Office of the Superintendent of Financial Institutions Canada
Bureau du surintendant des institutions financières Canada

Employment Insurance – Premium Rate Setting Mechanism

2017 EI Commissioner’s Employer Forum
30 November 2017

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Overview

- The seven-year rate setting is a new process where the EI premium rate is set by the Canada Employment Insurance Commission (CEIC) based on actuarial projections.

- Dynamic procedure to set the rate every year.
    - ✓ The CEIC sets the premium rate based on the EI Chief Actuary's calculations of a seven-year break-even rate.
    - ✓ The EI premium rate setting mechanism and timeline are set in legislation, with roles for the EI Chief Actuary and the Office of the Superintendent of Financial Institutions (OSFI), the Canada Employment Insurance Commission (CEIC) and the Ministers of ESDC and Finance.

- Set in this manner to ensure:
    - ✓ There are enough EI revenues to fund EI expenditures over time.
    - ✓ Accountability of EI revenues.
    - ✓ Transparency for employers.
    - ✓ Stability in the premium rate.

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Canada Employment Insurance Commission

- The CEIC plays a key role in overseeing the EI program.
  - ESDC and Service Canada carry on the administration of the EI program on behalf of the CEIC.
- The CEIC is composed of Commissioners representative of employers, workers and the Government.
  - Judith Andrew, Commissioner for Employers
  - Pierre Laliberté, Commissioner for Workers
  - Louise Levonian, Deputy Minister of ESDC
  - Leslie MacLean, Senior Associate Deputy Minister of ESDC and Chief Operating Officer for Service Canada
    - The Vice-Chairperson votes on decisions only if the Chairperson is unavailable
- The CEIC annually monitors and assesses the EI program, as well as has responsibilities in:
  - ✓EI policy and regulations
  - ✓Financial transparency/rate-setting
  - ✓EI appeals

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Office of the Chief Actuary

- Independent Unit within OSFI
- Mandate: conduct statutory actuarial valuations on the
  - ✓ Canada Pension Plan (CPP)
  - ✓ Old Age Security (OAS)
  - ✓ Federal public sector employee pension and insurance plans
    - Canadian Forces
    - Federally Appointed Judges
    - Members of Parliament
    - Public Service of Canada
    - Royal Canadian Mounted Police
  - ✓ Canada Student Loans Program (CSLP)
  - ✓ Employment Insurance (EI) premium rate
    - Tabled before Parliament by the Minister of Families, Children and Social Development (since 2013)

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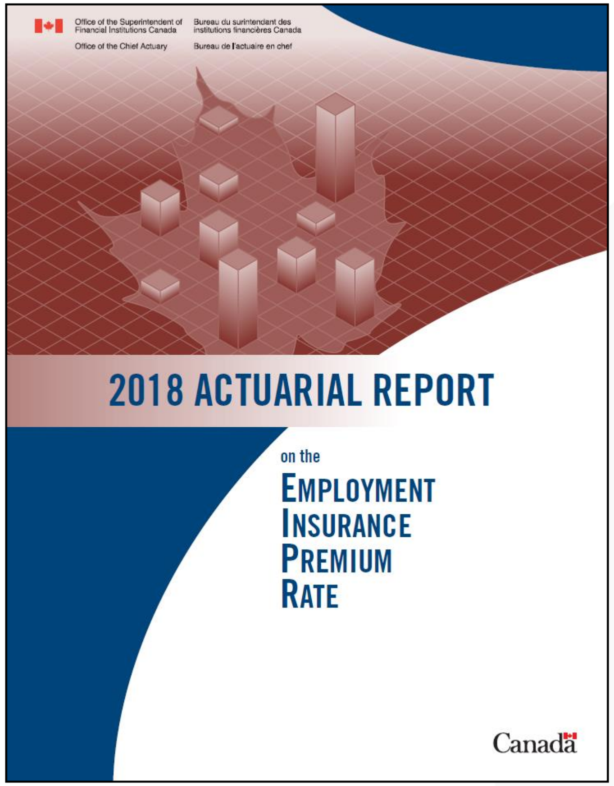
Employment Insurance – The Role of the Actuary

- The Commission shall engage the services of a Fellow of the Canadian Institute of Actuaries (CIA) who is an employee of OSFI
- The actuary shall prepare actuarial forecasts and estimates and shall provide the Commission with a report that sets out:



✓ information provided by ESD and Finance

✓ source of the data, actuarial and economic assumptions and methodology used

✓ calculations performed for the MIE

✓ forecast premium rate

✓ premium reduction for provincial plans

✓ premium reduction for wage-loss plans

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A New Rate-Setting Methodology

- Budget 2011 launched EI consultations on “how the EI rate-setting mechanism can be further improved to ensure more stable, predictable rates going forward”
- Key principles:
  - ✓Ensure the program breaks-even over time
  - ✓Avoid large cumulative surpluses or deficits
  - ✓Maintain transparency in the rate-setting process
- Submissions and stakeholders suggested that it was necessary to continue to ensure EI premiums are only used for the EI program and year-to-year fluctuations should be limited
- In response to the consultations, a seven-year rate-setting mechanism was introduced, to come into effect once the EI Operating Account achieved balance

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2018 EI Premium Rate Setting Timeline

By July 21, 2017*

- Information provided to EI Chief Actuary by Departments of Finance (e.g., forecast unemployment rate) and ESDC (e.g., program expenditures)

By August 22, 2017

- Chief Actuary's Final Report provided to CEIC

By August 31, 2017

- CEIC provides Summary Report and Actuarial Report to the Ministers of ESDC and Finance

By September 14, 2017

- CEIC sets the premium rate, releases Summary Report and makes the Actuarial Report available
- Typically, Ministers of Finance and ESDC welcome the report

By September 29, 2017**

- Minister of ESDC shall cause Summary and Actuarial Report to be laid before each House of Parliament

January 1, 2018

- Premium rate becomes effective

= legislated date

*The legislated date is July 22, if a legislated date falls on a Saturday or Sunday the deadline is advanced to the Friday before.

**The legislated date is "within 10 sitting days"

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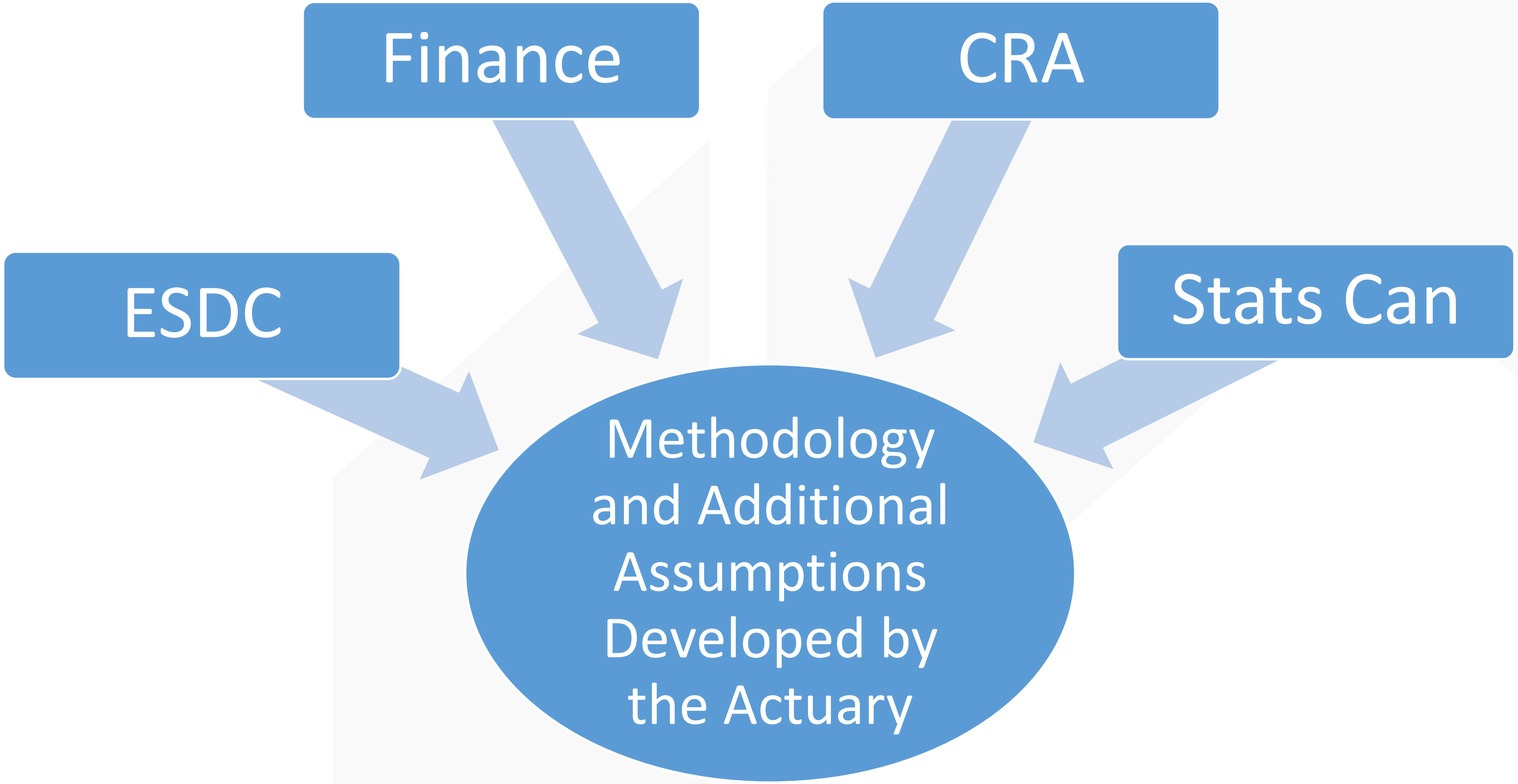
The Information Used in the Actuarial Report is Coming from Different Sources



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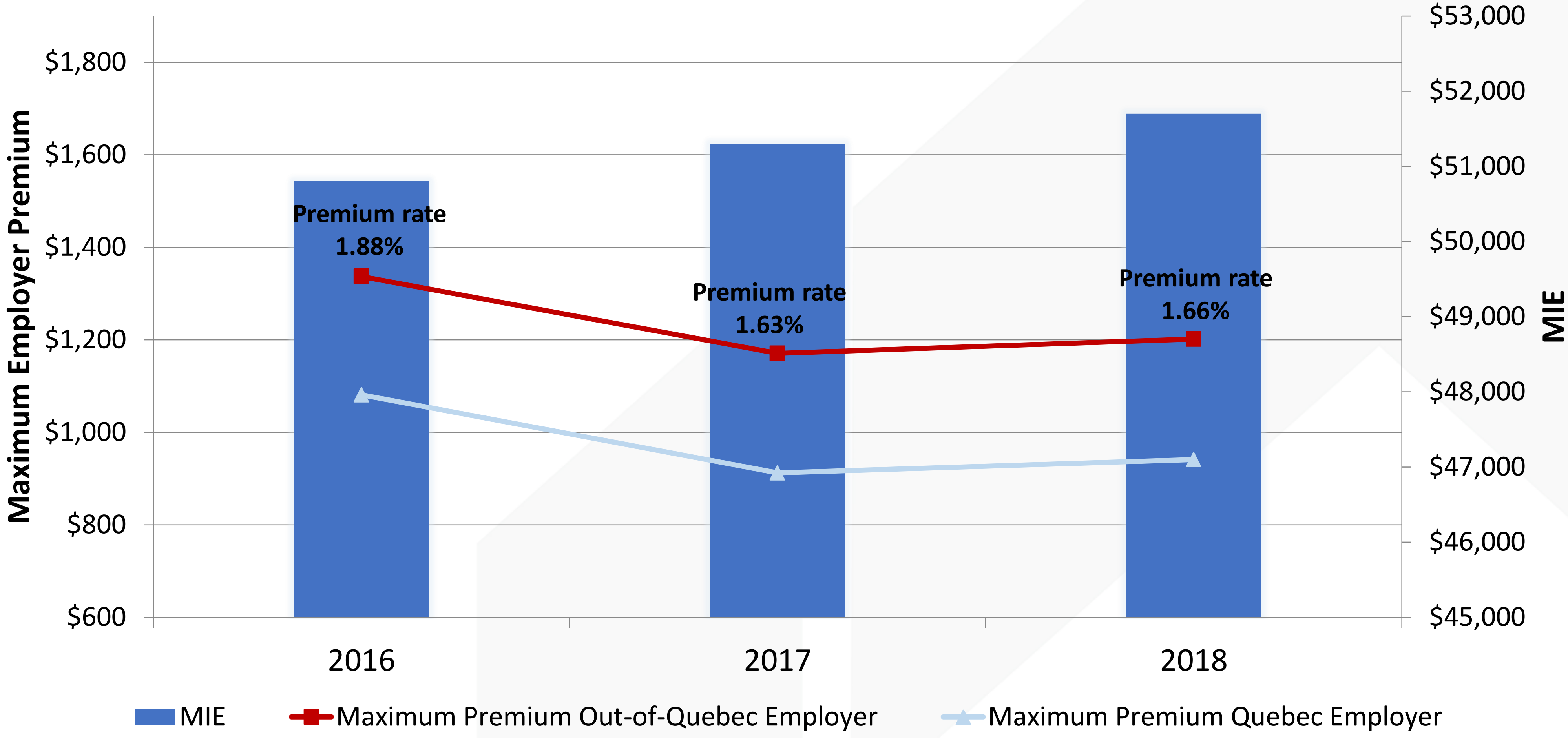
Maximum Insurable Earnings



The 2018 MIE is equal to $51,700

0.8% increase from the 2017 MIE of $51,300

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2018 EI Seven-Year Forecast Break-Even Rate

EI Expenditures (2018-2024) = **EI Revenues** (2018-2024) + **EIOA Balance** (31 Dec. 2017)

EI Expenditures (2018-2024)

- Benefits (EI Part I)
- EBSM (Part II)
- Admin. Costs

Premium Reduction for WLP

Premium Reduction for PP

EI Revenues (2018-2024)

Employee Premiums
TIE x (1 – PR%) x *RATE*

Employer Premiums
1.4 x TIE x *RATE*

Self-Employed Premiums
TSEE x *RATE*

EIOA Balance (31 Dec. 2017)

Cumulative Surplus
at 31 Dec. 2016
+ 2017 Expected Revenues
- 2017 Expected Expenses

❖ Year-to-year, the EI premium rate cannot change by more than 5 cents

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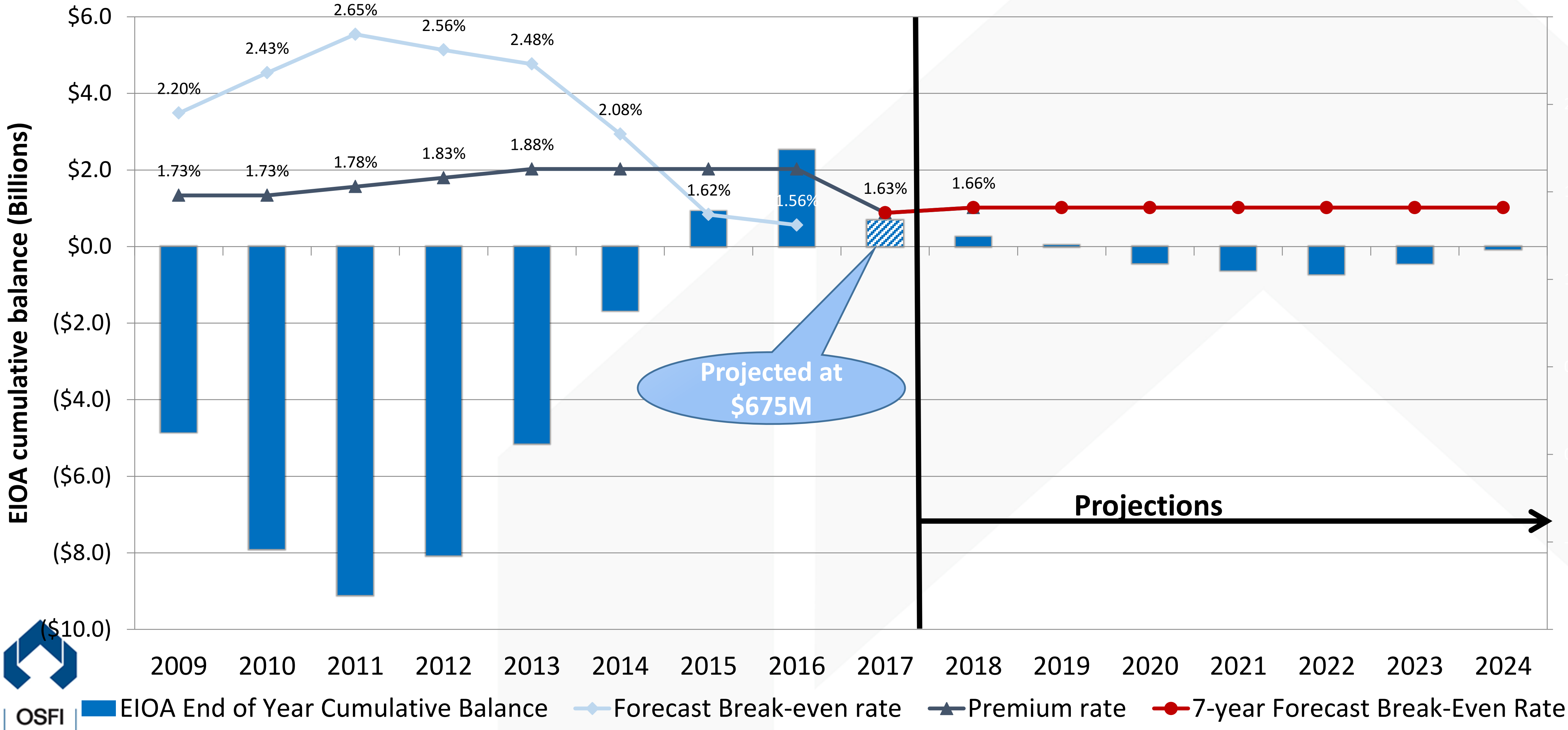
Historical and Projected EIOA and Premium Rates



The Unemployment Rate Has An Impact on Both Sides of the Equation

The Unemployment Rate Has Been Trending Down…

And is Expected to Decrease Further Over the Next Five Years

	2017 Actuarial Report *	Budget 2017	2018 Actuarial Report *	2017 Fall Economic Statement
2016	7.0	7.0	7.0	7.0
2017	6.8	6.9	6.6	6.5
2018	6.4	6.7	6.5	6.3
2019	6.2	6.7	6.5	6.3
2020	6.2	6.6	6.5	6.4
2021	6.2	6.4	6.3	6.3
2022	6.2		6.3	6.1

Average 2017-2023
6.3%

Average 2018-2024
6.4%

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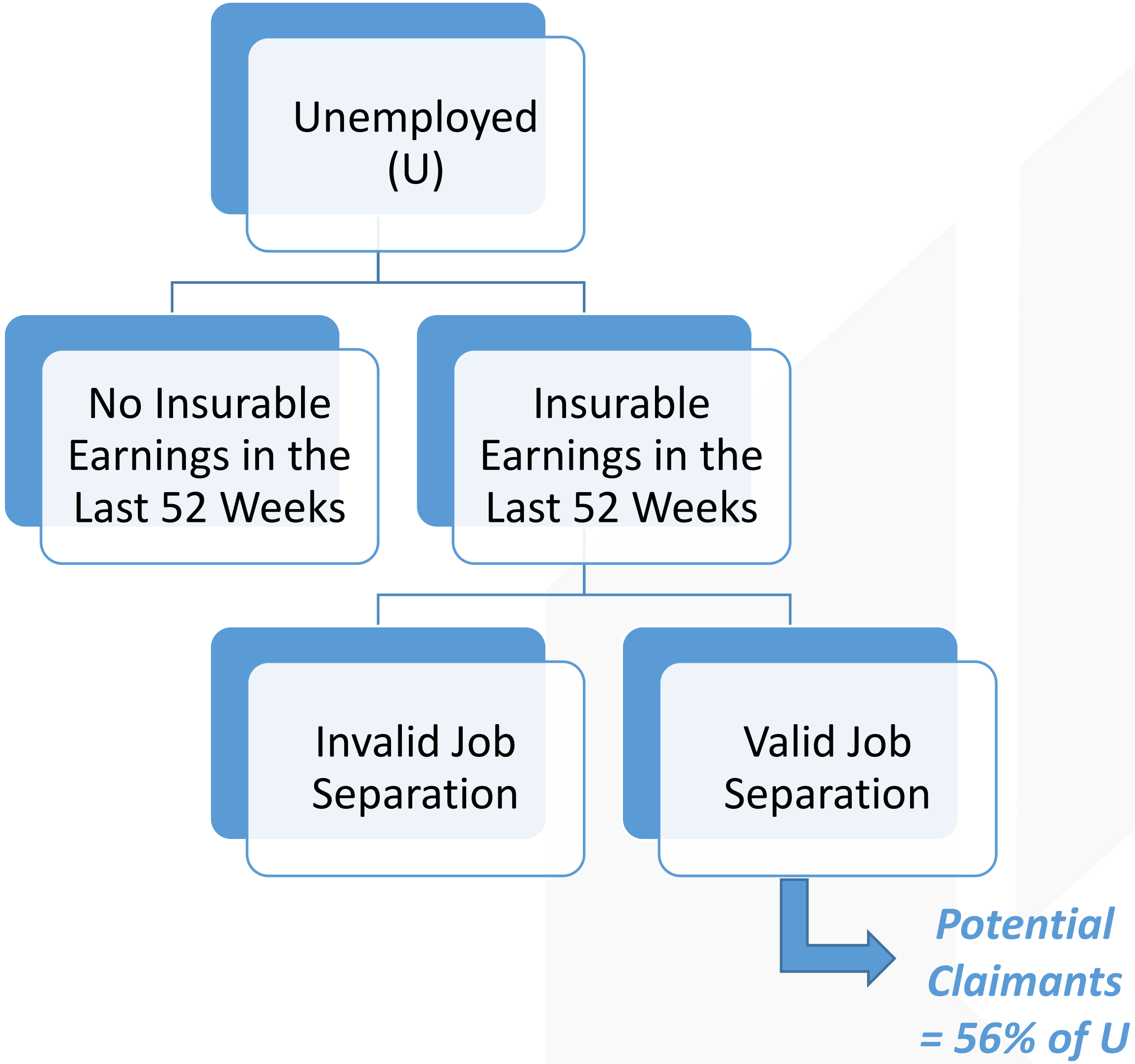
** Unemployment Rates Assumptions used in Actuarial Reports are provided by the Department of Finance.*

The Recipiency Rate is an Important Element of the Projections of EI Expenditures



Recipiency Rate:

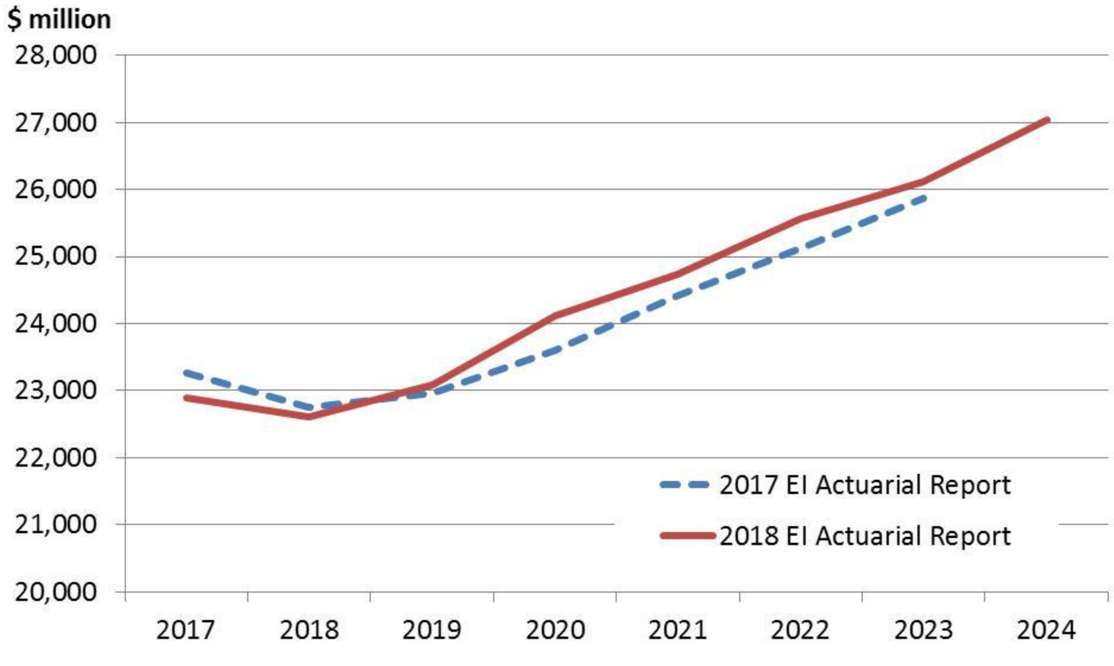
74% *of* *<u>potential claimants</u>* *are receiving EI benefits*

Not all potential claimants are receiving EI benefits since:

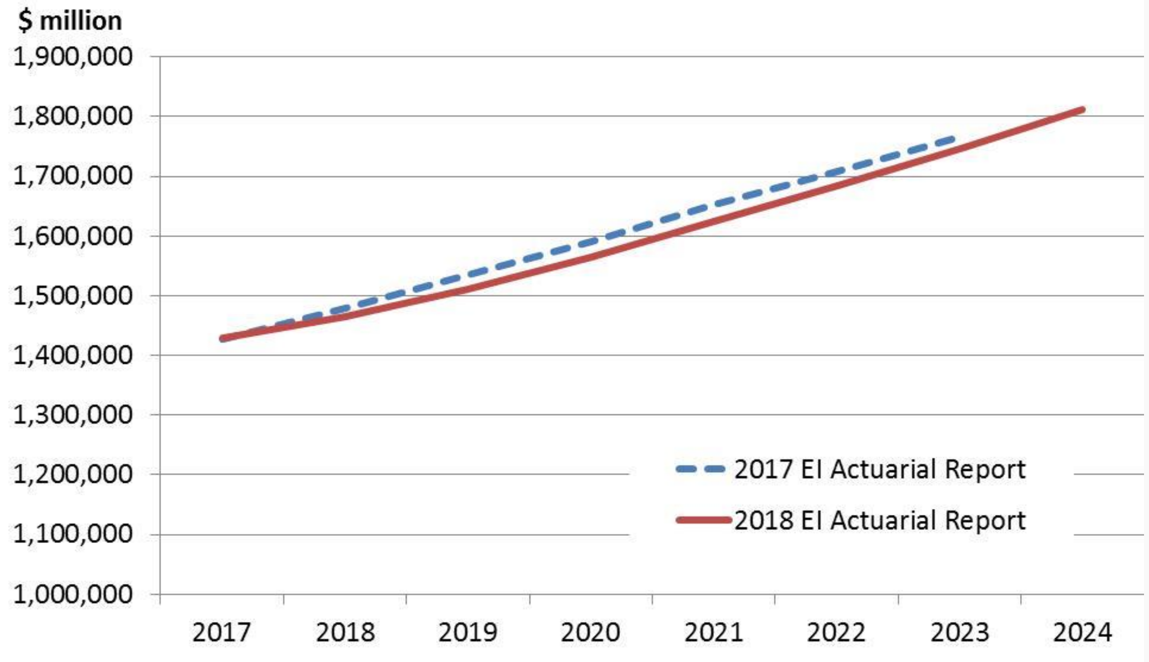
- They have not accumulated the required number of insurable hours; or
- They do not apply for EI benefits.

Projected EI Expenditures and Revenues

Projections of EI Expenditures



Projections of EI Earnings Base



Resulting 7-Year Forecast Break-Even Rate for 2018 ⇨ 1.66%

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EI 7-Year Forecast Break-Even Rate Sensitivities

With all other assumptions remaining constant, over the 2018-24 period:

Variation	Assumption	Impact	Result
Variation in Average Unemployment Rate	6.4% ± 0.5%	Impact on Rate →	± 0.07%
Variation in Average Recipiency Rate	74% ± 5%	Impact on Rate →	± 0.05%
Variation in Premium Rate	1.66% ± 0.01%	Impact on EIOA over 7 years →	± $1.1B

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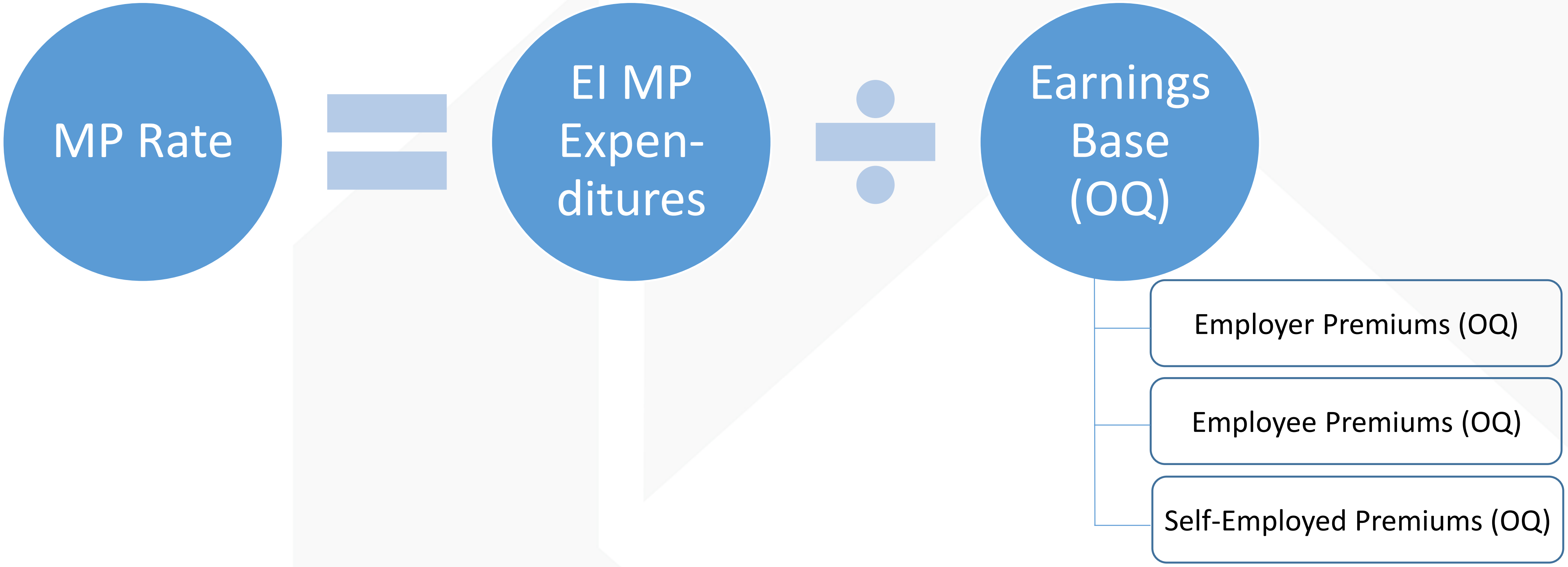
Maternity and Parental (MP) Rate

- Canada-Quebec Agreement : MP rate is the ratio of EI MP expenditures to the earnings base of residents outside the province of Quebec (OQ)
- 2018 QPIP Reduction = ***0.36%***



Premium Reduction for Wage-Loss Plans

	2018 Rounded Rates of Reduction	Employer Multiplier (Out-of-Quebec)	Employer Multiplier (Quebec)
Category 1	0.21%	1.273	1.238
Category 2	0.36%	1.182	1.122
Category 3	0.35%	1.187	1.128
Category 4	0.39%	1.167	1.103

- Multiplier calculation:

  $1.273 = (1.66\% \times 1.4 - 0.21\%) / 1.66\%$

  $1.238 = (1.30\% \times 1.4 - 0.21\%) / 1.30\%$

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Conclusion

- The rate for 2018 marks the second year the CEIC set the rate using the seven-year break-even rate setting mechanism
- The announced rate for 2018 is $1.66 per $100 of insurable earnings, and $2.32 per $100 of insurable earnings for employers
- Going forward, the rate will continue to be forecast using up-to-date economic information and expected EI program expenditures
- This mechanism helps to keep rates low and stable and set transparently
- The Government continues to ensure that EI revenues are only used for EI expenditures

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Thank you

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