

Outlook for the *EI Account in 2004*

Background

- Pursuant to Bill C-28 that was assented to on June 19, 2003, the Employment Insurance premium rate for the year 2004 has been set at 1.98%.
- This measure was announced in the Budget of February 18, 2003, at the same time as the government announced its intention of adopting a new mode of setting EI premium rates which will first apply for the year 2005.
- Section 66 (suspended since 2002) of the *Employment Insurance Act* would otherwise provide 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."
- Consultations on a new process for setting EI premium rates were conducted during the period up to June 30, 2003, on the basis of five principles:
 - “- premium rates should be set transparently;
 - premium rates should be set on the basis of independent expert advice;
 - expected premium revenues should correspond to expected program costs;
 - premium rate setting should mitigate the impact on the business cycle; and
 - premium rates should be relatively stable over time.”
- The feedback from those consultations is being reviewed.

Current status of the EI Account

The EI Account is expected to show an annual surplus of about \$2.9 billion during 2003, which would bring the cumulative surplus to \$45.4 billion by December 31, 2003.

STATUS OF THE EI ACCOUNT FROM 1993 TO 2003

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Estimate</u> <u>2003</u>
Unemployment rate (%)	11.4	10.4	9.4	9.6	9.1	8.3	7.6	6.8	7.2	7.7	7.7 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
Break-even premium rate (%)	3.23	2.71	2.30	2.23	1.98	1.78	1.69	1.43	1.66	1.79	1.77
----- (in \$ millions) -----											
<u>COSTS</u>											
Benefits	17,972	15,463	13,505	12,806	12,014	11,697	11,629	11,078	13,288	14,329	14,809
Administration, etc.	1,300	1,271	1,326	1,364	1,348	1,315	1,382	1,362	1,483	1,569	1,520
Interest costs	405	310	82	-	-	-	-	-	-	-	-
Total costs	<u>19,677</u>	<u>17,044</u>	<u>14,913</u>	<u>14,170</u>	<u>13,362</u>	<u>13,012</u>	<u>13,011</u>	<u>12,440</u>	<u>14,771</u>	<u>15,898</u>	<u>16,329</u>
<u>REVENUES</u>											
Premium revenues	18,469	19,327	19,180	19,091	19,379	19,623	18,880	18,885	18,436	18,502	18,040
Interest credits	-	-	-	78	278	680	976	1,488	1,286	944	1,174
Total revenues	<u>18,469</u>	<u>19,327</u>	<u>19,180</u>	<u>19,169</u>	<u>19,657</u>	<u>20,303</u>	<u>19,856</u>	<u>20,373</u>	<u>19,722</u>	<u>19,446</u>	<u>19,214</u>
<u>Surplus (deficit):</u>											
- annual	(1,208)	2,283	4,267	4,999	6,295	7,291	6,844	7,933	4,951	3,548	2,886
- cumulative	(5,884)	(3,601)	666	5,665	11,960	19,251	26,095	34,028	38,979	42,527	45,413

¹ Based on a recent survey of private sector forecasters.

General outlook for the EI program¹

- For 2003, a premium rate of approximately \$1.91 per \$100 of insured earnings would have covered the annual program costs of \$16.3 billion – assuming an unemployment rate of 7.7% (based on a recent survey of forecasters) and omitting the effect of interest revenues. That break-even premium rate would be \$1.77 if interest revenues of \$1.2 billion were included in the calculation.
- For 2004, the expected break-even premium rate would be \$1.95 or \$1.81 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 \$885 million in annual premium revenues in 2003 and \$900 million in 2004;
 - a variation of one percentage point in the unemployment rate could affect the annual surplus by about \$1.3 billion in 2004.
- Omitting the impact of interest revenues, the annual break-even premium rates might vary around:
 - \$1.75 at an assumed low unemployment rate of about 6%;
 - \$2.05 if unemployment stood around 8%; or
 - \$2.35 at an assumed unemployment rate of about 10%.
- 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 \$1.3 billion in 2004 would have the effect of reducing the break-even premium rate for that year by about 16 cents (as noted in the first paragraph above).
- These forecasts take into account the impact of all program amendments including the introduction of compassionate care benefits in January, 2004, at an estimated first-year cost of \$180 million.
- The attached table projects the status of the EI Account for 2004 based on the average unemployment rate forecast of 7 private sector forecasters (forecasts released during Sept. and Oct. 2003). 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

	<u>2003</u>	<u>2004</u>
Unemployment rate	7.7%	7.7% ¹
Break-even premium rate (excl. interest)	1.91%	1.95%
Break-even premium rate (incl. interest)	1.77%	1.81%
Premium rate	2.10%	1.98% ²
 <u>PROJECTION ESTIMATES (millions)</u>		
REGULAR	\$8,900	\$9,165
SICKNESS	\$728	\$750
MATERNITY	\$873	\$899
PARENTAL	\$1,909	\$1,965
COMPASSIONATE	<u>\$0</u>	<u>\$180</u>
<i>TOTAL SPECIAL</i>	<i>\$3,509</i>	<i>\$3,793</i>
 FISHING	 \$348	 \$365
WORK SHARING	\$25	\$25
EMPLOYMENT AND SUPPORT MEASURES	{ JOB CREATION \$66 SKILLS DEVELOPMENT \$463 TARGETED WAGE SUBSIDIES \$48 SELF EMPLOYMENT \$93 TRANSFERS TO PROVINCES \$842 SUPPORT MEASURES <u>\$632</u> <i>TOTAL EBSM \$2,143</i>	{ \$67 \$471 \$48 \$95 \$856 <u>\$642</u> <i>\$2,179</i>
GROSS BENEFITS	\$14,924	\$15,528
BENEFIT REPAYMENTS	<u>(\$115)</u>	<u>(\$120)</u>
NET BENEFITS	\$14,809	\$15,408
ADMINISTRATION	\$1,535	\$1,597
BAD DEBTS	\$62	\$65
PENALTIES	<u>(\$77)</u>	<u>(\$80)</u>
	<i>\$1,520</i>	<i>\$1,582</i>
 TOTAL COSTS	 <u>\$16,329</u>	 <u>\$16,990</u>
PREMIUM REVENUES	\$18,040	\$17,263
INTEREST CREDITS	<u>\$1,174</u>	<u>\$1,274</u>
TOTAL REVENUES	<u>\$19,214</u>	<u>\$18,537</u>
 ANNUAL SURPLUS	 \$2,886	 \$1,547
CUMULATIVE SURPLUS	\$45,413	\$46,960

¹ 2003 and 2004 as per the average of 7 private sector forecasts made in Sept. and Oct.
 2003: each percentage point change in the unemployment rate would affect the EI surplus by about \$1.3 billion in 2004 (combined effect on benefits, premiums and interest).

² As set by Bill C-28 pursuant to the Budget of Feb. 18, 2003: each 10 cent change in the employee premium rate is worth about \$885 million in 2003 and \$900 million in 2004.