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Government panel pushes for maximum increase in EI premiums

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A new panel created by the Harper government will move to raise employment insurance premiums by the maximum allowed, despite calls to leave payroll taxes frozen in light of Canada's fragile jobs picture.

Canadians will start feeling the hit on their paycheques when the two-year freeze on EI premiums announced in the 2009 budget comes to an end on Jan. 1. Employers will also have to cough up more in premiums for their workers, which economists and business groups warn could hurt employment.

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The Globe and Mail has learned that an internal report on EI rates by a new independent body will recommend they be raised by 15 cents on every \$100 earned, an 8.7-per-cent increase from the current \$1.73 and the maximum allowed under federal law. Employers will have to pay an extra 21 cents per \$100.

Unlike some budget measures that are tied to the fiscal year, EI rates are based on the calendar year, meaning cabinet will soon have to decide what to do for 2011.

The panel must announce the new premiums by Nov. 14, and cabinet has until Nov. 30 if it wishes to over-rule the decision and set a different rate.

"The timing of this is brutal," said Dan Kelly, senior vice-president of the Canadian Federation of Independent Business. "Everyone's paycheque on Jan. 1 will go down, and I think Canadians, for the most part, are completely unaware of the pressure that's going to hit their take-home pay."

Mr. Kelly said the CFIB estimates consecutive maximum increases to EI premiums will cost 170,000 jobs over the next three to four years as employers delay hiring and cut back on hours.

The president of the Canadian Manufacturers and Exporters also said he is worried about the timing of the rise given the state of the economy.

"I'm still not convinced that we're into a sustainable recovery," said Jayson Meyers, who wants any increase in EI premiums to be offset by tax breaks for training programs.

Increases to EI premiums were implied in the 2010 budget's forecast of future EI revenues, but not explicitly stated. Premiums apply on earnings up to a set maximum, which is currently \$43,200.

The government created a separate account for EI revenues in 2008 with a starting balance of \$2-billion and created a Crown corporation called the Canada Employment Insurance Financing Board to set premiums.

That process was usurped by the two-year premium freeze in the 2009 budget.

The board's mandate is only to keep the EI fund balanced over time, meaning it cannot take into account the impact of its decisions on the economy. Because the fund is now several billion in deficit, officials say the board will be required to recommend a maximum increase in premiums.

UBC economist David Green said it does not seem like an unreasonable time to raise premiums.

"This would have some cost in terms of the employment rate, but probably not a huge cost," he said. "The labour market's not so fragile that it wouldn't be okay to do something like this."

A spokesman for Finance Minister Jim Flaherty said the new system is far superior to what existed under the Liberals, who were repeatedly criticized by the Auditor-General for allowing the government to shift tens of billions of surplus from the EI account into general revenues.

"We're ensuring that will never happen again," said Chisholm Pothier, the minister's communications director. "When the freeze is lifted, the EI board will set premiums and balance the account over time."

In his 2009 budget speech, Mr. Flaherty announced he was freezing "employment insurance payroll taxes," yet maintained his government would balance the budget over time without raising taxes.

The Liberals and New Democrats are calling for the freeze on premiums to continue. NDP MP Yvon Godin said the Conservatives should fund an extension by acknowledging the surplus in the fund that built up under the Liberals.

Liberal finance critic Scott Brison said he'd like to work with the government to change the new system.

"It was completely stupid for Flaherty to create a system that actually raises payroll taxes during times of high unemployment," he said. "Flaherty has to come clean with Canadians and tell them that he's raising their taxes."

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