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2012 Federal Budget: Some Key Issues for Employers

The 2012 federal budget tabled by Finance Minister Jim Flaherty on March 29 included a number of measures of interest to Canadian employers. In this issue of Human Capital Law and Policy, we note the key features of the budget from an employer perspective and comment briefly on the implications of the policy directions signaled by the government.

Employment Insurance

Budget 2012 unveiled several changes to the Employment Insurance system – changes which, according to the government, are intended to make EI "a more efficient program that promotes job creation, removes disincentives to work, supports unemployed Canadians and quickly connects people to jobs."

To begin with, the temporary Hiring Credit for small businesses that was introduced in the 2011 budget is extended for one additional year.[1] This provides a $1,000 credit against a qualifying small employer's year-over-year increase in EI premiums (2012 versus 2011). Some 535,000 businesses are expected to benefit from premium relief totaling $205 million as a result of this measure.

Turning to the EI rate-setting process, in 2010 the government froze the basic EI premium at the lowest level since 1982 to help bolster the nascent economic recovery. In 2011 and 2012, faced with a mounting deficit in the EI Operating Account, premiums were allowed to rise by 5 cents each year. Looking ahead, the government intends to introduce legislation to keep EI premiums "predictable," by limiting future premium increases mandated by the Canadian Employment Insurance Financing Board to 5 cents per year, until the EI Operating Account is in balance; thereafter, premiums will be managed around an estimated seven-year break-even rate, with annual premium increases still held to no more than 5 cents. Today, the EI Operating Account has a deficit of roughly $9 billion, so it will take a few years to return to a balanced position.

Table 1
Employment Insurance Program: Revenues and Expenses (billions)

	EI Premium Revenues	EI Expenses
2010/11	17.5	19.9
2011/12	18.7	17.5
2012/13	20.1	18.7
2013/14	21.5	19.3
2014/15	23.0	19.3
2015/16	24.2	19.5

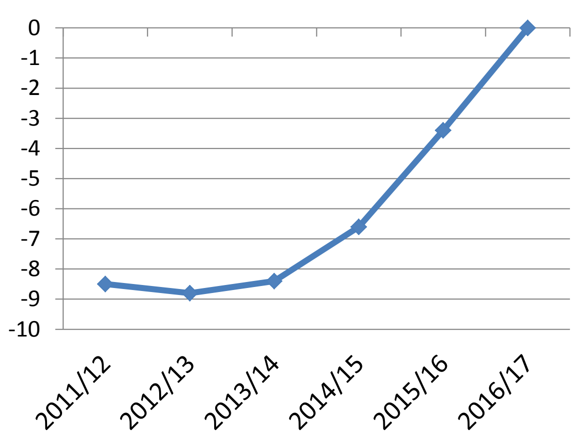
Source: Budget 2012.

The budget also modifies existing EI-related pilot projects. Specifically, the "Working While on Claim" pilot is replaced by a new national pilot that will enable claimants to keep more of what they earn while on EI. The new pilot will claw back 50% of all earnings while on claim; the previous version of the

[1] The credit now expires on March 31, 2013. "Small businesses" are defined as those whose total annual EI premium cost is less than $10,000.

program allowed earnings up to 40% of weekly benefits, but then applied a dollar-for-dollar claw back against all earnings above that threshold. The cost to the EI system of this change is pegged at $74 million.

Figure 1
Employment Insurance Account: Cumulative Balance (billions)



Source: Budget 2012.

Another EI pilot that was set to expire on March 31, 2012, "Best 14 Weeks," is rolled into a new national program, in which all claimants will have their benefits calculated based on their highest weeks of earnings over the previous 12 months – with the number of weeks varying between 14 and 22, according to regional unemployment rates. The revised benefit calculation rules, which add up to a more generous EI system, will entail $387 million in additional costs over the next two years.

It should be noted that the budget was silent on two longstanding EI-related concerns of the business community – the employer multiple, and the fact that several programs which are unrelated to any notion of "insurance" are funded through EI. In the case of the employer multiple, the issue is that the EI premium rate charged to employers is set at 1.4 times the rate paid by employees, meaning that employers pay almost 60% of program costs. There is also concern about the scope of benefits funded through EI. Over the years, many business organizations have argued that benefits which aren't directly insurance-based shouldn't be financed through the EI Account. Currently, EI benefits financed through the Account include "regular" benefits for individuals who are laid off, as well benefits that are provided in connection with sickness, maternity, parental leave, compassionate care, the operation of work-sharing schemes, and people employed in the fishing industry.

Immigration

Immigration policy received a fair amount of attention in Budget 2012, in keeping with the Harper government's desire to revamp the country's immigration system. The budget document speaks to "building a fast and flexible economic immigration system" that is better tailored to meet the country's labour market needs.

Among other things, the government plans to work with employers and provinces to identify pools of qualified, job-ready immigrants whose entry to Canada will then be expedited. (We await further details as to how this policy will be implemented.) The government also vows to expand the Canadian Experience Class category and to introduce a new immigration stream specifically for skilled tradespersons. The latter move will be welcomed by Western

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Canadian employers contending with seemingly widespread shortages of qualified tradespeople. Canada's existing "points" system for assessing economic class immigrants has made it difficult for skilled tradespersons to gain entry.

Among the other specific immigration-related measures highlighted in the budget are the following:

- To address the still large backlog of immigrant-applicants under the Federal Skilled Worker Program, Ottawa is cancelling applications filed before February 27, 2008 and refunding the fees paid. The would-be immigrants in this queue are free to apply again. Henceforth, applicants under the Federal Skilled Worker Program will be processed based in part on whether they have employment lined up in Canada in advance of arriving. In addition, the points system that is used to assess applicants will be modified to put greater weight on age and language qualifications.[2]
- Measures will be introduced to better align the Temporary Foreign Worker Program with labour market demand. According to the budget, the government's (potentially conflicting) goals in this area are to shorten processing times for Temporary Worker applications, while also encouraging employers to look harder at the domestic labour pool before seeking to recruit foreign workers.
- Six additional occupations are identified as priorities under the Pan-Canadian Framework for the Assessment and Recognition of Foreign Qualifications. Extra funding is allocated to ensure that immigrant-applicants in these fields will have their qualifications reviewed within 12 months.

Table 2
Pan Canadian Framework for Foreign Credentials

2010 Target Occupations	2012 Target Occupations
• Architects	• Dentists
• Engineers	• Engineering Technicians
• Registered Nurses	• Licensed Practical Nurses
• Medical Laboratory Technologists	• Medical Radiation Technologists
• Occupational Therapists	• Physicians
• Pharmacists	• Teachers (K-12)
• Physiotherapists	
• Financial Auditors/ Accountants	

Source: Budget 2012.

Size and Compensation of the Public Sector Workforce

In the lead-up to the budget there was considerable media speculation about potential changes to pubic sector pay and benefit arrangements, as well as likely layoffs of federal employees. By any standard, Ottawa's payroll has ballooned in the past decade. Excluding the RCMP and the military, the federal government's personnel costs jumped by 133% from

[2] Language requirements are also being toughened for prospective immigrants seeking entry under Provincial Nominee Programs.

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1999/2000 to 2010/2011, compared to a 69% increase in economy-wide labour income. Over the same period, the number of federal public servants rose by 32%, while Canada's population grew by 12%.[3] Against this backdrop, it's not surprising that the government decided to address its own labour costs as part of the effort to return to a balanced budget.

Flowing from the strategic and operating review undertaken over the past several months, Budget 2012 announces that the government's FTE payroll will shrink by 19,200 positions over the next three years, equivalent to 4.8% decline in the number of federal employees. About 7,000 of these jobs will disappear through attrition, while the rest will involve layoffs of current workers.

In addition, the government is taking other steps to contain future increases in personnel costs:

- Starting in 2013, the "normal" age of retirement for all new public service hires will be raised from 60 to 65.
- In future, federal employees will be required to pay half of their Public Service Pension Plan contributions, up from 40% today.
- The practice of accumulating severance benefits for voluntary resignations and retirements is being eliminated.

Old Age Security

Finally, Budget 2012 also confirmed the government's intention to raise the eligibility age for OAS (and the Guaranteed Income Supplement) from 65 to 67, beginning in 2023, with the higher age not fully implemented until 2029.[4] (Note that this does not affect the age of pension eligibility under the Canada or Quebec Pension Plan.) At the same time, as of July 1, 2013 individuals reaching age 65 will have the option of deferring OAS for up to five years, and then receiving a higher actuarially adjusted pension. The stated rationales for these changes are to contain the future growth of federal government pension costs and to encourage Canadians to extend their working lives. Taken together, these modifications to the rules governing OAS should increase the percentage of people aged 65 and up who are in the workforce, although the effect on labour supply will be minor until well into the next decade.

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[3] Alexandre Laurin and William Robson, Achieving Balance, Spurring Growth: A Shadow Federal Budget for 2012, C.D. Howe Institute (March 2012), pp. 5-7.

[4] The OAS is paid to all age-eligible seniors, with the maximum annual OAS pension set at $6,481 per person as of 2012. GIS provides additional income support, beyond OAS, to low and moderate-income seniors. The maximum annual GIS benefit is $8,788 for single seniors and $11,654 for couples.