CHIEF ACTUARY'S OUTLOOK

ON THE

EMPLOYMENT INSURANCE ACCOUNT

FOR 2005

Background

- Before it was suspended in 2002, Section 66 of the *Employment Insurance Act* read as follows:

  "66. The Commission shall, with the approval of the Governor in Council on the recommendation of the Minister 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."

- In 2002, Bill C-2 gave power to the Governor in Council to set the Employment Insurance employee premium rates for 2002 (2.20%) and 2003 (2.10%).

- In the 2003 Budget, the Government set the employee premium rate at $1.98 for 2004. The Government also launched consultations on a new permanent rate-setting mechanism based on the following five principles:

  1. Premium rates should be set transparently.
  2. Premium rates should be set on the basis of independent expert advice.
  3. Expected premium revenues should correspond to expected program costs.
  4. Premium rate-setting should mitigate the impact on the business cycle.
  5. Premium rates should be relatively stable over time.

- In 2003, senior officials from the Department of Finance and Human Resources and Skills Development Canada held a series of meetings with representatives of business, labour and experts in the field. Interested parties were also provided with the opportunity to provide submissions until June 30, 2003.

- In the 2004 Budget, it was announced that in order to ensure against the risk that legislation concerning a new rate setting mechanism may not be passed in time to set the rate for 2005, the Governor in Council would have the authority to set, in the fall of 2004, the rate for 2005. Therefore, pursuant to Bill C-30, section 66.3 of the *Employment Insurance Act* reads as follows:

  " Notwithstanding section 66, the premium rate for the year 2005 is the rate set for the year by the Governor in Council on the recommendation of the Minister and the Minister of Finance. "

  The 2004 Budget announced as well that, for planning purposes, the Government is assuming an employee premium rate of $1.98 (per $100 of insurable earnings) for 2005.

Current status of the EI Account

The EI Account is expected to show an annual surplus of about $1.3 billion during 2004 which would bring the cumulative surplus to $46.2 billion by December 31, 2004

STATUS OF THE EI ACCOUNT FROM 1993 TO 2004

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Estimate 2004
Unemployment rate (%)	11.4	10.4	9.4	9.6	9.1	8.3	7.6	6.8	7.2	7.7	7.6	7.3 [1]
Employee premium rate (%)	3.00	3.07	3.00	2.95	2.90	2.70	2.55	2.40	2.25	2.20	2.10	1.98
Break-even premium rate (%)	3.23	2.71	2.30	2.23	1.98	1.78	1.69	1.43	1.66	1.79	1.81	1.82
	- - - - - - - - - - - - - - - - (in $ millions) - - - - - - - - - - - - - - - -											
COSTS												
Benefits	17,972	15,463	13,505	12,806	12,014	11,697	11,629	11,078	13,288	14,383	14,938	15,269
Administration, etc.	1,300	1,271	1,326	1,364	1,348	1,315	1,382	1,362	1,483	1,592	1,529	1,535
Interest costs	405	310	82	-	-	-	-	-	-	-	-	-
Total costs	19,677	17,044	14,913	14,170	13,362	13,012	13,011	12,440	14,771	15,975	16,467	16,804
REVENUES												
Premium revenues	18,469	19,327	19,180	19,091	19,379	19,623	18,880	18,885	18,436	18,502	17,678	17,184
Interest credits	-	-	-	78	278	680	976	1,488	1,286	1,033	1,175	931
Total revenues	18,469	19,327	19,180	19,169	19,657	20,303	19,856	20,373	19,722	19,535	18,853	18,115
Surplus (deficit):												
- annual	(1,208)	2,283	4,267	4,999	6,295	7,291	6,844	7,933	4,951	3,561	2,385	1,311
- cumulative	(5,884)	(3,601)	666	5,665	11,960	19,251	26,095	34,028	38,979	42,540	44,925	46,236

[1] Based on a recent survey of private sector forecasters.

General outlook for the EI program [1]

- For 2004, assuming an unemployment rate of 7.3% (based on a recent survey of private sector forecasters) and omitting the effect of interest revenues, a premium rate of approximately $1.93 per $100 of insured earnings would have covered the annual program costs of $16.8 billion. That break-even premium rate would be $1.82 if interest revenues of $931 million were included in the calculation.
- For 2005, assuming an unemployment rate of 7.0% (based on a recent survey of private sector forecasters), the expected break-even premium rate would be $1.92 or $1.76 depending on whether interest revenues are included or not in the calculation.
- Sensitivity underlying the forecasts:
  - each 10 cent change in the employee premium rate would be worth about $910 million in annual premium revenues in 2004 and $940 million in 2005;
  - a variation of one percentage point in the unemployment rate could affect the annual surplus by about $1.3 billion in 2004 and $1.4 billion in 2005.
- Omitting the impact of interest revenues, the annual break-even premium rates might vary around:
  - $1.76 at an assumed low unemployment rate of about 6%;
  - $2.07 if unemployment stood around 8%.
- However, the actual break-even premium rates will depend on the level of reserves and on the resulting interest revenues. As an illustration, the expected interest revenues of about $931 million in 2004 would have the effect of reducing the break-even premium rate for that year by about 11 cents (as noted in the first paragraph above).
- These forecasts take into account the impact of all program amendments including the pilot project for seasonal workers which will be in effect from June 6, 2004 to June 4, 2006.
- The attached table projects the status of the EI Account for 2004 and 2005 based on the average unemployment rate forecast of a recent survey of private sector forecasters. As any projection, it should be considered as an order of magnitude of the expected outcomes.

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

EI ACCOUNT FORECASTS

		2004	2005
Unemployment rate		7.3% [1]	7.0% [1]
Break-even premium rate (excl. interest)		1.93%	1.92%
Break-even premium rate (incl. interest)		1.82%	1.76%
Premium rate		1.98%	1.98% [2]
PROJECTION ESTIMATES (millions)			
REGULAR		$9,044	$9,125
SICKNESS		$806	$835
MATERNITY		$945	$980
PARENTAL		$2,042	$2,117
COMPASSIONATE		$7	$11
	TOTAL SPECIAL	*$3,800*	*$3,943*
FISHING		$399	$419
WORK SHARING		$18	$18
PILOT PROJECT FOR SEASONAL WORKERS		$11	$78
EMPLOYMENT BENEFITS AND SUPPORT MEASURES	JOB CREATION	$69	$71
	SKILLS DEVELOPMENT	$369	$380
	TARGETED WAGE SUBSIDIES	$42	$43
	SELF EMPLOYMENT	$94	$96
	TRANSFERS TO PROVINCES	$915	$941
	SUPPORT MEASURES	$573	$589
	TOTAL EBSM	*$2,062*	*$2,121*
GROSS BENEFITS		$15,334	$15,704
BENEFIT REPAYMENTS		($100)	($102)
NET BENEFITS		**$15,234**	**$15,602**
ADMINISTRATION		$1,535	$1,572
BAD DEBTS		$84	$86
PENALTIES		($49)	($50)
		$1,570	*$1,608*
TOTAL COSTS		**$16,804**	**$17,209**
PREMIUM REVENUES		$17,184	$17,767
INTEREST CREDITS		$931	$1,478
TOTAL REVENUES		**$18,115**	**$19,245**
ANNUAL SURPLUS		**$1,311**	**$2,036**
CUMULATIVE SURPLUS		**$46,236**	**$48,272**

[1] 2004 and 2005 as per the average of a recent survey of private sector forecasters: each percentage point change in the unemployment rate would affect the EI surplus by about $1.3 billion in 2004 and $1.4 billion in 2005 (combined effect on benefits, premiums and interest).

[2] As per Budget 2004 announcement that, for planning purposes, the Government is assuming an employee premium rate of $1.98 for 2005: each 10 cent change in the employee premium rate is worth about $910 million in 2004 and $940 million in 2005.