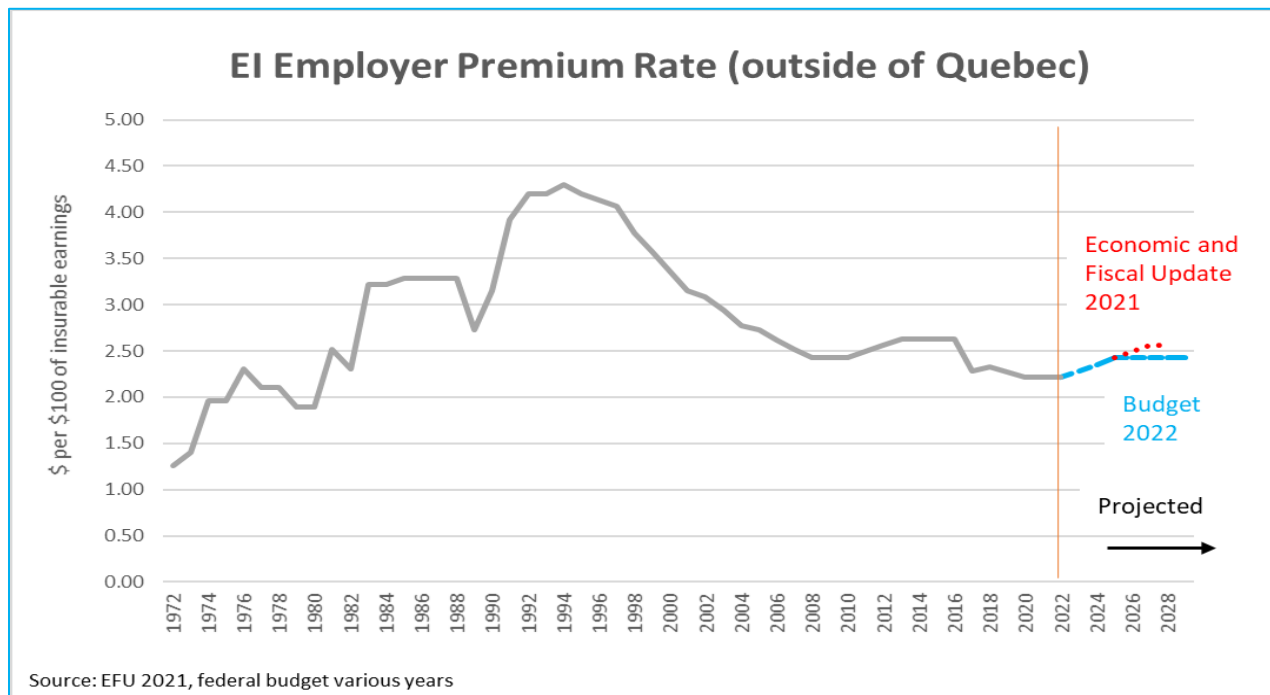


## *Joint Community and Labour Statement on Principles and Priorities for Reforming EI Funding Rules and the Financing Mechanism*

***El program financing and EI benefit funding should be designed according to the principles of fairness, sustainability and accountability.***

***They should also be in alignment with key objectives of the Employment Insurance program: to provide decent social insurance coverage for working people and to ensure labour market and economic stabilization.***

***In contrast, minimizing the EI premium rate is not a legitimate policy objective.*** The fact is that the EI premium rate stands today at a 40-year low. Starting in the 1990s government reforms to the EI program drastically reduced benefits and curtailed access, leading directly to a series of premium rate cuts. When premium rate cuts become the driving force behind policy reforms, they also become a recipe for ongoing restrictions on access, harsh rules and inadequate benefits.



An EI program properly fit to meet the needs of the labour force and realities of the 21<sup>st</sup> Century labour market will require sustainable, improved and more appropriate funding. This will ensure efficient and effective program expenditures. All are important objectives of the EI program.

## 1. The federal government must return to its role in directly funding EI benefits.

Beginning in 1941 when contributions were first made to the unemployment insurance program, up until 1990, the federal government shared in the cost of EI benefits. It did so as the third partner in a tripartite social insurance program, along with workers and employers. The government's share was significantly reduced in the late 1980s, though still mandated to contribute roughly 25 percent of the total costs. Then, in 1990, Ottawa terminated its direct contribution to the EI operating account, leaving workers and employers solely responsible for funding EI benefits. For over three decades, the government of the day has only contributed on an ad hoc basis during select economic crises, at its own discretion.

In addition to the proposal for **mandated government contributions to Regular EI benefits** when the national unemployment rate exceeds a specified threshold (see #5 below), there is **also a legitimate role for federal government contributions to Special EI benefits**. Over the years, a number of special benefits have been added to the EI program to provide income maintenance for EI contributors during certain life events that result in a temporary separation from employment. This has focused attention on the ongoing problems of EI access for excluded workers as well as benefit adequacy for those who do qualify. This in turn suggests a government contribution might help to address some of these problems.

## 2. A separate EI Fund Account should be established outside of the government's Consolidated Revenue Account.

The EI Fund Account would serve as a depository for all Employment Insurance premiums and other transfers from the Consolidated Revenue Fund as required by law. Such funds would by law be used exclusively to cover Employment Insurance costs. The Employment Insurance Commission would be given the statutory authority to manage and invest employment insurance revenues in the proposed EI Fund Account. The federal government's diversion of the EI surplus of over \$57 billion accumulated in the operating account over the 1990s has never been acknowledged as a debt, much less restored. It must never be allowed to happen again.

## 3. In order to improve the stability of EI funding, the premium contribution base should be expanded. Among those measures:

- a) **Raise Maximum Insurable Earnings (MIE)**. The MIE should be gradually raised to the current Quebec Parental Insurance Program ceiling (\$88,000 in 2022). This would begin to compensate for the 1996 reforms that reduced the level of the MIE and froze it for a decade. It would generate additional premium revenues while raising the Maximum Benefit for the 4 in 10 claimants with average and above-average earnings who end up with an effective EI benefit rate below 55% of normal earnings. Raising the MIE will make the EI program more meaningful for average earners while effectively reducing unit costs for many small and medium-sized employers and their employees.

**b) Address Employee Misclassifications.** In order to expand the contribution base, as well as expand EI access, it is critical to curtail the misclassification of some employees as “independent contractors” who are then deemed self-employed and not eligible to participate in the EI program. This practice has several detrimental consequences, including evasion of EI and other social contributions like CPP/QPP. Labour standards as well as the EI program should adopt the ABC test for genuine self-employment, accompanied by vigilant enforcement. In so doing, the program can provide income support for more workers, while establishing a level-playing field amongst employers.

**4. The government should return to an explicit counter-cyclical financing of EI.**

The current pro-cyclical bias of the existing 7-year break-even approach to financing results in downward pressure on premium rates in good times and upward pressure on premium rates in bad. The perverse outcomes considerably undermine EI's automatic economic stabilization role. There are other approaches. When the national unemployment rate officially rises above a specific threshold, the government should take over sole responsibility for funding EI regular benefits using CRF funds. Below that threshold, employers and employees would continue to bear sole responsibility for funding EI regular benefits. This approach would have the dual advantage of incentivizing government to (1) use its fiscal policy instruments to quickly return to full employment following a downturn, and (2) restore a counter-cyclical bias to EI program financing. It will also further stabilize the EI premium rate, which currently must fluctuate to balance the operating account.

**5. EI premium rates should be set objectively and independently by the tripartite EI Commission,** not by governments that inevitably pursue political and electoral objectives when setting EI premiums.

Thank you for considering our position.

***On behalf of the Interprovincial E.I. Working Group and the following organizations:***

*Access Alliance Multicultural Health & Community Services*  
*ACORN Canada*  
*Atkinson Foundation*  
*Campaign 2000: End Child and Family Poverty.*  
*Canadian Centre for Policy Alternatives*  
*Canadian Labour Congress*  
*Centre for Future Work, Vancouver*  
*Child Care Now (Child Care Advocacy Association of Canada)*  
*Community Legal Assistance Society (British Columbia)*  
*Community Society to End Poverty (CSEP Nova Scotia)*  
*Community Unemployed Help Centre, Winnipeg*  
*Dignidad Migrante Society (DIGNIDAD)*  
*Family Service Toronto*  
*Fish, Food & Allied Workers (FFAW-Unifor)*  
*Good Jobs for All Coalition*  
*HALCO*  
*IBEW*  
*Justice for Workers*  
*Manitoba Federation of Labour*  
*Newfoundland and Labrador Federation of Labour*  
*OCASI - Ontario Council of Agencies Serving Immigrants*  
*Ontario Community Legal Clinics EI Working Group*  
*Ontario Federation of Labour*  
*Open Policy*  
*Parkdale Community Legal Services*  
*Parkdale Queen West Community Health Centre*  
*PEI Coalition for a Poverty Eradication Strategy*  
*PEI Federation of Labour*  
*Social Justice Cooperative NL, Newfoundland & Labrador*  
*Social Planning Council of Winnipeg*  
*Society of United Professionals*  
*Teamsters Canada*  
*The MacKillop Centre for Social Justice, PEI*  
*Unemployed Workers Help Centre, Regina and Saskatoon*  
*UNIFOR*  
*United Steelworkers Toronto Area Council*  
*Workers Action Centre*