



November 28, 2011

Office of the President and
Chief Executive Officer

Cabinet du président
et chef de la direction

Mr. Chris Forbes
Assistant Deputy Minister
Federal-Provincial Relations and Social Policy Branch
Department of Finance
L'Esplanade Laurier
15th Floor, East Tower
140 O'Connor Street
Ottawa ON
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Dear Mr. Forbes:

Re: Employment Insurance Premium Rate Setting

The Canadian Chamber of Commerce welcomes the opportunity to participate in Employment Insurance (EI) rate-setting consultations. As the largest and most broadly-based business association in Canada, our members fully support a framework that maintains transparency in the rate setting process, leads to more stable and predictable premium rates and ensures the EI Operating Account breaks even over time.

The drawback with the current rate-setting process is that it is pro-cyclical in nature – premiums have to rise during economic downturns (when unemployment tends to rise) so that the program not only collects as much as it spends on a year-to-year basis, but also replenishes any potential amounts drawn down from the reserve. While the cap on annual premium rate increases mitigates the pro-cyclicality to some extent, higher payroll costs can force employers to lay off workers, exacerbating unemployment and the downturn. For this reason, the government's decision to freeze premiums in 2009 and 2010 was very commendable. Given the ongoing fragility of the economic recovery, the government took further action to limit the annual increase in EI premium rates to 5 cents per \$100 of insurable earnings in 2011 and 2012. Without this cap, the Canada

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Employment Insurance Financing Board (CEIFB) would have had to increase EI premiums by 15 cents per year over the 2011 to 2013 period for the EI account to break even.

It would make more sense if the rate-setting process was counter-cyclical – more money would be collected in good times for use during the bad. This requires a forward-looking approach, an arm's length independent body and new legislation. At present, the CEIFB does not have this independence – during, and following the most recent recession, the government intervened to keep rates steady or mitigate increases. The CEIFB needs real independence and a clear legislative mandate to act in accordance with moderating the business cycle.

To ensure EI premium rate stability, the Canadian Chamber of Commerce proposes that the EI premium rate be set so the program is projected to break even on a seven to ten year going forward basis. The focus would be on achieving a cumulative account balance over the business cycle (not on the annual balancing of the books). Yearly EI account balances would vary. A move to a business cycle rate-setting framework should also ensure a sufficient reserve fund for future downturns. The Chief Actuary had recommended a \$10 to \$15 billion fund to cover revenue shortfalls in a recession.

As an example, from 2013 to 2022 (10 year period), a relatively constant premium rate would be determined on an actuarial basis to cover the cumulative costs of the program (not including any interest). If there is a forecast error resulting in a deficit in the EI Operating Account in 2013, for example, we should not try to make up for that deficit in setting the rate for 2014. The rate would be set so the EI account is projected to break even from 2014 through 2023. A cap can be put in place on the extent of any year-to-year change in premium rates, say 5 to 10 cents in either direction.

In summary, balancing the EI account over the ebbs and flows of the economic cycles would achieve more stable and predictable premium rates. As the economy headed into a downturn, the premium rate would be kept relatively constant as deficits were incurred. Then, as the economy recovered, EI revenues would rise, deficits could be repaid, and surpluses would accumulate, all the while holding premium rates steady. The EI program would counteract or mitigate the negative effects of economic cycles as more money would be collected in good times for use during the

bad. Employers would have greater certainty in planning their business affairs, and a greater incentive to keep workers and add to payrolls during economic downturns.

Sincerely,

A handwritten signature in black ink that reads "Perrin Beatty". The signature is written in a cursive style with a large initial 'P' and a long horizontal line extending from the end of the name.

Perrin Beatty
President and Chief Executive Officer

cc: The Honourable Jim Flaherty, P.C., M.P.,
Minister of Finance

The Honourable Diane Finley, P.C., M.P.,
Minister of Human Resources and Skills Development

Mrs. Shelly Glover, M.P.,
Parliamentary Secretary to the Minister of Finance

Dr. Kellie Leitch, M.P.,
Parliamentary Secretary to the Minister of Human Resources
and Skills Development and to the Minister of Labour