<u>Outlook for *EI* Premium Rates in 2002</u>

<u>Background</u>

- The following was stated after the adoption of Bill C-2 in May 2001 : "As recommended by the House Standing Committee on Finance and the Auditor General, the Government of Canada will review the EI premium rate-setting mechanism. In the meantime, the Governor in Council will set the premium rate for the next two years to ensure predictability and stability in the rate-setting process.

- The applicable section of Bill C-2 reads as follows:

  "66.1 Notwithstanding section 66, the premium rate for each of the years 2002 and 2003 is the rate set for the year by the Governor in Council on the recommendation of the Minister (HRDC) and the Minister of Finance."

- Section 66 of the Employment Insurance Act previously read as follows:

  "66. The Commission shall, with the approval of the Governor in Council on the recommendation of the Minister (HRDC) and the Minister of Finance, set the premium rate for each year at a rate that the Commission considers will, to the extent possible,

  (a) ensure that there will be enough revenue over a business cycle to pay the amounts authorized to be charged to the Employment Insurance Account; and
  (b) maintain relatively stable rate levels throughout the business cycle."

- The *EI Act* does not prescribe minimum or maximum premium rates for any particular year, nor does it provide for a maximum level of cumulative surplus (or deficit).

- The Minister of Finance's most recent statement on EI premium rates was on Oct. 18, 2000, in the Economic Statement and Budget Update:

  "… for planning purposes the profile assumed in Budget 2000 is maintained (employee rate of $2.20 for 2002, declining by 10 cents per year, moving to the point where premiums would cover ongoing program costs) … until they fall to $2.00."
  (pages 81 and 85)

Current status of the EI Account

- The EI Account is expected to show an annual surplus of about $6.2 billion during 2001, which would bring the cumulative surplus to $40.1 billion by December 31, 2001.

STATUS OF THE EI ACCOUNT FROM 1993 TO 2001

	1993	1994	1995	1996	1997	1998	1999	2000	Preliminary 2001
Unemployment rate (%)	11.4	10.4	9.4	9.6	9.1	8.3	7.6	6.8	7.0*1
Employee premium rate (%)	3.00	3.07	3.00	2.95	2.90	2.70	2.55	2.40	2.25
Break-even Premium rate (%)	3.23	2.71	2.30	2.23	1.98	1.78	1.69	1.43	1.51
					(in $ millions)				
COSTS									
Benefits	17,972	15,463	13,505	12,806	12,014	11,696	11,815	11,203	12,144
Administration, etc.	1,300	1,271	1,326	1,364	1,349	1,315	1,198	1,329	1,386
Interest costs	405	310	82	-	-	-	-		-
Total costs	19,677	17,044	14,913	14,170	13,363	13,011	13,013	12,532	13,530
REVENUES									
Premium revenues	18,469	19,327	19,180	19,091	19,379	19,623	18,880	18,885	18,194
Interest credits	-	-	-	78	278	680	976	1,483	1,506
Total revenues	18,469	19,327	19,180	19,169	19,657	20,303	19,856	20,368	19,700
Surplus (deficit):									
- annual	**(1,208)**	**2,283**	**4,267**	**4,999**	**6,294**	**7,291**	**6,844**	**7,836**	**6,170**
- cumulative	**(5,884)**	**(3,601)**	**666**	**5,665**	**11,960**	**19,251**	**26,095**	**33,931**	**40,101**

*1 Based on the year-to-date average.

General outlook for premium rates [1]

- A premium rate of approximately $1.51 per $100 of insured earnings would have covered the annual program costs in 2001 ($13.5 billion) -- assuming an unemployment rate of 7.0% (based on the year-to-date average) and including the effect of interest revenues of $1.5 billion.
- Sensitivity underlying the forecasts:
  - a 10 cent change in the employee premium rate (for example, from $2.20 to $2.10 per $100 of insurable earnings) would be worth about $840 million in annual premium revenues in 2002;
  - a variation of one percentage point in the unemployment rate could affect the annual operating balance by about $1.2 billion over the short-term. This impact could rise towards $2 billion during a prolonged downturn due to smaller interest credits on a lower EI reserve;
  - break-even premium rates are lower at higher reserve levels, because of interest credits. For example, the current interest revenues of about $1.5 billion are equivalent to nearly 20 cents on the employee premium rate.
- As recent program amendments reach maturity and omitting the impact of interest revenues, annual break-even premium rates might vary around:
  - $1.70 at an assumed low unemployment rate of about 6%;
  - $2.00 if unemployment stood around 8%;
  - $2.30 at an assumed unemployment rate of about 10%; or
  - $2.60 at an assumed high unemployment rate of about 12%.

  The average unemployment rate since 1976 has been 9%, with peaks near 12% and a low around 7%. The average since 1946 has been 6.6%, and 7.6% since 1960.
- These forecasts take into account the extended parental benefits starting in January 2001 at a mature cost of about $1 billion by 2002, as well as the costs due to Bill C-2 at a mature cost of about $500 million by 2003.
- The attached table projects the status of the EI Account for 2002 based on the average unemployment rate expected by private sector forecasters (6.9%), as shown in the May 2001 Economic Update by the Minister of Finance. However, caution is advised given the 13% increase in EI claims reported by Statistics Canada for the first half of 2001.

[1] Always referring to the employee premium rate, with a corresponding employer rate of 1.4 times the employee rate.

EI ACCOUNT FORECASTS

		2001	2002
Unemployment rate		7.0%	6.9% [1]
Break-even premium rate		1.51%	1.57%
Premium rate		2.25%	2.20% [2]
PROJECTION ESTIMATES (millions)			
REGULAR		$7,581	$7,805
SICKNESS		$627	$640
MATERNITY		$791	$808
ADOPTION		$7	$7
PARENTAL		$804	$1,385
	TOTAL SPECIAL	*$2,229*	*$2,841*
FISHING		$264	$271
WORK SHARING		$30	$30
HRIF	JOB CREATION	$70	$71
	TRAINING	$420	$427
	TARGETED MEASURES	$45	$46
	SUPPORT MEASURES	$580	$589
	TRANSFERS TO PROVINCES	$890	$904
	SELF EMPLOY.	$90	$91
	TOTAL HRIF	*$2,095*	*$2,129*
GROSS BENEFITS		$12,200	$13,076
BENEFIT REPAYMENTS		($55)	($60)
NET BENEFITS		**$12,144**	**$13,016**
ADMINISTRATION		$1,397	$1,367
BAD DEBTS		$58	$62
PENALTIES		($69)	($77)
TOTAL COSTS		**$13,530**	**$14,368**
PREMIUM REVENUES		$18,194	$18,038
INTEREST CREDITS		$1,506	$1,670
TOTAL REVENUES		**$19,700**	**$19,708**
ANNUAL SURPLUS		**$6,170**	**$5,339**
CUMULATIVE SURPLUS		**$40,101**	**$45,440**

[1] 2001 based on year-to-date and 2002 as per consensus reported in May 2001 Economic Update: each percentage point change in the unemployment rate would affect benefit costs by about $1.2 billion in 2002.

[2] Planning assumption as indicated in Economic and Fiscal Update (Oct. 18, 2000): each 10 cent change in the employee premium rate is worth about $840 million in 2002.