

January 31, 2014

**To:** Council of Atlantic Premier’s EI Review panel

**From:** Kevin Lacey

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Halifax, NS

Our organization was very pleased to see that you were looking for public consultation on the impact of the recent EI changes made by the federal government on our region.

As the Atlantic Director for the Canadian Taxpayers Federation, I attended the Atlantic Premier’s consultation in Halifax in January 2014 and offered my thoughts on the specific impacts of the EI changes. The purpose of this paper is to more fully explain the CTF’s proposed EI alternative.

The Canadian Taxpayers Federation (CTF) is the largest taxpayer advocacy group in Canada with over 84,000 supporters nation wide. The principles that we promote are less waste, lower taxes and accountable government.

We believe it is time to change the way we approach Employment Insurance in Canada. For too long, our premiers have been defending the a broken system that no longer works for the vast majority of Atlantic Canadians.

Most of the discussion and debate about EI reform has centred solely around those working in seasonal industries and using the program as a way to supplement their incomes during “down” times in their industries.

We almost never hear the premier’s talk about the majority of Atlantic Canadians who get up every morning, go to work, pay into the EI fund and rarely if ever collect on it.

Over the last five years, Atlantic Canadian workers have seen EI premiums go up by a whopping 25 per cent or about $865 dollars per employee every year.

That’s money that rather than being spent here in Atlantic Canada is instead being sent to Ottawa to be sucked up by the giant bureaucracy.

On top of that, the premiers have not addressed why it is that in some regions we have very high incidences of use of EI and yet at the same time, a lot of jobs not being filled. These two things should not go together, yet they do.

That is why our organization believes it is time for a change.

Maintaining the current EI system means the problems we have today will persist, our regional unemployment will remain high, our wages low, our young people will continue to move west, and skilled labour shortages will continue.

We can do better than this.

We are urging the premiers to scrap EI the system all together and replace it with a new system that works not just for seasonal industries but also the majority of Atlantic Canadians who work hard, pay their taxes and are not getting the value out the program.

We propose instead a system of EI savings accounts, that are simpler, universal and accountable.

The EI program was initially set up to help people who through no fault of their own, found themselves unemployed and needed money until they got their next job. Using the program today to subsidize seasonal industries was neither the intention of the program nor was it built to handle that. Rather than working to try to find solutions to better help seasonal workers within the current EI system, it would be wiser for this committee to address the problems of seasonal workers separately and find a solution tailored to their unique needs.

We hope that over your deliberations you will consider our plan to create new EI savings accounts. We believe this is a program that will better serve the most number of Atlantic Canadians.

# Fixing Employment Insurance

This year, every working couple (with each earning $47,400 or more) and their employers will pay $4,277 to Ottawa in EI taxes. Millions of Canadians pay these taxes each and every year of their working lives, going years, even decades, without collecting a cent in EI benefits.

Yet, in any given year, less than 10 per cent of Canadians collect any EI.

Some employers find it difficult to retain staff once they have worked enough weeks to qualify for EI benefits. Canadians are treated to the bizarre spectacle of workers coming from overseas, with Temporary Foreign Worker visas, to work in regions with chronically high unemployment and massive annual costs for Employment Insurance benefits.

### Employment Insurance Savings Account

The Canadian Taxpayers Federation recommends that working Canadian family be entitled to keep the $4,277 currently taxed off their pay cheques every year.

Canadian workers could instead direct the money to their own Employment Insurance Savings Account (EISA). Workers would become eligible for an EISA at 16 years of age or after their first job, whichever comes last. If they, their spouse or a family member lost their job, they could draw down the savings account. The account could also be used for maternity leave, long-term sickness and a leave of absence from work to care for a sick family member and other social benefits, which are currently part of the EI program. The fishing benefit would be abolished, with workers in that industry subject to the same rules as other workers.

Whatever funds were left in the account at time of retirement would be kept as retirement savings for that individual.

A dual-income household where both earners make over $47,400 who first started contributing to their EISA at 25 years old would save $1,065,000 by retirement at age 65, assuming no drawdown of their EISA, EI contributions rising at the rate of inflation and investment returns reflecting the 10 year average of the S&P/TSX (Cdn) Index.[[1]](#footnote-1)

**Table 1: Size of EISA by Household and Year**

|  |  |  |
| --- | --- | --- |
| Years contributing | Single Income | Dual Income |
| 10 | $33,555 | $67,111 |
| 20 | $104,646 | $209,292 |
| 30 | $248,542 | $497,083 |
| 40 | $532,446 | $1,064,892 |

Source: CTF calculations.

Because Canadians would be drawing from their own money or their family’s money, they would be strongly motivated to find work as quickly as possible, while enjoying as much flexibility in the search as their savings would allow.

Like the current system, both employees and employers would make mandatory contributions. But the EI Savings Account would be owned by the employee. Table 1 identifies the potential for savings for individuals and families. An individual could save $533,446 in their EISA over a 40 year career, while a dual-income household could save just over $1 million. With regular EI, workers have nothing to show for their premiums they’ve paid over their working lives.

Upon retirement, the employee could transfer the balance of the EI Savings Account into their Registered Retirement Savings Plan and roll it into a Retirement Income Fund, a Tax-Free Savings Account, or rolled into a Pooled Registered Pension.

Canadians could choose between investing their EI Savings Account through private savings vehicles such as mutual funds or a fund managed by the Canada Pension Plan Investment Board.

In the case of new entrants to the labour force like young people and immigrants who have no or limited savings in their EISA, the government would allow them to run a negative balance on their EISA up to predetermined limit for their first five years of eligibility for an EISA. The negative balance would be paid back, interest free, when the person reenters the workforce and begins to make contributions again.

However, research suggests that very few Canadians would run large negative balances on their accounts. The New York-based National Bureau of Economic Research, which has proposed a similar program, created a simulation showing that few workers would in fact run negative balances on their account. “Our analysis indicates that almost all individuals have positive [account] balances and therefore remain sensitive to the cost of unemployment compensation. Even among individuals who experience unemployment, most have positive account balances at the end of their unemployment spell.”[[2]](#footnote-2)

### An Important Benefit: Higher Retirement Savings

With an aging population, Canadians are also facing a major shortfall of private savings for retirement. A report by the Canadian Institute of Actuaries found that only one in three households in Canada who hope to retire in 2030 are saving enough for retirement.

“Two thirds of Canadian households expecting to retire in 2030 are not saving at levels required to meet necessary living expenses. Old Age Security (OAS) and the Canada and Quebec Pension Plans (C/QPP) provide a modest base, and by themselves, are not designed to fill the gap.”[[3]](#footnote-3)

By significantly increasing retirement savings, the EISA would effectively be addressing two pressing issues – chronic unemployment and personal savings – simultaneously.

**Foreign Workers Needed?**

There is no better illustration of the failure of the EI program than when firms complain of labour shortages in regions with high unemployment and large segments of the population on EI.

In Newfoundland and Labrador, which at the time had unemployment of 13.2 per cent, managers of Vale SA’s $3 billion nickel processor have had difficulty filling 1,500 skilled labour positions, forcing them to look outside the province and overseas for labour.

“We are looking for people in Canada, but the contingency plan will be to go offshore to find people,” said product manager Rinaldo Stefan.

“We know it’s a problem,” added Newfoundland and Labrador Premier Kathy Dunderdale.[[4]](#footnote-4)

In summary, tinkering around the edges of eligibility rules has not addressed the significant disadvantage that has been created by the EI program for the majority of Atlantic Canadians. If we want to encourage Atlantic Canadians to take jobs in Atlantic Canada, save for their retirement and stop sending money to Ottawa, Employment Insurance Savings Accounts are the best solution.

**Note:** We agree to allow the commission to publically release our name, title, organization and any documentation including this submission to the public or be contained in a final report.

1. Assuming EI employer and employee contributions rise at the 10 year average inflation rate of 2.04 per cent and the investments yield a return equal to the 10 year average S&P/TSX (Cdn) Index, which is 6.6 per cent. Also assuming no drawdown of the account due to unemployment or other purposes. [↑](#footnote-ref-1)
2. Martin Feldstein, Daniel Altman. “Unemployment Insurance Savings Accounts.” *The National Bureau of Economic Research*. December 1998 [↑](#footnote-ref-2)
3. “Planning for Retirement: Are Canadians Saving Enough?” The Canadian Institute of Actuaries. [↑](#footnote-ref-3)
4. McCarthy, Shawn. “Labour shortage looms in Newfoundland and Labrador.” Globe and Mail. Sep 6, 2012. [↑](#footnote-ref-4)