

## Outlook for EI Premium Rates in 2003

### Background

- The following was noted at 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 introduced by 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 (suspended for 2002 and 2003) of the *Employment Insurance Act* reads 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 latest statements on EI premium rates were in the Budget of December 10, 2001, as follows:

"Changes to the Employment Insurance Act give the Government the authority to set EI premium rates for 2002 and 2003. The employee rate for 2002 has been set at \$2.20 per \$100 of insurable earnings, unchanged from that assumed for planning purposes in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. For planning purposes, the premium rates for 2003 and beyond are unchanged from what was assumed in the 2000 budget and October 2000 *Economic Statement and Budget Update*. However, in setting the rates for 2003, the Government will take into account the economic circumstances at that time."  
(Budget Plan, page 77)

"The employment insurance (EI) premium rate assumptions are those used in the 2000 budget and the October 2000 *Economic Statement and Budget Update* – \$2.20 (employee rate per \$100 of insurable earnings) for 2002, \$2.10 for 2003 and \$2.00 thereafter."  
(Budget Plan, page 69)

## Current status of the EI Account

- The EI Account is expected to show an annual surplus of about \$2.9 billion during 2002, which would bring the cumulative surplus to \$41.9 billion by December 31, 2002.

### STATUS OF THE EI ACCOUNT FROM 1993 TO 2002

	<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>Estimate 2002</u>
Unemployment rate (%)	11.4	10.4	9.4	9.6	9.1	8.3	7.6	6.8	7.2	7.7 <sup>1</sup>
Employee premium rate (%)	3.00	3.07	3.00	2.95	2.90	2.70	2.55	2.40	2.25	2.20
Break-even premium rate (%)	3.23	2.71	2.30	2.23	1.98	1.78	1.69	1.43	1.66	1.87
----- (in \$ millions) -----										
<u>COSTS</u>										
Benefits	17,972	15,463	13,505	12,806	12,014	11,697	11,629	11,078	13,288	15,179
Administration, etc.	1,300	1,271	1,326	1,364	1,348	1,315	1,382	1,362	1,483	1,474
Interest costs	<u>405</u>	<u>310</u>	<u>82</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total costs	19,677	17,044	14,913	14,170	13,362	13,012	13,011	12,440	14,771	16,653
<u>REVENUES</u>										
Premium revenues	18,469	19,327	19,180	19,091	19,379	19,623	18,880	18,885	18,436	18,497
Interest credits	<u>-</u>	<u>-</u>	<u>-</u>	<u>78</u>	<u>278</u>	<u>680</u>	<u>976</u>	<u>1,488</u>	<u>1,286</u>	<u>1,035</u>
Total revenues	18,469	19,327	19,180	19,169	19,657	20,303	19,856	20,373	19,722	19,532
<u>Surplus (deficit):</u>										
- annual	(1,208)	2,283	4,267	4,999	6,295	7,291	6,844	7,933	4,951	2,880
- cumulative	(5,884)	(3,601)	666	5,665	11,960	19,251	26,095	34,028	38,979	41,859

<sup>1</sup> Based on the year-to-date average up to and including August 2002.

## **General outlook for premium rates**<sup>1</sup>

- A premium rate of approximately \$1.87 per \$100 of insured earnings would have covered the annual program costs in 2002 (\$16.7 billion) -- assuming an unemployment rate of 7.7% (based on the year-to-date average) and including the effect of interest revenues of \$1.0 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 \$890 million in annual premium revenues in 2003;
  - a variation of one percentage point in the unemployment rate could affect the annual operating balance by about \$1.4 billion over the short-term.
- 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. For example, the expected interest revenues of about \$1.4 billion in 2003 would have the effect of reducing the break-even premium rate for that year by nearly 16 cents, setting it at 1.75% with an (assumed) unemployment rate of 7.1%.
- These forecasts take into account the impact of all program amendments over the last year.
- The attached table projects the status of the EI Account for 2003 based on the unemployment rate forecast of the Conference Board of Canada (dated June 14, 2002). As any forecast, it should be considered as hypothetical.

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

## EI ACCOUNT FORECASTS

	<u>2002</u>	<u>2003</u>
Unemployment rate	7.7%	7.1% <sup>1</sup>
Break-even premium rate	1.87%	1.75%
Premium rate	2.20%	2.10% <sup>2</sup>
 <u>PROJECTION ESTIMATES (millions)</u>		
REGULAR	\$9,271	\$8,860
SICKNESS	\$681	\$706
MATERNITY	\$846	\$877
ADOPTION	\$25	\$26
PARENTAL	<u>\$1,917</u>	<u>\$1,988</u>
<i>TOTAL SPECIAL</i>	<u>\$3,468</u>	<u>\$3,597</u>
 FISHING	 \$315	 \$336
WORK SHARING	\$42	\$44
EMPLOYMENT AND SUPPORT MEASURES	{ JOB CREATION \$58 SKILLS DEVELOPMENT \$394 TARGETED WAGE SUBSIDIES \$44 SELF EMPLOYMENT \$79 TRANSFERS TO PROVINCES \$1,027 SUPPORT MEASURES <u>\$572</u> <i>TOTAL EBSM</i> \$2,175	{ \$60 \$406 \$45 \$81 \$1,058 <u>\$590</u> \$2,240
GROSS BENEFITS	\$15,270	\$15,077
BENEFIT REPAYMENTS	(\$92)	(\$90)
<b>NET BENEFITS</b>	<b>\$15,179</b>	<b>\$14,987</b>
ADMINISTRATION	\$1,451	\$1,433
BAD DEBTS	\$83	\$97
PENALTIES	(\$61)	(\$63)
	\$1,474	\$1,467
 <b>TOTAL COSTS</b>	 <b><u>\$16,653</u></b>	 <b><u>\$16,455</u></b>
PREMIUM REVENUES	\$18,497	\$18,163
INTEREST CREDITS	<u>\$1,035</u>	<u>\$1,402</u>
<b>TOTAL REVENUES</b>	<b><u>\$19,532</u></b>	<b><u>\$19,565</u></b>
 <b>ANNUAL SURPLUS</b>	 <b>\$2,880</b>	 <b>\$3,110</b>
<b>CUMULATIVE SURPLUS</b>	<b>\$41,859</b>	<b>\$44,969</b>

<sup>1</sup> 2002 based on year-to-date, and 2003 as per Conference Board of Canada forecast of June 14, 2002: each percentage point change in the unemployment rate would affect benefit costs by about \$1.4 billion in 2003.

<sup>2</sup> Planning assumption as indicated in Budget of December 19, 2001: each 10 cent change in the employee premium rate is worth about \$890 million in 2003.