



**CALGARY CHAMBER OF COMMERCE**  
**Submission on *Employment Insurance***  
***Premium Rate Setting***

**Department of Finance**

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## Introduction

The Calgary Chamber of Commerce represents over 3,200 members and seeks to raise the quality and consciousness of public discourse on key issues confronting its members and stakeholders. In 2011 members identified labour attraction, retention and skill development as a top priority issue.

It is anticipated that Calgary and Alberta will experience favorable economic growth in the face of global and national economic uncertainty in 2011-12. Provincial and municipal unemployment rates are expected to hover around 5.5 per cent for the foreseeable future, while Canadian unemployment rates will likely remain above 7 per cent.<sup>1</sup>

Given differential economic conditions across Canada, combined with the challenges confronting the global economy, it is more important than ever to ensure that federal government programs are best positioned to enable Canadians to take advantage of economic opportunities where they exist.

As an “automatic stabilizer”, the Employment Insurance (EI) program has played a critical role in mitigating the severity of the economic downturn. The Calgary Chamber of Commerce believes that this program can be fundamentally strengthened to create incentives to reduce unemployment, lower EI program costs, and remove barriers to labour mobility.

This submission seeks to address the key questions identified by the Department of Finance on the EI premium rate setting, identified in the consultation document, namely:

1. What should be the rate-setting process?
2. What is a reasonable amount of time in which the EI program should be expected to break-even?
3. What is an acceptable maximum annual change in EI premiums?

The Chamber has composed this submission on behalf of its members to assist the government in creating the best environment for business to thrive and contribute to a strong and sustainable economy that encourages investment, wealth creation and a great quality of life for all Canadians.

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<sup>1</sup> Ben Brunnen. “Didn’t Calgary Get the Memo? Economic Growth in the face of Global Uncertainty.” Calgary Chamber of Commerce. 2011. Available at <http://www.calgarychamber.com/resources/docs/PGA/Policy%26Communications/2011/Publications/2012%20Economic%20Outlook-Final.pdf>



## I. What should be the rate setting process?

Though the EI program is administered by Service Canada, the Canada Employment Insurance Financing Board (CEIFB), which was established in 2008 as an arm's length organization, determines the EI premium rate setting process and ensures revenues are used exclusively for the EI program.<sup>2</sup> When looking at the Employment Insurance Premium Rate Setting study conducted by the Ministry of Finance in conjunction with Human Resources & Skills Development Canada, it is important to consider what the premiums are best suited to pay for.

The Employment Insurance program was created in Canada in the aftermath of the Great Depression to provide financial assistance to those who had become unemployed through no fault of their own. However, over the last three decades, the social program aspects of the EI Program have expanded. In 2008, for example, workers receiving regular EI benefits accounted for about 65 per cent of total EI beneficiaries, while 35 per cent supported other benefits for various purposes such as long-term illnesses, maternity leave, fisheries support, work-sharing, adoption, parental leave, and training.<sup>3</sup>

The Chamber suggests that the federal government operate the EI Program as a true insurance program with the social program aspects of EI placed in other program spending, as was done in through the Québec Parental Insurance Plan (QPIP). Under the QPIP, the provincial government began charging for and delivering parental and adoption benefits separately, correspondingly reducing the EI premiums for employers and employees in Quebec.<sup>4</sup> This approach facilitates reductions in EI premium rates, thereby reducing real wage costs to employers and increasing the real wages received by employees.

The Chamber also encourages the federal government to adjust the premium rate setting formula to establish a stronger tie between premiums paid and benefits received. Currently, all employers and employees pay the same amounts per \$100 in to the EI program. But differential benefits are paid out based on regional employment conditions. This approach effectively redistributes EI premiums from regions with low unemployment to regions of high unemployment, and leads to labour market distortions that create disincentives for both employers and employees to address chronic regional unemployment issues.

In response to these challenges, the Chamber proposes that the federal government adopt variable premium payments for the EI program, based on the program's 58 established economic regions. Areas of consistently high unemployment (and correspondingly higher benefits paid) would pay relatively higher premiums. Correspondingly, areas of low unemployment, with lower benefits paid, would pay lower premiums. This approach is consistent with a true insurance program model, and would eliminate the redistributive properties of the EI program that discourage employers and employees from finding solutions to chronic unemployment challenges.

EI program disparity is also seen through the differential premium rates for employers and employees. Employers pay about 1.4 times the employee premium rate<sup>5</sup> and the rationale that employers should bear a higher overall share of program costs is not unwarranted, as they have traditionally had greater control over layoff decisions and should have to pay a component of the social costs of unemployment. But when the premiums have been increasing in the past decades due to non-unemployment related

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<sup>2</sup> Canada Employment Insurance Financing Board, "Our Mandate." [http://www.ceifb-oftaec.ca/en/our\\_mandate.html](http://www.ceifb-oftaec.ca/en/our_mandate.html)

<sup>3</sup> Statistics Canada. "Number of employment insurance beneficiaries by type of income benefit." CANSIM table 276-0001.

<sup>4</sup> "Reforming Canada's Employment Insurance (EI) program". Canadian Chambers of Commerce. p.9-10.

<sup>5</sup> Canada Revenue Agency, "EI Premium Rate and Maximum." <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/clcltng/ei/hstrc-eng.html>



costs, it is difficult to justify why employers have to pay significantly more into the system than employees.<sup>6</sup>

This imbalance also fails to capture the culture shift that has occurred since the creation of the EI program. With more occupational choices, reduced barriers to labour mobility, and improved employment supports, employees have become increasingly more selective with their employment choices. Moving towards a more equitable ratio of premium payments ensures employees appropriately bear more of the responsibility for their choices.

*The Calgary Chamber of Commerce recommends that the Government of Canada:*

- *Restructure the EI Program to be a true insurance program that focuses primarily on providing employment related benefits, and fund current EI social program benefits through other mechanisms;*
- *Introduce a variable premium payment system, whereby higher premiums are paid in geographic regions where higher benefits are paid, thus removing disincentives for employers and employees to find solutions to chronic regional unemployment challenges; and*
- *Create more equity in the employer-employee EI premium ratio.*

## **2. What is a reasonable amount of time in which the EI program should break-even?**

The primary mandate of the Canada Employment Insurance Financing Board (CEIFB) is to set the premium rates to have the EI program break even on a year-to-year basis. Currently, the CEIFB Chief Actuary provides the Board of Directors with the actuarial forecasts and estimates of the break-even rates, which are then used to set the EI premium rate for the following year.<sup>7</sup>

The challenge with this annual system is that premiums always have to increase during periods of high unemployment to ensure that the revenue collected will be equal to the benefits paid. This pro-cyclical outlook of the CEIFB is counter intuitive, and imposes an unnecessary burden on Canadians during tough economic times. One alternative is to adopt a counter-cyclical approach, in which higher premiums are collected in good times, to be paid out during the bad times.<sup>8</sup>

In this regard, the Chamber encourages the CEIFB to extend the break even timelines for the program to five years to better align with economic cycles. This approach enables the program to collect higher premiums during periods of economic growth, and pay more benefits during economic declines.<sup>9</sup>

<sup>6</sup> “Reforming Canada’s Employment Insurance (EI) program”. Canadian Chambers of Commerce. p.9.

<sup>7</sup> Canada Employment Insurance Financing Board, “Employment Insurance (EI) Rate Setting Process”. [http://www.ceifb-fofaec.ca/en/rate\\_setting.html](http://www.ceifb-fofaec.ca/en/rate_setting.html)

<sup>8</sup> Mowat Centre EI Task Force, “Rate Setting”. <http://www.mowateitaskforce.ca/issue/10-rate-setting>

<sup>9</sup> “Reforming Canada’s Employment Insurance (EI) program”. Canadian Chambers of Commerce. p.8.



*The Calgary Chamber of Commerce recommends that the Government of Canada adopt a counter-cyclical approach to EI premium rate setting, allowing the program to break-even within 5 years to better align with economic cycles.*

### **3. What is an acceptable maximum annual change in EI premiums?**

In addition to adopting a counter-cyclical approach to break-even horizons, it is important to consider the broader economic context when setting premium maximums, and set rate increases that are gradual and incremental.

To illustrate:

- In a region with below 3% unemployment, the maximum annual change allowed could be 1% of the premium.
- In a region with 3-7% unemployment, the maximum annual change allowed could be 0.5% of the premium.
- In a region with above 7% unemployment, the maximum annual change allowed could be 0.25% of the premium.

This approach not only tempers the effect of the maximum annual change by tying it to a percentage of the existing premium, it also mitigates any unfair charges to areas with high unemployment that are already paying a higher premium.

*The Calgary Chamber of Commerce recommends that the Government of Canada set EI premium maximums based on an approach that is proportionate and responsive to regional employment conditions.*