



Business Council of
British Columbia

November 30, 2011

Via Email: ei-consultations-ae@fin.gc.ca
(Original to follow by mail)

Mr. Chris Forbes
Federal-Provincial Relations and Social Policy Branch
Department of Finance
L'Esplanade Laurier
15th Floor, East Tower
140 O'Connor Street
Ottawa, Canada K1A 0G5

Dear Mr. Forbes:

Re: Employment Insurance Premium Rate Setting

The Business Council of British Columbia is pleased to provide our views to the Employment Insurance Rate Setting Consultation. Established in 1966, the Business Council is an association representing approximately 260 large and medium-sized enterprises active in British Columbia. Our members are drawn from all major sectors of the provincial economy, including forest products, mining, manufacturing, transportation, agri-food, telecommunications, information technology, financial services, energy, utilities, tourism, retail, construction, life sciences, engineering, healthcare, education and the professions. Taken together, the corporate members and the associations affiliated with the Business Council are responsible for approximately one-fifth of all paid employment in British Columbia.

The Business Council supports using Employment Insurance premiums to fund the core elements of the EI program, and to operating the program so that revenues and expenditures break even over time. Recognizing that the Canadian Employment Insurance Financing Board's (CEIFB) mandate is to set the EI premium rates each year at a "break even rate", the current consultation process is seeking input on ways of improving the rate-setting mechanism to provide more stable and predictable rates.

Continued



The first question posed in the review asks:

What is a reasonable amount of time in which the EI program should be expected to break-even?

The Business Council believes that ideally the EI fund should be balanced (or break even) over the course of a typical business cycle. We recognize, however, that implementing such a policy can be challenging, because the timing and depths of recessions are very difficult to anticipate. Thus for operational purposes, we suggest balancing the EI fund over a five-year period, with provisions to extend this to a seven-year period if necessary. The key point here is that there should be some flexibility built into the system. An important objective should be to avoid running large, perpetual surpluses in the EI account. To avoid large ongoing surpluses while also balancing the fund over a business cycle will require running a deficit at some stage. The \$2 billion cash reserve should be kept as a separate contingency fund to cover short term deficits in the operating account, and then replenished as appropriate.

From the Business Council's perspective, balancing the EI fund over the business cycle should also entail managing EI premiums in a somewhat counter-cyclical manner. In the past, premiums have been increased during economic downturns to provide sufficient funds to cover the increased number of claims stemming from the rise in unemployment. For businesses, the result is an increase in the cost of hiring and retaining workers, at a time when organizations are typically looking to cut costs and government policy arguably should be looking to support rather than discourage hiring and employee retention.

The second issue the consultation process is seeking input on is:

What is acceptable maximum annual change in EI premiums?

As a general principle, changes in premiums should be as small as possible, particularly in the case of increases, which tend to add significantly to employers' labour costs and often discourage hiring.

The recent economic downturn and the government's move to limit premium increases support our view that premium changes should be measured and incremental. In September 2010, the federal government took action to restrict the annual increase in premium rates to 5 cents for 2011 (resulting in the increase from \$1.73 to \$1.78), and to 10 cents in subsequent years. (The increases for employers are of course larger given the 1.4 multiple applied to employer/employee premiums.)



Without intervention, the CEIFB would have boosted EI premiums by 15 cents per year between 2011 and 2013. The federal government decided, wisely in our view, to limit the amount premiums went up, precisely because it recognized that big increases would have had a significant negative impact on hiring during a period of economic uncertainty and relatively muted job growth.

We note that a 5 cent premium hike amounts to a 2.9 per cent increase (for workers), while a 15 cent increase represents an 8.7 per cent jump in premium costs. For businesses, anything approaching a 10 per cent increase in EI premiums in a single year is too large. We believe annual changes in premiums should generally be limited to 3 per cent and not exceed 5 per cent.

The final question in the consultation is:

What should be the rate-setting process?

The current process used to calculate the EI break-even rate uses information provided by the Minister of Human Resources and Skills Development and the Minister of Finance, as well as assumptions developed by the Chief Actuary. Information about economic and demographic projections is provided by the Department of Finance and typically represents the averages of major private-sector forecasts. The Chief Actuary is required by the Employment Insurance Act to use these in calculating the break-even rate.

The break-even rate is the primary consideration, but is subject to the legislated limits in the annual change in the EI premium rate, which as noted above was recently changed. The final determination of the rate is made by the CEIFB Board of Directors using the Chief Actuary's calculation of the break-even rate and the legislated limit.

This approach is used to establish break-even rates for the upcoming year, but it is also broadly appropriate for determining rates when the objective is to balance the fund over a number of years. We suggest, however, that the CEIFB publish the "intended" or "target" rates for the longer break-even period, and not just the rates for the upcoming year. Given the greater uncertainty associated with medium-term projections of unemployment levels and other economic variables, and the publication of EI premium levels over say a 5-year period, it would be beneficial to build in a formal mechanism for the private sector to provide input and respond to the "targeted rates".



Although it is outside of the scope of the current consultation, the Business Council continues to question why employers (outside of Quebec) pay 1.4 times the employee premium. With the shift to balancing the EI fund over a longer period of time, the Council encourages the government to lower the employer multiple as funding and economic conditions permit. This should be a permanent reduction; the employer multiple should not be adjusted to fund EI account shortfalls in the future.

Finally, we would reiterate a point made in previous Business Council submissions: many of our members remain concerned that the EI program, as now constituted, includes a number of benefits which don't really fit within the structure of a program originally intended to provide temporary income support to workers facing involuntary job loss due to changes in the economy or business conditions. Arguably, these types of supplementary or "add-on" benefits should not be funded via a dedicated payroll tax, but rather should be paid for through the general taxation powers of the national government. The question of the role and funding of the non-insurance components of EI needs to be considered as part of a longer-term reform of the program.

The Business Council appreciates the opportunity to provide input on the Employment Insurance Rate Setting process.

Yours sincerely,

*Original signed by
Greg D'Avignon*

Greg D'Avignon
President and Chief Executive Officer

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