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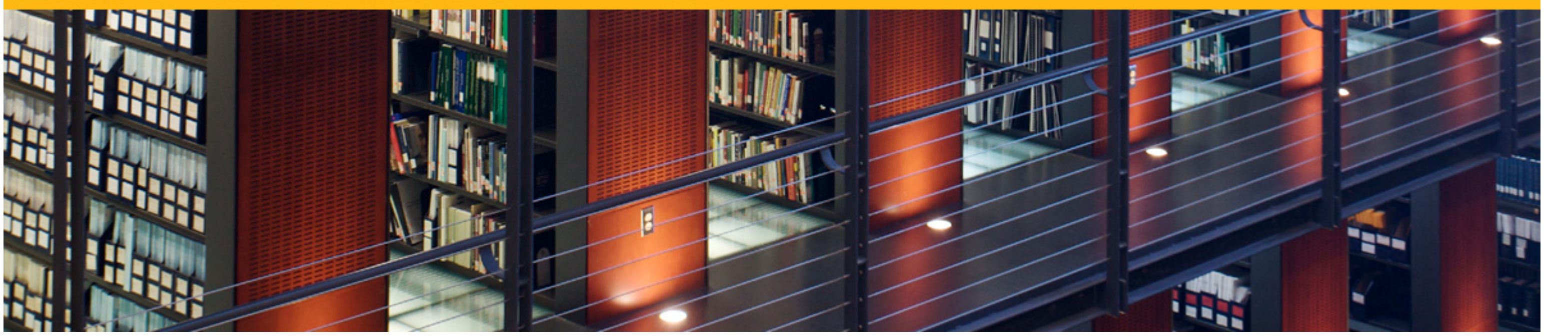

Employment Insurance Financing

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(Background Paper)

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EMPLOYMENT INSURANCE FINANCING

1 INTRODUCTION

Employment Insurance (EI) is one of the largest programs administered by the federal government, with expenditures of $19 billion in 2013–2014, most of it ($15 billion) as benefits paid to workers who are unemployed for a variety of reasons.[1]

The way this program is financed has changed frequently over the years. The following analysis is therefore divided into three parts:

- a summary of the current situation, with some components dating back to 2009;
- a brief overview of the changes expected to the program in the coming years; and
- a review of financing developments prior to 2009 to provide context.

2 SITUATION IN 2014

2.1 BASIC PRINCIPLES

The EI program is financed almost exclusively through mandatory premiums paid by employers and employees. Starting in 2010, self-employed workers who choose to join the program also pay premiums in order to be eligible for certain benefits. The federal government pays into the program as an employer. It may also decide to make additional contributions. For example, it contributed about $3.2 billion in temporary improvements to the program following the passage of the 2009 Budget.

Employees must pay premiums equal to the premium rate multiplied by insurable earnings (up to $48,600 in 2014) for a maximum annual contribution of $913.68. These amounts are indexed annually based on changes to Canadian average insurable earnings.

In 2014, the premium rate for employees is 1.88%. This rate is reduced for employees in Quebec because they are not eligible for parental and maternity benefits, which are instead provided by their provincial plan; their premium rate is 1.53%.

Employers also pay premiums on their employees' insurable earnings at a rate equal to 1.4 times the rate for employees; as a result, 7/12 of the cost of the program is financed by employers, compared to 5/12 by employees. In 2014, the premium rate for employers is 2.63% (2.14% in Quebec).[2]

Self-employed workers who choose to participate in the program pay the same rate as do salaried employees. However, they are not eligible for regular benefits, which are paid for job loss, something that would be difficult to determine for self-employed workers. With the exception of self-employed workers in Quebec – who are not eligible for EI parental or maternity benefits – self-employed workers in Canada do qualify for special benefits (maternity, parental, sickness and compassionate care benefits, and benefits for parents of critically ill children).[3]

Employees who paid more than the annual maximum premium (e.g., if they changed employers) are entitled to a refund of the overpayment.[4] The same occurs when an employee's insurable earnings do not exceed $2,000 in a given year.[5] However, in both cases, the employer's premiums paid for these employees are not refunded to the employers.[6]

Employer premiums may be reduced when a business's employees are covered by wage insurance, which could result in a reduction of EI special benefits paid, such as in cases of illness.[7]

Employers with a total payroll not exceeding $15,000 in 2013 and whose premiums in 2013 were greater than in 2012 received a refund equal to this increase, up to a maximum of $1,000. This reduction was established in 2011 and will be changed in 2015.

2.2 Employment Insurance Operating Account

The Employment Insurance Operating Account was created on 1 January 2009. It is a consolidated specific purpose account, meaning that it includes program-related revenues credited and expenses charged to this account under the *Employment Insurance Act*.[8] EI premiums are paid into the Consolidated Revenue Fund (CRF), which includes general government revenues such as taxes,[9] and the benefits are paid out of it.[10] Each year, all EI program expenditures are charged to the CRF and all program-related revenues are credited to it. The results are published in the *Public Accounts of Canada*. The Account's annual deficit or surplus is included in the federal government's financial statements.

As of 31 March 2014, the Account had an accumulated deficit of $2.7 billion. For 2013–2014 alone, the Account had a surplus of $2 billion.[11]

Table 1 – Employment Insurance Operating Account, Annual and Accumulated Deficit or Surplus, 2008–2009 to 2013–2014 ($ billions)

	Annual Deficit or Surplus	Accumulated Deficit or Surplus
2008–2009	0.128	0.128
2009–2010	−5.064	−4.936
2010–2011	−2.462	−7.397
2011–2012	−0.551	−7.948
2012–2013	1.985	−5.963
2013–2014	3.229	−2.734

Notes: The Account was established on 1 January 2009. Fiscal year 2008–2009 includes only the first three months of 2009.

Revenues paid by the government for temporary program improvements are included between 2008–2009 and 2011–2012.

Source: Table prepared by the author using data obtained from Receiver General for Canada, "Supplementary Statement – Employment Insurance Operating Account," in "Section 4 – Consolidated Accounts," *Public Accounts of Canada, Volume I: Summary Report and Financial Statements*, 2011, 2012, 2013 and 2014.

2.3 Premium Rate Setting

By 22 July of each year, the ministers of Employment and Social Development and of Finance submit financial data to the actuary engaged by the Canada Employment Insurance Commission so that by 22 August the actuary can submit to the Commission a report on the estimated break-even premium rates for the following year. These break-even rates must take into account the forecasted program expenditures and revenues for the following year, as well as those recorded since the Account was created so that in the long term, EI premiums are used solely for program expenditures. The report also includes the calculation of the different rates for the residents of Quebec and the other provinces.

The Governor in Council sets the premium rate by 14 September of each year. Normally, the premium rate for employees may not change by more than 0.05 percentage points per year. However, this change may be greater, on the joint recommendation of the ministers of Finance and of Employment and Social Development.

According to the actuarial report on EI for 2014 (released in July 2013),[12] the break-even premium rate for employees outside Quebec was 2.08%. However, given that the maximum rate increase is 0.05 percentage points, the rate could be increased to a maximum of only 1.93%, unless the ministers recommended otherwise.

On 9 September 2013, the federal government[13] announced that the 2013 premium rate (1.88%) would remain unchanged in 2014.

3 FUTURE SITUATION

In September 2014, the federal government confirmed that the premium rate will remain unchanged at 1.88% in 2015 and 2016. However, the premium rate for employees in Quebec will rise from 1.53% to 1.54% because of the rate reduction calculations related to the Quebec Parental Insurance Plan.[14]

The government announced at the same time that for 2015 and 2016, any business paying $15,000 or less in EI premiums at the employers' current premium rate of 2.63% will have a portion of these premiums refunded so that the rate will be only 2.24% in each year that it meets this condition.[15]

As of 2017, a new rate-setting mechanism will be in place. Each year the Commission will set the premium rate so that revenues received since 2009 and projected for the following seven years equal expenditures during the same period. The government forecasts that the premium rate will drop from 1.88% in 2016 to 1.47% in 2017.[16]

New section 66(1) of the *Employment Insurance Act* – on premium rate setting – will read as follows:

> [T]he Commission shall set the premium rate for each year in order to generate just enough premium revenue to ensure that, at the end of the seven-year period that commences at the beginning of that year, 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.[17]

4 PAST SITUATION

4.1 UNEMPLOYMENT/EMPLOYMENT INSURANCE ACCOUNT

What was originally the Unemployment Insurance Fund became the Unemployment Insurance Account on 27 June 1971 and then the Employment Insurance Account on 30 June 1996, before it was eventually closed on 31 December 2008. When it was closed, it had an accumulated surplus of $57 billion,[18] which represents the excess of revenues over expenditures throughout the life of the account.

Table 2 shows the account's annual and accumulated surpluses since 1989–1990. There were significant annual surpluses between 1996–1997 and 2000–2001, after which they fell.

Table 2 – Annual and Accumulated Surpluses and Deficits of the Unemployment/Employment Insurance Account, 1989–1990 to 2008–2009 ($ billions)

Year	Annual Surplus or Deficit	Accumulated Surplus or Deficit	Year	Annual Surplus or Deficit	Accumulated Surplus or Deficit
1989–1990	0.998	0.971	1999–2000	7.099	27.175
1990–1991	−0.795	0.176	2000–2001	9.521	36.696
1991–1992	−0.783	−0.607	2001–2002	3.834	40.530
1992–1993	−0.050	−0.657	2002–2003	3.266	43.796
1993–1994	0.113	−0.544	2003–2004	2.436	46.232
1994–1995	0.045	−0.499	2004–2005	2.315	48.547
1995–1996	0.528	0.027	2005–2006	2.269	50.816
1996–1997	6.466	6.493	2006–2007	3.302	54.118
1997–1998	6.375	12.868	2007–2008	2.835	56.953
1998–1999	7.208	20.076	2008–2009	0.090	57.043

Notes: The accumulated surplus for 2008–2009 was the surplus on closure of the Employment Insurance Account, on 31 December 2008.

Due to rounding, the sum of the annual deficit (surplus) for a given year and the accumulated deficit (surplus) of the previous year may not exactly equal the deficit (surplus) of the given year.

Source: Table prepared by the author using data obtained from Receiver General for Canada, *Public Accounts of Canada, Volume I: Summary Report and Financial Statements*, 1990–2010.

4.2 PREMIUM RATE SETTING CONSULTATIONS

Starting in the mid-1990s, the accumulated surpluses raised questions about the use of EI premiums for purposes other than covering the cost of the program. Consultations held in 2003 eventually led to the creation of the new Employment Insurance Operating Account on 1 January 2009, with all program revenues and expenditures being taken into account when calculating the premium rate.[19]

4.3 PAST GOVERNMENT CONTRIBUTIONS

As previously mentioned, the federal government exceptionally pays into the Employment Insurance Operating Account to temporarily improve the program, as was the case following the 2008–2009 recession.

Until 1990–1991, the federal government made non-refundable contributions each year to the Unemployment Insurance Account. Table 3 shows the value of these contributions starting in 1978–1979 (prior to that, these amounts were posted differently in the *Public Accounts of Canada*). In total, the federal government paid an additional $28.2 billion into the Unemployment Insurance Account between 1978–1979 and 1990–1991.

Table 3 – Federal Government Contributions to the Unemployment Insurance Account, 1978–1979 to 1991–1992 ($ billions)

Year	Contributions	Year	Contributions
1978–1979	1.739	1985–1986	2.744
1979–1980	2.187	1986–1987	2.710
1980–1981	2.416	1987–1988	2.443
1981–1982	0.957	1988–1989	2.416
1982–1983	2.034	1989–1990	2.424
1983–1984	2.714	1990–1991	1.549
1984–1985	2.788	1991–1992	0

Source: Table prepared by the author using data obtained from Receiver General for Canada, *Public Accounts of Canada, Volume I: Summary Report and Financial Statements*, 1991 (Table 5.7), 1989 (Table 5.2), 1987 (Table 6.4), 1985 (Table 6.2), 1984 (Table 8.11), 1982 (Table 8.11) and 1980 (Table 7.11).

5 CONCLUSION

The way the EI program is financed has changed over time. Until 1990–1991, in addition to its contributions as an employer, the federal government was financially involved in the program. Then the program was financed almost exclusively by employees and employers in the proportions of 5/12 and 7/12 respectively. In 2010, self-employed workers were also able to voluntarily join the program as long as they paid premiums.

The rate-setting mechanism and the way deficits and surpluses are managed also changed and will continue to do so until 2017, when a new rate-setting mechanism will be put in place. It will take into account revenues and expenditures over a future seven-year period while ensuring a balance between program revenues and expenditures since the creation of the Employment Insurance Operating Account in January 2009.

NOTES

1. Receiver General for Canada, "Supplementary Statement – Employment Insurance Operating Account," in "Section 4 – Consolidated Accounts," *Public Accounts of Canada 2014: Volume I – Summary Report and Consolidated Financial Statements*, 2014.

2. Canada Revenue Agency, *EI premium rates and maximums*, 29 September 2014.

3. In its *Fourteenth Report* of the 2nd Session of the 40th Parliament on Bill C-56, the Standing Senate Committee on National Finance noted the following:

   > The committee has heard from an expert witness that the premium rate proposed (1.36/$100 as compared to 1.73/$10 for the rest of Canada) in Bill C-56 for Quebec self-employed workers might be too high relative to the expected cost of the benefits to which they are entitled.
   >
   > The committee therefore believes that the government should consider setting up, at the earliest possible time, an independent working group that would further examine the issue of the premium rate for Quebec self-employed workers to determine whether it is set at a fair level.

4. *Employment Insurance Act* [EIA], S.C. 1996, c. 23, s. 96(1).

5. EIA, ss. 96(4) and 96(5). When insurable earnings exceed $2,000 only by an amount equal to or less than the premiums paid, the employee receives a partial refund: the portion of the insurable earnings exceeding $2,000 is deducted from the full premium refund.

6. Office of the Superintendent of Financial Institutions, Office of the Chief Actuary, *2015 Actuarial Report on the Employment Insurance Premium Rate*, 22 August 2014, p. 25:

   > [S]ome employees may exceed the maximum contribution and receive a refund of all or a portion of the EI premiums paid in the year (e.g. multiple employers in the same year, insurable earnings below $2,000). … It is important to note that the employer does not receive a refund.

7. EIA, s. 69; and *Employment Insurance Regulations*, SOR/96-332, ss. 68–76. The indemnity amount must be equal to at least 5/12 of the reduction in employer's premiums granted. The fraction 5/12 is the share of the total employee's and employer's premiums paid by employees. The reduction in employer's premiums also depends on the wage insurance category (there are four). For more information about calculating this reduction, see Office of the Superintendent of Financial Institutions (2014), "Appendix IV: Reduction in Employer Premiums Due to Qualified Wage-Loss Plans."

8. Receiver General for Canada, "Consolidated Specified Purpose Accounts," in "Section 4 – Consolidated Accounts," *Public Accounts of Canada 2013: Volume I – Summary Report and Consolidated Financial Statements*, 2013.

9. EIA, s. 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."

10. EIA, s. 77(1): "There shall be paid out of the Consolidated Revenue Fund … (*a*) all amounts paid as or on account of benefits under this Act."

11. Receiver General for Canada, "Supplementary Statement – Employment Insurance Operating Account," in "Section 4 – Consolidated Accounts," *Public Accounts of Canada 2014: Volume I – Summary Report and Consolidated Financial Statements*, 2014.

12. Office of the Superintendent of Financial Institutions, Office of the Chief Actuary, *2014 Actuarial Report on the Employment Insurance Premium Rate*, 22 July 2013.

13. Government of Canada, "Harper Government Supports Job Creation with Three-Year Freeze of Employment Insurance Premium Rates," News release, 9 September 2013.

14. Employment and Social Development Canada [ESDC], "Canada Employment Insurance Commission announces 2015 Maximum Insurable Earnings," News release, 12 September 2014.

15. Finance Canada, *Backgrounder: The Small Business Job Credit*, 11 September 2014.

16. ESDC (2014).

17. EIA, "Amendments Not in Force."

18. Receiver General for Canada, "Supplementary Statement – Employment Insurance Operating Account," in "Section 4 – Consolidated Accounts," *Public Accounts of Canada 2010: Volume I – Summary Report and Financial Statements*, 2010, pp. 4.15–4.17.

19. For further information, see Kevin B. Kerr and André Léonard, *Employment Insurance Premiums: In Search of a Genuine Rate-Setting Process*, Publication no. 2003-41-E, Parliamentary Information and Research Service, Library of Parliament, Ottawa, 15 January 2013.