unemployed is used in the ratio.

| TABLE 4.2.4 - ADJUSTED B/U RATIOS BY QUARTER (ACTUAL DATA UP TO 2010 Q3) | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|
| YEAR | Q1 | Q2 | Q3 | Q4 | TOTAL |
| 2005 | 55.37% | 45.02% | 39.06% | 44.12% | 46.10% |
| 2006 | 56.41% | 45.98% | 38.77% | 44.64% | 46.58% |
| 2007 | 56.43% | 45.15% | 38.74% | 43.27% | 46.02% |
| AVERAGE | 56.07% | 45.38% | 38.86% | 44.01% | 46.08% |
| 2008 | 55.65% | 42.37% | 38.39% | 42.51% | 44.74% |
| 2009 | 53.25% | 47.72% | 43.03% | 44.57% | 47.10% |
| 2010 | 55.18% | 41.84% | 36.66% | 41.93% | 43.96% |
| 2011 | 53.95% | 44.10% | 38.12% | 43.59% | 44.94% |

Note that the variation observed in a given year from one quarter to the next is due primarily to the seasonality of regular benefit claims and comparisons should be made on a year-over-year basis.

| TABLE 4.2.5 - BENEFICIARY-TO-UNEMPLOYED RATIO | | | |
|---|----------------|------------------|------------------|
| (\$ MILLIONS) | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| Regular Benefit Weeks | 40,414 | 38,702 | 35,333 |
| Less: RBW due to Special Measures | (3,150) | (4,611) | (1,390) |
| Week-Weight | 52.06 | 52.00 | 52.00 |
| Average RBW | 716 | 656 | 653 |
| Unemployed (Seasonally Unadjusted) | 1,520 | 1,491 | 1,452 |
| Adjusted B-U Ratio | 47.10% | 43.96% | 44.94% |

The B/U ratio forecasts are based on the assumption that the period following the third-quarter actual for 2010 will gradually return to the average observed prior to the onset of the recession by the first quarter of 2012. The result is an expected 2.2% increase in the adjusted or base B/U ratio, from 43.96% in 2010 to 44.94% in 2011.

D. PILOT-PROJECTS, TRANSITIONAL AND SPECIAL MEASURES

When the regulations establishing the current 58 economic regions came into force in 2000, based on Statistics Canada data and other labour market information, the impact on two particular regions, Madawaska-Charlotte in New Brunswick and Lower St. Lawrence and North Shore in Quebec, was greater than expected. There was a significant increase in the number of hours needed to qualify for EI benefits and a decrease in the entitlement due to the unemployment rates for these new regions. Since September 2000, a transitional measure has been in place to mitigate the impacts of the new boundaries over an adjustment period. Scheduled to end on April 10, 2010, the measure has been extended to March 12, 2011, after which the measure will be phased out gradually to ensure a smooth transition. In the event that the measure has not concluded automatically prior to April 2012, it will end at that time.

EI pilot projects allow the Government to assess the labour market impacts of new approaches that are designed to assist unemployed individuals. Four EI pilot projects were introduced in the mid-2000s, to test the impacts of providing additional income support and strengthening incentives to work. The first, Extended EI Benefits, was re-introduced in 2006, renewed in 2007, and later replaced by the national temporary EAP Extra 5 Weeks to help Canadians during a difficult economic period. Three other pilots were re-introduced with modifications in fall 2008 for a two year period with some resulting spending impacts in 2011:

- Calculating benefits based on the best 14 weeks of insurable earnings (to October 23, 2010, in 25 economic regions);
- Reducing the eligibility requirements for new entrants and re-entrants to the labour market, from 910 hours to 840 (to December 4, 2010, in 25 economic regions); and
- Increasing the working-while-on-claim threshold from \$50 or 25% of weekly benefits, whichever is greater, to \$75 or 40% (to December 4, 2010, national).

As part of Canada's EAP, *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 2004. The costs associated with the *Budget 2009* measures, originally estimated at \$2.9 billion over two years, are not to be recovered through EI Premiums. As of September 30, 2010, costs have totalled \$2.4 billion.

In Fall 2009, Bill C-50, an *Act to amend the Employment Insurance Act*, temporarily provided an additional 5 to 20 weeks of regular benefits to long-tenured workers, defined as those who have contributed at least 30% of the annual maximum premium contribution for at least seven of the last ten years and have received no more than 35 weeks of regular benefits in the past five years. This measure applies to regular claims that began between January 4, 2009 and September 11, 2010.

Work-sharing agreements were further extended in *Budget 2010* by an additional 26 weeks to a maximum of 78 weeks for any agreement that began prior to April 4, 2010. No extension will go beyond April 2, 2011.

E. REGULAR BENEFITS

EI regular benefits provide temporary income-support to eligible insured persons who have lost their jobs through no fault of their own, such as due to shortage of work, or seasonal or mass lay-offs, and are available to work. To be eligible, an insured person must have worked at least the minimum required number of insurable hours, between 420 and 700 hours, as determined by the regional unemployment rate, in the 52-week qualifying period. A minimum of 910 hours may be required for new entrants to the work force or those re-entering the work force after a two-year absence. The number of hours required to qualify may increase as a result of a violation (fraudulent overpayment) on a previous EI claim.

The maximum number of regular benefit weeks varies from 14 to 45 weeks, depending on the number of insurable hours accumulated in the qualifying period and the regional unemployment rate. As part of the EAP, claims that were active as of March 1, 2009 or started between March 1, 2009 and September 11, 2010, the maximum claim durations were increased by 5 additional weeks up to 50 weeks.

Regular benefit payments ("RB") are equal to the number of weeks paid, as determined by the equivalent B/U ratio multiplied by the week-weight and the number of unemployed, multiplied by the AWB rate.

$$RBW = UN \times B/U \times WW$$

$$\begin{aligned} RB &= RBW \times AWB \\ &= UN \times B/U \times WW \times AWB \\ &= UR \times LF \times B/U \times WW \times AWB \end{aligned}$$

$$RB_T = (UR_T/UR_{T-1}) \times (LF_T/LF_{T-1}) \times (B/U_T/B/U_{T-1}) \times (WW_T/WW_{T-1}) \times (AWB_T/AWB_{T-1}) \times RB_{T-1}$$

As the actual regular benefit expenditures in the base-year include expenditures attributed to pilot-projects and special measures, they are first subtracted before the growth factors are applied.

The 2010 forecast includes the year-to-date actual expenditures, as of September 30, which totalled \$10,629 million. Due to the impact of the economic downturn on the benefit rate and the B/U ratio, the base year on which the projected growth factors are applied is 2008 rather than 2009, which is used for all other income benefit types.

| TABLE 4.2.6 - REGULAR BENEFITS | | | | |
|---|----------------|-----------------|------------------|------------------|
| (\$ MILLIONS) | ACTUAL 2008 | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| Regular Benefits (Base) | \$8,323 | \$12,666 | \$11,525 | \$11,607 |
| Pilot-Projects/Transitional Measures | \$521 | \$704 | \$525 | \$64 |
| Special Measures (<i>Budget 2009</i>) | - | \$748 | \$1,522 | \$455 |
| Total Regular Benefits | \$8,844 | \$14,118 | \$13,572 | \$12,126 |

F. FISHING BENEFITS

A self-employed person engaged in fishing who has earned at least between \$2,500 and \$4,200 (depending on the regional unemployment rate) during the maximum 31 week qualifying period is eligible to receive up to 26 weeks of EI fishing benefits. For new fishers or fishers returning after an absence of at least one year, a minimum of \$5,500 of fishing earnings is required. The benefit period can start as early as the week of October 1st, ending no later than the week of June 15th, or as early as the week of April 1st, ending no later than the week of December 15th.

As with regular benefits, fishing benefits are equal to the number of benefit weeks multiplied by the AWB rate. Fishing benefits ("FB") can be projected from the base-year using the expected change in the number of benefit weeks and AWB. However, as the number of fishing claimants and the average duration of fishing claims is stable, only the expected change in AWB is used in forecasting fishing benefits. The 2010 forecast includes the year-to-date actual expenditures, as of September 30, which totalled \$173 million.

$$FB_T = (WW_T/WW_{T-1}) \times (AWB_T/AWB_{T-1}) \times FB_{T-1}$$

| TABLE 4.2.7 - FISHING BENEFITS | | | |
|--------------------------------|----------------|------------------|------------------|
| (\$ MILLIONS) | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| Total Fishing Benefits | \$261 | \$268 | \$273 |

G. WORK-SHARING BENEFITS

To avoid temporary lay-offs due to a reduction in the normal level of business activity caused by factors that are beyond the control of the employer, employers and employees can enter into a work-sharing agreement with Service Canada to provide EI income benefits to eligible workers willing to work a temporarily reduced work-week. This enables employers to retain staff and adjust their work activity during temporary work shortages, as well as avoid the expenses of hiring and training new staff once business levels return to normal. Employees are able to retain their skills and jobs while receiving EI benefits for the days that they do not work.

Work-sharing agreements have a minimum duration of 6 weeks and a maximum of 26 weeks, with a possible extension of up to 12 weeks for a maximum duration of 38 weeks. In *Budget 2009*, as part of Canada's EAP, the Government provided a 14-week extension to agreements over two-years, for a maximum duration of 52 weeks, and increased access to the program through greater flexibility in the qualifying criteria. An additional 26-week extension was provided in *Budget 2010*, up to a maximum duration of 78 weeks, for existing or recently terminated agreements.

Due to the economic downturn resulting in a greater demand for work-sharing agreements, as well as the lower eligibility criteria for new agreements and the extended duration, work-sharing benefit expenditures increased significantly in 2009 from 2008. As the Canadian economy recovered, benefits began to decline in 2010.

The 2010 and 2011 forecasts are based on the estimated costs of the *Budget 2009* and *Budget 2010* measures, as provided by HRSD, and the year-to-date split (per fiscal-year) of actual work-sharing expenditures between base expenses (which would have occurred without enhancements to the program) and special measures. 2010 also takes into account the year-to-date expenditures, as of September 30, which totalled \$133 million.

The three-year average work-sharing costs from 2005 to 2007 (prior to the recession) was \$12 million. It is expected that by 2012 work-sharing will return to the long-term average level. The 2011 forecast is consistent with an average between this and the expected 2010 expenditures.

| TABLE 4.2.8 - WORK-SHARING BENEFITS | | | |
|-------------------------------------|----------------|------------------|------------------|
| (\$ MILLIONS) | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| Work-Sharing Benefits (Base) | \$112 | \$44 | \$25 |
| Special Measures | \$153 | \$135 | \$25 |
| Total Work-Sharing Benefits | \$265 | \$179 | \$50 |

H. SPECIAL BENEFITS

In addition to MPA benefits, for those who are pregnant or caring for a newborn or adopted child, special benefits also include sickness and compassionate care benefits. Sickness benefits are provided for those who are unable to work due to sickness, injury or quarantine while compassionate care benefits are for those who take a temporary leave from work to give care or support to a family member who is gravely ill at risk of dying within 26 weeks.

Special benefits require a minimum of 600 hours of insured in the 52 week qualifying period. Maternity benefits can be paid for a maximum of 15 weeks while parental benefit, which may be divided between both parents, can be paid for a maximum of 35 weeks for a combined maximum duration of 50 weeks. The maximum duration for sickness and compassionate care benefits are 15 weeks and 6 weeks, respectively.

Special benefits ("SB") are forecasted using the expected change in the insured population and the AWB rate applied to the base year. The 2010 forecast includes the year-to-date actual expenditures, as of September 30, which totalled \$737 million for sickness, \$2,238 million for MPA and \$8 million for compassionate care.

$$SB_T = (PW_T/PW_{T-1}) \times (WW_T/WW_{T-1}) \times (AWB_T/AWB_{T-1}) \times SB_{T-1}$$

As of January 31, 2010, self-employed persons can voluntarily enter into an agreement with the Commission through Service Canada to participate in the EI program to contribute premiums and access EI special benefits. Self-employed residents of Quebec entering into an agreement with the Commission cannot access EI MPA benefits, as MPA benefits are already payable through QPIP, but can access sickness and compassionate care benefits. Except for those who registered for the program before April 1, 2010, who can file a claim for benefits as early as January 1, 2011, one must be registered for at least one year prior to claiming benefits.

To forecast self-employed special benefit payments for 2011, the enrolment figures presented in section 3.6 (and discussed further in Appendix VIII) are used. It is assumed that there will be a high utilization rate in 2011; in other words, participants will file a claim as soon as the eligibility criteria is met. For this, the enrolment numbers are separated based on the week in which participants registered, to determine when a claim can be submitted and the number of benefit weeks paid in 2011, based on the average duration of special benefit claims in 2009 (45 weeks for combined maternity/parental and 11 weeks for sickness).

Based on this, it is expected that in 2011 an additional \$33 million will be paid in MPA benefits and \$6 million in sickness benefits due to self-employed participants who enrolled in the EI program in 2010.

| TABLE 4.2.9 - SPECIAL BENEFITS | | | |
|--------------------------------|----------------|------------------|------------------|
| (\$ MILLIONS) | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| MPA Benefits | \$3,032 | \$3,112 | \$3,263 |
| Sickness Benefits | \$1,018 | \$1,039 | \$1,084 |
| Compassionate Care Benefits | \$10 | \$10 | \$11 |
| Total Special Benefits | \$4,060 | \$4,162 | \$4,358 |

I. BENEFIT REPAYMENTS

Under section 145 of the *EI Act*, if a claimant's income for a tax year exceeds 1.25 times the annual MIE then they are required to repay 30% of the lesser of the total benefits paid to the claimant, excluding special benefits and part II benefits, or the amount by which the claimant's income exceeded the repayment threshold, which is \$55,125 in 2011. This does not apply for a claimant who has received less than one week of regular benefits in the ten years preceding the tax year for which their income exceeded the repayment threshold.

Benefit repayments, as reported in the EI Operating Account, include an estimate for the current tax-year, based on regular and fishing benefit payments, and a reconciliation between actual and estimated benefit repayments for the previous tax-year.

The estimate reported in the EI Operating is on a fiscal-year basis and is provided annually by CRA. For the 2009-2010 estimate of \$222 million, \$82 million was for the first three months of 2010.

| TABLE 4.2.10 - EI BENEFIT REPAYMENTS | | | |
|--------------------------------------|---------------------|-----------------------|-----------------------|
| (\$ MILLIONS) | ACTUAL 2009-2010 | FORECAST 2010-2011 | FORECAST 2011-2012 |
| Prior-Year Actual | \$180 | \$200 | \$213 |
| Less: Prior-Year Forecast | (\$184) | (\$222) | (\$213) |
| Sub-Total (Adjustment) | (\$4) | (\$22) | \$0 |
| Current-Year Forecast | \$222 | \$213 | \$198 |
| BNOP Repayment | (\$4) | (\$5) | (\$5) |
| Total (Fiscal-Year) | \$214 | \$185 | \$193 |
| (\$ MILLIONS) | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| Prior-Year Actual | \$170 | \$200 | \$210 |
| Less: Prior-Year Forecast | (\$170) | (\$209) | (\$226) |
| Sub-Total (Adjustment) | \$0 | (\$9) | (\$16) |
| Current-Year Forecast | \$209 | \$226 | \$207 |
| BNOP Repayment | (\$4) | (\$6) | (\$5) |
| Total (Calendar-Year) | \$206 | \$211 | \$186 |

4.3. EI BENEFITS PART II

Employment Benefits and Support Measures (“EBSM”) are benefits paid under part II of the EI Act that provide financial assistance to eligible persons to help them re-integrate into the labour market and to third parties to help them provide employment assistance services to unemployed workers and employed persons if they are facing a loss of their employment. These expenses include the direct costs of financial and employment assistance programs and related measures provided to eligible persons and third parties.

The employment programs included under EBSM are Employment Assistance Services, Job Creation Partnerships, Labour Market Partnerships, Skills Development, Self-Employment and Targeted Wage Subsidies. As of February 1, 2009, all provincial and territorial governments have signed Labour Market Development Agreements with the Government of Canada to transfer responsibility for the design and delivery of these programs to the provinces and territories.¹²

As part of Canada’s EAP, an additional \$1.0 billion of funding over two years, in fiscal years 2009-10 and 2010-11, was included in *Budget 2009* to help respond to the higher demand for labour market programs and training, due to increased unemployment.

Under section 78 of the EI Act, EBSM expenditures for the fiscal-year may not exceed 0.8% of the insurable earnings as forecasted and set out in the Main Estimates.

The expected annual estimates for EBSM are provided by the Minister of HRSD on a fiscal-year basis and included in the calendar-year expenditures for 2011 based on 25% of the current fiscal-year (2010-2011) and 75% of the next fiscal-year (2011-2012).

| TABLE 4.3.1 - EMPLOYMENT BENEFITS AND SUPPORT MEASURES | | | |
|--|---------------------|-----------------------|-----------------------|
| (\$ MILLIONS) | ACTUAL 2009-2010 | FORECAST 2010-2011 | FORECAST 2011-2012 |
| EBSM (Fiscal-Year) | \$2,106 | \$2,124 | \$2,125 |
| LMDA Enhancement (<i>Budget 2009</i>) | \$500 | \$500 | - |
| Total EBSM (Fiscal-Year) | \$2,606 | \$2,624 | \$2,125 |
| (\$ MILLIONS) | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| Total EBSM (Calendar-Year) | \$2,487 | \$2,619 | \$2,249 |

¹² For further details on Labour Market Development Agreements, please refer to the HRSDC website at: http://www.hrsdc.gc.ca/eng/employment/partnerships/labour_market_development/index.shtml

4.4. ADMINISTRATION COSTS

Under section 77(1) of the *EI Act*, the costs related to administering both the EI and CEIFB Acts are to be paid out of the CRF and charged to the EI Operating Account. The costs of administering the EI Act are determined by a formula that allocates expenses between HRSD and the EI Operating Account, taking into consideration the funding source. Administration of the Program is shared with CRA, which collects premiums and benefit repayments and provides decisions on insurability under the EI Act. The costs of administration of the CEIFB are charged to the EI Operating Account. Administration costs also include the costs incurred by the provinces and territories to administer the Labour Market Development Agreements and the recovery of costs for maintaining the social insurance number registry and issuing replacement cards.

As with part II benefits, the expected annual estimates for EI administration costs are provided by the Minister of HRSD on a fiscal-year basis and included in the calendar-year expenditures for 2011 based on 25% of the current fiscal-year (2010-2011) and 75% of the next fiscal-year (2011-2012).

| TABLE 4.4.1 - ADMINISTRATION COSTS | | | |
|--------------------------------------|---------------------|-----------------------|-----------------------|
| (\$ MILLIONS) | ACTUAL 2009-2010 | FORECAST 2010-2011 | FORECAST 2011-2012 |
| Administration Costs (Fiscal-Year) | \$2,031 | \$1,978 | \$1,770 |
| (\$ MILLIONS) | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| Administration Costs (Calendar-Year) | \$1,970 | \$1,991 | \$1,822 |

As mentioned in sub-section 3.3, the calculation of the MPA reduction related to the savings to the EI program due to QPIP includes the VAC, or the direct operating costs incurred to provide Provincial Benefits covered by a Parental Plan. The responsibility of determining the VAC each year lies with Employment Insurance Services, Business Analysis and Information Management, General Operations and Processing, Processing and Operations, Service Canada. It should be noted that under the Canada-Quebec Final Agreement, Canada provided assurance that the VAC multiplied by the ratio of the insurable earnings in Quebec to the insurable earnings outside Quebec would not be less than \$5 million.

| TABLE 4.4.2 - VARIABLE ADMINISTRATIVE COSTS | | | |
|---|----------------|------------------|------------------|
| (\$ MILLIONS) | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| Variable Administration Costs | \$16 | \$17 | \$18 |

4.5. BAD DEBT

Bad debt expenses correspond to overpayments and penalties owed and are equal to the amount written off during the year and the change in the annual allowance for doubtful debts. The allowance is calculated on the outstanding balance in the accounts at the end of the fiscal-year and is based on the collection policy, the age of the accounts and the amounts written off.

The calendar-year bad debt expense included in the closing balance of the EI Operating Account as of December 31, 2009 was equal to 25% of the 2008-2009 expense and 75% of the 2009-2010 expense.

As the bad debt allowance is correlated to benefit overpayments, which are linked to EI part I benefit payments, the allowance will be forecasted from the base year using the expected annual change in income benefits.

| TABLE 4.5.1 - BAD DEBT EXPENSE | | | |
|--|---------------------|-----------------------|-----------------------|
| (\$ MILLIONS) | ACTUAL 2009-2010 | FORECAST 2010-2011 | FORECAST 2011-2012 |
| Allowance for Doubtful Accounts (Prior Year) | \$359 | \$359 | \$336 |
| Less: Write-Offs | (\$50) | (\$47) | (\$46) |
| Net Allowance (Prior Year) | \$309 | \$312 | \$290 |
| Allowance for Doubtful Accounts (Current Year) | \$359 | \$336 | \$332 |
| Less: Net Allowance (Prior Year) | (\$309) | (\$312) | (\$290) |
| Bad Debt Expense (Fiscal-Year) | \$50 | \$24 | \$42 |
| (\$ MILLIONS) | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| Bad Debt Expense (Calendar-Year) | \$44 | \$30 | \$38 |

4.6. PENALTIES

The Commission may impose a penalty on a claimant, any person acting on behalf of a claimant or an employer under sections 38 and 39 of the *EI Act* should it become aware that they knowingly provided false or misleading information. The penalty imposed on a claimant cannot exceed 1.5 times the net overpayment.

Penalties are also correlated with benefit overpayments. Therefore, as with the bad debt expense, penalties will be forecasted from the base year using the expected annual change in income benefits.

The 2010 estimate includes actual year-to-date penalties for the first nine months of the year.

| TABLE 4.6.1 - PENALTIES | | | |
|-------------------------|----------------|------------------|------------------|
| (\$ MILLIONS) | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| Penalties | \$28 | \$46 | \$41 |

4.7. INTEREST

Interest is charged on outstanding EI debts caused through misrepresentation. This includes overpayments and penalties. The rate of interest charged to EI claimants, employers or third parties on outstanding debts is equal to 3% above the average Bank of Canada discount rate from the previous month, calculated daily and compounded monthly¹³.

On October 19, 2010, following three consecutive increases since June 2010, the Bank of Canada maintained the target for the overnight rate at 1.00%. The corresponding discount rate is 1.25%. The forecasted interest rate to be charged on overdue accounts receivable is based on a consensus of the expectations of private forecasters¹⁴ on the Bank of Canada's key interest-rate policy decisions to be made between now and the end of 2011, of which there are ten scheduled announcement dates.

As the interest earned is correlated to the amount of outstanding benefit overpayments, it will be forecasted from the base year using the expected annual change in income benefits and the 12-month average of the interest rate.

The 2010 estimate includes actual year-to-date interest earned for the first nine months of the year.

| TABLE 4.7.1 - INTEREST ON OVERDUE ACCOUNTS RECEIVABLE | | | |
|---|----------------|------------------|------------------|
| (\$ MILLIONS) | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| Average Interest Rate | 3.80% | 3.77% | 4.75% |
| Interest | \$16 | \$15 | \$17 |

¹³ Interest rates can be found at <http://www.tpsgc-pwgsc.gc.ca/recgen/txt/71-eng.html>

¹⁴ Private forecasters include: the Bank of Montreal (BMO); the Canadian Imperial Bank of Commerce (CIBC); the Royal Bank of Canada (RBC); the Bank of Nova Scotia; and Toronto-Dominion Bank (TD).

4.8. ACCOUNT BALANCE RATE

Part of the mandate of the CEIFB is to manage a separate account where any excess EI revenues from a given year will be held and invested until they are used to reduce premium rates in subsequent years, and maintain a contingency fund in order to support relative premium rate stability within legislated parameters. In addition to the upcoming year component of the forecast break-even rate, there is the account balance component, which includes three components. Unlike the base and MPA rates, the ratios of these components to the revenue base, or covered earnings, are not calculated separately. Rather, the account balance rate is calculated as the ratio of the sum total of these three components to covered earnings.

A. CUMULATIVE SURPLUS/DEFICIT

This rate accounts for any surpluses or deficits expected to have accrued in the EI Operating Account between December 31, 2008 and December 31, 2010. The actual EI expenditures and revenues as of December 31, 2009 are provided by the Department of Finance. The estimates prepared in this report are used to arrive at the final closing balance of the EI Operating Account as of December 31, 2010.

For a cumulative deficit, this represents the premium rate that should generate sufficient premium revenue to offset the expected shortfall and balance the Account. For a cumulative surplus, it is the premium rate reduction for expected prior contributions in excess of EI program expenditures and represents a saving to employees and employers.

On August 1, 2010, \$2.9 billion was transferred from the CRF to fund the measures announced in *Budget 2009* as part of Canada's EAP, based on the estimated total cost of the measures. However, as the EI Operating Account is reported on an accrual basis, the expected opening balance as of January 1, 2011 includes only the portion of the \$2.9 billion related to EAP expenditures in 2009 and 2010. The remainder is included in the upcoming year rate, to offset the costs of the *Budget 2009* measures that are expected to be incurred in 2011.

| TABLE 4.8.1 - EI OPERATING ACCOUNT | |
|---|------------------|
| (\$ MILLIONS) | |
| 2009 Revenues (Actual) | \$16,954 |
| 2009 Funding for <i>Budget 2009</i> Measures (Actual) | \$1,190 |
| Less: 2009 Expenditures (Actual) | \$22,999 |
| Sub-Total: 2009 Surplus (Deficit) | (\$4,855) |
| 2010 Revenues (Forecast) | \$17,626 |
| 2010 Funding for <i>Budget 2009</i> Measures (Forecast) | \$1,391 |
| Less: 2010 Expenditures (Forecast) | \$22,611 |
| Sub-Total: 2010 Surplus (Deficit) | (\$3,594) |
| Closing Balance – December 31, 2010 | (\$8,448) |

B. RESERVE TARGET

This rate ensures that the fair market value of the Board's reserve is equal to its target value at the end of the upcoming year. The year-end target ("BR_{IT}") is equal to the initial \$2.0 billion payment made on the requisition of the Minister of Finance, indexed annually beginning in the year in which the initial payment is made. The indexation formula has yet to be determined. Until the \$2.0 billion is transferred from the CRF to the EI Operating Account, the reserve target rate does not apply.

C. INVESTMENT INCOME

The mandate of the CEIFB includes investing any excess EI revenues and the expected returns on these excess revenues, or investment income ("INV"), must be included in the break-even rate calculation, as they are to be used to finance the EI program. However, as the current cumulative balance in the EI Operating Account is negative, the Board currently has no assets to invest. Therefore, until there is a cumulative surplus in the EI Operating Account, the investment income rate does not apply.

D. ACCOUNT BALANCE

The account balance rate ("BE_{AB}") is the final component of the forecast break-even rate. As with the base rate, the revenue base is the insurable earnings multiplied by 2.4 plus the earnings of voluntary self-employed participants in the EI program. Depending on the balance of the EI Operating Account, it is the employee premium rate that should generate either premium revenues or premium savings equal to the indexed reserve target less any expected investment income and less the expected cumulative surplus/deficit of the EI Operating Account prior to the upcoming year ("EIOA_{T-1}"). It can be expressed by the following formula:

$$BE_{AB} = \frac{(BR_{IT} - INV - EIOA_{T-1}) / (1 - \% EPR)}{2.4 \times (TIE_{APEQ} + TIE_Q) + (TSEE_{APEQ} + TSEE_Q)}$$

SECTION V

RESULTS

5.1. BREAK-EVEN RATE CALCULATION

As stated earlier, the forecast break-even rate for residents of all provinces except Quebec includes the base, MPA and account balance rates. The forecast break-even rate for residents of the province of Quebec excludes the MPA rate, as MPA benefits are made available to Quebec residents through QPIP, and therefore includes only the base and account balance rates.

A. BASE

The base rate is equal to the ratio of net expenditures, or EI benefits (part I and II benefits less EAP costs), administration costs and bad debt, plus the wage-loss replacement plan premium reduction minus penalties and interest divided by one less the employee premium refund ratio minus the MPA expenditures (EI MPA benefits and variable administrative costs) to total salaried insurable earnings multiplied by 2.4 plus the earnings of voluntary self-employed participants in the EI program.

$$BE_B = \frac{(EXP + R_{WLR}) / (1 - \% EPR) - MPA}{2.4 \times (TIE_{APEQ} + TIE_Q) + (TSEE_{APEQ} + TSEE_Q)}$$

| TABLE 5.1.1 - BASE RATE CALCULATION | |
|---|------------------|
| (\$ MILLIONS) | FORECAST 2011 |
| EI Benefits - Part I | \$16,622 |
| EI Benefits - Part II | \$2,249 |
| Sub-Total: Total EI Benefits | \$18,871 |
| Administration Costs | \$1,822 |
| Bad Debt | \$38 |
| Less: Penalties | (\$41) |
| Less: Interest | (\$17) |
| Less: <i>Budget 2009</i> Funding | (\$318) |
| Sub-Total: Net Expenditures | \$20,354 |
| Wage-Loss Premium Reduction | \$894 |
| Employee Refund Ratio (%) | 1.003% |
| Net Expenditures plus Wage-Loss divided by Employee Refund Ratio | \$21,463 |
| Less: EI MPA Benefits | (\$3,263) |
| Less: Variable Administrative Costs | (\$18) |
| Total | \$18,182 |
| Total Salaried Insurable Earnings | \$490,232 |
| Self-Employed Earnings | \$193 |
| Base Rate | 1.55% |

B. MPA

The MPA rate is the ratio of MPA expenditures (EI MPA benefits and variable administrative costs) to the salaried insurable earnings of residents of all provinces except Quebec multiplied by 2.4 plus the earnings of self-employed residents of all provinces except Quebec who are voluntarily participating in the EI program. It is the premium reduction for Quebec residents in regards to the savings to the EI Program resulting from QPIP.

$$BE_{MPA} = \frac{MPA}{2.4 \times TIE_{APEQ} + TSEE_{APEQ}}$$

| TABLE 5.1.2 - MPA RATE CALCULATION | |
|---|------------------|
| (\$ MILLIONS) | FORECAST 2011 |
| EI MPA Benefits | \$3,263 |
| Variable Administration Costs | \$18 |
| Total MPA Expenditures | \$3,281 |
| Total Insurable Earnings | \$490,232 |
| Less: Total Insurable Earnings (residents of Quebec) | (\$120,494) |
| Sub-Total: Total Insurable Earnings (residents of all provinces except Quebec) | \$369,738 |
| Self-Employed Earnings | \$193 |
| Less: Self-Employed Earnings (residents of Quebec) | (\$62) |
| Sub-Total: Self-Employed Earnings (residents of all provinces except Quebec) | \$131 |
| MPA Rate | 0.37% |

C. ACCOUNT BALANCE

The account balance rate ensures that the fair-market value of the Board's reserve at the end of the upcoming year, excluding the EI expenditures expected to be incurred in the upcoming year, is equal to the indexed reserve target, for which there is currently no target.

It is the ratio of the indexed reserve target less the expected investment income and the expected opening cumulative balance of the EI Operating Account over one less the employee premium refund ratio to the salaried insurable earnings multiplied by 2.4 plus the earnings of voluntary self-employed participants in the EI program.

$$BE_{AB} = \frac{(BR_{IT} - INV - EIOAT_{-1}) / (1 - \% EPR)}{2.4 \times (TIE_{APEQ} + TIE_Q) + (TSEE_{APEQ} + TSEE_Q)}$$

| TABLE 5.1.3 - ACCOUNT BALANCE RATE CALCULATION | |
|---|------------------|
| (\$ MILLIONS) | FORECAST 2011 |
| EI Operating Account – Opening Balance | (\$8,448) |
| Indexed Reserve Target | - |
| Target less Opening Balance | \$8,448 |
| Investment Income | - |
| Sub-Total (Account Balance) | \$8,448 |
| Employee Refund Ratio (%) | 1.003% |
| Total (Account Balance divided by Employee Refund Ratio) | \$8,534 |
| Total Salaried Insurable Earnings | \$490,232 |
| Self-Employed Earnings | \$193 |
| Account Balance Rate | 0.73% |

5.2. FINANCIAL STATUS OF THE EI OPERATING ACCOUNT

Due to the 5 cent limit on the premium rate increase in 2011 announced by the Minister of Finance on September 30, 2010, the EI premium rate cannot exceed 1.78% in 2011, which is less than the estimated 2.65% break-even rate. Given this, it is expected that the charges to the EI Operating Account in 2011 will exceed credits by \$1,538 million and the cumulative deficit balance in the EI Operating Account will increase to \$9,987 million.

The following projections of the balance of the EI Operating Account as at December 31, 2011 are based on a premium rate of **1.78%** for residents of all provinces except Quebec and **1.41%** for residents of Quebec, based on the 0.37% calculated premium reduction for MPA benefits.

| TABLE 5.2.1 - EI OPERATING ACCOUNT | |
|---|------------------|
| (\$ MILLIONS) | FORECAST 2011 |
| Insurable Earnings (Provinces without a PP) | \$369,738 |
| Self-Employed Earnings (Provinces without a PP) | \$131 |
| Sub-Total | \$369,869 |
| Insurable Earnings (Provinces with a PP) | \$120,494 |
| Self-Employed Earnings (Provinces with a PP) | \$62 |
| Sub-Total | \$120,557 |
| Premium Rate (Provinces without a PP) | 1.78% |
| Premium Rate (Provinces with a PP) | 1.41% |
| Gross EI Premium Revenue | \$19,876 |
| Less: Wage-Loss Premium Reduction | (\$894) |
| Less: Employee Refunds | (\$166) |
| Net EI Premium Revenue | \$18,815 |
| Penalties | \$41 |
| Interest | \$17 |
| Funding for <i>Budget 2009</i> Measures | \$318 |
| Total Revenues | \$19,192 |
| Less: Expenditures | (\$20,731) |
| Annual Surplus (Deficit) | (\$1,538) |
| Opening Balance | (\$8,448) |
| Closing Balance | (\$9,987) |

5.3. SENSITIVITY OF PROJECTIONS

While a change in the value of any one of the various assumptions used in the preparation of the actuarial estimates presented in this report would have an impact on the forecast break-even rate, two particular assumptions, the unemployment rate and the B/U ratio, will be analysed more closely. The impact of a variation in the premium rate on premium revenue will also be examined. No sensitivity test is provided for the earnings growth assumption as a change in this variable has an impact on both expenditures, affecting the EI benefits through the benefit rate, and the revenue base, affecting covered earnings of those with earnings below the annual MIE, resulting in no change to the forecast break-even rate.

A. UNEMPLOYMENT RATE

As demonstrated in the following table, a 0.1% increase in the unemployment rate in 2011 from the base assumption of 7.7% would, all other assumptions remaining constant, result in a 0.7% (\$145 million) increase in expenditures. This is due to higher benefit payments from more beneficiaries. As well, covered earnings would decrease by 0.1% (\$632 million), due to lower employment and fewer EI contributors. With the premium rate held constant at 1.78%, a 0.1% increase in the unemployment rate will result in a \$25 million decrease in premium revenue and a \$170 million increase in the deficit in 2011. A 0.1% decrease in the unemployment rate from the base assumption would have the opposite impact on the EI Operating Account.

| TABLE 5.3.1 - SENSITIVITY OF 2011 RESULTS TO THE UNEMPLOYMENT RATE ASSUMPTION | | | | | | | |
|---|--------------------------|---------------------|-----------------|------------------------------------|-----------------|------------------|--|
| Variation in 2011 UR | Total Insurable Earnings | Total Program Costs | Break-Even Rate | Break-Even Rate Variance from Base | Total Revenue | Annual Deficit | Cumulative Balance as at Dec. 31, 2011 |
| -0.50% | \$493,584 | \$20,006 | 2.56% | -0.08% | \$19,319 | (\$687) | (\$9,136) |
| -0.40% | \$492,952 | \$20,151 | 2.58% | -0.06% | \$19,293 | (\$857) | (\$9,306) |
| -0.30% | \$492,321 | \$20,296 | 2.59% | -0.05% | \$19,268 | (\$1,028) | (\$9,476) |
| -0.20% | \$491,689 | \$20,441 | 2.61% | -0.03% | \$19,243 | (\$1,198) | (\$9,646) |
| -0.10% | \$491,057 | \$20,586 | 2.62% | -0.02% | \$19,217 | (\$1,368) | (\$9,817) |
| BASE | \$490,426 | \$20,731 | 2.65% | - | \$19,192 | (\$1,538) | (\$9,987) |
| 0.10% | \$489,794 | \$20,876 | 2.66% | 0.01% | \$19,167 | (\$1,709) | (\$10,157) |
| 0.20% | \$489,162 | \$21,021 | 2.68% | 0.03% | \$19,142 | (\$1,879) | (\$10,327) |
| 0.30% | \$488,531 | \$21,166 | 2.69% | 0.04% | \$19,116 | (\$2,049) | (\$10,498) |
| 0.40% | \$487,899 | \$21,310 | 2.71% | 0.06% | \$19,091 | (\$2,219) | (\$10,668) |
| 0.50% | \$487,268 | \$21,455 | 2.72% | 0.07% | \$19,066 | (\$2,390) | (\$10,838) |

B. B/U RATIO

As demonstrated in the following table, a 0.5% increase in the B/U ratio in 2011 from the base assumption of 44.94% would, all other assumptions remaining constant, result in a 0.6% (\$129 million) increase in expenditures, due to higher benefit payments from more beneficiaries. A 0.5% decrease in the B/U ratio from the base assumption would have the opposite impact on the EI Operating Account.

| TABLE 5.3.2 - SENSITIVITY OF 2011 RESULTS TO THE B/U RATIO ASSUMPTION | | | | | |
|---|---------------------|-----------------|------------------------------------|----------------|--|
| Variation in 2011 B/U Ratio | Total Program Costs | Break-Even Rate | Break-Even Rate Variance from Base | Annual Deficit | Cumulative Balance as at Dec. 31, 2011 |
| -0.50% | \$20,601 | 2.63% | -0.02% | (\$1,409) | (\$9,858) |
| -0.40% | \$20,627 | 2.64% | -0.01% | (\$1,435) | (\$9,884) |
| -0.30% | \$20,653 | 2.64% | -0.01% | (\$1,461) | (\$9,909) |
| -0.20% | \$20,679 | 2.64% | -0.01% | (\$1,487) | (\$9,935) |
| -0.10% | \$20,705 | 2.64% | -0.01% | (\$1,513) | (\$9,961) |
| BASE | \$20,731 | 2.65% | - | (\$1,538) | (\$9,987) |
| 0.10% | \$20,756 | 2.65% | 0.00% | (\$1,564) | (\$10,013) |
| 0.20% | \$20,782 | 2.65% | 0.00% | (\$1,590) | (\$10,039) |
| 0.30% | \$20,808 | 2.65% | 0.00% | (\$1,616) | (\$10,064) |
| 0.40% | \$20,834 | 2.65% | 0.00% | (\$1,642) | (\$10,090) |
| 0.50% | \$20,860 | 2.66% | 0.01% | (\$1,668) | (\$10,116) |

C. PREMIUM RATE

As demonstrated in the following table, for every cent (0.01%) variance in the premium rate in 2011, all other assumptions remaining constant, there is a \$117 million impact on the premium revenue generated.

| TABLE 5.3.3 - SENSITIVITY OF 2011 RESULTS TO THE PREMIUM RATE | | | | | |
|---|---------------------------|-----------------|------------------------------|------------------|--|
| Variation in 2011 EI Premium | Resulting EI Premium Rate | Revenue | Difference with Base Revenue | Annual Deficit | Cumulative Balance as at Dec. 31, 2011 |
| -0.05% | 1.73% | \$18,610 | (\$582) | (\$2,121) | (\$10,569) |
| -0.04% | 1.74% | \$18,726 | (\$466) | (\$2,004) | (\$10,453) |
| -0.03% | 1.75% | \$18,843 | (\$349) | (\$1,888) | (\$10,336) |
| -0.02% | 1.76% | \$18,959 | (\$233) | (\$1,771) | (\$10,220) |
| -0.01% | 1.77% | \$19,076 | (\$116) | (\$1,655) | (\$10,103) |
| BASE | 1.78% | \$19,192 | - | (\$1,538) | (\$9,987) |
| 0.01% | 1.79% | \$19,309 | \$117 | (\$1,422) | (\$9,870) |
| 0.02% | 1.80% | \$19,425 | \$233 | (\$1,305) | (\$9,754) |
| 0.03% | 1.81% | \$19,542 | \$350 | (\$1,189) | (\$9,637) |
| 0.04% | 1.82% | \$19,658 | \$466 | (\$1,072) | (\$9,521) |
| 0.05% | 1.83% | \$19,775 | \$583 | (\$956) | (\$9,404) |

SECTION VI

CONCLUSION

6.1. CONCLUSION

Based on the assumptions of the relevant economic and demographic variables as provided by the Minister of Finance and the expenditure estimates provided by the Minister of HRSD on September 30, 2010, and the assumptions derived from historical data by the Chief Actuary, it is the opinion of the Chief Actuary of the CEIFB that the rates which would generate sufficient premium revenue to cover the expected \$20,672 million costs to the EI program in 2011 and abolish the \$8,448 million cumulative deficit in the Board's reserve as of December 31, 2010, are 2.65% for residents of all provinces except Quebec and 2.28% for residents of Quebec.

Section 66(7) of the *Employment Insurance Act* limits the variation in the premium rate 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. The corresponding premium rate for residents of Quebec would be **1.41%**, or 1.78% less the premium reduction of 0.37% for the maternity, parental and adoption benefits provided by the Quebec Parental Insurance Plan

Given the difference between the forecast break-even rates and the maximum legislative premium rates, should the Board set the Employment Insurance premium rates for 2011 at the maximum levels then it is expected that costs would exceed revenues by \$1,538 million, bringing the opening \$8,448 million cumulative deficit in the EI Operating Account to a projected cumulative deficit of \$9,987 million as of December 31, 2011.

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.

6.2. ACTUARIAL OPINION

In my opinion, considering that this report 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.



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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29 October 2010

APPENDICES

APPENDICES

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APPENDIX I

HISTORICAL CHANGES TO THE EI PROGRAM

1930

- The first attempt to establish a Canadian unemployment insurance program came during the depression of the 1930s.

1935

- The *Employment and Social Insurance Act*, passed in 1935, was found to be unconstitutional since the federal government did not have sole jurisdiction over this area.

1940

- In 1940, the federal government consulted the provinces and received unanimous approval to amend section 91 of the *British North America Act*, to provide the necessary authority for the federal government to establish an unemployment insurance program. The constitutional amendment became effective on July 10, 1940. The government then introduced and quickly passed the *Unemployment Insurance (UI) Act*, which received Royal Assent on August 7, 1940.
- The UI program was based on strong insurance principles and was intended to provide income protection for employees. It provided greater protection for those with below average earnings, while those with higher incomes were expected to provide a greater degree of self-insurance.
- In addition, the program covered only those workers who faced an unpredictable risk of job loss. Industries that faced little risk of unemployment (e.g., the public service) and industries with repeated unemployment (e.g., seasonal industries) were not covered.
- The program also included a higher benefit rate for claimants with dependants.

1955

- In an effort to make UI more effective in providing financial support to the unemployed, a revised UI Act was introduced.
- In broad terms, the new act contained a number of departures from the original. It increased benefit levels and eased qualifying conditions.
- Additionally, supplementary benefits (which allowed individuals who had exhausted their regular benefits to receive benefits at a lower rate for fixed periods) were integrated with regular benefits, to form the seasonal benefit.

1970-1971

- A major reform of the UI Act occurred in 1971, following the release of the *White Paper on Unemployment Insurance* in 1970. In response to the paper, the UI Act of 1971 (Bill C-229) was introduced, which incorporated many of the White Paper's recommendations. In recognition of rising unemployment rates and the increasing cost of living, eligibility requirements were reduced and benefits increased.
- A key element of the 1971 reforms was the introduction of a uniform (eight-week) entrance requirement. Coverage was also extended to the public sector and to anyone employed for 20 or more hours per week at the applicable provincial minimum wage.

- At the same time, UI sickness, maternity and retirement benefits were introduced for workers with at least 20 weeks of insured employment.
- Furthermore, UI was made more sensitive to local labour market conditions through the introduction of extended benefits for regions with high unemployment. Additionally, a three-week special severance benefit, available to retiring insured workers who qualified for the Canada Pension Plan or the Quebec Pension Plan.
- Finally, a dependency benefit rate of 75% for low-income earners was introduced.
- Reliance on the fund was to be deterred by treating UI benefits as taxable income.

1975

- Amendments were made to the UI Act (Bill C-69) to respond to concerns that the program was reducing the incentive to work.
- To improve work incentives, the Act eliminated a three-week advance payment provision for claimants with strong labour force attachment, and removed the dependency benefit rate.
- In addition, the disqualification period for voluntary quits was increased from three to six weeks.
- Furthermore, to reflect the standard working age, the maximum age at which an individual was insurable was reduced from 70 to 65.

1977

- Another comprehensive review of the UI program took place. In response to the recommendations, Bill C-27, the *Employment and Immigration Reorganization Act* was introduced.
- Among other things, Bill C-27 merged the Unemployment Insurance Commission with Manpower and Immigration to form Employment and Immigration Canada.
- Entrance requirements were tightened and the duration of benefits was reduced.
- At the same time, however, greater emphasis was placed on re-employment through developmental uses of UI, such as income maintenance for claimants on approved training, job creation and work sharing.
- There was also recognition that not all regions faced the same employment prospects. As a result, variable entrance requirements, ranging from 10 to 14 weeks, were introduced to better reflect local unemployment rates.

1979

- Further amendments to decrease disincentives to work and reduce reliance on UI under Bill C-14.
- Benefit repayment provisions were introduced, effective for the 1979 tax year, and the benefit rate was lowered to 60% from 66%.
- To further reduce reliance on UI, Bill C-14 included provisions requiring more work effort from new entrants and re-entrants to qualify for benefits.

- Similarly, repeat claimants required up to six extra weeks of work to qualify for benefits.

1983

- Bill C-156 introduced 15 weeks of adoption benefits, effective January 1, 1984. In addition, maternity benefits were simplified and adjusted to conform to the *Canadian Human Rights Act*.

1989

- Bill C-21 made several changes to the UI program.
- Firstly, it provided for 10 weeks of parental benefits in addition to the existing maternity benefits, payable to either men or women. These benefits replaced both paternity benefits, introduced in 1988, and adoption benefits, introduced in 1983. This bill also broadened special benefits (maternity, parental, sickness) to provide for a total of 30 weeks of combined special benefits.
- Secondly, Bill C-21 extended coverage to those aged 65 and over and, in turn, eliminated the three-week lump sum for retirement, as claimants of any age were expected to be available for work.
- Thirdly, a one-phase benefit structure, based on the number of insured weeks and the unemployment rate in the economic region, was introduced.
- Fourthly, disqualifications for voluntary leaving and misconduct were expanded.
- Lastly, Bill C-21 recognized that sweeping structural change in the economy made it less reasonable to assume that an unemployed worker would find a job in the same occupation or industry. To address this issue, a greater proportion of funds was allocated to active employment measures, such as occupational training, to help claimants return to work more quickly.

1993

- The government introduced Bill C-113 to reduce program costs and avoid a greater deficit in the UI account, which would have resulted in a \$0.30 increase in premium rates under the “statutory rate” provision. To achieve this, those who voluntarily left their employment were no longer eligible to collect benefits. Furthermore, the replacement rate was reduced from 60% to 57% under Bill C-113.

1994

- Bill C-17 was introduced in 1994 and further reduced the replacement rate to 55%, with the exception of low- income individuals with children, who received a replacement rate of 60%. A 12-week minimum entrance requirement and reduced duration were also introduced under Bill C-17.

1996

- The *Employment Insurance (EI) Act*, 1996 (Bill C-12), redesigned income benefits to promote greater labour force attachment and to introduce stronger insurance principles into the system. It also placed a greater emphasis on re-employment measures.
- Under EI, eligibility was based on hours of work, rather than weeks, to allow more part-time workers to become eligible for benefits.

1996-1997

- The amount allocated to Employment Benefits and Support Measures was \$1.575 billion. Similar programs and services were provided in provinces/territories that did not establish a partnership.

2000

- In 2000, Bill C-32 expanded parental benefits from 10 to 35 weeks, giving parents up to one year of combined maternity and parental benefits
- In addition, it reduced the number of hours of insurable employment required to qualify for maternity, parental or sickness benefits from 700 to 600 hours.
- To improve flexibility, a second parent sharing parental leave was no longer required to serve a second two-week waiting period and parents were able to earn the greater of \$50 or 25% of their weekly parental benefit without a reduction in their EI benefits.

2001

- Bill C-2 introduced further modifications to EI legislation.
- The intensity rule, which had been implemented to discourage repeat use of EI by reducing the benefit rate of frequent EI claimants, was eliminated, retroactive to October 1, 2000.
- The benefit repayment provision (clawback), initially introduced to reduce EI use by higher income repeat claimants, was adjusted to improve targeting and reflect changing economic realities, effective for the 2000 tax year. All first-time and special benefits claimants were exempted from the benefit repayment provision. Additionally, to simplify the structure of repayment and to ensure that these provisions were appropriately targeted to higher income earners, a single threshold for repayment was set at \$48,750 of net income with a repayment rate of 30%, and the maximum repayment was limited to 30% for a person with a net income in excess of \$48,750.
- Bill C-2 also introduced a new method of calculating the maximum yearly insurable earnings (MIE), effective for tax year 2001. The MIE will remain at \$39,000 until the average earnings exceed this level, at which time the MIE will be based on average earnings.
- Changes were also made to the re-entrant provision to make it more responsive to parents returning to the labour force following an extended absence caring for young children. Parents re-entering the work force who received EI maternity and/or parental benefits in the four years prior to the normal two-year “look back” period can now access regular benefits with the same number of hours as other regular claimants in their region.
- In addition, the *Employment Insurance Fishing Regulations* were adjusted retroactively to December 31, 2000, to allow self-employed fishers to access the enhanced maternity, parental and sickness benefits.
- Effective August 12, 2001, the calculation of undeclared earnings was modified to make it more equitable for claimants.
- The Small Weeks pilot project became a national and permanent feature of the program on November 18, 2001. The Small Weeks initiative was first introduced in 1997 as a pilot project in response to concerns that accepting weeks with lower

earnings (\$150 or less) resulted in a lower benefit rate on a future EI claim and as a result acted as a disincentive to accepting all available work. The Small Weeks initiative intends to encourage workers to accept all available work by having these weeks excluded in calculating the benefit rate.

2002

- Bill C-49 introduces modifications regarding access to special benefits.
- Parents of a newborn or newly adopted child who is hospitalized for an extended period now have a window of up to two years, instead of one year, to claim parental benefits.
- In addition, Bill C-49 changed the maximum number of combined weeks of special benefits from 50 to 65 weeks. Prior to Bill C-49, claimants could receive a maximum of 50 weeks of special benefits. Effective March 3, 2002, these provisions ensure full access to special benefits for biological mothers who claim sickness benefits prior to or following maternity or parental benefits.

2002-2003

- Effective July 21, 2002, the apprentices in approved training programs who apply for EI benefits are subject to only one waiting period.
- The Small Week threshold was increased to \$225 from \$150 on September 2003 recognizing that wages have increased.

2004

- Bill C-26 introduced as of January 4, 2004 a new Compassionate Care Benefit (for up to six weeks) for employment insurance eligible workers who must be absent from work to provide care or support to a child, parent, spouse or common-law partner who has a serious medical condition with a significant risk of death within six months. To be eligible for the new benefit, workers must have worked 600 hours or, if a self-employed fisher, \$3,760 in fishing income.
- Pilot project no 6. offering seasonal workers the possibility of receiving five more weeks of EI if the claim for regular benefits starts between June 6, 2004 and June 4, 2007 and the claimant lives in one of the 24 participating EI economic regions.

2005

- On February 23, 2005 the Government of Canada announced the creation of three new employment insurance pilot projects in regions of high unemployment (10 percent or higher), that will test the labour market impact:
 - Reducing the eligibility threshold for new entrants and re-entrants to the labour market (December 11, 2005 to December 6, 2008). enabling individuals new to the labour market or returning after an extended absence to access EI benefits after 840 hours of work (rather than 910) when linked with EI employment programs;
 - Calculating benefits based on the “best 14 weeks” of earnings over the 52 weeks preceding a claim for benefits (October 30, 2005 to October 25, 2008); and
 - Increasing the working-while-on-claim threshold (December 11, 2005 to December 6, 2008) to allow individuals to earn the greater of \$75 or 40

percent of benefits in an effort to encourage people to take work without a reduction in their benefits.

- On March 1st 2005, an agreement was reached between the Government of Canada and the Government of Quebec which allows the Government of Quebec to set up, starting January 1st 2006, a Provincial Parental Insurance Plan. The final agreement between the Governments of Canada and Quebec includes a financial mechanism whereby the Government of Canada reduces Employment Insurance premiums of workers and employers in the province so that the Government of Quebec can collect premiums for its own program. The premium reduction reflects the savings to the EI Account realized as a result of Quebec's program, including benefits that are no longer paid under EI and administrative savings.
- June 29, 2005, Bill C-43 was passed and amended the Employment Insurance Act and the Department of Human Resources Development Act to allow the Canada Employment Insurance Commission to set the premium rate under a new rate-setting mechanism. In setting the rate, the Commission will take into account the principle that the premium rate should generate just enough premium revenue to cover payments to be made for that year, as well as the report from the employment insurance chief actuary and any public input. On an as-needed basis, the Commission may also contract for the services of persons with specialized knowledge in rate-setting matters. If it is in the public interest to do so, and on the joint recommendation of the Minister of Human Resources and Social development and the Minister of Finance, the Governor in Council may substitute a different premium rate. In any given year, the rate cannot change by more than 0.15% (\$0.15 per \$100) from the previous year's rate, and for the years 2006 and 2007 must not exceed 1.95% (\$1.95 per \$100). Other modifications include amendments to the Employment Insurance Act, for the purpose of the implementation of a premium reduction agreement between the Government of Canada and a province, to allow for a regulatory scheme to make the necessary adjustments and modifications to that Act as required to harmonize it with a provincial law that has the effect of reducing or eliminating the special benefits payable under that Act. A consequential change is also made to the parental benefits provisions.

2006

- June 14, 2006 an amendment to the EI regulations was put in place that modified the eligibility criteria of the EI Compassionate Care Benefit in order to enable additional family members and others considered as "family" by the gravely ill individual to be eligible for the benefit for the purposes of caregiving. These additional family members are siblings, grandparents, grandchildren, in-laws, aunts, uncles, nieces, nephews, foster parents, guardians and wards.
- A new Pilot Project (No. 10) was put in place effective June 11, 2006 and ending December 9, 2007 which will test the impact of increasing EI entitlement by providing five additional weeks of benefits to EI claimants, up to the maximum of 45 weeks of benefits. The pilot will build upon the design and results of EI Pilot Project No. 6, which ended on June 4, 2006.

2008

- *Budget 2008* announced the creation of the Canada Employment Insurance Financing Board to improve the governance and management of the EI Account by enhancing the independence of premium rate setting, and ensuring that EI premiums are used exclusively for the EI program. The Canada Employment Insurance Financing Board's specific responsibilities, as outlined in Chapter 3 of the Budget Plan, are:

- managing a separate EI account where any excess premiums from a given year will be held and invested until they are used to reduce premium rates in subsequent years;
- implementing an improved EI premium rate-setting mechanism that will ensure that EI revenues and expenditures break even over time and contribute to the relative stability of premium rates by limiting year to year changes in EI premiums to 15 cents; and
- maintaining a \$2 billion cash reserve as a contingency fund that will support relative premium rate stability.

As such, the responsibilities of the Board pertain only to the financing of the EI program. The Government of Canada and the existing EI Commission continue to have full responsibility related to EI benefits and program delivery, including eligibility and benefit levels.

- In September, the Minister announced the continuation of EI Pilot Projects and Transitional Measures. Pilot Project No. 7 has been replaced by Pilot Project No. 11 and is scheduled to end on October 23, 2010. Pilot Projects No. 8 and No. 9 have been replaced by Pilot Projects No. 12 and No. 13 respectively and are scheduled to end on December 4, 2010. Transitional measures are extended to April 10, 2010.

2009

- *Budget 2009* included the following measures designed to support Canadian workers affected by the global economic downturn by:
 - Freezing EI premium rates at \$1.73 per \$100 for 2010;
 - Providing five additional weeks of EI Regular benefits and increases the maximum number of weeks of entitlements from 45 to 50 weeks in regions with high unemployment;
 - Providing extended or earlier EI benefits to long-tenured workers participating in longer term training through the Career Transition Assistance Initiative;
 - Extending work-sharing agreements by 14 weeks, to a maximum of 52 weeks, so more Canadians can continue working.
 - Increasing funding for training delivered through the Employment Insurance program over two years.
- Bill C-50 temporarily provided additional Employment Insurance regular benefits to unemployed long-tenured workers. Long-tenured workers are individuals who have worked and paid EI premiums for a significant period of time and have previously made limited use of EI regular benefits. This measure provided from 5 to 20 weeks of additional benefits, depending on how long an eligible individual has been working and paying into EI.

2010

- *Budget 2010* extended the eased qualifying criteria for work-sharing agreements introduced in *Budget 2009* by an additional year and extended the duration of agreements by an additional 26 weeks to a maximum of 78 weeks. No extension will go beyond April 2, 2011.

- Bill C-9 amended the *EI Act* with section 70.2 which established a new account in the accounts of Canada, the EI Operating Account. All credits and charges under the EI Act on or after January 1, 2009 are deemed to have been credited or charged to this account.
- The *Fairness for the Self-Employed Act* extended EI special benefits to self-employed Canadians. Starting January 31, 2010, self-employed persons can enter into a voluntary agreement with the EI Commission through Service Canada to participate in the EI program, contributing EI premiums at the employee rate and have access to special benefits. Self-employed residents of Quebec will continue to receive maternity and parental benefits through the Quebec Parental Insurance Plan, however they are able to access sickness and compassionate care benefits through the EI program. Those who register before April 1, 2010 can make a claim for benefits as early as January 1, 2011, otherwise they will be required to register at least one year prior to claiming benefits.
- Pursuant to section 66(8) of the *EI Act*, on the joint recommendation of the Minister of HRSD and the Minister of Finance, the Governor in Council changed the maximum percentage in section 66(7) of the *EI Act* by which the premium rate may be increased or decreased 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 2012 and later.

APPENDIX II EI LEGISLATION

CANADA EMPLOYMENT INSURANCE FINANCING BOARD ACT

OBJECTS, POWERS AND DUTIES

Objects

4. The objects of the Board are
 - a) to set the premium rate under section 66 of the Employment Insurance Act;
 - b) to maintain a reserve in accordance with that section;
 - c) to manage any amounts paid to it under section 77.1 of that Act; and
 - d) to invest its financial assets with a view to meeting its financial obligations.

CHIEF ACTUARY

Appointment

14. (1) The board of directors shall appoint a Fellow of the Canadian Institute of Actuaries to be the chief actuary of the Board.

Officer

- (2) The chief actuary is an officer of the Board under the direction of the chief executive officer.

Duties

- (3) The chief actuary shall prepare actuarial forecasts and estimates for the purposes of section 66 of the Employment Insurance Act and shall, on or before October 31 in each year, provide the board of directors with
 - a) the forecast premium rate for the following year and a detailed analysis in support of the forecast;
 - b) the forecast fair market value of the Board's reserve at the end of the following year;
 - c) a determination and analysis of any difference between the premium rate set by the Board for the year that is two years before the current year and what that rate should have been for that year in order to meet the objective of subsection 66(1) of the Employment Insurance Act; and
 - d) the source of the data, the actuarial and economic assumptions and the actuarial methodology used.

PREMIUM RATE SETTING REPORT**Report**

35. On the day on which the Board sets the premium rate under section 66 of the Employment Insurance Act, it shall make public a report that sets out
- a) the premium rate;
 - b) a detailed analysis in support of that rate;
 - c) information provided to the board of directors by the chief actuary under subsection 14(3);
 - d) information provided to the Board by the Minister under subsection 66.1(1) of the Employment Insurance Act; and
 - e) any other information that the Board took into account in setting the rate.

EMPLOYMENT INSURANCE ACT**MAXIMUM YEARLY INSURABLE EARNINGS****Maximum yearly insurable earnings**

4. (1) For the purposes of subsection 14(1.1), section 17, subsection 82(2) and sections 95 and 145, the maximum yearly insurable earnings is \$39,000 until the amount calculated in accordance with subsection (2) for a year, before rounding down under subsection (4), exceeds \$39,000, in which case the maximum yearly insurable earnings for that year is that amount, rounded down under subsection (4).

Calculation of amount

- (2) The amount referred to in subsection (1) is the amount equal to 52 times the product obtained by multiplying
- a) the average for the twelve month period ending on June 30 in the preceding year of the Average Weekly Earnings for each month in that period by
 - b) the ratio that the average for the twelve month period ending on June 30 in that preceding year of the Average Weekly Earnings for each month in that twelve month period bears to the average for the twelve month period ending twelve months prior to June 30 of that preceding year of the Average Weekly Earnings for each month in that twelve month period ending twelve months prior to June 30 of that preceding year.

Subsequent years

- (3) For years subsequent to the year in which the maximum yearly insurable earnings exceeds \$39,000, before rounding down under subsection (4), the maximum yearly insurable earnings is the maximum yearly insurable earnings for the preceding year, before rounding down under subsection (4), multiplied by the ratio that the average for the twelve month period ending on June 30 in that preceding year of the Average Weekly Earnings for each month in that twelve month period bears to the average for the twelve month period ending twelve months prior to June 30 of that preceding year of the Average Weekly Earnings

for each month in that twelve month period ending twelve months prior to June 30 of that preceding year.

Rounding down

- (4) If the amount calculated in accordance with subsection (2) or (3) is not a multiple of one hundred dollars, the amount of the maximum yearly insurable earnings is rounded down to the nearest multiple of one hundred dollars.

Average Weekly Earnings

- (5) The Average Weekly Earnings for a month is the average weekly earnings of the Industrial Aggregate in Canada for the month as published by Statistics Canada under the authority of the Statistics Act.

PREMIUMS

Premium rate setting

- 66. (1) Subject to subsection (7) and section 66.3, the Board shall set the premium rate for each year in order to generate just enough premium revenue during that year to ensure that at the end of that year
 - a) the total of the amounts credited to the Employment Insurance Operating Account after December 31, 2008 is equal to the total of the amounts charged to that Account after that date; and
 - b) the forecast fair market value of the Board's reserve is equal to the amount determined under subsection (5).

Factors

- (2) Subject to any regulations made under subsections 66.1(2) and 66.2(2), the Board shall set the premium rate based on
 - a) the information provided under sections 66.1 and 66.2;
 - b) the investment income earned by the Board;
 - c) the Board's obligation to manage a reserve, the amount of which is referred to in subsection (5);
 - d) any regulations made under section 69;
 - e) any changes, announced by the Minister on or before September 30 in a year, to payments to be made under paragraph 77(1)(a), (b) or (c) during the following year; and
 - f) any other information that the Board considers relevant.

Restriction

- (3) In exercising its powers and performing its functions and duties, the Board shall not take into account the balance in the Employment Insurance Account.

Reserve

- (4) The Board's reserve is equal to its financial assets less its financial liabilities.

Indexation

- (5) The amount referred to in paragraph (1)(b) is equal to the amount of the payment made under section 70.1, indexed annually, on a compound basis, beginning in the year in which that payment is made, in accordance with the regulations.

Regulations — indexation

- (6) On the joint recommendation of the Minister and the Minister of Finance, the Governor in Council may make regulations respecting the method for indexing, for the purposes of subsection (5).

Difference year to year

- (7) The premium rate may not be increased or decreased by more than fifteen one-hundredths of one per cent (0.15%) from one year to the next.

Governor in Council — maximum change in premium rate

- (8) On the joint recommendation of the Minister and the Minister of Finance, the Governor in Council may change the maximum percentage referred to in subsection (7) by which the premium rate may be increased or decreased from one year to the next, if the Governor in Council considers it to be in the public interest.

Time limit

- (9) On or before November 14 in a year, the Board shall set the premium rate for the following year.

Information provided

- 66.1 (1) The Minister shall, on or before September 30 in a year, provide the Board with the following information:
 - a) if the Minister has made an announcement referred to in paragraph 66(2)(e), the forecast change in the amount of the payments to be made during the following year under paragraph 77(1)(a), (b) or (c), as the case may be;
 - b) the forecast costs to be paid under paragraphs 77(1)(d) and (f) during the following year, including any forecast change in those costs resulting from any change to the payments referred to in paragraph (a);
 - c) the total of the amounts charged to the Employment Insurance Operating Account as of the last day of the most recent month for which that total is known by the Minister; and
 - d) any prescribed information.

Regulations

- (2) On the recommendation of the Minister, the Governor in Council may make regulations
 - a) prescribing information referred to in paragraph (1)(d); and

- b) specifying which of the information referred to in subsection (1) is binding on the Board.

Information provided

- 66.2 (1) The Minister of Finance shall, on or before September 30 in a year, provide the Board with the following information:
- a) the most current forecast values of the economic variables that are relevant to the determination under section 66 of a premium rate for the following year;
 - b) the amounts forecast under subparagraphs 77.1(1)(a)(i) and (ii) and the total estimated under subparagraph 77.1(1)(a)(iii);
 - c) the amount of any payment to be made under subsection 77.1(2) or (4) during the year; and
 - d) any prescribed information.

Regulations

- (2) On the recommendation of the Minister of Finance, the Governor in Council may make regulations
 - a) prescribing information referred to in paragraph (1)(d); and
 - b) specifying which of the information referred to in subsection (1) is binding on the Board.

Governor in Council

- 66.3 (1) On the joint recommendation of the Minister and the Minister of Finance, the Governor in Council may, on or before November 30 in a year,
- a) if the Governor in Council considers it to be in the public interest, substitute a premium rate for the following year that is different from the one set by the Board under section 66; or
 - b) if the Board has not set a premium rate under that section by November 14 in the year, set one for the following year.

Rounding percentage rates

- 66.4 If the calculation of a premium rate under section 66 or 66.3 results in a rate that includes a fraction of one per cent, the resulting percentage is to be rounded to the nearest one-hundredth of one per cent or, if the resulting percentage is equidistant from two one-hundredths of one percent, to the higher of them.

Statutory Instruments Act

- 66.5 The Statutory Instruments Act does not apply in respect of a premium rate set under section 66 or 66.3 or the premiums determined under sections 67 and 68. However, the premium rates must, as soon as possible, be published by the Board in Part I of the Canada Gazette.

Employee's premium

67. Subject to section 70, a person employed in insurable employment shall pay, by deduction as provided in subsection 82(1), a premium equal to their insurable earnings multiplied by the premium rate set under section 66 or 66.3, as the case may be.

Employer's premium

68. Subject to sections 69 and 70, an employer shall pay a premium equal to 1.4 times the employees' premiums that the employer is required to deduct under subsection 82(1).

Premium reduction — wage-loss plans

69. (1) The Commission shall, with the approval of the Governor in Council, make regulations to provide a system for reducing the employer's premium where
- a) the payment of any allowances, money or other benefits because of illness, injury, quarantine, pregnancy, child care or compassionate care under a plan that covers insured persons employed by the employer, other than one established under provincial law, would have the effect of reducing the special benefits payable to the insured persons; and
 - b) the insured persons will benefit from the reduction of the employer's premium in an amount at least equal to 5/12 of the reduction.

Provincial plans

- (2) The Commission shall, with the approval of the Governor in Council, make regulations to provide a system for reducing the employer's and employee's premiums, the premiums under Part VII.1 or all those premiums, when the payment of any allowances, money or other benefits because of illness, injury, quarantine, pregnancy, child care or compassionate care under a provincial law to insured persons, or to selfemployed persons, as the case may be, would have the effect of reducing or eliminating the special benefits payable to those insured persons or the benefits payable to those self-employed persons.

Payment of \$2,000,000,000

- 70.1 There may be paid out of the Consolidated Revenue Fund, on the requisition of the Minister of Finance, an amount of two billion dollars to the Board.

EMPLOYMENT INSURANCE OPERATING ACCOUNT**Employment Insurance Operating Account established**

- 70.2 There is established in the accounts of Canada an account to be known as the Employment Insurance Operating Account.

Payment into Consolidated Revenue Fund

72. There shall be paid into the Consolidated Revenue Fund
- a) all amounts received under Parts I and III to IX, as or on account of premiums, fines, penalties, interest, repayment of overpaid benefits and benefit repayment;

- b) all amounts collected by the Commission for services rendered to other government departments or agencies or to the public; and
- c) all amounts received on account of principal or interest on loans made by the Commission under Part II or as repayment of overpayments made by the Commission under that Part.

Credits to Employment Insurance Operating Account

- 73. There shall be credited to the Employment Insurance Operating Account and charged to the Consolidated Revenue Fund
 - a) an amount in each year equal to the amount receivable as or on account of premiums payable for that year under this Act;
 - b) any other amounts provided out of the Consolidated Revenue Fund appropriated by Parliament for any purpose related to employment insurance and administered by the Commission; and
 - c) an amount equal to all benefit repayments receivable under Part VII.
- 73.1 There shall be credited to the Employment Insurance Operating Account on August 1, 2010 the amount determined by the Minister of Finance that corresponds to the cost of the benefit enhancement measures under this Act, provided for in the budget tabled in Parliament on January 27, 2009 in which the cost is estimated to be \$2,900,000,000.
- 74. There shall be credited to the Employment Insurance Operating Account and charged to the Consolidated Revenue Fund an amount equal to the premiums required to be paid by Her Majesty in right of Canada as employer's premiums for persons employed in insurable employment by Her Majesty in right of Canada.
- 75. There shall be credited to the Employment Insurance Operating Account all amounts paid into the Consolidated Revenue Fund that are
 - a) received as or on account of penalties imposed under section 38, 39 or 65.1 and repayments of overpaid benefits, except interest and penalties on benefit repayment;

Charges to the Account

- 77. (1) There shall be paid out of the Consolidated Revenue Fund and charged to the Employment Insurance Operating Account
 - a) all amounts paid as or on account of benefits under this Act;
 - b) all amounts paid under section 61 for employment benefits and support measures authorized by Part II;
 - c) all amounts paid under paragraph 63(a);
 - d) the costs of administering this Act, including administration fees or costs paid under section 62 or paragraph 63(b);

- e) the costs to the Board of administering the Canada Employment Insurance Financing Board Act; and
- f) the costs to Her Majesty in right of Canada of administering that Act.

Forecasts and estimates

77.1 (1) On or before September 30 in a year,

- a) the Minister of Finance shall
 - i) forecast the amount to be credited to the Employment Insurance Operating Account under sections 73 to 75 during the year,
 - ii) forecast the amount to be charged, during the year, to that Account under subsection 77(1) based on, among other things, information provided by the Minister, and
 - iii) estimate the total, at December 31 of the immediately preceding year, of the amounts credited to that Account; and
- b) the Minister shall estimate the total, at December 31 of the immediately preceding year, of the amounts charged to that Account.

Payment to Board

- (2) A payment in the amount determined under subsection (3) is to be made on or before October 31 in a year to the Board out of the Consolidated Revenue Fund, on the requisition of the Minister of Finance, and charged to the Employment Insurance Operating Account if

$$(A + C) > (B + D)$$

where

- A is the amount forecast under subparagraph (1)(a)(i);
- B is the amount forecast under subparagraph (1)(a)(ii);
- C is the total estimated under subparagraph (1)(a)(iii); and
- D is the total estimated under paragraph (1)(b).

Amount of payment to Board

- (3) For the purpose of subsection (2), the amount of the payment is an amount equal to the amount calculated in accordance with the following formula:

$$(A + C) - (B + D)$$

where

- A is the amount forecast under subparagraph (1)(a)(i);
- B is the amount forecast under subparagraph (1)(a)(ii);
- C is the total estimated under subparagraph (1)(a)(iii); and
- D is the total estimated under paragraph (1)(b).

Payment by Board

- (4) A payment in the amount determined under subsection (5) is to be made on or before October 31 in a year, or at any later date that the Minister of Finance may specify, by the Board to the Consolidated Revenue Fund and credited to the Employment Insurance Operating Account if

$$(A + C) < (B + D)$$

where

- A is the amount forecast under subparagraph (1)(a)(i);
 B is the amount forecast under subparagraph (1)(a)(ii);
 C is the total estimated under subparagraph (1)(a)(iii); and
 D is the total estimated under paragraph (1)(b).

Amount of payment by Board

- (5) For the purpose of subsection (4), the amount of the payment is an amount equal to the lesser of the amount of the Board's reserve referred to in subsection 66(4) and the amount calculated in accordance with the following formula:

$$(B + D) - (A + C)$$

where

- A is the amount forecast under subparagraph (1)(a)(i);
 B is the amount forecast under subparagraph (1)(a)(ii);
 C is the total estimated under subparagraph (1)(a)(iii); and
 D is the total estimated under paragraph (1)(b).

Terms and conditions

- (6) Payments under this section must be made in the manner and on the terms and conditions that the Minister of Finance may establish after consulting with the Minister and the Board.

DEPARTMENT OF HUMAN RESOURCES AND SKILLS DEVELOPMENT ACT

ORGANIZATION AND OPERATION OF THE COMMISSION

Staff

28. (1) The officers and employees necessary for the proper conduct of the business of the Commission shall be employees of the Department.

Agents

- (2) The Commission may enter into contracts with agents in or for locations where the Commission considers it desirable to do so.

Delegation

- (3) The Commission may authorize any person or body, or member of a class of persons or bodies, to exercise powers or perform duties and functions of or delegated to the Commission, and any such authorized person or body or class

of persons or bodies may exercise specified powers or perform specified duties and functions.

Calculations

- (4) The Commission may request the Canada Employment Insurance Financing Board established under subsection 3(1) of the Canada Employment Insurance Financing Board Act to perform calculations for the purposes of sections 4 and 69 of the Employment Insurance Act in accordance with an agreement between the Commission and that Board.

ORDER IN COUNCIL

His Excellency the Governor General in Council, considering that it is in the public interest to do so, on the recommendation of the Minister of Human Resources and Skills Development and the Minister of Finance, pursuant to subsection 66(8) of the *Employment Insurance Act*, hereby changes the maximum percentage referred to in subsection 66(7) of the Act by which the premium rate may be increased or decreased from one year to the next to the following:

- a) for 2011, five one-hundredths of one per cent (0.05%); and
- b) for 2012 and later, ten one-hundredths of one per cent (0.10%).

APPENDIX III ASSUMPTIONS

HUMAN RESOURCES AND SKILLS DEVELOPMENT CANADA

The following assumptions were provided by the Minister of HRSD to the CEIFB on September 30, 2010.

| HRSD ASSUMPTIONS | | | |
|--|---------------------|-----------------------|-----------------------|
| (\$ MILLIONS) | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| Pilot-Projects | | | |
| Best 14-Weeks | \$311 | \$286 | \$33 |
| Working-on-Claim Threshold/Entry Requirement | \$208 | \$201 | \$12 |
| 5 Additional Weeks (Regular) | \$160 | \$13 | \$0 |
| Transitional Measure | \$25 | \$25 | \$19 |
| Sub-Total | \$704 | \$525 | \$64 |
| <i>Budget 2009 Measures</i> | | | |
| 5 Additional Weeks (Regular) | \$707 | \$715 | \$80 |
| Carear Transition Assistance | \$2 | \$75 | \$55 |
| Work-Sharing Enhancement | \$153 | \$135 | \$25 |
| EI Training (LMDA) | \$329 | \$500 | \$171 |
| Sub-Total | \$1,191 | \$1,425 | \$331 |
| Additional Weeks (Long-Tenured) | \$39 | \$732 | \$320 |
| Total | \$1,934 | \$2,682 | \$715 |
| (\$ MILLIONS) | ACTUAL 2009-2010 | FORECAST 2010-2011 | FORECAST 2011-2012 |
| EBSM (Excluding <i>Budget 2009</i>) | \$2,106 | \$2,124 | \$2,125 |
| Administration Costs | \$2,031 | \$1,978 | \$1,770 |

DEPARTMENT OF FINANCE

The following assumptions were provided by the Minister of Finance to the CEIFB on September 30, 2010.

| TABLE 2.2.2 - DEPARTMENT OF FINANCE ASSUMPTIONS | | | |
|---|----------------|------------------|------------------|
| (THOUSANDS) | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| Working-Age Population (POP) | 27,309 | 27,714 | 28,066 |
| Labour Force (LF) | 18,372 | 18,640 | 18,897 |
| Employed (EMP) | 16,849 | 17,138 | 17,440 |
| Paid-Workers (PW) | 14,147 | 14,433 | 14,666 |
| Self-Employed (SE) | 2,702 | 2,705 | 2,774 |
| Unemployed (UN) | 1,523 | 1,502 | 1,457 |
| | ACTUAL 2009 | FORECAST 2010 | FORECAST 2011 |
| Unemployment Rate (UR) | 8.30% | 8.10% | 7.70% |
| Average Weekly Earnings (AWE) | \$823.25 | \$849.75 | \$866.00 |

CHIEF ACTUARY

The following assumptions were formulated by the Chief Actuary of the CEIFB based on historical data obtained from HRSD, Statistics Canada and CRA.

| CHIEF ACTUARY ASSUMPTIONS | | | |
|---|--------|--------|--------|
| | 2009 | 2010 | 2011 |
| Week-Weight | 52.04 | 52.00 | 52.00 |
| B/U Ratio | 47.10% | 43.96% | 44.94% |
| Wage-Loss Reduction: | | | |
| % average reduction | 0.37% | 0.38% | 0.38% |
| % eligible IE | 48% | 48% | 48% |
| Ratio of employee premium refunds to gross premiums | 1.003% | 1.003% | 1.003% |
| % IE above MIE | 57.73% | 57.84% | 57.88% |
| % IE below MIE | 42.27% | 42.16% | 42.12% |
| % regular claims with IE above MIE | 46.83% | 46.11% | 46.62% |
| % regular claims with IE below MIE | 53.17% | 53.89% | 53.38% |

APPENDIX IV

2008 INSURABLE EARNINGS OF SALARIED EMPLOYEES

Insurable earnings of salaried employees are projected for the rate-setting year from the base year using the growth in employment and average earnings, as per Statistics Canada, with estimates provided by the Department of Finance. As 2008 is the most recent tax-year for which complete data is available as of the date of this report, it shall therefore be used as the base.

Complete EI premium data is only available two years after the end of the tax-year. The 2009 EI premium revenue, as finalized in 2010 and reported in the EI Operating Account, is an estimate for 2009 premiums and includes an adjustment for the difference between the 2008 estimate and actual.

While CRA does provide HRSD with estimates of insurable earnings, based on the aggregate of T4 summaries submitted by employers, there are discrepancies between this estimate and the amount of EI premium revenue assessed. Therefore, the Chief Actuary calculates the insurable earnings based on the level of premiums, as per the monthly statements of EI premium revenues prepared by CRA and submitted to HRSD. This method allows the Chief Actuary to adjust the insurable earnings for the inclusion of late-processed premiums in the tax-year for which the earnings on which the premiums were contributed occurred, to give a more accurate estimate of earnings resulting from insured employment.

From the CRA statement, **\$16,886 million** in EI premiums were assessed for tax-year 2008 as of December 31, 2009. As of August 31, 2010, an additional **\$12 million** in late-processed premiums was assessed for tax-year 2008, for a combined **\$16,898 million** in net EI premiums.

Insurable earnings are derived from gross EI premiums, or net EI premiums less the wage-loss reduction and employee premium refunds, and the corresponding EI premium rates, taking into account the distribution of premiums between Quebec and all other provinces due to the reduced Quebec EI premium rate. The distribution of insurable earnings by province of employment is taken from a separate CRA report, the T4 supplementary report. The data on EI contributions based on province of employment is more complete than by province of residence as not everyone who receives a T4 slip files a T1 return for the year.

As per CRA, the wage-loss reduction totalled **\$809 million** in 2008. Employee refunds totalled **\$224 million**. Gross EI premium revenue for 2008, including adjustment for late-processed premiums and refunds, is determined to be **\$17,931 million**.

Based on the T4 supplementary report, **77.8%** of insurable earnings were earned outside the province of Quebec while **22.2%** of insurable earnings were earned in the province of Quebec. As the EI premium rates in 2008 for all provinces other than Quebec and for Quebec were \$1.73 and \$1.39, respectively, based on the level of gross EI premiums assessed for tax-year 2008 and the distribution of insurable earnings between Quebec and all other provinces, insurable earnings for 2008 are determined by the following formula:

| |
|---|
| $\text{TIE}_{2008} = \frac{\$17,931 \text{ M}}{2.4 \times (77.8\% \times 1.73\% + 22.2\% \times 1.39\%)}$ |
|---|

From the method described above, the Chief Actuary has estimated insurable earnings of salaried employees for 2008 at **\$451,609 million**.

| TOTAL INSURABLE EARNINGS | |
|---|----------------------|
| (\$ THOUSANDS) | 2008 |
| Net EI Premium Revenues | |
| Premiums (2009) | \$16,885,840 |
| Premiums (2010) | \$11,843 |
| Total | \$16,897,683 |
| Employee Premium Refunds | |
| Refunds (2009) | \$214,945 |
| Refunds (2010) | \$13,936 |
| Employee Overage | (\$4,594) |
| Total | \$224,286 |
| Wage-Loss Premium Reduction | \$809,481 |
| Gross EI Premium Revenues | \$17,931,450 |
| Distribution of Insurable Earnings (T4) | |
| Quebec | 22.23% |
| Outside Quebec | 77.77% |
| EI Premium Rates | |
| Quebec | 1.39% |
| Outside Quebec | 1.73% |
| Total Insurable Earnings | \$451,608,989 |

APPENDIX V

DISTRIBUTION OF SALARIED INSURABLE EARNINGS

BACKGROUND

Subsection 69(2) of the Act provides that the Commission can make regulations to provide a system for reducing the employer and employee premiums when the payment of any allowances, money or other benefits because of illness, injury, quarantine, pregnancy, child care or compassionate care under a provincial law to insured persons would have the effect of reducing or eliminating the special benefits payable to those insured persons.

A Provincial Plan (PP) is a plan, established under a provincial law, that provides for the payment of provincial benefits (PB) and in respect of which an agreement has been entered into between the Government of Canada and the province to establish a system for reducing employer and employee premiums where the payment of those benefits would have the effect of reducing or eliminating benefits payable under section 22 or 23 of the Act.

On March 1st 2005, an agreement was reached between the Government of Canada and the Government of Quebec which included a financial mechanism whereby the Government of Canada reduces Employment Insurance premiums of workers and employers in the province so that the Government of Quebec can collect premiums for its own program. The premium reduction reflects the cost reductions to the EI Account realized as a result of Quebec's program, including benefits that are no longer paid under EI and administrative savings.

Since January 31, 2010, under *The Fairness for the Self-Employed Act*, 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 or adopted child, or caring for a seriously ill family member.

Section 76.06 of the *EI Regulations* prescribes the formula used to calculate such reduction. As per section 66.1(1) of the EI Act, the Minister of HRSD has informed the Board of the intended modification to the reduction formula to include the benefit payments and insurable earnings attributable to self-employed participants to EI.

BREAKDOWN OF SALARIED EMPLOYEES INSURABLE EARNINGS

In order to determine the EI break-even rate for provinces where there is no PP and the EI premium rate for provinces where there is a PP, it is necessary to determine the amount of salaried insurable earnings (IE) that corresponds to the provinces where there is a PP and provinces where there is no PP. These IE must be determined on the basis of the province of residence since eligibility for a PP is based on residency.

The data used in order to allocate IE on a residency basis has two components.

The first component is the IE by province of work as per the T4 supplementary report which is obtained from the PAYDAC (Payroll Deduction System) file produced by the Canada Revenue Agency.

The following table illustrates the data for which 2009 is the last available year and is preliminary:

| SALARIED INSURABLE EARNINGS BY PROVINCE OF EMPLOYMENT (T4) | | | | |
|--|----------------|-----------------------|----------------|-----------|
| YEAR | (\$ THOUSANDS) | | | (2) / (3) |
| | QUEBEC (1) | OUTSIDE QUEBEC (2) | CANADA (3) | |
| 1985 | \$ 39,254,840 | \$ 122,835,840 | \$ 162,090,680 | 75.78% |
| 1986 | \$ 42,443,750 | \$ 133,301,610 | \$ 175,745,360 | 75.85% |
| 1987 | \$ 46,404,889 | \$ 145,331,001 | \$ 191,735,890 | 75.80% |
| 1988 | \$ 50,975,418 | \$ 159,061,133 | \$ 210,036,550 | 75.73% |
| 1989 | \$ 54,285,959 | \$ 174,139,688 | \$ 228,425,646 | 76.23% |
| 1990 | \$ 57,575,209 | \$ 185,984,995 | \$ 243,560,204 | 76.36% |
| 1991 | \$ 58,775,065 | \$ 189,868,418 | \$ 248,643,483 | 76.36% |
| 1992 | \$ 59,050,502 | \$ 190,122,239 | \$ 249,172,741 | 76.30% |
| 1993 | \$ 59,298,827 | \$ 190,562,863 | \$ 249,861,690 | 76.27% |
| 1994 | \$ 63,039,914 | \$ 204,698,129 | \$ 267,738,043 | 76.45% |
| 1995 | \$ 64,861,720 | \$ 212,844,359 | \$ 277,706,079 | 76.64% |
| 1996 | \$ 63,488,538 | \$ 207,297,790 | \$ 270,786,328 | 76.55% |
| 1997 | \$ 68,739,431 | \$ 230,397,028 | \$ 299,136,459 | 77.02% |
| 1998 | \$ 70,698,379 | \$ 239,203,933 | \$ 309,902,313 | 77.19% |
| 1999 | \$ 74,178,421 | \$ 248,574,572 | \$ 322,752,993 | 77.02% |
| 2000 | \$ 78,549,703 | \$ 263,071,509 | \$ 341,621,212 | 77.01% |
| 2001 | \$ 80,612,889 | \$ 270,720,071 | \$ 351,332,960 | 77.06% |
| 2002 | \$ 82,687,226 | \$ 274,926,929 | \$ 357,614,155 | 76.88% |
| 2003 | \$ 85,104,143 | \$ 281,506,279 | \$ 366,610,422 | 76.79% |
| 2004 | \$ 87,199,358 | \$ 289,770,287 | \$ 376,969,645 | 76.87% |
| 2005 | \$ 89,294,897 | \$ 302,583,780 | \$ 391,878,677 | 77.21% |
| 2006 | \$ 91,401,181 | \$ 316,952,083 | \$ 408,353,264 | 77.62% |
| 2007 | \$ 95,653,855 | \$ 334,471,279 | \$ 430,125,134 | 77.76% |
| 2008 | \$ 99,594,343 | \$ 351,248,149 | \$ 450,842,491 | 77.91% |

The second component is the EI premiums by province of residence extracted from tax returns (T1s) of the Canada Revenue Agency. Since insurable earnings are not part of the available data that can be collected from tax returns (T1s), it is necessary to divide the premium revenues by the EI contribution rate for that year to obtain the amount of insurable earnings. The resulting IE corresponds to the distribution according to the province of residence (T1).

The following table outlines the data, for which 2008 is the last available year:

| SALARIED INSURABLE EARNINGS BY PROVINCE OF RESIDENCE (T1) | | | | | | | | |
|---|-------------------------|----------------|--------------|-----------------|---|----------------|----------------|-----------|
| YEAR | EI PREMIUMS (AS PER T1) | | | | SALARIED INSURABLE EARNINGS (T1 PREMIUMS) | | | |
| | (\$ THOUSANDS) | | | EI PREMIUM RATE | (\$ THOUSANDS) | | | (2) / (3) |
| | QUEBEC | OUTSIDE QUEBEC | CANADA | | QUEBEC | OUTSIDE QUEBEC | CANADA | |
| 1985 | \$ 890,901 | \$ 2,748,278 | \$ 3,639,179 | 2.35% | \$37,910,681 | \$ 116,948,000 | \$ 154,858,681 | 75.52% |
| 1986 | \$ 939,876 | \$ 2,996,240 | \$ 3,936,116 | 2.35% | \$39,994,723 | \$ 127,499,574 | \$ 167,494,298 | 76.12% |
| 1987 | \$1,049,243 | \$ 3,244,524 | \$ 4,293,767 | 2.35% | \$44,648,638 | \$ 138,064,851 | \$ 182,713,489 | 75.56% |
| 1988 | \$1,147,928 | \$ 3,546,179 | \$ 4,694,107 | 2.35% | \$48,848,000 | \$ 150,901,234 | \$ 199,749,234 | 75.55% |
| 1989 | \$1,054,752 | \$ 3,170,057 | \$ 4,224,809 | 1.95% | \$54,089,846 | \$ 162,567,026 | \$ 216,656,872 | 75.03% |
| 1990 | \$1,253,369 | \$ 3,937,109 | \$ 5,190,478 | 2.25% | \$55,705,289 | \$ 174,982,622 | \$ 230,687,911 | 75.85% |
| 1991 | \$ 1,371,863 | \$ 4,524,918 | \$ 5,896,781 | 2.25% / 2.80% | \$ 54,331,208 | \$ 179,204,673 | \$ 233,535,881 | 76.74% |
| 1992 | \$1,766,173 | \$ 5,543,640 | \$ 7,309,813 | 3.00% | \$58,872,433 | \$ 184,788,000 | \$ 243,660,433 | 75.84% |
| 1993 | \$1,819,079 | \$ 5,676,700 | \$ 7,495,779 | 3.00% | \$60,635,967 | \$ 189,223,333 | \$ 249,859,300 | 75.73% |
| 1994 | \$1,924,727 | \$ 5,752,251 | \$ 7,676,978 | 3.07% | \$62,694,691 | \$ 187,369,739 | \$ 250,064,430 | 74.93% |
| 1995 | \$1,883,004 | \$ 6,121,480 | \$ 8,004,484 | 3.00% | \$62,766,800 | \$ 204,049,333 | \$ 266,816,133 | 76.48% |
| 1996 | \$1,859,865 | \$ 5,796,353 | \$ 7,656,218 | 2.95% | \$63,046,271 | \$ 196,486,542 | \$ 259,532,814 | 75.71% |
| 1997 | \$1,903,966 | \$ 5,926,696 | \$ 7,830,662 | 2.90% | \$65,654,000 | \$ 204,368,828 | \$ 270,022,828 | 75.69% |
| 1998 | \$1,846,371 | \$ 5,855,202 | \$ 7,701,573 | 2.70% | \$68,384,111 | \$ 216,859,333 | \$ 285,243,444 | 76.03% |
| 1999 | \$1,829,864 | \$ 5,803,623 | \$ 7,633,487 | 2.55% | \$71,759,373 | \$ 227,593,059 | \$ 299,352,431 | 76.03% |
| 2000 | \$1,826,088 | \$ 5,737,598 | \$ 7,563,686 | 2.40% | \$76,087,000 | \$ 239,066,583 | \$ 315,153,583 | 75.86% |
| 2001 | \$1,756,471 | \$ 5,515,569 | \$ 7,272,040 | 2.25% | \$78,065,378 | \$ 245,136,400 | \$ 323,201,778 | 75.85% |
| 2002 | \$1,690,198 | \$ 5,226,450 | \$ 6,916,648 | 2.20% | \$76,827,182 | \$ 237,565,909 | \$ 314,393,091 | 75.56% |
| 2003 | \$1,654,220 | \$ 5,075,509 | \$ 6,729,729 | 2.10% | \$78,772,381 | \$ 241,690,905 | \$ 320,463,286 | 75.42% |
| 2004 | \$1,601,090 | \$ 4,953,745 | \$ 6,554,835 | 1.98% | \$80,863,131 | \$ 250,189,141 | \$ 331,052,273 | 75.57% |
| 2005 | \$1,597,647 | \$ 5,034,428 | \$ 6,632,075 | 1.95% | \$81,930,615 | \$ 258,175,795 | \$ 340,106,410 | 75.91% |
| 2006 | \$1,266,608 | \$ 4,978,434 | \$ 6,245,042 | 1.87% | \$82,784,837 | \$ 266,226,417 | \$ 349,011,254 | 76.28% |
| 2007 | \$1,223,225 | \$ 4,811,233 | \$ 6,034,458 | 1.80% | \$83,782,534 | \$ 267,290,722 | \$ 351,073,256 | 76.14% |
| 2008 | \$1,219,976 | \$ 4,905,443 | \$ 6,125,419 | 1.73% | \$88,404,058 | \$ 283,551,618 | \$ 371,955,676 | 76.23% |

Note that for 1991, 2.25% is for January 1 to June 30 while 2.80% is for July 1 to December 31.

The available data therefore shows T4 distributions up to 2009, and T1 distributions up to 2008. As a first step, a forecast of the T4 distribution is produced for 2010 and 2011. Secondly, these T4 forecasts are used in forecasting the 2009, 2010 and 2011 T1 distributions.

FORECAST OF THE 2010 AND 2011 T4 DISTRIBUTION

These estimates are produced using a linear regression technique, based on the following historical variables:

1. the unemployment rate;
2. the MIE;
3. the EI insured population;
4. the proportion of IE above the MIE;
5. the annual increase in average weekly earnings.

The regression showed that as much as 92.0% of the total variance of the proportion of insurable earnings for provinces without a PP to total insurable earnings for Canada on a T4 basis can be explained by the above five variables, therefore providing a good fit to the historical data.

FORECAST OF THE 2009, 2010 AND 2011 T1 DISTRIBUTION

These estimates are produced using a linear regression technique, based on the following historical variables (and using the T4 estimates for 2010 and 2011 derived above):

1. the unemployment rate;
2. the MIE;
3. the insured population;
4. the proportion of IE for provinces without a PP to the total IE for Canada, according to the T4s;
5. the proportion of IE above the MIE;
6. the annual increase in average weekly earnings.

The regression showed that as much as 86.0% of the total variance of the proportion of salaried insurable earnings for provinces without a PP to total salaried insurable earnings for Canada, on a residency basis (T1), can be explained by the above six variables, therefore providing a good fit to the historical data.

The following table shows the results:

| PROPORTION OF SALARIED INSURABLE EARNINGS OUTSIDE QUEBEC | | | |
|--|--------|--------|--------|
| YEAR | 2009 | 2010 | 2011 |
| T4 Basis | 77.61% | 77.60% | 77.66% |
| T1 (Residency) Basis | 75.44% | 75.42% | 75.42% |

APPENDIX VI

REDUCTION FOR WAGE-LOSS REPLACEMENT PLANS

BACKGROUND

Section 62 of the EI Regulations prescribes the Methodology to be used for determining the rates of premium reduction for employer premiums when employees are covered by qualified wage-loss replacement plan which reduce EI benefits otherwise payable.

In order to minimize the extent of disruptions among existing private plans, the qualification criteria reflect as closely as possible the prevailing provisions of private plans. Of course, the main conditions are those of the EI program, namely at least 15 weeks of benefits at the EI benefit rate or equivalent, after a waiting period no longer than two weeks.

There are four categories of premium reduction, which correspond to the main types of wage loss replacement plans offered to workers. The first two categories deal with cumulative paid sick leave plans. These are plans under which workers accumulate a certain number of sick days for each month that they work. There may or may not be a limit on the maximum number of days that may thus be accumulated. The other two categories are for workers whose full entitlement to sick coverage becomes effective as soon as they are hired. Such entitlement remains fixed thereafter no matter how long one works. This type of plan is the most prevalent.

| | |
|--------------------|--|
| Category 1: | <i>Cumulative paid sick leave plans that allow for a minimum monthly accumulation of at least one day and for a maximum accumulation of at least 75 days.</i> |
| Category 2: | <i>Enhanced cumulative paid sick leave plans that allow for a minimum monthly accumulation of at least one day and two thirds and for a maximum accumulation of at least 125 days.</i> |
| Category 3: | <i>Weekly indemnity plans with a maximum benefit period of at least 15 weeks.</i> |
| Category 4: | <i>Weekly indemnity plans provided by certain public and parapublic employers of a province with a maximum benefit period of at least 52 weeks.</i> |

The data, assumptions, methodology and resulting reductions are outlined in a separate extensive actuarial report, the *Report of the Chief Actuary on the Employment Insurance Rates of Premium Reduction for Registered Wage-Loss Replacement Plans*.

Essentially, the rates of premium reduction are found by estimating the amount of cost savings to the EI program that are generated by qualified WLR plans. As it would not be practical to do this on an individual employer basis nor even possible to make the calculation for new employers or small firms, the rates of premium reduction compensate employers and their employees for the average rate of EI benefit savings that are generated by qualified plans in each category.

It should be noted that EI sickness benefits could still be paid to persons covered by qualified plans, such as when these persons have exhausted their entitlement to benefits under these plans. Since the average cost of such EI benefits will vary from one category of qualified plans to another, the average rate of savings, and thus the rate of premium reduction, must also vary between the four categories.

METHOD

The estimate of the premium reduction amount in 2011 is obtained by multiplying $A \times B \times C$, where:

A = Total salaried insurable earnings;

B = Proportion of total salaried insurable earnings covered by qualified WLR plans;

C = Average Reduction as a percentage of insurable earnings.

Based on data provided by EI Payments & Information Systems, Service Canada, the following table outlines the distribution insurable earnings per Category, as a percent of total salaried insurable earnings covered by qualified WLR plans:

| DISTRIBUTION OF INSURABLE EARNINGS COVERED BY A QUALIFIED WLR PLAN | | | | | |
|--|--------|--------|--------|--------|--------|
| WLR Plan | 2006 | 2007 | 2008 | 2009 | 2010 |
| Category 1 | 17.90% | 17.67% | 19.30% | 19.30% | 19.30% |
| Category 2 | 6.29% | 6.36% | 6.42% | 6.42% | 6.42% |
| Category 3 | 68.86% | 69.06% | 67.09% | 67.09% | 67.09% |
| Category 4 | 6.95% | 6.91% | 7.19% | 7.19% | 7.19% |

The following table shows historical reductions granted as a percentage of insurable earnings covered by qualified WLR plans, per category:

| WAGE-LOSS REDUCTIONS (% OF INSURABLE EARNINGS) | | | | | |
|--|-------|-------|-------|-------|-------|
| WLR Plan | 2006 | 2007 | 2008 | 2009 | 2010 |
| Category 1 | 0.25% | 0.26% | 0.27% | 0.28% | 0.28% |
| Category 2 | 0.36% | 0.38% | 0.40% | 0.41% | 0.41% |
| Category 3 | 0.34% | 0.36% | 0.38% | 0.39% | 0.40% |
| Category 4 | 0.38% | 0.39% | 0.41% | 0.42% | 0.43% |
| Weighted Average | 0.33% | 0.35% | 0.36% | 0.37% | 0.38% |

The Weighted Average Reduction is based on the distribution of insurable earnings covered by qualified WLR plans in the first table. It was therefore assumed that the average reduction in 2011 for qualified WLR Plans would be equal to the 2010 estimated average of 0.38%.

Based on data provided by EI Payments & Information Systems, Service Canada, the proportion of total insurable earnings covered by a qualified WLR plan in 2008, the most recent available year, was around 48%. This proportion has been historically very stable; consequently, it was assumed that the same proportion would apply in 2011.

RESULTS

Based on the above, the following table shows the premium reduction estimates for 2009, 2010 and 2011:

| PREMIUM REDUCTION ESTIMATES (\$ MILLIONS) | | | | |
|--|---------------------------|-------------------------------------|---------------------------------|--|
| Year | Insurable Earnings (A) | Proportion IE covered by WLR (B) | Average Reduction (% IE) (C) | Premium Reduction Estimates (A)×(B)×(C) |
| 2009 | \$451,251 | 48.0% | 0.37% | \$801 |
| 2010 | \$472,295 | 48.0% | 0.38% | \$861 |
| 2011 | \$490,232 | 48.0% | 0.38% | \$894 |

APPENDIX VII

RATIO OF EMPLOYEE PREMIUM REFUNDS

It is necessary for the forecasted break-even rate calculation to include the ratio of employee premiums refunds to gross EI premiums in order to increase the break-even rate to account for insurable earnings on which employees do not pay premiums due to having reached their annual maximum contribution.

The CRA statement of EI premium revenues is on a T4 basis, or province of employment, as it is derived from employer T4 summaries; however, as eligibility for maternity-parental-adoption benefits is determined by province of residence, the premium reduction due to QPIP must be calculated on a T1 basis.

A Quebec resident employed in another province will have EI premiums deducted by the employer, up to the annual MIE, based on the higher EI premium rate that includes the MPA rate. When this person files a T1 return following the end of the tax year, they will be entitled to a refund equal to the MPA reduction multiplied by their insurable earnings. Since the implementation of QPIP in 2006, the employee premium refunds, as reported by CRA, have included refunds due to the MPA reduction. For the purposes of the forecast break-even rate, as the MPA reduction is calculated on a T1 basis as per the Canada-Quebec Agreement, the employee premium refunds are adjusted for the difference between the QPIP reduction on a T4 and a T1 basis, with no impact on the final amount of net premium revenue.

| RATIO OF EMPLOYEE PREMIUM REFUND TO GROSS PREMIUMS | | | |
|--|----------------------|----------------------|----------------------|
| (\$ THOUSANDS) | 2006 | 2007 | 2008 |
| Premium Rate (Outside Quebec) | 1.87% | 1.80% | 1.73% |
| Premium Rate (Quebec) | 1.53% | 1.46% | 1.39% |
| Total Insurable Earnings | \$ 409,093,622 | \$ 430,559,179 | \$ 451,608,989 |
| 2.4 x TIE x PR | \$ 18,360,122 | \$ 18,600,157 | \$ 18,750,805 |
| Less: QPIP Reduction (T4) | \$ (747,140) | \$ (781,164) | \$ (819,355) |
| Sub-Total (Gross Premium) | \$ 17,612,982 | \$ 17,818,992 | \$ 17,931,450 |
| Less: Wage-Loss Reduction | \$ (658,009) | \$ (722,714) | \$ (809,481) |
| Less: Employee Refund | \$ (213,992) | \$ (218,497) | \$ (224,286) |
| Total (Net Premium) | \$ 16,740,981 | \$ 16,877,781 | \$ 16,897,683 |
| % Refund/Gross Premium | -1.215% | -1.226% | -1.251% |
| % Insurable Earnings Outside Quebec (T4) | 77.619% | 77.766% | 77.766% |
| % Insurable Earnings Outside Quebec (T1) | 76.280% | 76.696% | 76.663% |
| 2.4 x TIE x PR | \$ 18,360,122 | \$ 18,600,157 | \$ 18,750,805 |
| Less: QPIP Reduction (T1) | \$ (791,816) | \$ (818,766) | \$ (859,986) |
| Sub-Total (Gross Premium) | \$ 17,568,306 | \$ 17,781,390 | \$ 17,890,819 |
| Less: Wage-Loss Reduction | \$ (658,009) | \$ (722,714) | \$ (809,481) |
| Less: Employee Refund (Adjusted) | \$ (169,316) | \$ (180,895) | \$ (183,655) |
| Total (Net Premium) | \$ 16,740,981 | \$ 16,877,781 | \$ 16,897,683 |
| Adjustment to QPIP Reduction | \$ (44,676) | \$ (37,602) | \$ (40,631) |
| Adjustment to Employee Premium Refund | \$ 44,676 | \$ 37,602 | \$ 40,631 |
| % Refund/Gross Premium (Adjusted) | -0.964% | -1.017% | -1.027% |

The three-year average from 2003 to 2005, prior to the implementation of QPIP, is 0.973%, compared to the three-year average from 2006 to 2008 of 1.003%, adjusted for the difference between T1 and T4 distribution. Without the adjustment, the three-year average from 2006 to 2008 is 1.231%, significantly higher than the three-year average from prior to QPIP.

The average adjustment to the employee premiums refunds, which is offset by the corresponding adjustment to the QPIP reduction, is \$41 million.

| RATIO OF EMPLOYEE PREMIUM REFUND TO GROSS PREMIUMS | | | |
|--|----------------|----------------|----------------|
| (\$ THOUSANDS) | 2003 | 2004 | 2005 |
| Total Insurable Earnings | \$ 368,271,523 | \$ 380,010,436 | \$ 392,917,806 |
| Premium Rate | 2.10% | 1.98% | 1.95% |
| 2.4 x TIE x PR | \$ 18,560,885 | \$ 18,058,096 | \$ 18,388,553 |
| Less: Wage-Loss Reduction | \$ (521,765) | \$ (549,170) | \$ (600,335) |
| Sub-Total | \$ 18,039,119 | \$ 17,508,926 | \$ 17,788,218 |
| Less: Employee Refund | \$ (168,228) | \$ (173,263) | \$ (193,732) |
| Total (Net Premium) | \$ 17,870,892 | \$ 17,335,663 | \$ 17,594,486 |
| % Refund/Gross Premium | -0.906% | -0.959% | -1.054% |

APPENDIX VIII

SELF-EMPLOYED EARNINGS AND BENEFITS

ESTIMATES OF EARNINGS

Service Canada tracks the number of weekly self-employed enrolments to the EI program by province. The Processing and Payment Services Branch provided the available enrolment data for each week between February 6 and August 21, 2010. The data shows the net number of enrolments per province. However, it does not outline any information on gender or historical earnings.

As self-employed earnings must be calculated for both residents of all Provinces, except Quebec, as well as for Quebec residents, the most recent data available by province was used to estimate the number of total enrolments in 2010 and 2011:

| WEEKLY SELF-EMPLOYMENT EI ENROLMENTS (AS OF SEP. 25, 2010) | | | | |
|--|--------------------|-------------------------------|---------------------------|--------------------------------------|
| Week ending | Quebec Net Opt ins | Cumulative Quebec Net Opt ins | Out-of-Quebec Net Opt ins | Cumulative Out-of-Quebec Net Opt ins |
| February 6, 2010 | 36 | 36 | 156 | 156 |
| February 13, 2010 | 32 | 68 | 96 | 252 |
| February 20, 2010 | 32 | 100 | 137 | 389 |
| February 27, 2010 | 41 | 141 | 134 | 523 |
| March 6, 2010 | 51 | 192 | 175 | 698 |
| March 13, 2010 | 35 | 227 | 157 | 855 |
| March 20, 2010 | 52 | 279 | 261 | 1,116 |
| March 27, 2010 | 83 | 362 | 381 | 1,497 |
| April 3, 2010 | 94 | 456 | 531 | 2,028 |
| April 10, 2010 | 74 | 530 | 343 | 2,371 |
| April 17, 2010 | 79 | 609 | 311 | 2,682 |
| April 24, 2010 | 20 | 629 | 84 | 2,766 |
| May 1, 2010 | 12 | 641 | 50 | 2,816 |
| May 8, 2010 | 25 | 666 | 86 | 2,902 |
| May 15, 2010 | 13 | 679 | 50 | 2,952 |
| May 22, 2010 | 26 | 705 | 57 | 3,009 |
| May 29, 2010 | 11 | 716 | 36 | 3,045 |
| June 5, 2010 | 20 | 736 | 43 | 3,088 |
| June 12, 2010 | 29 | 765 | 48 | 3,136 |
| June 19, 2010 | 16 | 781 | 41 | 3,177 |
| June 26, 2010 | 18 | 799 | 70 | 3,247 |
| July 3, 2010 | 11 | 810 | 29 | 3,276 |
| July 10, 2010 | 33 | 843 | 51 | 3,327 |
| July 17, 2010 | 28 | 871 | 44 | 3,371 |
| July 24, 2010 | 22 | 893 | 41 | 3,412 |
| July 31, 2010 | 28 | 921 | 83 | 3,495 |
| August 7, 2010 | 25 | 946 | 49 | 3,544 |
| August 14, 2010 | 13 | 959 | 24 | 3,568 |
| August 21, 2010 | 24 | 983 | 47 | 3,615 |
| August 28, 2010 | 12 | 995 | 50 | 3,665 |
| September 4, 2010 | 23 | 1,018 | 68 | 3,733 |
| September 11, 2010 | 15 | 1,033 | 56 | 3,789 |
| September 18, 2010 | 17 | 1,050 | 43 | 3,832 |
| September 25, 2010 | 18 | 1,068 | 57 | 3,889 |

It can be seen that enrolments decreased in latter weeks, as registration seemed to peak following the announcement of the measure. As the number of enrolments seemed to

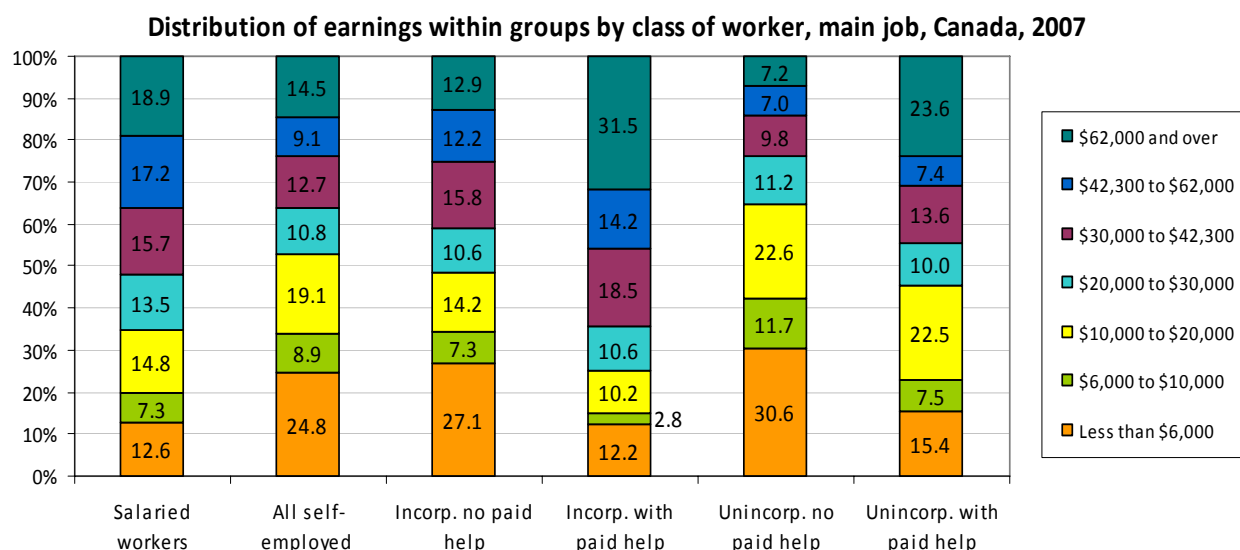
represent a more stable trend from the week ending April 24, 2010, we have used the average enrolments for this week on, namely 20 for Quebec, and 52 out-of-Quebec.

Using the year-to-date and the projected enrolments, the following shows the number of self-employed participants estimated for 2010 and 2011:

| SELF-EMPLOYED EI PARTICIPANTS | | | | | |
|-------------------------------|------|-----------------------------|----------------------------------|------------------|--------------------|
| Province | Year | Enrolments to Sep. 25, 2010 | Projected Enrolments to Year-End | Total Enrolments | Total Participants |
| Quebec | 2010 | 1,068 | 259 | 1,327 | 1,327 |
| Quebec | 2011 | - | 1,058 | 1,058 | 2,385 |
| | | | | | |
| Out-of-Quebec | 2010 | 3,889 | 682 | 4,571 | 4,571 |
| Out-of-Quebec | 2011 | - | 2,781 | 2,781 | 7,353 |
| | | | | | |
| Total | 2010 | 4,957 | 942 | 5,899 | 5,899 |
| Total | 2011 | - | 3,839 | 3,839 | 9,738 |

No information is available on the level of earnings of the enrolled self-employed. In order to estimate the earnings, we have based our analysis on an internal HRSD study on the profile of the self-employed in Canada, produced by the Labour Market Policy Directorate, Strategic Policy Research Branch.

As a first step, we have used the following excerpt on 2007 Self-Employed Earnings from the Study:



Source: Survey of Labour and Income Dynamics, 2007
Based on total earnings (employment income from all sources of employment)

The second bar (All Self-Employed) was used as no data on class of worker is provided in the enrolment information. It was also assumed that self-employed individuals in the lowest and highest bands would not be representative of the covered group. Using the midpoint of the other intervals and the adjusted weights, average earnings of \$24,286 were derived for 2007. The Labour Market Policy directorate also provided historical average earnings between 2003 and 2007 for the self-employed. Based on this data, using the average annual growth of 1.9%, the average annual earnings in are estimated at \$25,218 and \$25,697 for 2009 and 2010 respectively.

In order to assess the reasonableness of this estimate, we have looked at the QPIP official statistics as self-employed are covered under this provincial plan. Based on the official report titled *“Statistiques officielles sur les prestataires du Régime québécois d'assurance parentale, décembre 2009”*, and 2009 EI MPA Benefit data, relevant comparisons can be established between self-employed and salaried insurable earnings.

Under QPIP, self-employed average weekly insurable earnings in 2009 were \$557.32, or \$28,981 annualized. Salaried claimants had average weekly insurable earnings of \$779.01 or \$40,509 annualized, showing that on average self-employed insurable earnings were 72% of salaried insurable earnings. The average EI MPA benefit rate for 2009 was \$348.01, underlying average insurable earnings of \$32,903 ($\$348.01 / 55\% \times 52$). Comparing our \$25,697 estimate of average annual self-employed earnings below the MIE to \$32,903 shows a 78% ratio, comparing well with the similar QPIP ratio. Given that the MIE under EI is lower than under QPIP (\$42,300 vs. \$62,000 in 2009), observing a higher ratio of self-employed earnings to salaried employees insurable earnings under EI is expected.

| SELF-EMPLOYED EARNINGS | | | |
|------------------------|------------|------------------|----------------|
| 2010 | Enrolments | Average Earnings | Total Earnings |
| Quebec | 1,327 | \$25,697 | \$34,110,866 |
| Out-Of-Quebec | 4,571 | \$25,697 | \$117,465,795 |
| Total | 5,898 | \$25,697 | \$151,576,660 |

The estimate of the 2011 earnings requires refined calculations given the features of the program for the self-employed. Given the voluntary and mandatory lifetime contributions provisions, it is expected that the utilization rate will be very high, especially under MPA benefits.

From this perspective, it is expected that the pattern of claims will be greatly impacted by gender, females opting in the program with the objective of collecting MPA benefits while male members more likely to collect other special benefits. As gender information is not available for the actual enrolments to date, we based our 2011 estimates on a voluntary survey results provided by Service Canada, Marketing and Communications Branch.

4,046 individuals have opted-in to the program as of July 8, 2010.

Preliminary results from a voluntary survey of these individuals (based on 171 responses) show that:

- 22% of those signing up are male and 78% are female.
- 75% of registrants are between the ages of 18 to 44.

From this we assumed that 80% of out-of-Quebec enrolments were females, therefore with the high likelihood of generating an MPA claim in 2011. Given that MPA claims can last for nearly a year, this will largely impact the 2011 earnings.

Working from each weekly enrolment figure, we assumed that enrolled individuals would claim as soon as they would be eligible. In addition, a claim duration assumption was needed to attribute contributory and non-contributory periods (e.g. a participant entering in July 2010 could be expected to claim between July 2011 and 2012 in the event of a full MPA claim). Such a participant would therefore have a full year of covered earnings in 2010, but about half a year of covered earnings in 2011.

The QPIP report titled *“Rapport sur le portrait de la clientèle du Régime québécois d'assurance parentale – 2008”* outlines the MPA utilization rates by category of worker, as usage by the self-employed are of interest here. Namely Tables 6 and 7 show utilization rates above 90%

for self-employed. We have therefore assumed that a self-employed MPA claim would last 45 weeks (90% of 50 weeks).

The model assumes that each weekly cohort of entrants generates a start and end claim date, and therefore corresponds to an appropriate contributory periods in 2011 (full year of contributions for 2011 new entrants, and proportionate insurable earnings for those who entered in 2010 and would have been on claim for a portion of 2011).

The participant distribution is assumed to be MPA related for 80% out-of-Quebec enrolments, and 100% non-MPA for Quebec self-employed as they are already covered under QPIP.

The following shows projected enrolments, split between Quebec and out-of-Quebec:

| DISTRIBUTION OF SELF-EMPLOYED ENROLMENTS | | | | | | |
|--|--|-------------------------------|-----------------------------|---------------------------------|---------------------|-----------------------|
| Year | Out-of-Quebec Non-MPA Enrolments | Quebec Non- MPA Enrolments | Total Non-MPA Enrolments | Out-of-Quebec MPA Enrolments | Total Enrolments | Total Participants |
| 2010 | 914 | 1,327 | 2,241 | 3,657 | 5,898 | 5,898 |
| 2011 | 556 | 1,058 | 1,614 | 2,225 | 3,839 | 9,738 |

Factoring in the fact that most out-of-Quebec participants are expected to have reduced insurable earnings in 2011 (as they are expected to be on MPA claim), the following shows the projected self-employed earnings in 2011:

| SELF-EMPLOYED EARNINGS | | |
|------------------------|---------------------|----------------|
| 2011 | Average Earnings | Total Earnings |
| Quebec | \$26,185 | \$62,454,806 |
| Out-of-QC | \$26,185 | \$130,973,387 |
| Total | \$26,185 | \$193,428,193 |

Comparing the 2010 and 2011 projection of earnings, the following can be noted:

- On the Quebec side, they roughly doubled as a relatively stable number of enrolments are expected over these 2 years, and given the shorter claim period, participants are expected to have earnings in both years;
- Out-of-Quebec self-employed earnings remain practically stable, as it is expected that most registrants will be on MPA claim for a period of almost a year and therefore will have reduced or no insurable earnings in 2011.

ESTIMATES OF BENEFITS

MPA and Sickness Benefits

First, it should be noted that only out-of-Quebec self-employed participants are expected to receive EI MPA benefits. The Quebec self-employed are covered for MPA benefits under QPIP.

Self-employed Canadians could register for access to the EI program as of January 31. Those who choose to take advantage of EI special benefits will be required to register at least one year prior to claiming benefits. However, as a transitional measure in this first year, those who register on or before April 1, 2010, will be able to make a claim for benefits as early as January 1, 2011.

The following data and assumptions are used in the projection of the 2011 Benefits:

- High utilization rates (claims filed as soon as eligibility criteria are met);
- 4,598 enrolments to September 25, 2010 (3,889 out-of-Quebec, 1,068 in Quebec);
- 72 enrolments per week (52 out-of-Quebec, 20 in Quebec) for future weeks through 2011. These are the average enrolments per week between April 24, 2010 and September 25, 2010, which represent a more stable trend than the initial registration weeks;
- 80% of out-of-Quebec enrolments expected to generate MPA benefits. Assumed to claim MPA benefits as soon as they have met the eligibility requirement;
- 20% of out-of-Quebec enrolments expected to generate Sickness benefits.
- 100% of Quebec enrolments expected to claim Sickness benefits as soon as they have met the eligibility requirement;
- Average MPA Claim duration: 45 weeks (based on 90% of 50 possible weeks);
- Average Sickness Claim duration: 11 weeks (Based on average EI Sickness claim duration observed in 2009);
- Return to full-time work after the end of the claim;
- Self-employed who join in 2010 are expected to remain self-employed in 2011 (assumed no bankruptcy or termination of business); and
- Average weekly benefit rate of \$272 ($\$25,697 / 52 \times 55\%$).

Based on the above, the following summarizes the results:

| SELF-EMPLOYED EI BENEFITS | |
|---------------------------|-------------------------|
| Benefit Type | 2011 Projected Benefits |
| MPA | \$33,223,478 |
| Sickness | \$5,818,675 |

Compassionate Care Benefits

Looking at EI Compassionate Care Benefits, they have been very stable but mostly of dismal cost with no impact on EI Premium Rates. In order to project such self-employed benefits, we have assumed claim behaviour not to differ from the general population, as such benefits are much less subject to anti-selection.

Accordingly, as EI Compassionate Care Benefits are in the magnitude of \$10 million per year (in the order of 0.002% of Insurable Earnings), applying this proportion of Self-Employed Earnings results in negligible amounts (about 2 claims).

Therefore, no provision has been included for Self-Employed Compassionate Care Benefits.

GENERAL COMMENTS

No experience data exists on individuals who would opt in voluntarily in such a program. This is an initial forecast based mostly on assumptions, where the insured risk does not follow established insurance principles.

As future claim behaviour and benefit amounts are revealed, reliable and appropriate experience data will be available and used in future forecasts.

It should be noted that even under this severe scenario, given the small number of registrations, the expected impact of the self-employed is insignificant in 2011.