

EMPLOYMENT INSURANCE TASK FORCE

MAKING EI WORK: DISCUSSION PAPER



School of Public Policy & Governance
UNIVERSITY OF TORONTO



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The Mowat Centre for Policy Innovation is an independent, non-partisan public policy research centre located at the School of Public Policy and Governance at the University of Toronto.

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We believe a prosperous, equitable and dynamic Canada requires strong provinces, including a strong Ontario, and strong cities.

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MAKING EI WORK: DISCUSSION PAPER

The Mowat Centre has convened a research-driven Employment Insurance (EI) Task Force that is examining Canada's support system for the unemployed. The objective is to develop an Ontario proposal for modernizing the EI program—conscious of the national context—that works for individuals and businesses.

The Task Force has commissioned 18 independent research papers, each addressing different areas of the EI system and presenting potential options for reform. The Task Force is also consulting with social service, non-profit, business, labour, Aboriginal, and government stakeholders and those with lived-experience with the EI system across Ontario.

This discussion paper is a companion to the Task Force's Consultation Workbook. The Workbook presents concise summaries of issues related to the EI program. Through a fillable .pdf format, the Workbook allows readers to input ideas and feedback for the Task Force. It can be downloaded (<http://www.mowatcentre.ca/eiworkbook.pdf>), filled-in, saved, and sent back to us at eitaskforce@mowatcentre.ca.

This discussion paper is intended as a general resource for framing the EI Task Force's work. It begins by describing how the current EI program works. The paper then addresses a series of principles-based questions about the purpose and structure of the EI program. These questions are designed to provoke discussion and lead to a clearer understanding of what a strengthened EI program would look like.

HOW EI WORKS

Employment Insurance (EI) provides temporary financial assistance to unemployed Canadians (while they look for work or upgrade their skills) after they have lost their jobs through no fault of their own.

Canadians who are sick, pregnant, or caring for a newborn or adopted child, as well as those who must care for a family member who is seriously ill with a significant risk of death, may also be assisted by EI.

TYPES OF EMPLOYMENT INSURANCE BENEFITS

There are several types of benefits available to Canadians, depending on their situation:

1. Regular Benefits are available to individuals who lose their jobs through no fault of their own (for example, due to shortage of work, seasonal layoffs, or mass layoffs) and who are available for and able to work, but can't find a job.
2. Employment Insurance Maternity and Parental Benefits provide support to individuals who are pregnant, have recently given birth, are adopting a child, or are caring for a newborn.
3. Employment Insurance Sickness Benefits are for individuals who are unable to work because of sickness, injury, or quarantine.
4. Employment Insurance Compassionate Care Benefits are available to people who have to be away from work temporarily to provide care or support to a family member who is gravely ill with a significant risk of death.
5. Employment Insurance Fishing Benefits provide support to qualifying, self-employed fishers who are actively seeking work.¹

TRAINING

People on EI can also qualify for training support. Typically, these programs are funded through the federal EI program and delivered by the provinces. Training is discussed in more detail later in this paper.

HOW IS EI FUNDED?

EI is funded by the mandatory contributions of employees and employers. The EI premium, or rate, is the percentage of income that employees contribute to EI. The premium is set yearly by the federal government. Employees currently contribute 1.73 per cent of the first \$42,300 of their yearly earned income, amounting to a yearly maximum of \$731.79. The employer contribution to EI is set at 1.4 times the employee percentage. Employers currently contribute 2.42 per cent of each employee's income to EI for the first \$42,300 earned. The yearly maximum employer contribution amounts to \$1,024.51 for each employee.

¹ The above text is from the website of Human Resources and Skills Development Canada (HRSDC), the federal department that manages EI.

HOW MUCH DO I GET?

Individuals on EI receive 55 per cent of their earned income, although the maximum insurable earned income is \$42,300 per year (before taxes). The maximum benefit one can receive is thus \$447 per week, pre-tax. EI benefits are taxable income. The “Family Supplement” offers a greater percentage of income replacement (up to 90 per cent) for low income families. Following job loss, there is always a two week waiting period for EI. EI lasts for between 19 and 50 weeks depending on region and length of work prior to job loss.

EI IS LIKE INSURANCE IN SOME WAYS...

Theoretically, EI works like insurance. The features of an insurance system are:

- Only those who pay into the insurance pool are eligible for benefits under the program.
- Wide pooling of risks.
- Specific definition of benefits provided.
- Specific definition of eligibility rules and the amount of coverage provided.
- Specific premium or contribution rates required to meet the expected costs of the system.

Under insurance plans, contributors should pay only to support the delivery of benefits that they themselves could possibly need.

EI is like an insurance system because EI benefits are available only to people who have contributed to the system directly and recently.

EI IS UNLIKE INSURANCE IN OTHER WAYS...

Canada’s EI system is different than “pure insurance” in important ways. For example, some benefits that are offered through EI are funded by all contributors, but are available only to certain types of workers (e.g. fishing benefits).

Further, unlike private insurance systems, the cost of premiums does not go up or down depending on use of the system. A driver who has had multiple car accidents will be asked to pay more for car insurance than the long-time driver who has had no accidents. Similarly, flood insurance is very expensive for homeowners living in flood zones. EI does not react in these ways to the experiences of workers and businesses within the system.

Aside from being an insurance system, there is a social dimension to EI—it is referred to as “social insurance.” While private insurance is usually voluntary, social insurance is usually mandatory. While private insurance typically operates on a for-profit basis, social insurance is run by the government to achieve some basic social or economic objectives, usually on a break-even basis.

In the case of EI, the objective is to protect workers from unintended and unexpected losses of employment and income. The important question for a social insurance program is whether it achieves its objective in a principled manner that is perceived as fair.

As noted above, the EI program also now delivers a number of benefits beyond support for laid-off workers. Questions around who pays, who receives, and the criteria for eligibility for benefits form the bulk of this paper and are fundamental to the re-design of the EI program.

NEXT: PROGRAM OBJECTIVES →

ISSUE 1

PROGRAM OBJECTIVES

KEY ISSUES TO BE DISCUSSED IN THIS SECTION:

- What should the objectives of the EI program be?

OBJECTIVES OF EI

The design of a support program for the unemployed requires reconciling a number of objectives. The Mowat Centre Employment Insurance Task Force has identified eight objectives for the EI program against which the program—and reform proposals—should be judged. The EI program should:

- Provide adequate support in times of need.
- Encourage people to work by facilitating efficient labour market decision-making.
- Treat workers and employers fairly.
- Be integrated and coherent with other income support programs.
- Support the development of human capital.
- Contribute to Canadian prosperity.
- Be fiscally responsible.
- Be responsive to the business cycle and shifts in employment.

Discussion

There are some built-in tensions among these objectives. For example, one person’s view of “adequate support” may conflict with another person’s understanding of “fiscal responsibility.”

Addressing these tensions, while not easy, is an essential task in the re-design of the support system for the unemployed. Program design must be aligned with a clear understanding about what the program is meant to achieve. Thus, the first question asked in this report is about program objectives.

WHAT THE EXPERTS ARE SAYING...

“The overall goal of EI... is to provide efficient and inclusive labour market transitions through temporary income support and active employment measures.”

-HRSDC

“The Employment Insurance program must be there in tough times like these for those who paid into it. Laid-off workers need adequate benefits to support themselves and their families while they search for a new job.”

- CANADIAN LABOUR CONGRESS

NEXT: WHAT FACTORS SHOULD DETERMINE WHAT ONE PAYS IN AND WHAT ONE RECEIVES FROM THE SYSTEM? →

ISSUE 2

WHAT FACTORS SHOULD DETERMINE WHAT ONE PAYS IN AND WHAT ONE RECEIVES FROM THE SYSTEM?

KEY ISSUES TO BE DISCUSSED IN THIS SECTION:

- Benefit levels and eligibility currently vary by region. Is this appropriate? Are there better ways to calculate who can access EI and how much they can receive?
- Currently, new labour market entrants (first time workers or people who have not worked for two years) must work longer (910 hours) prior to a layoff in order to access EI benefits. Is this rule appropriate?
- Should frequency of employee and/or employer use of the system affect what they pay into the system or receive from it?

REGIONAL DIFFERENTIATION - HOW IT CURRENTLY WORKS

EI currently divides Canada into 58 “economic regions.” The rules that determine the availability of EI benefits differ in each region. These differences are based on how each region’s unemployment rate (averaged for the last three months) compares with the national unemployment rate. Individuals living in regions with higher unemployment rates can qualify for EI benefits faster and receive them for longer periods of time.

In regions with the highest levels of unemployment, 420 hours (11 weeks full-time) of work are required prior to a loss of employment to qualify for EI. In such regions a minimum of 37 and maximum of 50 weeks of benefits are available.

In regions with the lowest levels of unemployment, 700 hours (about 18 weeks full-time) of work are required to qualify for EI. A minimum of 19 and maximum of 41 weeks of benefits are available in these regions.

Additional weeks of benefits beyond the minimum are added depending on how long one has worked before losing a job.

The system is intended to respond to need, that is, those who face greater barriers to finding a new job should receive greater support. At present, regional unemployment rate is the only factor used to determine how hard it is for someone to get a job.

The regional unemployment rate compared to national unemployment rate may not tell the whole story about how hard it is to find a new job. For example, some experts think short-term change in unemployment rate says more about how hard it is to find a job (that is, when unemployment is going up, it is hard to find a job regardless of what the rate is).

Others think that there are so many factors (e.g. a person’s skills) that determine whether it is hard for any one individual to find a new job that all workers should simply be treated equally and be entitled to the same benefits.

“...the current EI program has built-in flexibility specifically designed to respond automatically to changes in local labour markets, with entrance requirements easing and the duration of benefits increasing as the unemployment rate rises.”

-HRSDC

“I just fundamentally believe that employment insurance should be fair across the country.”

-SASKATCHEWAN PREMIER BRAD WALL

“The Federal government could accomplish the double aim of improving the equity of the system and increasing coverage rates by reducing the regional discrepancy in eligibility criteria and benefit duration.”

-GRANT BISHOP AND DEREK BURLETON, TD ECONOMICS

SCENARIO: REGIONAL DIFFERENTIATION - THE EFFECTS WITHIN ECONOMIC REGIONS

Laura and Josh were both recently laid-off. Both worked and live in the tech-intensive Kitchener-Waterloo region, which has an unemployment rate about the same as the national rate. Both Josh and Laura had equivalent salaries, and worked well above the threshold of hours necessary to receive maximum EI benefits. Each received the maximum available benefits in their region.

However, Laura's and Josh's prospects for re-employment differ drastically. Prior to losing her job, Laura worked in the tech sector. Though the firm she worked for did layoff some workers, there are potential positions suitable for her in the region. Josh, by contrast, worked in the traditional manufacturing sector, which is in decline in Kitchener-Waterloo.

While Laura can reasonably expect to find another position in her field, Josh is now looking for low-skilled service jobs and faces a substantial decline in income after finding a new job. These two individuals will receive the same level of financial support from EI (based on the regional unemployment rate) though their employment prospects are dissimilar. If Josh lived in a region with higher unemployment, he would have received support for a longer period.

SCENARIO: REGIONAL DIFFERENTIATION - THE EFFECTS BETWEEN ECONOMIC REGIONS

Jacques and Ronald were each recently laid-off. Each worked for 500 hours prior to being laid off. Jacques lives in Northern Ontario and Ronald lives in Western Nova Scotia. In Northern Ontario, it takes 455 hours of work prior to a layoff to qualify for EI. In Western Nova Scotia, it takes 525 hours of work prior to a layoff to qualify for EI.

Ronald did not qualify for EI in Western Nova Scotia and Jacques did qualify for EI in Northern Ontario, despite the fact that they had identical work histories. Jacques received EI while Ronald did not because of a difference of two per cent in the unemployment rates where they live and work: the unemployment rate in Northern Ontario was 12.8 per cent and the unemployment rate in Western Nova Scotia was 10.8 per cent.

Discussion

Regional differentiation can produce outcomes seen as unfair both within economic regions and between economic regions. Within economic regions, individuals with poor employment prospects receive the same benefits as individuals with better employment prospects. This is especially problematic in low unemployment regions where benefits are lower for all.

Between economic regions, individuals with similar work histories receive different levels of support.

Eliminating regional differentiation and operating the EI program based on a single national standard would end these cases of differentiated benefits and would likely also cut the cost of program administration.

However, there is also a case for differentiating between workers and for trying to give greater support to unemployed workers that face greater barriers to employment.

If the program does differentiate between workers, there may be better measures for doing so than the regional unemployment rate compared to the national rate.

THE 910 HOUR RULE - HOW IT CURRENTLY WORKS

New entrants to the labour market (individuals who have never worked in Canada or have not worked in the past two years) must work 910 hours (23 weeks full-time) prior to losing a job to qualify for EI. Workers who have been in the labour market longer than two years must have worked between 420 hours (11 weeks full-time) and 700 hours (18 weeks full-time) depending on their regional unemployment rate. New entrants to the labour market thus face a higher bar for qualifying to access EI benefits.

Discussion

The 910 hour rule is designed so that those who have not spent a significant amount of time contributing to EI in recent years are required to pay more into the system before they can collect benefits.

The 910 hour rule applies most frequently to immigrants, younger workers, and those returning to the labour market after an extended absence.

Immigrants tend to live in large urban areas. As a result, some cities end up with large populations without access to the program, putting stress on local communities and provincial governments.

WHAT THE EXPERTS ARE SAYING...

The 910 hour rule “...discourages a cycle of reliance, [it] ensures that workers, especially young people, develop a significant attachment to the labour force before collecting EI benefits.”

-HRSDC

“Recent immigrants are also likely to face the onerous ‘new-entrant and re-entrant’ rules under EI. They need either 910 hours in the first year, or more than 490 hours in the prior year and the regional entrance requirement in the current year, to be eligible to receive benefits. Recent immigrants can therefore need many months of significant labour force attachment before they escape the ‘new entrant and re-entrant rules’. Again one would expect this to affect Toronto more than many other city regions.”

-RICHARD SHILLINGTON AND JILL BLACK, TORONTO CITY SUMMIT ALLIANCE

SCENARIO: THE 910 HOUR RULE

Neville and Valeria live in the same economic region, were each hired on the same day, and each worked 700 hours for the same firm prior to being laid off. Neville received EI after the layoff and Valeria did not. Despite reaching the normal maximum number of hours required to receive EI (700), Valeria did not receive EI because she is a new labour market entrant and was shy of the 910 hours of work that new entrants need to qualify.

EXPERIENCE DOESN'T MATTER - HOW IT CURRENTLY WORKS

All employers and employees presently pay into the EI system at the same rate, but benefits are accessed far more frequently by laid-off workers from certain industries and businesses. Some industries/businesses could have a financial incentive to use the EI system as a support for keeping a “lean” workforce while other industries/businesses hold onto more workers through difficult periods.

This situation results in subsidies in which industries and businesses that do not rely on the EI system support those that do.

The same issues arise in relation to individual workers. Some individual workers access the EI system far more than others. Workers that frequently access EI could be seen as receiving subsidies from workers that consistently pay premiums without claiming benefits.

Discussion

Experience with the EI system both at a company and individual level could be factored in to what businesses and individuals pay into EI and what workers can receive from the system. Experts refer to this as “experience rating”.

For employers, such a policy would mean that layoffs have an additional cost. Businesses that layoff workers more frequently than do other businesses would see their payments into the EI system increase. Such a change could disadvantage seasonal industries such as forestry, construction, and tourism.

For employees, a policy of experience rating would see repeated claims result in higher premiums or reduced benefits. Such a change might penalize workers who have been laid off many times for reasons beyond their control. For example, repeated layoffs may be the result of a worker being part of one of the seasonal industries mentioned above.

WHAT THE EXPERTS ARE SAYING...

“In reviewing the literature on experience rating, it would appear that there is a lack of clear evidence to show that such a system, if implemented in Canada, would address the persistent subsidies received by particular firms and workers through the EI program while reducing seasonality of employment and frequent claims for EI benefits.”

**-SHAWN DE RAAF, ANNE MOTTE, AND CAROLE VINCENT,
SOCIAL RESEARCH AND DEMONSTRATION CORPORATION**

“Our recommended method for reducing the benefits for repeat users was to shorten the benefit period. This would give the person quick help in the event of job loss. The person could then apply for social assistance or other need based programs, if appropriate.”

-ALICE O. NAKAMURA AND W. ERWIN DIEWERT, FRASER INSTITUTE

SCENARIO: EXPERIENCE RATING FOR FIRMS

Firm A and firm B are competitors. Each does a similar amount of business. Each has the same number of employees earning similar salaries, so firms A and B pay roughly the same amount into EI. During tough times, firm A has a habit of holding onto its workers until things get better. Recently, firm A began using the federal government's work sharing program which supports this worker retention. Firm B, by contrast, generally lays off workers temporarily during difficult periods. Both firms pay the same amount into EI, but firm B is using the EI system to a far greater extent, freeing up resources that could be used to gain advantages over firm A.

Experience rating would see firm B's contributions to EI increased as a result of its greater use of EI, lessening any advantages it can gain over firm A.

A system like this is currently in place for workers' compensation. Workplaces where more accidents occur must contribute more to the workers' compensation system. The question is whether such a system would be appropriate for EI.

NEXT: SPECIAL BENEFITS →

ISSUE 3

SPECIAL BENEFITS

KEY ISSUES TO BE DISCUSSED IN THIS SECTION:

- Is the EI program the appropriate mechanism for delivering income support for new parents, caregivers of terminally ill family members, and workers who fall ill? Should Special Benefits be funded through EI and available only to EI-qualifying workers?

SPECIAL BENEFITS - HOW THEY CURRENTLY WORK

At present, there are a number of “special benefits” within the EI program in addition to income assistance and training support for laid-off workers. These include:

- Maternity and Parental Benefits, which provide support to individuals who are pregnant, have recently given birth, are adopting a child, or are caring for a newborn.
- Sickness Benefits, which are for individuals who are unable to work because of sickness, injury, or quarantine.
- Compassionate Care Benefits, which are available for people who have to be away from work temporarily to provide care or support to a family member who is gravely ill with a significant risk of death.

At present, to qualify for maternity/parental, sickness, and compassionate care benefits, one must have worked for 600 hours (about 15 weeks full-time) prior to accessing benefits. Only those who meet these requirements have access to these special benefits.

WHAT THE EXPERTS ARE SAYING...

“[Special] benefits are basically compatible with the purpose and nature of EI as a social insurance program. None of these family-related benefits are intended for persons with marginal attachments to the labour force. Instead, they are for insuring temporary interruptions in employment for parents and other EI claimants with long-term labour force attachment.... For the most part, EI special benefits are meeting intended policy objectives. In terms of labour force attachment, these special benefits are providing return tickets to employment for parents of new children, especially for working women who are new mothers.”

- MICHAEL PRINCE, ANALYSIS FOR HRSDC

“EI has moved well beyond providing income support during unexpected spells of unemployment and has become a major vehicle for delivering family, social, and regional assistance.”

-OECD

“...having the entire cost of the EI system paid for as if it is a true insurance system does not reflect the reality that fully 42 per cent of total EI costs come from programs outside regular benefits.”

- TODD MALLET, CANADIAN FEDERATION OF INDEPENDENT BUSINESS

Discussion

EI special benefits are a core feature of Canada's social safety net.

Those who do not qualify for EI do not have access to special benefits. For example, new mothers only have access to maternity benefits if they previously held a job for a significant period of time. EI does not provide support for all new mothers or all parents with sick children. This may or may not be an appropriate policy design.

Workers' contributions to EI are deducted from the first \$42,300 of their income. As noted above, the maximum yearly employee contribution to EI is capped at roughly \$731. Someone who earns \$100,000 makes the same contribution as someone who earns \$42,300.

As a result, the person who earns \$42,300 supports special benefits with a greater percentage of their income than the person who earns \$100,000.

People with higher incomes pay more to support government programs through higher taxation when programs are funded through general revenues. EI is the opposite. The way EI is funded is a regressive tax, meaning higher income people contribute proportionally less.

NEXT: TRAINING BENEFITS →

ISSUE 4

TRAINING BENEFITS

KEY ISSUES TO BE DISCUSSED IN THIS SECTION:

- Should access to training benefits be determined by EI qualification or should all unemployed people be potentially eligible for training benefits?
- How should training be funded? By EI contributors? By all taxpayers?

TRAINING BENEFITS - HOW THEY CURRENTLY WORK

EI training benefits are intended to help EI beneficiaries gain the skills they need to get a new job. To qualify for training benefits, one first has to qualify for EI income support.

In 2008, the federal government spent \$2.11 billion on training through EI. Funds for training are taken from employers' and employees' contributions to the EI program and are transferred to the provinces, which are responsible for delivering training services through local delivery agents such as colleges. Most provinces also contribute to these EI-funded training programs.

The federal and provincial governments also provide some funding for training for the non-EI eligible unemployed, but there are fewer federally funded training opportunities available for non-EI recipients than there are for unemployed people who qualify for EI.

SCENARIO: ACCESS TO EMPLOYMENT INSURANCE TRAINING BENEFITS

Negin, Mona, and James all want to change their employment situations. They are each willing to put in the effort required to gain new skills.

- Negin lost her job last month after 10 years of full-time work in an industry that is now in decline. She is looking for full-time work again and expects that she will need to re-train.
- Mona has struggled to find stable employment for some time. She has just lost a part-time job she had for 4 months and would like to find another part-time job, but ideally in a more highly skilled sector.
- James has worked part and full-time sporadically over the past two years, but hasn't found the stable, full-time job he wants. He is looking to make a change.

Access to training programs could probably improve prospects for Negin, Mona, and James. They would each make use of financial supports for training if given the opportunity. The three Canadians described above would have differing access to EI training benefits:

- Negin would certainly qualify for training benefits since she has worked full-time for a significant period of time.
- Mona may or may not qualify for training benefits depending on the number of hours she worked and the level of unemployment in her region. In a region with higher unemployment, Mona would likely qualify. If she lived in a low unemployment region, she very well might not.
- James has worked intermittently and has not accrued the hours of work to qualify. He would not have access to EI-funded training regardless of the level of unemployment in his region.

“The objective of Part II Employment Benefits and Support Measures (EBSMs) is to assist individual to prepare for, obtain and maintain employment. Since a return to employment means that individuals do not continue to receive EI benefits this results in savings to the EI Account. Consequently a return on investment is achieved through reduced dependency on EI and social assistance through additional tax revenues generated from increased employment.”

-HRSDC

“The 2009 federal budget provided \$500 million in additional training funds to all unemployed Canadians, not just EI contributors. As a matter of equity, all such EI initiatives should be divorced from EI and funded via general revenues, hammering home the principle that access to employment training, like access to health care, should be a right of citizenship. This would go a long way to improving the employment prospects of the 25 per cent of the unemployed who do not qualify for EI because they have not worked in the prior 12 months.”

-JEREMY LEONARD, POLICY OPTIONS

“It has long been a dysfunctional weirdness of Canada’s training system that individuals had to get quite a bit of work in order to get EI eligibility that would enable access to the training which would help them to get work.”

-LARS OSBERG, CANADIAN CENTRE FOR POLICY ALTERNATIVES

Discussion

The scenario on the previous page prompts questions about why training is tied to EI at all. From both a human capital development and equity perspective it may make more sense to expand eligibility for training benefits to wider pools of unemployed Canadians. This may require funding these programs by means other than EI contributions.

Consider the following:

- A self-employed person that sees clients dry-up may be able to benefit from training by gaining the skills that clients and businesses need.
- A new Canadian may benefit from training to help secure Canadian credentials.
- Those who do not have enough hours to qualify for EI may benefit most from access to training programs.
- An unemployed worker in a declining industry may be able to benefit from training before they lose their job.

Such people are currently ineligible for the bulk of federal training funding, which is directed only to EI recipients.

Training benefits could be funded outside the framework of EI, possibly out of the government’s general tax revenue. This could result in lower EI premiums but higher taxes.

As with special benefits, regressive taxation is also an issue in the area of training. Because of the way EI is structured, higher income people do not contribute a proportionally greater percentage of their income to support training.

NEXT: PEOPLE NOT COVERED BY THE SYSTEM →

ISSUE 5

PEOPLE NOT COVERED BY THE SYSTEM

KEY ISSUES TO BE DISCUSSED IN THIS SECTION:

- Should self-employed workers be eligible to participate in EI? Should there be another program available to support them in times of need?
- Should temporary foreign workers be eligible to participate in EI? If not, should they and their employers have to contribute to the EI system?

SELF EMPLOYED - HOW IT CURRENTLY WORKS

Self-employed workers were recently granted the right to opt-in to maternity, parental leave and compassionate care benefits after one year of contribution. However, self-employed individuals are not eligible for regular benefits.

Once the self-employed opt into the special benefits portion of the program, they are not allowed to exit.

Discussion

The EI program is intended to provide protection against unplanned unemployment. Some argue that self-employed workers should not be eligible to participate in the program because it is difficult to determine if their unemployment is voluntary or not.

Self-employed workers' lack of coverage under EI could be seen as part of the risks inherent to self-employment and entrepreneurship. However, if self-employed workers are unable to access EI, maybe they should have access to some form of income security beyond provincial social assistance.

Issue 6, How EI Works with Social Assistance, discusses whether a new intermediary income assistance program is necessary for individuals that fall outside the umbrella of EI.

TEMPORARY FOREIGN WORKERS - HOW IT CURRENTLY WORKS

At present, there are more individuals admitted to Canada every year as temporary foreign workers than as permanent residents, the status which used to account for the great majority of new arrivals. By one estimate, temporary foreign workers personally contributed roughly \$126 million to the EI program in 2008.

Many temporary foreign workers have no access to regular EI benefits. This is because temporary foreign workers typically have a work permit that is tied to a particular job and they lose the right to work in Canada if they lose that job. To be eligible for EI benefits an unemployed worker must be "available for work." When temporary foreign workers are laid off and lose their right to work in Canada, they are considered "unavailable for work" and thus ineligible for benefits.

Temporary foreign workers face fewer barriers in accessing EI special benefits (maternity, parental, compassionate care). This is because these benefits are accessed while a temporary foreign worker is with an employer and has a valid work permit.

“Employment Insurance (EI) provides temporary income support during periods of unemployment. Temporary foreign workers must meet the same eligibility requirements as Canadian citizens and permanent residents.”

-HRSDC

“...Temporary Foreign Workers and their employers contributed as much as \$303 million over 12 months in employment insurance premiums in 2008 alone. This is an astounding amount of money. According to values of fairness, if workers pay into an insurance scheme of any kind, they should also be entitled to take from that system under a range of acceptable circumstances.”

-BARBARA MACLAREN AND LUC LAPOINTE, POLICY OPTIONS

Discussion

When it comes to EI, temporary foreign workers face a catch-22: they only become “available for work” (a status they need to receive EI) once they get a new work permit, which they can get only once they have found a new job and no longer need EI.

One option in addressing this issue is to fully remove temporary foreign workers from the EI program, cancelling their premium contributions and the possibility that they would receive benefits. One consequence could be that the relative costs of employing temporary foreign workers (over local workers) could go down if employer contributions were eliminated. This situation could be avoided if the employer contribution were maintained.

Currently, temporary foreign workers can qualify for maternity, compassionate care, and sickness benefits. Removing them from the EI program would discontinue their access to these benefits.

NEXT: HOW EI WORKS WITH SOCIAL ASSISTANCE →

ISSUE 6

HOW EI WORKS WITH SOCIAL ASSISTANCE

KEY ISSUES TO BE DISCUSSED IN THIS SECTION:

- Are EI and social assistance (welfare) functioning properly together as supports for the unemployed?
- Is there a need to cover gaps in the system? If so, how should this be done?

EI AND SOCIAL ASSISTANCE - HOW THEY CURRENTLY WORK TOGETHER

While EI is administered by the federal government, other income support programs for working age adults, such as social assistance, are under provincial administration. The federal government plays a role in income security for children and the elderly.

EI is like an insurance system because it provides support to contributors who lose their jobs. By contrast, social assistance is a last resort social safety net that is non-contributory (one's ability to collect social assistance is not based on any past contribution to the system).

Typically, social assistance is only available after one has been left with no ability to support oneself, having no income and having sold-off all assets (with a few exceptions, such as a primary home or vehicle).

Currently these two programs target two different populations: EI targets individuals who have just lost stable employment, and social assistance targets individuals who have lost all means of subsistence. There may be people in need of assistance that fall between these two programs.

Individuals working sporadically often cannot qualify for social assistance unless they leave employment completely. They also cannot receive EI because they are working. Another group is those who have exhausted EI benefits, who must deplete all means of support before qualifying for social assistance.

WHAT THE EXPERTS ARE SAYING...

“Seeking greater labour market efficiency, income security programs must be well-integrated, forward-looking, and in the context of Canadian federalism, coordinated between federal and provincial governments.”

-DON DRUMMOND AND GRANT BISHOP, TD ECONOMICS

“Visitors to Canada likely would be astonished to learn that the twin pillars of our income security system for working age adults—welfare and Employment Insurance—operate as two solitudes with little connection between them, even though in theory they share the common core goal of assisting the unemployed to get back to work.”

**-KEN BATTLE, MICHAEL MENDELSON, AND SHERRI TORJMAN,
CALEDON INSTITUTE OF SOCIAL POLICY**

SCENARIO: EI EXHAUSTEE

Robert, a single middle-aged man, worked in an auto plant for 25 years. He and his entire shift were laid off. Robert received EI benefits for the maximum duration in his economic region. While looking for equivalent work, he was hoping that his shift would be hired back; this did not happen and his benefits expired before he found a new job.

In order to qualify for provincial social assistance, Robert would be forced to use up the great majority of his remaining savings and RRSPs. He would have to use up most of the resources that insure his future income security. He is unwilling to take this step.

Regardless, the benefits that Robert could receive from social assistance look small even next to the part-time minimum wage service sector jobs that are now his most likely work prospects. If Robert were to take a part-time minimum wage service sector position, he would have inadequate income to cover the costs of supporting himself. Robert's self-sufficiency would eventually erode and he is unsure what he would do when his savings run out.

Discussion

Robert's case (that of EI exhaustees) may demonstrate that there are gaps in income assistance in Canada that create a "poverty trap" and potential long-term dependence on government assistance.

There may be reasons for government to fill this gap between EI and social assistance through changes to the existing system or by creating a new mechanism between EI and social assistance.

Having two income support programs run by different governments, with different rules, but no coordination between them may create unintended gaps and a lack of coherence.

Some argue that new income security mechanisms could reduce incentives to work or be too costly. Reforms to the interaction between EI and social assistance may require balancing these concerns about cost and economic efficiency with the desire to plug gaps in coverage in the current income security system.

NEXT: RATE SETTING, THE EI ACCOUNT AND GOVERNANCE →

ISSUE 7

RATE SETTING, THE EI ACCOUNT AND GOVERNANCE

KEY ISSUES TO BE DISCUSSED IN THIS SECTION:

- Should the Government set EI premiums or should it be done by an independent agency, similar to how the Bank of Canada sets interest rates?
- What factors should determine premium levels? Should the EI account be required to be balanced on a year-to-year basis? Or should premiums be structured to accumulate surplus funds in good times, for use in bad times, with the goal of achieving a balanced account over the long-term?

RATE SETTING, THE EI ACCOUNT AND GOVERNANCE - HOW IT CURRENTLY WORKS

Rate setting is the process by which employer and employee contributions to EI are set by the federal government. Rate setting for EI has changed considerably over the years.

Before 1996, the EI premium was set to cover the yearly cost of EI benefits. Under this system, employers and employees were required to provide additional funds to the EI system during bad economic times. The system was reformed in 1996 so that money would be collected in good times for use during the bad. That way, rates would not have to go up during recessions.

This reform was immediately followed by a long period of economic growth. By 2008-2009, the EI account had accumulated nearly \$57 billion in surplus. However, the EI account was not protected for EI uses only. The surplus was absorbed into the government's general revenue account and spent on other items.

In 2008, a new series of reforms was introduced. First, a protected EI account was created where EI funds would be segregated from other government revenue. A two billion dollar cushion in the account was created for use during times of high EI claims. Second, it was decided that the EI program would be required to break even on a year-to-year basis. In other words, rates would have to increase during periods of high unemployment so that the program always collected as much as it spent. A new body, the Canadian Employment Insurance Financing Board (CEIFB), was created to oversee rate setting.

The recession hit right after these reforms were instituted in 2008. When the newly created CEIFB recommended a rate increase to cover the increased costs of the EI program during the recession, the government overruled the CEIFB and decided not to raise premiums in the middle of a recession.

Discussion

The federal government currently exercises a broad range of decision-making powers over EI. But some argue that Parliament does not have the discipline to make tough decisions on rate setting.

Given the challenges associated with achieving yearly balances in the account, particularly during a recession, it may be more appropriate to establish a different guideline from the one that currently exists.

At present, rate setting is ad hoc and subject to political pressures. If an independent agency set premiums, employer and employee contributions could be more predictable and transparent. However, it may be inappropriate for an unelected body to set premiums, which are like taxes.

WHAT THE EXPERTS ARE SAYING...

“Budget 2008 announced the creation of the Canada Employment Insurance Financing Board to improve the governance and management of the EI Account. The creation of this new Board will enhance the independence of premium rate setting, and ensure that EI premiums are used exclusively for the EI program.”

-HRSDC

“...the present rate setting mechanism should be amended to fund EI liabilities across a ‘business cycle’ so that higher premiums are not required during economic downturns.”

-DON DRUMMOND AND GRANT BISHOP, TD ECONOMICS

NEXT: CONCLUSION →

CONCLUSION

This paper forms a companion to the Mowat Centre EI Task Force's Consultation Workbook. While this paper frames questions for EI reform in greater depth, the Workbook provides space for readers to send the Mowat Centre EI Task Force their ideas and feedback.

Based on the input that we receive through Workbook submissions, in-person consultations, and the outcomes of our research program, the Mowat Centre EI Task Force will produce a series of recommendations in Spring 2011 for a new and improved system of support for the unemployed.

We welcome your input. The Mowat Centre EI Task Force Workbook can be downloaded at:
<http://www.mowatcentre.ca/eiworkbook.pdf>

Completed workbooks, input in other forms, and questions and comments regarding this paper or the Task Force in general can be sent to: **eitaskforce@mowatcentre.ca**



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