

Employment Insurance Program

2007

The Canadian Chamber believes that reforms to Canada's Employment Insurance (EI) program are necessary to advance the fundamental goals of promoting employment and productivity.

The Technical Committee on Business Taxation recommended that the federal government design and introduce an employer-based experience rating system. Such a system would reduce premiums for firms that generate fewer claims than others. It would render the EI system more efficient and more conducive to job creation and stability, thereby reducing the unemployment rate over the medium term. As it presently stands, without employer-based experience rating, the EI system levies taxes on firms that minimize layoffs (for example, through smoothing of production and the use of work-sharing arrangements) and subsidizes businesses that readily resort to layoffs. By discouraging the use of EI as a recurrent income supplement, an employer-based rating system would contribute significantly to the goals of promoting employment and growth as well as enhancing fairness.

The Canadian Chamber believes that other reforms to the EI program are necessary.

The original goal of the EI program was to provide insurance against unintended periods of unemployment. Over the last three decades, however, items such as earning supplements, family-related benefits, and training grants to provinces have grown in importance. Indeed, since 1995, regular benefits paid to laid-off workers have averaged less than half of total premium revenues collected. Because the EI program has been used to support government spending in a variety of areas completely unrelated to the original purpose of the EI program, EI premium rates have been kept at unnecessary high levels. In other words, the break-even level (i.e. the EI premium rate that would generate revenue equal to the cost of funding the entire EI program on a yearly basis) has been artificially raised.

Operating the EI program as a true insurance program – that is, one which provides insurance against unintended periods of unemployment – would facilitate further reductions in EI premium rates over time. Further reducing EI premiums for both employers and employees, would reduce real wage costs to employers making it more attractive to hire more workers, and increase real wages received by employees. It would put in place incentives to boost productivity.

There has been some progress in removing the social-program aspects of EI from the regular premium structure. In Quebec, effective January 1, 2006, the provincial government began charging for and delivering maternal, parental and adoption benefits under the Québec Parental Insurance Plan (QPIP). The QPIP replaced maternity and parental benefits previously provided under the EI program for eligible Quebec residents. EI premiums for employers and employees in Quebec were reduced to reflect the fact that Quebec residents no longer receive maternity and parental benefits under EI. The end result has been greater transparency with respect to payroll taxes collected to fund the province's parental leave program and the federal government's employment insurance program.

Another issue that needs to be addressed pertains to the higher premium rate paid by employers compared to employees (i.e. employers pay 1.4 times the employee premium rate). The rationale behind this is that employers have greater control over layoff decisions and, therefore, should bear a higher overall share of program costs. In recent years, however, EI benefits totally unrelated to layoffs (for example, parental leave benefits) have contributed to higher program costs. There is little justification for requiring employers to pay more for these benefits than employees do. The federal government must gradually reduce the employer EI premium rate to equal that paid by employees.

Lastly, if employee EI premium payments exceed the maximum contribution limit, employees are refunded the difference between what they have paid in any given year and the maximum annual contribution limit when they file their yearly income taxes. Employers, however, are not afforded the same treatment. Hence, even though an employee has contributed, for example, the maximum amount in previous employment with a different employer in a given year, the employee's current employer must contribute on the basis of current, not previous, earnings paid to the employee in that year. While it is difficult to quantify the exact level of over-contributions by employers, the level is certainly in the several hundred million dollar range. Given the fact that EI premiums represent a barrier to job creation, the Canadian Chamber believes that the federal government must immediately devise and implement a system that allows for over-contributions to EI by employers to be refunded by the federal government.

Recommendations

That the federal government:

1. Phase in an employer-based experience rating system.
2. Facilitate further reductions in EI premium rates. by operating the EI program as a true insurance program.
3. Reduce the employer EI premium rate to equal the employee premium level.
4. Implement a system that allows for over-contributions by employers to be refunded.