
MAKING IT WORK

FINAL RECOMMENDATIONS OF THE MOWAT CENTRE EMPLOYMENT INSURANCE TASK FORCE





The Mowat Centre convened the Employment Insurance Task Force to examine Canada's support system for the unemployed and propose a blueprint for a strengthened national system. The Mowat Centre EI Task Force is independent, non-partisan, and research-driven.



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ACKNOWLEDGEMENTS

Pulling a project like this together usually requires a tremendous effort from all involved and for an organization like the Mowat Centre, that means a handful of extremely bright, dedicated individuals doing the work of a much larger group.

In the case of the EI Task Force, each team member exceeded my highest expectations. I could not be more proud of the work we have done together.

Although the Task Force was a team effort, I'd like to highlight the exceptional contributions of:

Jon Medow, project lead

Mary Davis, lead economist

Neville McGuire, design

Josh Hjartarson, overall policy direction

The rest of the Mowat team, including Laura Rosen-Cohen, Valeria Sladojevic-Sola, James Pearce, Shaun Young, Melissa Molson, Jim Nicholson, and Reuven Shlozberg all played key roles at crucial times.

- **Matthew Mendelsohn**

Director of the Mowat Centre

A MESSAGE TO CANADIANS

We are pleased to present the final recommendations of the Mowat Centre Employment Insurance Task Force.

We undertook this project because we believe that the time is right to revisit Canada's system of assistance for the unemployed. At the core of our recommendations is a belief that a new national framework is required, one that is more transparent, effective, and equitable.

We have come to this conclusion because of the failure of the current program to keep up with a variety of societal and economic changes. It is widely recognized that there are deep problems at the core of the system. Too many people are being left out of Canada's social safety net, too many are carrying an unfair burden, and too many are not achieving their potential.

Now is the time to move forward with transformative change to a foundational piece of Canada's social safety net.

In these pages you will find our proposals for improving the support system for the unemployed in Canada. Our recommendations are principled, based on evidence, fiscally prudent, and are a product of intensive consultation with workers, employers, and Canada's leading experts.

The proposals are designed for a modern Canada—one that provides support for people who need it and encourages development of a dynamic labour force necessary to compete in the global economy.

The Task Force is an independent effort, outside the constraints of government. Successive governments have been unable to act on the need for structural reform to the system. We offer this blueprint as a way forward.

We are hoping that you will join us in advocating for a new federal support system for the unemployed.

Signed,

- **Ratna Omidvar**
Advisory Committee Co-Chair

- **Roy Romanow**
Advisory Committee Co-Chair

- **Keith Banting**
Research Director

- **Matthew Mendelsohn**
Director of the Mowat Centre

OVERVIEW OF REPORT & RECOMMENDATIONS

In Spring 2010, the Mowat Centre convened the Employment Insurance Task Force.

The Task Force's mandate was to review the current Employment Insurance (EI) system, consult about its relevance to contemporary realities, and make recommendations about improving Canada's support system for the unemployed.

At the outset, we committed that any recommendations would be evidence-based and principled. We also committed that this process would be transparent, non-partisan, and incorporate a diversity of perspectives.

To this end, we held extensive consultations with employers, workers, and civil society. We commissioned research from Canada's top experts. We hosted a series of technical consultations to vet our proposals. Meanwhile, we reached out to current and former government officials, inviting their comments and keeping them informed of our progress. Finally, using the best data available, we costed our proposals so that Canadians and governments can understand the fiscal implications of our recommendations.

Based on our research and consultation, we propose a blueprint for a strengthened national program to support the unemployed. Our recommendations focus on the architecture of support for the unemployed and the principles that should drive reform. Our goal is to improve the overall design of the system.

Our 18 recommendations are organized around four themes: a nationally standardized system, active employment measures (i.e. training), special benefits, and financing and management. We recommend transformational changes, as well as smaller changes that address long-standing irritants in the EI system.

Based on the Task Force's research and consultations, we recommend the following measures:

A NATIONALLY STANDARDIZED SUPPORT SYSTEM FOR THE UNEMPLOYED

1. Introduce a single national entrance requirement for all workers across Canada.
2. Introduce a single national benefit duration range.
3. Introduce a single national weekly benefit formula.
4. Eliminate the higher entrance requirement for new entrants and re-entrants to the workforce.
5. Create a new system of temporary unemployment assistance outside the EI program.
6. Test wage insurance for long-tenured workers and eliminate provisions whereby severance pay can displace EI benefits.
7. Modify benefits in response to economic conditions (e.g. expand work-sharing during recessions).
8. Establish a transparent process for testing changes to the EI program.
9. Treat temporary foreign workers fairly.
10. Modify the low income family supplement to track growth in maximum insurable earnings.
11. Transition the delivery of benefits for self-employed fishers out of EI.

CHANGES TO ACTIVE EMPLOYMENT MEASURES

12. Fund all training and active employment measures through a general revenue-funded transfer to provinces.
13. Enhance the relevance and effectiveness of the Forum of Labour Market Ministers.
14. Enable individuals to pursue skills development (such as high school and post-secondary education) while receiving EI benefits.

CHANGES TO SPECIAL BENEFITS

15. Provide parental benefit recipients with a choice between higher benefits over a shorter period or lower benefits over a longer period.
16. Remove the two-week waiting period for special benefits.
17. Test a change to sickness benefits to support labour market participation of persons with disabilities.

CHANGES TO EI FINANCING & MANAGEMENT

18. Strengthen and broaden the authority of the Canada Employment Insurance Financing Board (CEIFB).

These recommendations should be considered as a package and we recommend that all be adopted simultaneously. As a package, these measures would improve the social safety net, introduce greater equity between workers, and enhance labour market efficiency and the overall competitiveness of the Canadian economy. These recommendations represent a marked improvement over the current system.

Most of our recommendations could be calibrated to suit governmental preferences on generosity and incentives, and to reflect the state of the economy. For example, a single entrance requirement, a single national benefit duration range, and a nationally standardized weekly benefit formula could all be adjusted so that there is some additional or no additional cost. Our cost analysis of the recommendations can be found in Appendix 1.

Some of our proposals have costs associated with them, but they are relatively small when measured against current total program spending and represent investments that are likely to have broader economic value.

For example, our proposed wage insurance program would encourage workers who have been laid off from jobs they have held for many years to stay in the workforce. This will cost more over the short term, but unemployment among these workers will fall and their attachment to the labour force will be prolonged.

Similarly, our proposed Temporary Unemployment Assistance (TUA) will provide short-term assistance for those who are looking for work but do not qualify for EI benefits. In the longer term, this will improve the fairness of the system as a whole, facilitate labour market participation among potentially vulnerable groups, and prevent some workers from falling into destitution.

These program changes will also improve the counter-cyclical and stimulative impact of federal assistance during recessions.

Our 18 recommendations focus on principled program redesign. We do not recommend a specific number of hours one has to work in order to collect benefits (i.e. the “entrance requirement”) or a formula for calculating benefits. We focus on the program’s architecture and the principles that animate its design.

DOCUMENT PLAN

Section A discusses the principles that should guide reform of Canada's support system for the unemployed, the case for change, and shortcomings in the current system.

Section B provides a short overview of the EI program. It is intended as background information. Those familiar with the EI program may want to move directly to Section C.

Section C represents the bulk of this document and presents a detailed discussion of each recommendation.

Section D concludes the document and summarizes the Task Force's recommendations.

Appendix 1 provides a cost analysis of the recommendations and discusses additional technical considerations.

Appendix 2 lists a number of additional proposals that were considered and provides a brief explanation of why they were not recommended.

Appendix 3 contains the EI system's current Entitlement Table.

The Bibliography lists sources referenced in this report.

About the Mowat Centre EI Task Force provides more information about the Task Force and the steps it undertook to arrive at its recommendations.

SECTION A

INTRODUCTION

INTRODUCTION

THE PRINCIPLES WHAT SHOULD CANADIANS EXPECT FROM THE SYSTEM OF SUPPORT FOR THE UNEMPLOYED?

The design and periodic review of any government program must begin by identifying principles and objectives that explicitly define what the program aims to achieve, and why. The Task Force consulted widely on the question of what principles and objectives should underlie Canada's system of support for the unemployed. We heard three core messages:

1. A reformed support system should be there when workers need it.
2. It should contribute to a dynamic labour force and enhance productivity.
3. It should treat workers and employers equitably.

A well-functioning support system for the unemployed is an essential component of the social safety net and of a well-functioning, competitive economy. A well-designed system must strike a careful balance between supporting those in need and encouraging labour market participation. Redistributive qualities must be balanced with economic efficiency.

A well-designed system should enhance rather than undermine a country's productivity and promote an efficient use of human capital. But it must do so equitably. The distribution of benefits must be transparent and understandable to the average person. The distribution should also be broadly viewed as fair and grounded in the principle of equality. This is essential to the system's legitimacy. Social policy should further our sense of shared Canadian identity; it should not, for example, pit individuals and regions against one another.

Based on these principles, we were able to identify seven objectives for an income security program for workers.

A support system for the unemployed should:

1. Provide adequate support in times of need

When workers lose employment, there should be a safety net for them. Benefits should be an adequate bridge between job loss and new employment. If one contributes to a program, one should have a reasonable chance of collecting benefits that reflect their contribution.

2. Be transparent and client-centred

Canadians should be able to understand the benefits to which they are entitled. They should be able to calculate whether they have been treated fairly under consistent and intelligible rules. They should also be able to judge more broadly whether policies seem fair and appropriate.

Where possible, the Task Force prefers fewer rules to more rules, fewer exceptions rather than more, more equity rather than less, and fewer opportunities for misuse of the system.

3. Encourage labour market attachment

Unemployment insurance systems should ensure that labour market attachment—working—is the best option for those able to work. It should also not discourage individuals from moving from areas where there are few economic opportunities to areas where opportunities are more plentiful.

4. Support the development of human capital and help fill labour shortages

A well-designed system should enhance productivity, promote an efficient use of human capital, and expand opportunities for individual workers. Ideally, the system should enable workers to make the transition from occupations where there are labour surpluses to those occupations where there are labour shortages.

5. Be coherent and integrated with other income support programs

To the extent possible, the program should integrate seamlessly with the range of other social programs by minimizing gaps that push individuals into poverty.

6. Be fiscally responsible

The program should be affordable. EI should not impose too onerous a burden on the workers and employers who pay for it.

7. Be responsive to economic conditions and changes in employment

Income support programs for the unemployed act as vital automatic stabilizers for the economy as a whole and should smooth business cycles rather than exacerbate them.

THE CASE FOR CHANGE

WHAT IS WRONG WITH THE CURRENT SYSTEM?

Based on these principles, we came to a basic conclusion—if a new federal support system for the unemployed were designed from scratch today, it would look substantially different from the current EI program.

Today’s EI program is an outcome of decades-long inertia and tinkering. It is built on a foundation designed for the labour market of the 1970s. Many pieces were introduced at different times, by different governments, and with differing priorities. Many EI components have aged poorly and/or do not work well together. The program is no longer consistent with the objectives of a modern income support program for the unemployed. Overall, the system’s design cannot be defended on a principled basis.

Through research, expert engagement, and consultation, a number of problems with the current system became evident. Below, we highlight the major problems of the current program.

PROBLEM 1: THE CURRENT EI SYSTEM IS NOT WELL-SUITED TO THE NEW WORLD OF WORK

The current system has not adapted to labour market changes and the new world of work, which now includes more “young persons and multiple-earner families churning through various forms of non-standard work” (Gundersen, 2011 p. 14).

In the early to mid 1990s, the federal government introduced a series of changes to EI that resulted in fewer unemployed individuals accessing the system, as shown in Figure 1.

However, the decline in access was not driven entirely by policy changes. In 1998, Human Resources and Skills Development Canada (HRSDC), the federal department that manages EI, found that slightly less than 50 per cent of the decline in program eligibility could be attributed to program changes introduced in the early to mid 1990s.

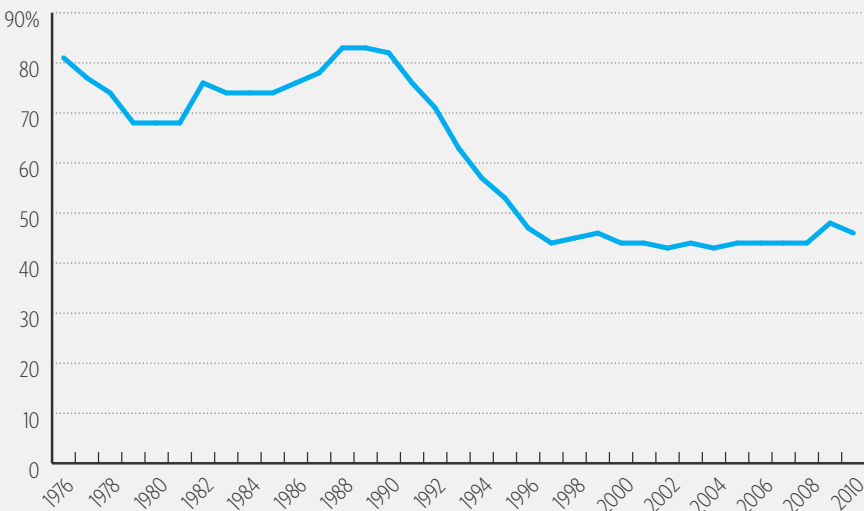
The remaining decline in eligibility was attributable to “changes in the composition of unemployment, namely the increased duration of unemployment, self-employment, and part-time work” (HRSDC Strategic Policy and Research, 1998 p. 3).

HRSDC also found that “a significant number of the unemployed not covered by EI benefits in 1997 would also not have received EI benefits prior to 1990” (Ibid.), further confirming that changes in the labour market were an important driver of decreased eligibility for benefits amongst the unemployed.

Note that about 80 per cent of recently laid off EI contributors qualify for benefits (EI Coverage Survey 2001-2010). A recent contributor is someone who has paid EI premiums in the past year. These workers (laid off, recent contributors) are the EI program's target population.

However, the number of unemployed individuals who fall completely outside the EI umbrella is increasing. These individuals typically have not paid EI premiums in the past year. Figure 1 shows the percentage of the total unemployed receiving EI benefits (as opposed to just how well the program serves its target population).

FIGURE 1 Percentage of the Unemployed Receiving EI Benefits, Canada 1976-2010



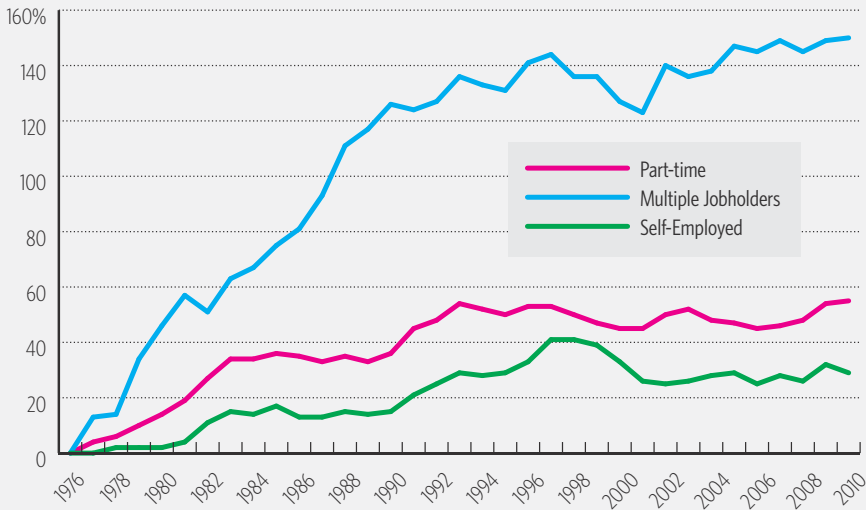
Source: CANSIM Tables 2820087 and 2760001

The *Labour Force Survey* captures the dramatic changes in Canada's labour market since the EI architecture was designed. While reforms to EI also clearly caused a decline in eligibility, labour market changes go some distance to explaining the large decline in the percentage of the unemployed receiving benefits. They also illustrate the need for an additional safety net.

Consider these facts. Since 1976:

1. The number of multiple jobholders has increased by 150 per cent
2. The number of part-time jobholders has increased by 55 per cent.
3. Self-employment has increased by 29 per cent.

Figure 2 illustrates these changes, using 1976 as a base year.

FIGURE 2 Percentage Change in Various Forms of Employment, 1976-2010

Source: CANSIM Tables 2820002, 2820036, and 2820012

The current EI system was not designed to serve individuals in these growing segments of the labour market. “Workers least well-protected [by EI] are clustered in part-time and temporary forms of paid employment and self-employment, and in sectors of the economy long viewed as ancillary but experiencing considerable growth in recent decades, such as sales and services, a central domain of employment for women, younger, older, and immigrant workers” (Vosko, 2011 p. 3).

Our proposals will make the system more responsive to the modern labour force.

PROBLEM 2: THE EI SYSTEM WAS DESIGNED TO DEAL WITH FRICTIONAL AND CYCLICAL UNEMPLOYMENT, MORE TYPICAL OF AN EARLIER ERA

The EI system responds reasonably well in helping contributors transition to new work after job loss during periods of economic stability (an example of frictional unemployment). It also serves its contributors reasonably well during brief cyclical downturns (but not longer recessions, as discussed below and in Problem 8).

The system is poorly designed to help people dealing with structural declines in their sectors. Some workers face a situation in which their job—or a similar job—is likely never to return. For example, an older worker who loses her or his job in a declining sector after being employed for 20 years receives more or less the same benefits as someone who lost a job after a year of employment.

Similarly, the system does not deal well with periods of extended unemployment for long-tenured workers (individuals who have held jobs for many years), a category of worker significantly affected by structural shifts in the global economy.

Our proposals will help workers in declining industries adjust so that they can take advantage of new opportunities.

PROBLEM 3: THE CURRENT SUPPORT SYSTEM FOR THE UNEMPLOYED IS INSUFFICIENTLY HELPFUL TO GROUPS OF WORKERS FACING BARRIERS IN THE LABOUR MARKET

There are also under-represented groups in the labour market facing significant barriers to employment. Consider these facts:

1. Immigrant workers have higher rates of unemployment than Canadian-born workers, even 10 years after landing (Pal et al., 2011 p. 8).
2. Youth unemployment—for individuals aged 15 to 24—is far higher than the Canadian average, 14.8 per cent versus 8 per cent in 2010 (CANSIM Table 1095324). The youth unemployment rate is even higher in Ontario, 17.2 per cent in 2010 (Toronto Community Foundation, 2011 p. 48).
3. Aboriginal people participate in the labour market at a rate of 6 to 14 percentage points below that of non-Aboriginal people (Miner and Miner, 2009 p. 12).
4. Persons with disabilities participate significantly less in the labour force, at a rate of 54.9 per cent versus the Canadian average of 77.8 per cent (Ibid.).

Meanwhile, Canada confronts an aging workforce, emerging labour shortages in knowledge-based sectors, and low-skilled workers who can no longer find suitable work.

For both equity and productivity reasons, we propose a responsive support system for the unemployed to facilitate the transition of underrepresented groups into employment and to help match labour supply with labour shortages.

PROBLEM 4: THE SYSTEM HAS NOT CAUGHT UP WITH NEW REGIONAL REALITIES IN CANADA

EI is the only federal social program that so dramatically treats Canadians as residents of regions rather than as members of a national community entitled to a common set of social benefits.

In fact, EI was designed as both a support system for the unemployed *and* as a mechanism of inter-regional wealth redistribution from prosperous provinces to regions where structural and high seasonal unemployment were considered a fact of life.

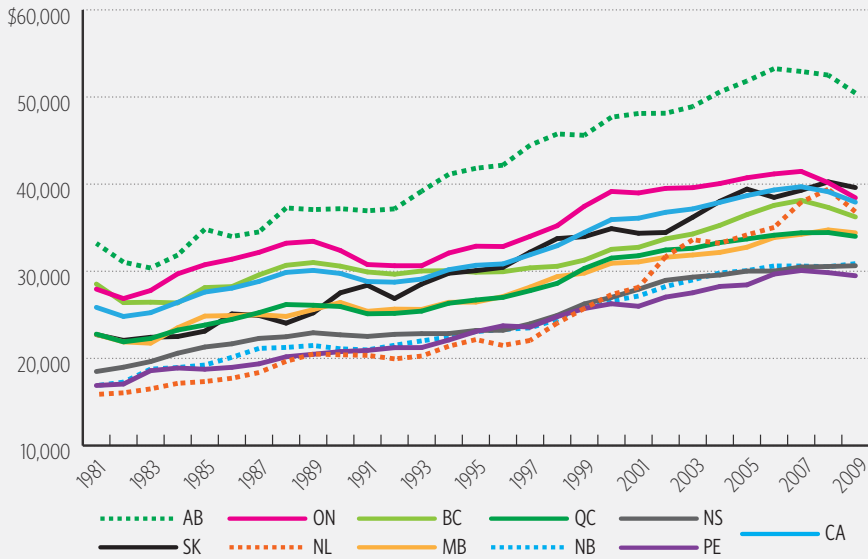
However, the distribution of prosperity in Canada has shifted over the past two decades. Consider these facts:

1. There was once a sizable difference in GDP per capita between Ontario and the Atlantic provinces. However, as Figure 3 shows, that difference has closed substantially. Saskatchewan has now displaced Ontario as the second wealthiest province in Canada on a per capita basis. Leaving Alberta aside as an outlier, since 1981, the distance between the highest and lowest province on this measure has closed by 20 per cent from \$12,669 to \$10,120. Newfoundland and Labrador has advanced markedly in recent years.
2. In the past, Ontario consistently had the lowest percentage of working-age individuals who had low incomes. As shown in Figure 4, this is no longer the case.

Today, British Columbia and Ontario have the highest percentage of working-age individuals with low incomes. The Atlantic Region has the lowest percentage.

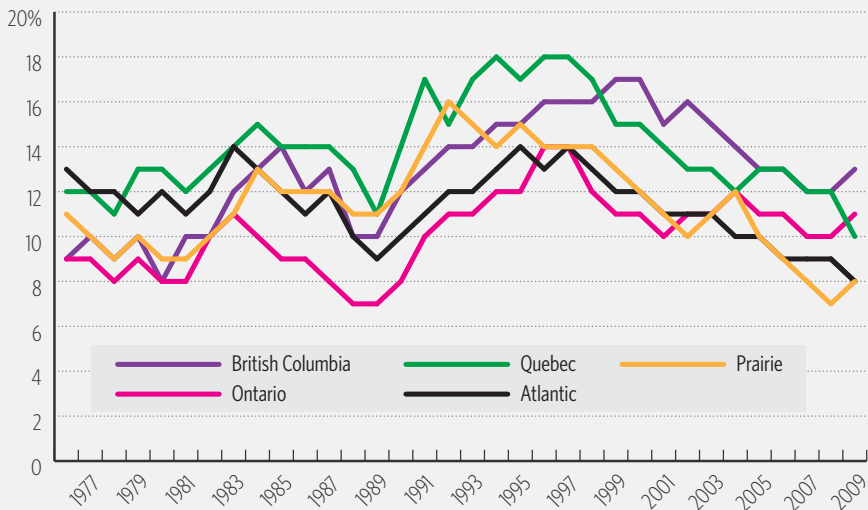
For many years, Quebec had the highest percentage of working-age individuals with low incomes in Canada. As of 2009, Ontario had a higher percentage than Quebec.
3. Since 1976, Ontario's share of Canada's total unemployed has grown substantially. As demonstrated by Figure 5, Alberta has also seen significant increases while the largest decline in share of total unemployed was seen in Quebec.
4. As of 2009, Ontario workers experience on average the longest spells of unemployment in the country. In addition, differences between provinces' average unemployment duration have narrowed. As shown in Figure 6, there were much greater disparities between provinces on this measure in 1976, and as recently as the 1990s.
5. Labour migration patterns have also changed. There are currently no regions experiencing major net population outflows. This may in part reflect "generally narrowing labour market and income disparities between any given province and the rest of the nation..." (Gauthier, 2011 p. 2).

FIGURE 3 GDP Per-Capita by Province and Canada-Wide (2002 Constant Dollars), 1981-2009



Source: CANSIM Tables 384000 and 510001

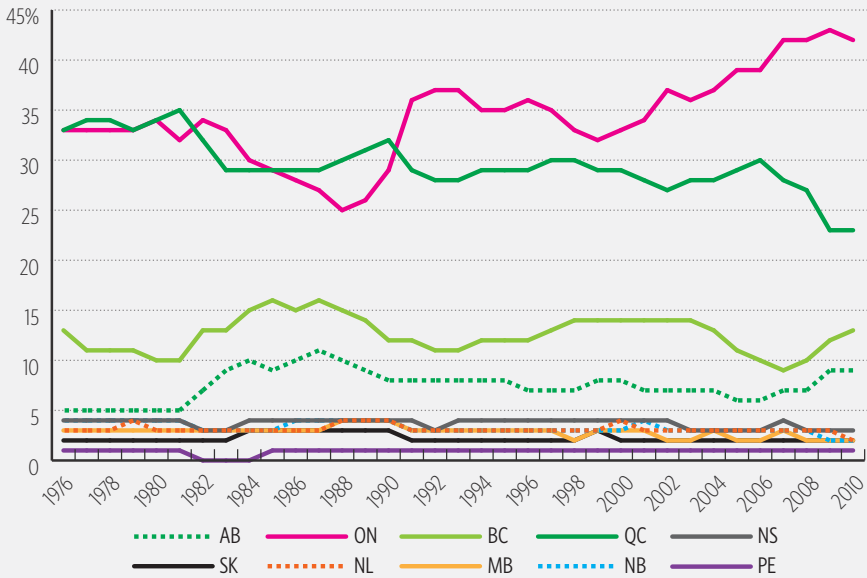
FIGURE 4 Percentage of Persons Aged 18 to 64 with Low Income by After-Tax Low Income Cut-Off (LICO), 1976-2009



Source: CANSIM Table 2020802

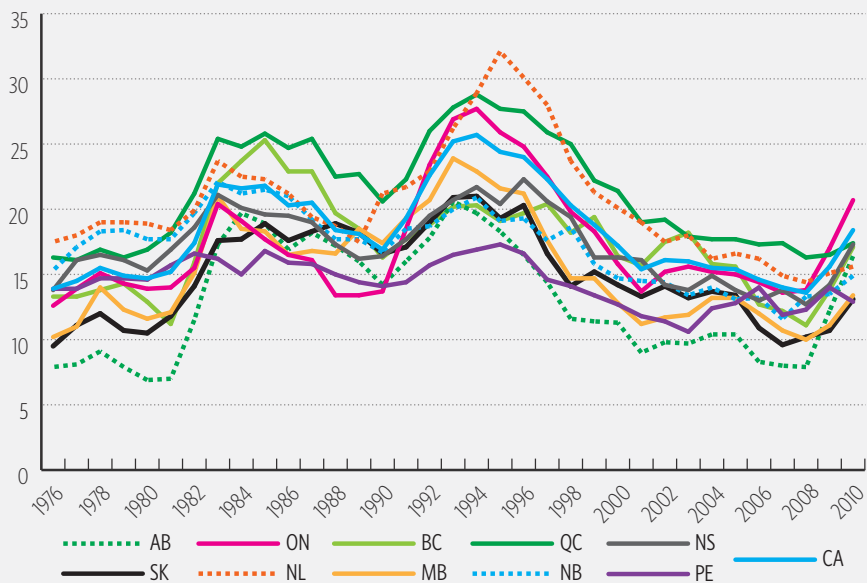
Notes: The Statistics Canada Low Income Cut-off (LICO) income limits were selected on the basis that families with incomes below these limits usually spent 63.6 per cent or more of their income on food, shelter, and clothing. Low income cut-offs were differentiated by community, size of residence, and family size.

FIGURE 5 Provincial Share of Total Canadian Unemployed Population, 1976-2010



Source: CANSIM Table 2820048

FIGURE 6 Average Duration of Unemployment in Weeks, 1976-2010



Source: CANSIM Table 2820048

Overall, the story is one of convergence. Less prosperous provinces have moved much closer to their traditionally prosperous compatriots. Regions that have historically relied on EI have fewer people living in poverty, while today traditionally more prosperous provinces like Ontario and British Columbia have a higher share of their populations living in poverty.

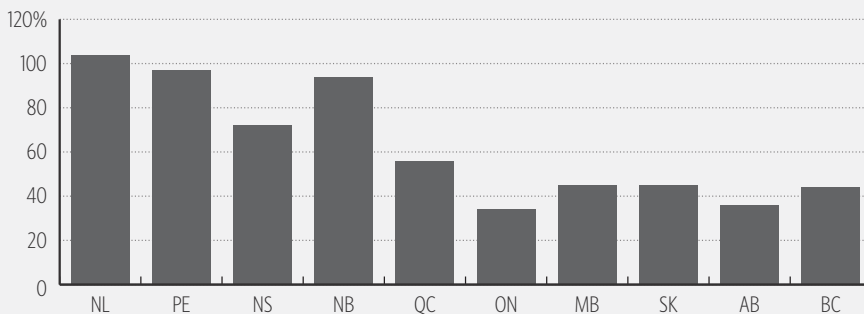
But EI has not caught up to this reality. Although 2009 was an exception because all provinces received more from the program than they contributed in premiums, the program overall remains designed to shift wealth from regions perceived to be prosperous to regions perceived to be in need.

- Over the course of the decade (2000-10), Ontario workers and businesses made a net contribution of roughly \$20 billion to the EI system. This is a heavy burden for workers and businesses operating in a competitive global economy. As many workers and businesses in Ontario face a variety of changes in the Canadian, North American, and global economies, this wealth transfer is a significant drag on the Ontario economy.

In the end, far fewer of the unemployed are covered in some provinces than in others (Figure 7). This creates more pressures on some provincial governments and their tax bases than on others due to the uneven coverage of an ostensibly national federal program.

Our recommendations take into account the new regional realities in Canada and diminish the inter-regional transfer of wealth.

FIGURE 7 Percentage of the Unemployed Receiving EI Benefits, Provinces 2010



Source: CANSIM Tables 2820087 and 2760001

Notes: The data expressed above (and in Figure 1) can over-and under-count the percentage of the unemployed receiving support. Some EI beneficiaries are not counted as unemployed (e.g. those working while receiving EI). As a result, more than 100 per cent of the unemployed can appear to be receiving benefits. Additionally, those counted as unemployed and not receiving EI may receive other benefits such as social assistance. Still, this figure provides a powerful comparison of the operation of EI across provinces.

PROBLEM 5: THE SYSTEM PRODUCES INEQUITIES THAT CANNOT BE DEFENDED ON PRINCIPLED GROUNDS

The EI system creates inequities that are unjustified. EI allocates benefits based on local unemployment rates across 58 regions. Individuals living in regions with higher unemployment rates can qualify for EI benefits faster and receive higher weekly benefits for longer periods of time.

The result is a system that provides disproportionate support to older, rural, seasonal workers and, as a result, to primary industries by subsidizing their labour costs on a seasonal basis. Some industries “never receive a net transfer from the programme; others always do” (Corak and Chen, 2007 p.330).

The system does not offer the same yearly support to low income urban workers in precarious employment, many of whom are new Canadians. Even if they have equivalent annual incomes or gaps in earnings, they are not regularly supported by EI because they are not laid off regularly and at predictable intervals. EI redistributes money from low income workers who can find themselves unemployed unexpectedly to low income workers who expect to be unemployed—and who often know when it will happen (Boadway and Garon, 2011 p. 16).

As well, two workers with identical employment histories working at the same firm can be laid off on the same day and be entitled to different benefits (or benefits versus no benefits at all) based on where they live.

These geographically-driven differences built into EI are inconsistent with the general federal approach to delivering other income security programs, such as the National Child Benefit (NCB) or Old Age Security (OAS), which are based on widely accepted and transparent criteria applied across the country.

Our recommendations would treat workers equally, unless there is a principled rationale for doing otherwise.

PROBLEM 6: THE EI SYSTEM IS OPAQUE AND NOT CLIENT-CENTRED

The EI system’s design is not consistent with emerging and successful models for the delivery of social benefits. These models strive to deliver benefits simply and transparently and treat individuals equally.

Under the current system, it is nearly impossible for unemployed Canadians to understand the support offered to them by EI and why that support might differ from the entitlements of other unemployed workers. Additionally, the current support system for the unemployed does not offer recipients flexibility on how to use benefits.

A COMPLEX WEB OF RULES

While other countries provide unemployed workers with generally comparable benefits regardless of where they live, Canada is unique in aggressively modifying benefits on the basis of region of residence. One result is that the EI program is one of the most complex income support programs in the OECD. Consider these facts (Radmilovic, 2011):

- The EI system determines rules regarding qualification, duration, and levels of EI compensation on the basis of unemployment rates across no less than 58 economic regions.
- In Canada, the eligibility formula incorporates nine categories of hours of insurable employment, nine categories of unemployment rates, and 58 economic regions. Most countries condition eligibility for benefits on the basis of relatively straightforward criteria, such as age and the length of the qualifying employment period.
- To decipher how long benefits will last, a Canadian worker needs to consult 12 categories of rates of unemployment (across the 58 regions) and no less than 41 categories of hours of insurable employment.

The lack of transparency in Canada's social safety net is enhanced by ad hoc changes to the EI system through pilot projects, which often enhance the regional disparities in benefits. The way pilot projects are used adds further complexity to an already complex and opaque program (Medow, 2011).

By comparison, a recipient of programs like the Canada Pension Plan (CPP) or the National Child Benefit (NCB) is easily able to understand why someone might receive a higher benefit. For example, they may have contributed for longer or their income may be lower. These explanations can be defended on a principled basis. EI is an anomaly.

Our proposed changes will facilitate transparency, enable workers to understand the benefits they receive, and treat individuals equitably.

PROBLEM 7: THE FUNDING MODEL IS BROKEN

The recession highlighted the problems with the current funding model, which is widely recognized as broken. Premiums are mandated to go up when unemployment increases and program costs mount, which exacerbates recessions by taking more money out of the pockets of businesses and workers. Conversely, during good times, premiums are supposed to go down, which exacerbates inflation. This is not good macroeconomic policy.

The federal government understands this and intervened on an ad hoc basis to override the financing system since 2009. It is now consulting on how to fix the funding mechanism.

The overriding principle of any reform to the funding model should be to moderate the business cycle.

We propose changes to the funding model.

PROBLEM 8: EI RESPONDS POORLY TO RECESSIONS

Recessions provide stress tests for social policy. Good social policies should be robust through various periods of the business cycle, but should also provide governments with latitude to respond appropriately when conditions change rapidly.

In 2009, the federal government introduced many worthwhile initiatives to help workers through the worst of the recession, yet these highlighted the shortcomings of the current system. Some treated Canadians equitably, recognizing that the recession was broad-based and national in scope. Other portions of the response were explicitly targeted to specific regions, but not always on the basis of need.

For example, while there was a blanket five week extension of EI benefits across Canada, other pilot projects were extended and ad hoc initiatives were created that provided enhanced benefits to some workers in only some regions. Many of the excluded regions were deeply affected by the recession.

The EI system does adjust automatically as unemployment goes up and this does offer support to some workers as their local labour market conditions deteriorate. However, we argue that change in the unemployment rate is a poor basis for allocating EI benefits.

The adjustments are uneven and are built on top of a deeply regionalized system. One result is that a worker in a rapidly deteriorating labour market may still be entitled to far lower benefits than a worker in a region with a higher unemployment rate, but where it is nonetheless easier to find a job.

Small changes to the EI system based on unemployment rate also do not change the fact that the program does not benefit the majority of the unemployed in some regions.

Ontario's unemployment rate was above the national average and fourth highest in the country during the most recent recession. However, the percentage of Ontario's unemployed that received EI benefits was lower than in any other province.

In 2009, only 38 per cent of Ontario's and 39 per cent of British Columbia's unemployed workers received benefits, while in some other provinces, over 90 per cent of the unemployed received benefits (Mendelsohn and Medow, 2010). This differential was little changed from pre-recession periods.

Many are not covered by the EI system at all, and the automatic adjustments that occur through EI cannot overcome these structural problems. No adjustment to the EI system's qualification requirements could assist the majority of those who are outside of the system.

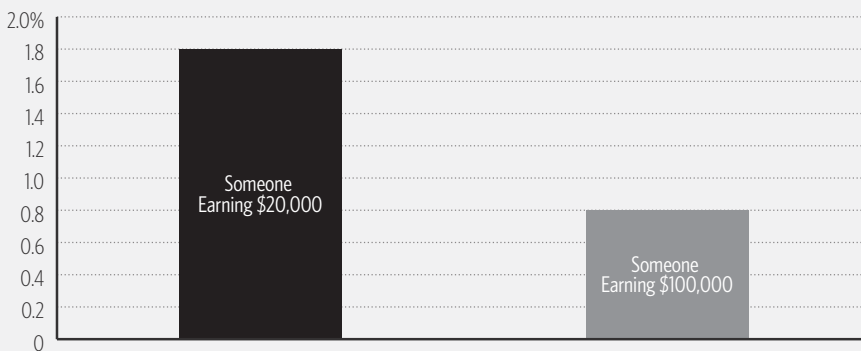
Our recommendations will enable more effective response to economic downturns and also assist the large number of unemployed workers who exhaust their benefits and/or fall outside the system.

PROBLEM 9: THE SYSTEM IS REGRESSIVE

Low income workers pay disproportionately for the program, yet many have little or no chance of collecting any benefits should they find themselves unemployed.

All workers pay the same proportion of their income in EI premiums up to the maximum insurable earnings threshold, which is capped (\$44,200 in 2011). The result, as Figure 8 illustrates, is that a worker who earns \$20,000 per year pays 1.78 per cent of their total income to EI. A worker who earns \$100,000 pays only 0.79 per cent.

FIGURE 8 Percentage of Income Paid in EI Premiums at Two Income Levels, 2011



Source: Authors' calculation

Note: Based on 1.78 per cent premium and \$44,200 maximum insurable earnings.

EI benefits are capped at 55 per cent of insurable earnings for all contributors, which means a maximum benefit of \$468 for those with higher incomes. This structure (premiums and benefits that are contingent on earnings) is widely accepted as appropriate for a social insurance program.

The regional and industry re-distribution elements of EI and use of EI funds for broader government priorities, however, are problematic. Low income workers in stable employment, particularly those in low unemployment regions, subsidize other workers who may have comparable or even higher annual incomes. EI premiums also support benefits that some workers could never reasonably be expected to access, such as fishing benefits. Low income workers

also pay disproportionately for training for the unemployed. These programs are in the interest of all Canadians.

Our proposed changes take into account the regressive nature of EI and would ensure that more of the funds raised through the program are distributed more fairly among those who contribute. Our proposed changes would also ensure that EI funds are used for activities properly within the purview of an insurance-based system of protection for workers.

THE CHORUS FOR CHANGE

The Task Force is not unique in advocating change. Criticisms of Canada's support system for the unemployed have been mounting, especially in the wake of the recent recession. There is consensus across the political spectrum that the system is broken.

Think tanks and the research community, including TD Economics, the Caledon Institute, the C.D. Howe Institute, the Atlantic Institute for Market Studies, and the Canadian Centre for Policy Alternatives, have responded with analysis critiquing the operation of EI during the recession. They also reiterate long standing concerns with the system (see for example: Bishop and Burleton, 2009; Busby et al., 2009; Busby and Gray, 2011; Canadian Chamber of Commerce, 2009; Jackson and Schetagne, 2010; Mendelson et al., 2009; Neill, 2009; Osberg, 2009).

In addition to these most recent analyses, our work has built upon previous large-scale reviews and critiques of Canada's social safety net and EI system (see for example: Forget, 1986; MISWAA, 2006; Royal Commission on Employment and Unemployment—Newfoundland and Labrador, 1986; Royal Commission on the Economic Union and Development Prospects for Canada—MacDonald Commission, 1985).

Provincial governments are increasingly weighing in. The Ontario Government in particular has been a vocal critic of the federal EI system. Over the past two decades, successive governments have highlighted that the program is unfair to workers and businesses in Ontario and that it is poorly designed for the Ontario labour market. Other provincial governments, particularly those in Western Canada, have now joined this chorus.

Despite well-established complaints and broad recognition of the validity of those complaints, successive federal governments have not been able to push forward with significant change. But at some point, when a cornerstone of Canada's social safety net works so poorly in so many of Canada's regions, and for so many workers, change is necessary.

At some point, more delay is no longer acceptable. We have reached that point.

WHAT THE EXPERTS HAVE TO SAY

“We need decisive action now to address the still-gathering economic storm, but we also need bold ideas for [EI] reforms to be implemented when we recover.”

- Michael Mendelson, Ken Battle, and Sherri Torjman for the Caledon Institute of Social Policy

“...the desired long-term goals of EI reform are to improve the fairness of the system, reduce work disincentives, promote labour force mobility, and ensure program costs do not create a drag on economic activity and job creation.”

- Canadian Chamber of Commerce

“(Un)Employment Insurance is the major program by which the Government of Canada has historically helped offset the financial risks of unemployment faced by Canadian families.... Many Canadians are now finding out personally just how little insurance coverage they have.”

- Lars Osberg for the Canadian Centre for Policy Alternatives

“As an insurance program, EI cannot reasonably be amended to cover non-contributors. However, this...reminds us that EI is but one component of the overall income security framework and that other robust ‘safety nets’ are additionally required.”

- Grant Bishop and Derek Burleton for TD Economics

“The goals and intentions of the EI regime should be simplified to better address the needs of Canada’s unemployed workers. Reforms are needed to better align the incentives of the EI program with the national interests of a more dynamic, flexible and buoyant labour market.”

- Colin Busby and David Gray for the C.D. Howe Institute

WHAT PROVINCIAL PREMIERS HAVE TO SAY

“Ontarians are being treated unfairly.... They are being discriminated against in contrast to Canadians in other provinces. That’s unacceptable and it’s unsustainable.”

- Ontario Premier Dalton McGuinty

“Employment insurance should be reformed using a principled approach that gives Canadians equal support regardless of the territory or province they work in.”

- Western Premiers Conference

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

- Saskatchewan Premier Brad Wall

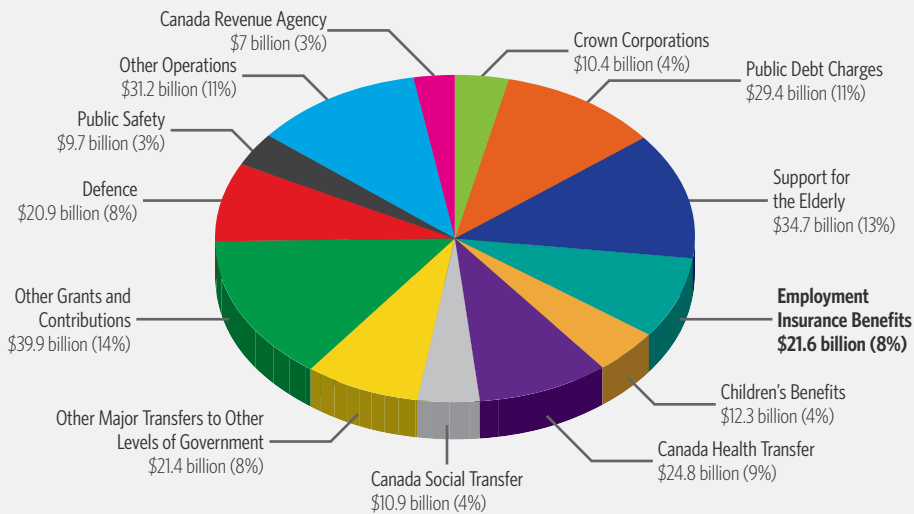
SECTION B

FEATURES OF THE CURRENT SYSTEM

FEATURES OF THE CURRENT SYSTEM

In 2009-10 the EI system was a \$21.6 billion federal program, accounting for approximately eight per cent of all federal expenditures.

FIGURE 9 Major Federal Expenditures, 2009-10



Source: Department of Finance Canada (n.d.)

EI provides temporary financial assistance to recipients while they look for work or upgrade skills after having involuntarily lost a job. EI incorporates some elements of insurance. For example, benefits are available only to people who have contributed to the system.

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 significant risk of death, may also be assisted by EI.

■ EI INCOME SUPPORT BENEFITS¹

There are several types of benefits available to Canadians:

1. Regular Benefits are available to individuals who lose their jobs through no fault of their own (for example, due to a shortage of work, seasonal layoffs, or mass layoffs) and who are available for and able to work, but cannot find a job. Qualification is discussed in greater detail below.

2. 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. Sickness Benefits are for individuals who are unable to work because of sickness, injury, or quarantine.

4. 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 significant risk of death.

5. Employment Benefits and Support Measures (EBSM) are active labour market supports (active employment measures) such as training, but can also encompass income benefits received during a period of training.²

6. Work-Sharing is an adjustment program designed to help employers and employees avoid temporary layoffs when there is a reduction in the normal level of business activity that is beyond the control of the employer. The measure provides income support to employees eligible for EI benefits who work a temporarily reduced work week while their employer recovers.

7. Employment Insurance Fishing Benefits provide support to qualifying, self-employed fishers who are actively seeking work.

Table 1 on the following page details total spending on income benefits through EI, but as discussed further on, EI pays for some benefits that are not income benefits.

¹ The following discussion is adapted from the HRSDC website.

² EBSMs comprise five Employment Benefits: Skills Development, Targeted Wage Subsidies, Self-Employment, Job Creation Partnerships, and Targeted Earnings Supplements. Support Measures include Employment Assistance Services, Labour Market Partnerships, and Research and Innovation.

TABLE 1 Total Income Benefits, 2009-10		
Type of Benefit	Benefits Paid (\$ Million)	Percentage (%)
Regular	14,042.4	72.3
Special		
Parental	2,197.6	11.3
Sickness	1,075.2	5.5
Maternity	924.9	4.8
Compassionate Care	10.5	0.1
EBSM Participants	640.4	3.3
Work-Sharing	294.7	1.5
Fishing	245.1	1.3
Total	19,429.7	100

Source: CEIC, 2011

ACTIVE EMPLOYMENT MEASURES AND TRAINING

EI recipients can also qualify for job training to upgrade their skills and for other employment supports, such as job search assistance. These programs are funded through EI contributions, and delivered by provinces as a result of the Labour Market Development Agreements (LMDAs). These agreements provide for the transfer of EI funds to provinces from the federal government.

The bulk of these measures are only open to those who have qualified for EI, though some support services can be accessed by non-EI recipients. The federal government transfers \$1.95 billion annually to the provinces for active employment measures under the LMDAs.³ These transfers were increased by \$500 million per year in 2009-10 and 2010-11 as part of stimulus spending during the recession.

HOW IS EI FUNDED?

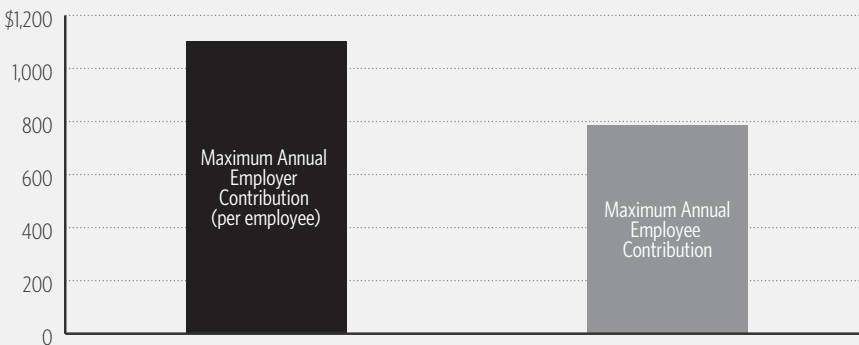
EI is funded by the mandatory contributions of employees and employers. The EI premium rate is the percentage of income that employees contribute

³ The federal government also transfers \$500 million annually from general revenue to the provinces for training for non-EI recipients. These funds are not to be confused with the \$500 million the federal government added for training of EI recipients as part of its stimulus spending in response to the 2008 recession.

to EI. The premium is set yearly by the federal government. In 2009-10, the federal government collected \$16.8 billion in premiums (Department of Finance Canada, n.d.). In the same year, EI benefit payments amounted to over \$20 billion due to increased benefit claims during the recession, leading to an EI account deficit.

As shown in Figure 10, employees currently contribute 1.78 per cent of the first \$44,200 of their yearly earned income (before taxes), amounting to a yearly maximum of \$786.76. The employer contribution to EI is set at 1.4 times the employee percentage. Employers currently contribute 2.49 per cent of each employee's income to EI for the first \$44,200 earned. The yearly maximum employer contribution currently amounts to \$1,101.47 for each employee.

FIGURE 10 Maximum Annual Employer and Employee EI Contributions, 2011



Source: Authors' calculation

Note: Based on a 1.78 per cent employee premium, 2.49 per cent employer premium, and maximum insurable earnings of \$44,200.

HOW ARE BENEFITS STRUCTURED?

Individuals on EI receive 55 per cent of their insurable earnings, which are capped at \$44,200 per year. Therefore, the maximum benefit one can receive is \$468 per week. EI benefits are taxable. The “family supplement” offers a greater percentage of income replacement (up to 80 per cent) for low income families with children.

Following job loss, there is always a two-week waiting period before EI benefits start. EI lasts for between 14 and 45 weeks depending on region and length of work prior to job loss. Due to a pilot project, five weeks of extra benefits are available in 21 regions.

HOW IS EI MANAGED?

The EI system is governed by the 1996 *Employment Insurance Act* and its regulations and subsequent legislation.

The Canada Employment Insurance Financing Board (CEIFB), established in 2008, is mandated to set the EI premium rate each year and to invest and manage any excess EI revenue that would be used to stabilize premium rates over time.

The Canada Employment Insurance Commission (CEIC), which is housed within HRSDC, is charged with managing the EI appeals process, producing the yearly EI *Monitoring and Assessment Reports*, calculating maximum insurable earnings, and making regulations (e.g. establishing temporary changes to the EI system) with the approval of the Governor-in-Council.

The CEIC has four members: the Deputy Minister and Associate Deputy Minister of HRSDC, the Commissioner for Employers, and the Commissioner for Workers. The first two members are charged with representing the interests of government while the latter two are charged with representing the interests of their respective constituencies. The CEIC's mandate could be broadly defined as supporting HRSDC in the management of EI.

In addition, Service Canada is responsible for direct interface with EI applicants and beneficiaries and for collecting information used to determine EI eligibility through employer-submitted records of employment. The Canada Revenue Agency is responsible for collecting EI premiums.

SECTION C

RECOMMENDATIONS

A NATIONALLY STANDARDIZED SUPPORT SYSTEM FOR THE UNEMPLOYED

The Task Force has concluded that Canada requires a nationally standardized support system for the unemployed. The current EI system includes regionally differentiated entrance requirements, benefit levels, and benefit durations. This differentiation is unprincipled and incompatible with the modern Canadian economy. It distributes benefits in an inequitable manner without sufficient justification, while also leaving too many workers with no protection at all.

We believe it is both realistic and necessary to introduce changes so that all workers are treated equitably and so that the program more effectively and efficiently fulfills its role as an essential component of the income security architecture in Canada.

The EI system uses a narrow measurement of an applicant's employment prospects—the local unemployment rate across 58 regions—to determine whether a worker is eligible for benefits, how much he or she will be given, and for how long. The local unemployment rate therefore guides the flow of EI resources.

Under this system, laid off workers with equivalent work histories can be entitled to vastly different benefits—or have no access to benefits at all. When similar workers are offered such varying packages of benefits, the equity, legitimacy, and transparency of the system suffers unless the measures being used to differentiate between recipients are easily defensible. In the case of EI, the measures do not stand up to scrutiny.

The unemployment rate is not an effective mechanism for differentiating between EI recipients when unemployment is rising: “the truth of the matter is that during an economic downturn, it is no easier to find a job in a region with lower prevailing unemployment than in one with higher prevailing unemployment” (Bishop and Burleton, 2009 p.ii). The unemployment rate does not capture the direction of change in unemployment and ignores the relative number of job vacancies (Bishop and Burleton, 2009 p.9).

Additionally, while unemployment rates have historically been strongly correlated with average duration of unemployment, data from the *Labour Force Survey* indicate that this relationship has broken down. In 2010, for example, Ontario had the longest average duration of unemployment in Canada, but its unemployment rate was in the mid-range among Canadian provinces. The

unemployment rate is not in fact a good indicator of employment prospects in Canada's largest province.

There are at least three macro-level indicators that, individually or in combination, would be more successful in gauging employment prospects than the unemployment rate alone: “(1) the seasonally-adjusted change in employment, (2) the job vacancy rate (which is currently not measured in Canada), and (3) the rate of employee turnover, adjusted for unemployment rates” (ibid.).

Beyond these macro-level indicators, individual factors will always be highly relevant. “The local unemployment rate is only one factor affecting how hard it is to find a new job, and likely not the most important factor” (Mendelson et al., 2009 p. 3). An unemployed individual's level and area of education or training, sector of previous employment, range and nature of work experience, individual skill-set (and their transferability), and willingness and ability to move or travel for work significantly influence re-employment prospects.

The current system distributes different benefits to EI applicants based on a narrow and misleading understanding of their job prospects. Macro-level factors are poorly measured and individual factors are ignored.

There are two potential remedies:

1. **Greater differentiation:** more indicators, in addition to the local unemployment rate, could be used to tailor EI benefits to individuals' employment prospects. These indicators could include information about the worker, their sector of previous employment and their past use of and contribution to the EI system.
2. **Eliminate differentiation:** a single set of rules to determine eligibility, benefit size, and duration for all workers across Canada.

The second option represents the simpler, less cumbersome, and more transparent route forward. It would be impossible to efficiently and effectively operationalize the first option. There are too many variables that affect individual employment prospects. Attempting to evaluate personal characteristics while also taking into account local economic conditions would be administratively burdensome and imprecise, leading to renewed—though different—charges of inequity.

The current EI system is designed primarily to act as insurance against temporary unemployment. But a secondary purpose of the design is to redistribute wealth between regions and allow the federal government to play a role in general income support in some parts of the country and for some low income workers.

The federal government has chosen to maintain and sometimes enhance EI policies that perpetuate seasonal work in some regions. In the federal government's view, “EI plays a role in redistributing income in regions with higher unemployment and toward industries in which employment tends to be more seasonal than others” (CEIC, 2006).

The EI system encourages some businesses to maintain a seasonal workforce by allowing some workers to plan for partial-year work. By facilitating “the preservation of a labour pool that substantially exceeds demand...[EI] artificially lowers wage costs for seasonal industries, discouraging their investment in more capital and limiting the incentives to enhance industry productivity” (Drummond and Bishop, 2010 p.10-11). This is not the appropriate role of a system of unemployment insurance.

Several large-scale analyses of Canada’s support system for the unemployed have come to a similar conclusion. The MacDonald Commission, the Forget Commission, and the Newfoundland Royal Commission on Employment and Unemployment each recommended refocusing EI’s mission on responding to unexpected unemployment (Forget, 1986; Royal Commission on Employment and Unemployment–Newfoundland and Labrador, 1986; Royal Commission on the Economic Union and Development Prospects for Canada–MacDonald Commission, 1985). Those reports also recommended a stronger federal role in support for low income workers generally.

The federal government recently expanded its support for low income workers through the creation (in 2007) and subsequent expansion (in 2009) of the Working Income Tax Benefit (WITB). The creation of this benefit was a core recommendation of the Task Force on the Modernization of Income Security for Working Age Adults (MISWAA, 2006). Our report does not focus on this issue, but we note that WITB is a principled national program. We also note that a move toward a more principled, nationally standardized EI program would create space for federal initiatives that support low income workers across the country, such as the expansion of WITB.

National standardization of the EI system would focus the program on helping the unemployed as individuals rather than as residents of regions. This means that our recommendations regarding long-tenured workers, temporary foreign workers, and low income EI recipients with children would apply to workers regardless of where they live in Canada.

EI is Canada’s front-line income security program. However, the ability of the program to serve as a comprehensive bulwark against sudden income losses has diminished over time. There are many reasons why individuals can lose a job and not receive support from EI. Such individuals have no support other than last resort provincial social assistance programs. Once on social assistance, returning to stable employment becomes increasingly difficult.

To accompany national standardization of the EI program, therefore, we also propose that the federal government implement a new, efficient program to provide temporary protection against income loss for those not covered by EI.

National standardization of EI would strengthen the social safety net for most Canadians. It would also strengthen the Canadian economic union, complementing existing intergovernmental efforts and agreements to encourage the flow of goods, services, and people across Canada.

Should the federal government choose to implement our recommendations in a manner that results in reduced access to the program in some regions, it may wish to consider offering time-limited supports to individuals in regions that are negatively affected by the changes and who have relied heavily on EI. In particular, any reduction in benefits during an economic downturn may be ill-advised and the transition to a standard national system may include an extended timeline for transition in communities that are negatively affected.

Given the significant economic shifts that have taken place in Canada over the past decades, the EI system's regionally differentiated approach can no longer be justified. Because the program makes assumptions about the Canadian economy that were accurate in the 1970s but are not accurate today, it has become a source of regional division rather than unity.

RECOMMENDATION 1 INTRODUCE A SINGLE ENTRANCE REQUIREMENT FOR ALL WORKERS ACROSS CANADA

A single national EI entrance requirement should be introduced. While the Task Force does not recommend a specific national entrance requirement, we analyze the cost of three scenarios in Appendix 1. Using the best available information, we cost a single entrance requirement of 420 hours, 560 hours, and 700 hours. These represent a range of options from within the current system. They are intended as reference points.

HOW IT CURRENTLY WORKS

To qualify for EI, workers must have a “qualifying job separation,” meaning they must have lost a job through no fault of their own (e.g. were not terminated with cause or did not quit) and also must have worked for a minimum of 420 to 700 hours prior to losing the job, depending on where they live. New labour market participants or those returning to the labour market are bound by a higher entrance requirement, which is discussed on page 34.

The EI system divides Canada into 58 separate economic regions. The number of hours of work required to qualify for benefits, also known as the Variable Entrance Requirement (VER), changes with the local unemployment rate in each region. The entrance requirement is determined by the average unemployment rate over the past three months. EI economic regions never cross provincial or territorial lines.

The entrance requirements that apply in EI economic regions at different unemployment rates are shown in the current Employment Insurance Entitlement Table, provided in Appendix 3.

The length of time one needs to work in order to qualify for benefits in Canada is low compared to most countries. Even the high end of the Canadian range—700 hours of work, or about 18 weeks of full-time work—is still lower than in 15 other OECD countries (Van Audenrode et al., 2005 p. 17).

RATIONALE FOR CHANGE

The Task Force has concluded that differentiated access to social benefits should only be used when it is evidence-based and necessary. The EI program does not meet these criteria.

As noted above, a fair and equitable system of differentiated benefits that accurately captures one's ability to find a new job would be very difficult to design and administer. Beyond the inherent difficulty of settling on a fair set of criteria for differentiating benefits, such a system would require intensive administration and case management—a feature that the Task Force could not support.

The current system results in inequities between workers that are not based in a defensible policy rationale. Even workers who work together or live in close proximity to one another can be treated differently because some neighbouring EI regions have very different unemployment rates. Two workers with identical work histories who are laid off from the same business at the same time can face different EI entrance requirements. One can receive benefits while the other does not, even if her or his re-employment prospects are roughly identical.

This situation can occur anywhere in Canada, but differences in EI entrance requirements between neighbouring EI economic regions are often strongest between urban and neighbouring regions.

For example, someone who works and lives in Winnipeg currently needs 700 hours to qualify for benefits. Someone who lives just east of Winnipeg and commutes to Winnipeg to work needs only 420 hours. This situation of strongly differentiated EI access requirements occurs in and around many other cities, including Saskatoon, St. John's, and Thunder Bay.

Contemporary patterns of development have drawn people closer to cities. It is not clear why those who commute into urban centres to work should be covered by a more robust safety net than those who work and live in these same urban centres.

These differences in treatment violate Canadians' sense of equality.

Many are concerned with the regionally differentiated EI system operating as a disincentive to labour mobility. But the system's impact on inter-provincial labour mobility does not appear to be very significant (Day and Winer, 2011). Inter-provincial mobility is affected largely by differences in regional economic opportunity (Gauthier, 2011 p.2). However, a nationally standardized

EI system would address any existing barriers to inter-provincial labour mobility caused by the current EI structure.

EI is likely a more significant disincentive to labour mobility within provinces because short-distance moves can have a big impact on benefits. National standardization of EI would address this concern.

There is no principled justification for applying different entrance requirements to different workers. While we recommend that all aspects of the EI system be nationally standardized, a single, national entrance requirement is particularly important to restore fairness and equity to the system.

RECOMMENDATION 2 INTRODUCE A SINGLE NATIONAL BENEFIT DURATION RANGE

The EI system should employ a single national benefit duration range. While the Task Force does not recommend a specific national benefit duration range, we analyze the cost of three potential ranges in Appendix 1. These represent a range of options from within the current system and are intended as reference points.

HOW IT CURRENTLY WORKS

The duration of EI benefits is determined by two factors: how long one worked during the year and the local unemployment rate in one's EI region.

For example, in a region with an unemployment rate of 7 per cent, recipients can qualify for benefits for between 15 and 38 weeks, depending on length of employment prior to being laid off. The fewest number of weeks to which anyone can be entitled is 14; the most is 45, however there is currently a pilot project in place in some regions that extends benefits by five weeks. This is discussed in greater detail below.

Regional differentiation creates significant variation in the duration of EI benefits between workers with equivalent work histories. For example, in a region with 6 per cent unemployment, 700 hours of work will qualify a newly unemployed worker for a maximum of 14 weeks of benefits. In regions with 16 per cent unemployment, 700 hours of work will qualify the same worker for up to 36 weeks of benefits.

While Canada has a low entrance requirement compared to other OECD countries, it also has one of the shortest benefit duration ranges (Van Audenrode et al., 2005 p. 26). In other words, while a relatively short period of work is required to qualify, benefits do not last as long as in many other countries.

This pattern results in frequent and seasonal claimants being generously treated when compared to other OECD countries. It also results in workers with longer work histories having a relatively short period of benefits when compared to their international counterparts.

Current benefit duration ranges available at different unemployment rates are provided in Appendix 3. Note that this standard Entitlement Table does not apply in all cases.

Since 2004, the Extended EI Benefits pilot project has provided five weeks of additional benefits for mostly—but not exclusively—rural EI regions. Currently, 21 EI regions benefit from the 5 week extension.

One result of this pilot project is that the *minimum* number of benefit weeks that EI recipients qualify for in some of the highest unemployment regions is now higher than the *maximum* number of weeks that EI recipients can qualify for in the lowest unemployment regions.

In other words, in some parts of the country a worker who has worked for 420 hours will receive 37 weeks of benefits, while in other parts of the country, a worker who has worked for 30 years will receive 36 weeks of benefits.

The current differences in entitlements between regions are enormous. Canada is the only country amongst its peers that differentiates benefit duration based on region so aggressively (Radmilovic, 2011).

RATIONALE FOR CHANGE

The Task Force questions the rationale behind offering longer EI benefits to workers in regions with higher unemployment rates.

Higher unemployment rates do not necessarily translate into longer durations of unemployment.

In 2010, Ontario had a mid-range unemployment rate amongst Canadian provinces at 8.7 per cent, but its average duration of unemployment was the highest in the country at 20.7 weeks (CANSIM Tables 2820087 and 2820048). Alberta's average duration of unemployment in the same year was remarkably similar to that of Newfoundland and Labrador's (16.4 and 15.6 weeks, respectively) despite vastly different unemployment rates (6.5 per cent in Alberta versus 14.4 per cent in Newfoundland and Labrador).

As discussed on page 26, other measures say more about the difficulty of finding new employment than the unemployment rate. An individual in a low unemployment region with a deteriorating job market almost certainly has worse job prospects than an individual in a high unemployment region with an improving job market.

As also noted on page 26, innumerable personal factors have an important effect on employment prospects, such as a worker’s skill set. For example, a laid off worker in a low unemployment region whose skill set is in low demand as a result of a sector specific downturn could have very poor re-employment prospects.

While the unemployment rate may be a flawed measure for determining the duration of unemployment benefits, no perfect alternative is available. Even with substantial information about recipients, it would be impossible to design a good measure to support a principled and fair distribution of benefits. Absent reliable evidence, governments should treat people equally.

Differences in entitlements between regions can discourage people from moving to find a new job. For example, an unemployed person receiving EI in a region where benefit duration is longer may not choose to move to a region with shorter benefit duration.

Implementation of a national benefit duration range designed to support workers facing unexpected unemployment is necessary to ensure a social safety net that is equally responsive across Canada and an EI system that supports a national labour market.

RECOMMENDATION 3

INTRODUCE A SINGLE NATIONAL WEEKLY BENEFIT FORMULA

There are several different formulas for calculating weekly benefits in the current EI system. The weekly benefit, in plain terms, is the amount one receives from EI each week. There should be a single formula applied across Canada that determines this amount.

HOW IT CURRENTLY WORKS

Many people assume that laid off workers are entitled to the same weekly benefit everywhere in the country (e.g. 55 per cent of prior earnings). In general, laid off workers do receive 55 per cent of their prior earnings from EI, up to a maximum of \$468 per week. This “replacement rate” is comparable to what is available in the United States, though European rates tend to be higher (Van Audenrode et al., 2005).

In practice the EI system employs a fairly complex system of regional differentiation in weekly benefit size that results in different replacement rates for different workers.

Regional differentiation in weekly benefits—the application of rules that can lower or raise replacement rates above or below 55 per cent—applies to laid

off workers who worked for a short period prior to being laid off, or who had inconsistent weekly earnings.

In most regions, EI recipients who worked for a short period prior to being laid off have their weekly benefits decreased. The reduction in benefits for workers with a short work period prior to layoff depends on the local unemployment rate: lower local unemployment rates lead to a lower benefit.

For example, a laid off worker living in a region with 10 per cent unemployment, who made \$10 per hour, and had 700 hours of insured employment over 14 weeks receives \$214 per week. The same employee with the same wage and hours but who lived in a region with 6 per cent unemployment receives \$175 per week (Medow, 2011 p. 10).

These differences in weekly benefits would be on top of the variation in benefit duration discussed previously: the worker receiving \$214 per week could collect EI for 22 weeks, while the worker collecting \$175 per week could only receive EI for 14 weeks.

In addition, workers who had inconsistent weekly earnings or who had a short work period prior to being laid off enjoy higher weekly benefits in some regions as a result of the “best 14 weeks” pilot project, which overrides the system described above to provide higher replacement rates to some workers in some regions.

The purpose of all of these regulations is to encourage workers to accept more work before turning to EI. However, this objective is pursued with incentives in some regions and disincentives in others. The result is significantly different replacement rates for workers with similar or identical work histories.

RATIONALE FOR CHANGE

Workers who live in some regions receive a larger cheque than workers who live in other regions, even if they have identical work histories.

Unequal treatment needs to be justified by a very well articulated rationale. In this instance, the differences in treatment of workers have evolved over time due to ad hoc and short-term adjustments. There is no rationale for treating similar workers so differently.

Applying different methods of encouraging work amongst different groups of workers—some getting a carrot and some getting a stick—violates basic principles of fairness and transparency. All unemployed workers should be subject to the same benefit calculation formula.

RECOMMENDATION 4 ELIMINATE THE HIGHER ENTRANCE REQUIREMENT FOR NEW ENTRANTS AND RE-ENTRANTS TO THE WORKFORCE

The New Entrants and Returning Entrants (NERE) regulation stipulates that new and returning entrants to the labour market face a higher entrance requirement of 910 hours in order to qualify for benefits. The NERE regulation should be eliminated.

HOW IT CURRENTLY WORKS

New and returning entrants to the labour market must work 910 hours prior to losing a job to qualify for EI. New and returning entrants typically have not worked in Canada in the past two years.⁴

Other workers who have been in the labour market longer than two years must have worked between 420 hours and 700 hours depending on the regional unemployment rate. New and returning entrants to the labour market thus face a higher bar for qualifying for EI benefits. In some regions, their bar is more than twice as high.

The only exception to this rule is for individuals entering the labour market who have received maternity or parental benefits in the past four years. These individuals are exempted from the higher entrance requirement for new and returning entrants.

The NERE regulation is designed to ensure that workers who have not made significant contributions to the program cannot collect benefits. New immigrants and young workers are disproportionately affected.

RATIONALE FOR CHANGE

A nationally standardized EI system would treat all workers equitably. Treating a small category of workers differently—particularly new immigrants and youth—lacks a rationale and penalizes some of Canada's most vulnerable workers.

Unemployment rates among new immigrants and younger workers are consistently higher than the national average. This problem has worsened substantially since the onset of recession in 2008.

In 2010, the national unemployment rate was 8.0 per cent. Youth unemployment (aged 18 to 24) was 14.8 per cent. Unemployment among immigrants

⁴ New entrants and returning entrants are individuals who have worked less than 490 insurable hours in the 52 week period prior to the year in which the job was lost. This includes workers who have never worked in Canada.

who have landed in the past five years was 15.8 per cent (CANSIM Tables 2820102 and 1095324).

As a foundational national program, the EI system should employ one entrance requirement for all laid off workers that applies at all times and that is transparent to the public. Immigrants, younger workers, and those returning to the labour force should face the same entrance requirement as other workers.

Supporters of a higher entrance requirement for new entrants to the labour market have traditionally argued that a higher barrier was necessary to encourage labour market attachment among young workers.

A folklore emerged in the 1970s that many young people were choosing to work short periods and then collect unemployment insurance benefits as a way of life. There may have been some empirical foundation to this thinking.

However, since 1993, individuals who voluntarily quit their jobs cannot generally access EI benefits. It is not as easy to game access to the EI system today (and it is impossible to do so without employer complicity).

New Canadians and others have a more difficult time accessing benefits because of rules put in place to discourage behaviour that was precluded by changes to the EI system in 1993. There is no longer any evidence-based rationale for making it more difficult for new or returning entrants to access benefits if they involuntarily lose their job.

RECOMMENDATION 5 CREATE A NEW SYSTEM OF TEMPORARY UNEMPLOYMENT ASSISTANCE OUTSIDE THE EI PROGRAM

We propose the creation of a Temporary Unemployment Assistance (TUA) benefit. TUA would represent a foundational change in the architecture of Canada's income security system for working-age adults (Mendelson and Battle, 2011). It would function as an intermediary program between EI and social assistance and provide time-limited and flexible income support. It would be structured as a forgivable "jobseeker's loan" with repayment contingent upon income reported through the tax system.

TUA would be payable to recipients as a flat weekly benefit, and would be available to individuals in a timely manner for a set number of months within an eligibility period of a set number of years (for example, six months every five years). It could be accessed several times for shorter periods, so long as the entitlement had not been exhausted.

If a person uses her or his full entitlement, the entitlement would only be renewed after the eligibility period passes. Eligibility for the benefit could also be renewed sooner through repayment.

Individuals would be able to choose when they want to take the benefit. TUA would have no up-front income test and no asset test, distinguishing it from provincial social assistance. It would also be different from most tax-delivered benefits, such as the Working Income Tax Benefit and National Child Benefit, which normally employ tests of income from the previous tax year.

The absence of up-front income and asset tests would make TUA a nimble and easily-deployed income support: individuals could simply request TUA and then receive assistance. At the same time, there would be built-in safeguards against misuse and gaming. Full-time students would be excluded from eligibility, as would social assistance recipients. The same job-search requirements applied to EI beneficiaries (with minor modifications) would also be applied to TUA beneficiaries.

Since TUA incorporates elements of a loan, the potential for misuse is limited for the following reasons:

1. The repayment requirements would discourage those who do not really need it from taking up benefits, because higher incomes result in higher repayment.
2. TUA would encourage repayment because repayment leads to renewed eligibility.
3. TUA is only available for a limited period of time, so it could not create long-term dependence.

Repayment of TUA is income contingent:

1. Those who continue to have no or very low earnings will not have to repay.
2. Those who re-gain stable earnings will have to repay a portion of the benefit they receive.
3. Those with higher earnings will have to repay the benefit in full.

Repayment would be organized through the tax system, with the repayment amount processed like a tax bill owing. TUA recipients could also choose to repay more of their benefit than required in order to recover TUA eligibility more quickly.

The flexibility of the system's repayment provisions facilitates cost recovery and would not discourage recipients from finding work. The proposal is designed to avoid very aggressive repayment obligations that could provide disincentives to taking new work.

In some respects, the TUA design incorporates elements of an "individualized account." It gives individuals set entitlements that they can access as they see fit within an entitlement and repayment framework that emphasizes personal responsibility. The benefit amount, duration of eligibility, and repayment schedule could be adjusted according to economic conditions or government preference.

EXAMPLE OF TUA

Mendelson and Battle (2011) propose that TUA benefits be set in relation to the minimum wage (they propose TUA be set at about 90 per cent of the minimum wage). We experimented with different parameters for TUA, including benefit levels ranging from 70 to 90 per cent of minimum wage, as well as benefit levels derived from the Market Basket Measure, a Statistics Canada definition of income adequacy based on the price of a “basket” of necessary goods.

For illustration purposes, we present results of a model that set TUA at 75 per cent of the minimum wage, available for a maximum of six months out of every five years. Using Ontario to illustrate this example, a federal TUA would provide \$288 per week, available for as long as six months in each five-year period. This would mean a maximum TUA benefit of \$7,488 in each five-year period.

As noted, the amount of assistance is partially or fully repayable based on reported annual income during the year in which TUA was received.

In this example, TUA recipients with incomes less than the basic federal personal amount (\$10,382 in 2010) would not be required to repay the benefit. Repayment begins after this income threshold is crossed. The repayable amount increases as income goes up. Full repayment is required at \$64,579. Repayment is conditional on earnings in the year in which TUA is received. This proposed repayment structure is discussed in greater detail on page 87.

A government wishing to strengthen the loan elements of TUA could establish a more aggressive repayment schedule. Likewise, a government wishing to strengthen the individualized account aspect of TUA could add more flexibility to the design.

The program parameters in the example we present are for the purpose of illustrating the TUA design, broadly proposed. This is not a proposed benefit level. Identifying the appropriate benefit level for TUA would require more empirical work than we have undertaken. The benefit level would have to be tested against the program’s policy objectives, definitions of income adequacy, government priorities, fiscal constraints, and interaction with other programs such as provincial social assistance. We note in particular that social assistance programs are currently under review and being redesigned in a number of provinces.

HOW IT CURRENTLY WORKS

Canada has two primary income security programs for working-age adults without employment: EI and social assistance. EI is delivered by the federal government and social assistance is delivered by provincial governments, sometimes in partnership with municipal governments.

These are profoundly different programs.

EI and social assistance target very different populations. EI is an earnings replacement program for those who have recently lost stable employment. It

is not means-tested. Recipients do not have to divest personal assets in order to access benefits. EI is not designed to provide benefits based on need. It provides contributors with support during unemployment due to layoff.

In contrast to EI, social assistance is a general revenue-funded program of last resort for those in need. It is aggressively means-tested (Stapleton, 2011). In order to qualify for social assistance, a person or family must have little-to-no income and must have depleted most of their assets. In Ontario, for example, an individual applicant can have no more than \$592 in assets to qualify for social assistance. As a result, the program is difficult to access and provides benefits that are very low (e.g. less than \$600 per month for a single recipient).

It is fairly uncommon for EI recipients to eventually migrate to social assistance (Finnie et al., 2011). Nonetheless, there are many cases in which unemployed individuals in need of income assistance do not qualify for either program. For example, social assistance is not available to temporarily unemployed persons who have other small sources of income or low assets that nonetheless exceed allowable limits. No system of temporary income support exists for these individuals.

When EI and social assistance do interact it is often in ways that are unhelpful to beneficiaries and lack policy rationale.

Those who have lost their job and are in the process of qualifying for EI benefits must wait two weeks before collecting benefits. The two-week waiting period is intended to discourage unnecessary use of the EI system. The waiting period saves the system money and is not a particular hardship for people who have the capacity to self-insure or who find a job quickly.

However, the two-week waiting period is a source of hardship to many of the most vulnerable unemployed workers who cannot afford to wait two weeks for payment. The two-week waiting period is also a source of unnecessary intergovernmental entanglement.

During the two-week waiting period, individuals who qualify for EI but need money urgently can turn to provincial social assistance. But once their EI benefits begin, the social assistance is recovered from the individual and repaid to provincial governments.

In other words, some individuals who qualify for EI are diverted into last resort welfare programs operated by the provinces. As a result, many of the most vulnerable EI recipients are spending their first days or weeks of unemployment shuffling between government offices and compiling documentation of income, assets, and family structure to attain assistance rather than beginning the search for new employment (Mowat Centre EI Task Force, 2010b p. 28).

Individuals who qualify for very low EI benefits can also turn to the social assistance system to have their EI benefits topped up to reach social assistance benefit levels.

TUA would be a more effective and efficient mechanism to top up benefits or support low income workers during the two-week waiting period.

TUA would also provide some security to employed individuals who have experienced a loss of income. Multiple job-holders who lose one part-time job are an example. Currently, “workers who suffer significant reductions in hours worked without being laid off are typically not eligible [for EI benefits] despite the fact that the reductions may be involuntary and the need for income insurance great” (Boadway and Garon, 2011 p. 24).

RATIONALE FOR CHANGE

EI is not a comprehensive system that provides income support for all Canadians facing income shocks. It is an insurance-based earnings-replacement program designed to provide benefits to contributors who lose jobs through no fault of their own. However, a significant and increasing number of unemployed workers did not contribute to EI recently, and therefore have no chance of qualifying for benefits.

Some may apply for social assistance. As a program of last resort, social assistance in most provinces requires applicants to have almost no income and to deplete most of their assets before qualifying for benefits, which can make it difficult for individuals to return to self-sufficiency (Commission for the Review of Social Assistance in Ontario, 2011; Drummond and Manning, 2005; MISWAA, 2006).

In response to this, many advocates have suggested that either EI entrance requirements be lowered to allow more workers to qualify or that social assistance programs be made more accessible and/or generous.

The Task Force did not consider changes to social assistance. TUA could be modified based on eventual changes to provincial social assistance or other broad changes to the income security architecture in provinces. Ontario, for example, has undertaken a comprehensive review of its social assistance system.

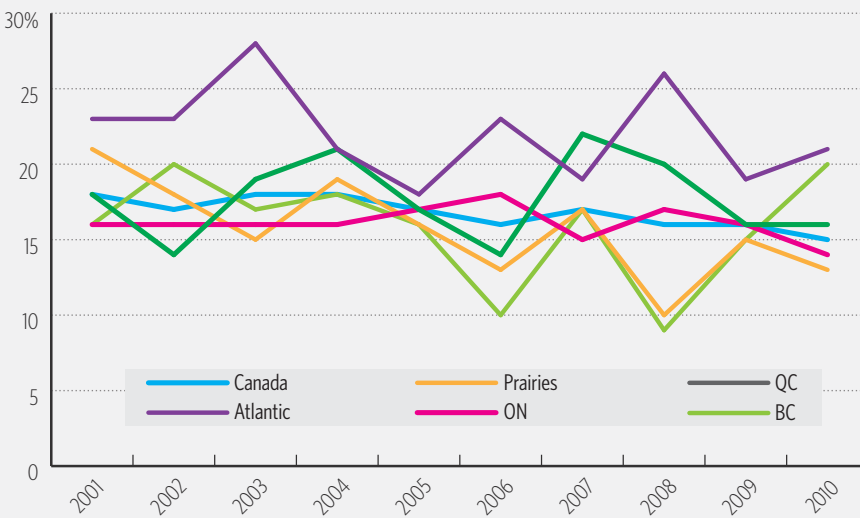
Lowering entrance requirements would do little to assist the majority of the unemployed who are currently not covered by the system. In addition, giving workers such as the self-employed or those with no recent labour force attachment access to benefits would violate the insurance aspects of the EI system.

TUA would provide income support to self-employed individuals, EI exhaustees, and others who do not qualify for EI for other reasons. Particularly for the self-employed, TUA would provide a modest safety net that currently does not exist. It could also be accessible to part-time workers and multiple job holders who lose one or more of their jobs. Given the erosion “of the traditional career ladder” within firms and an increase in temporary and part-time work for multiple employers (Zizys, 2011), TUA has a crucial role to play in delivering

income security in today’s labour market for those workers who currently slip through Canada’s social safety net.

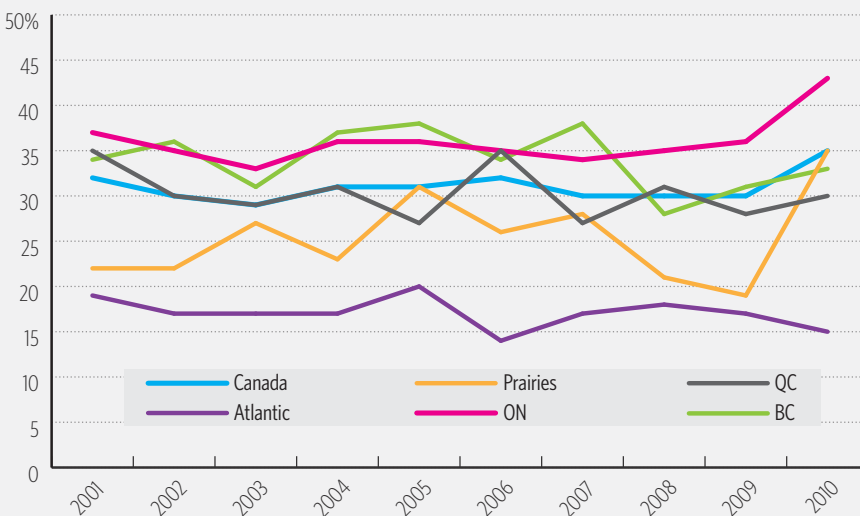
Individuals in need of immediate cash assistance during the two-week waiting period or while their applications are being processed would also be able to collect TUA instead of applying for social assistance.

FIGURE 11 Percentage of the Unemployed Not Receiving EI Benefits Who Could Potentially Benefit from a Lower EI Entrance Requirement, Regions 2001-10



Source: Employment Insurance Coverage Survey 2001-10

FIGURE 12 Non-Contributors as a Percentage of the Unemployed, Regions 2001-10



Source: Employment Insurance Coverage Survey 2001-2010

TUA could also top up EI for individuals who, due to low earnings, qualify for very low EI benefits. Again, this would preclude such individuals from turning to social assistance for this purpose.

One potential objection to this recommendation is that the federal government should simply expand access to EI benefits rather than create a separate, new program. For instance, many have called for lowering the entrance requirement to 360 hours and for covering the self-employed in the system of regular benefits.

Based on extensive analysis, the Task Force has concluded that lowering the entrance requirement would not significantly increase the number of unemployed individuals qualifying for benefits.

As shown in Figure 11, only about 15 per cent of the unemployed not receiving EI in Canada could potentially benefit from lowering the entrance requirement, and the number of hours would have to be lowered to virtually zero in order to capture all of these people. Any realistic reduction in entrance requirement (say to 360 hours) would only help a small portion of this 15 per cent.

Note also that these new beneficiaries would be more likely to live in EI regions that already benefit most from the system (14 per cent in Ontario and 21 per cent in Atlantic Canada, for example, could conceivably benefit from lower entrance requirements).

Other research confirms our findings. Jill Black and Richard Shillington, in their research for the Task Force on Modernizing Income Security for Working-Age Adults, demonstrated that a lower entrance requirement would assist very few unemployed workers in Ontario (Black and Shillington, 2005).

Lowering entrance requirements would further erode the connection between what one pays into the system and what one gets out (Mendelson and Battle, 2011). It would also increase seasonal EI use. TUA has the potential to benefit far more unemployed individuals while also preserving, rather than eroding, the insurance character of the EI system.

Figure 12 shows that many unemployed workers who do not currently receive EI benefits have not contributed to the program within the past year. In 2010, 43 per cent of the unemployed in Ontario—a dramatically higher percentage than any other province—had made no recent contributions to EI. This means that no changes to EI entry provisions could benefit these individuals.

A small portion of Ontario's 43 per cent of non-contributors could benefit from including the self-employed in the regular benefits component of the program. But, including self-employed individuals in regular benefits would be problematic because of the difficulty in defining what constitutes "unemployment" for self-employed workers:

Attempting to include a group whose employment status is so nebulous is an invitation to mismanagement, rapidly escalating costs and abuse of the Employment Insurance program. It would also necessitate doing

away with the requirement that unemployment be involuntary on the part of the employee in order to qualify for Employment Insurance. It is our view, therefore, that there is no mechanism to include the self-employed in Employment Insurance without undermining the whole program (Mendelson and Battle, 2011 p. 11).

EI cannot be reasonably amended to cover non-contributors and retain its insurance characteristics. This is why EI is just one component of the overall income security framework and why “other robust ‘safety nets’ are additionally required” (Bishop and Burleton, 2009 p. 7).

WHO WOULD TUA HELP?

Those with too few hours

TUA could assist laid off workers who cannot accumulate sufficient hours to qualify for EI benefits.

New entrants

TUA could provide temporary income to new labour force entrants (e.g. young workers, new immigrants) in need of assistance while looking for work, but who do not qualify or do not wish to apply for social assistance.

The self-employed

TUA would represent a new, previously unavailable form of income support for the self-employed. Comparable to EI, it would replace weekly earnings. The self-employed could rely on TUA until other work is secured or use TUA to smooth income over periods of lower earnings.

Part-time workers and multiple job holders

TUA could be accessed during periods of low income or upon the loss of one part-time job. These workers could stop receiving TUA once another job is found or use the income support while seeking better employment. It may prevent some from resorting to social assistance.

EI exhaustees

TUA could extend assistance while these individuals continue looking for new work. This could include those who experience seasonal layoffs.

EI recipients who cannot wait two weeks for benefits

Those experiencing financial hardship during the EI system’s two-week waiting period or during processing delays could access TUA instead of social assistance.

Those with low EI benefits

Those who are entitled to very low EI benefits and might currently turn to social assistance for top-ups could receive a top-up from TUA instead without the means-testing and administration associated with social assistance.

WHY TUA?

Structural changes in Canada's labour market began in the 1970s and accelerated in the early 1990s. As a result, the traditional postwar work experience (job security, single employer, gradual increases in pay over a lifetime) is not as common. Instead, labour markets have shifted toward a new world of work in which increasing numbers of workers face career paths that are less predictable and require a more flexible and advanced set of skills to succeed. They also need a more flexible set of social benefits.

The EI program was reformed in 1996, making it more difficult to qualify, particularly for new and re-entrants to the labour force. The irony of the EI reforms was that, just as many workers' relationship with the labour market was becoming more complex, the EI system institutionalized policies that catered to a traditional work model. Today, a person who works full time for a single employer is reasonably well served by the EI system should they experience a lay off.

However, the worker who is underemployed, holds multiple part-time jobs, or who has un-insurable employment is not well served by the EI system. Neither is the worker who has exhausted EI benefits and whose industry has disappeared, nor the worker who has just entered the labour market either from school or from another country. These workers are key components of Canada's labour force.

Expanding the existing EI system would not assist many workers who are currently outside the EI umbrella. It would devote substantial yet increasingly scarce resources toward providing benefits to workers who are already reasonably well protected by the system, rather than to those who are currently shut out of the system entirely. Attempts to simply broaden EI eligibility would also lead to an erosion of the insurance principles on which EI is based.

The answer to the problem of those who cannot access EI, therefore, lies in the creation of a new program that is explicitly targeted at these workers. Similar to EI, TUA would provide time-limited, weekly benefit payments.

There would be no asset test and no income test up front, making assistance easy to access and un-intrusive. It would be funded out of general revenues, would be flexible, and would fill a number of holes in Canada's income security for working age adults—without huge cost.

The cost of the TUA example presented in this section is estimated at about \$900 million per year (see page 87 for cost estimate).

For those workers with higher overall earnings, a substantial portion or all of their TUA benefit would be repayable.

RECOMMENDATION 6 TEST WAGE INSURANCE FOR LONG- TENURED WORKERS AND ELIMINATE PROVISIONS WHEREBY SEVERANCE PAY CAN DISPLACE EI BENEFITS

In order to treat long-tenured workers more fairly, the Task Force recommends the following:

1. Develop a pilot project to test wage insurance, and, if successful, implement it nationally to support unemployed long-tenured workers as they return to work.
2. Eliminate the 104-week maximum period for which workers can receive EI benefits and severance pay.

HOW IT CURRENTLY WORKS

In general, the EI system does not offer enhanced benefits to workers based on a longer history of working and contributing to the program, other than some small EI-funded training initiatives. The EI benefit formula is normally based on the most recent six months of work history. A worker who contributed for 30 years is eligible for the same benefits as a worker who contributed for one.

The system's treatment of severance pay as earnings can also cause long-tenured workers to have their EI benefits reduced or eliminated. Currently, laid off workers can receive severance and EI for a combined maximum of 104 weeks, including the two-week waiting period. Weeks of severance are payable first and are calculated by dividing total severance by past average weekly wage.

The program extends the EI payment period to a maximum of 104 weeks to accommodate severance pay. If the weeks of severance pay plus the waiting period plus the EI benefit period exceed 104 weeks, the EI benefit duration will be cut short. A worker who receives a large severance package that is equivalent to 102 weeks' pay would have her or his EI benefit eliminated altogether.

The longest tenured workers are the most likely to be affected by these regulations, as larger severance packages generally accrue following longer periods of employment.

RATIONALE FOR CHANGE

The current system was not designed for structural downturns. Workers who have paid EI premiums over their lifetime and are facing what can be described

as a catastrophic job loss do not have access to benefits commensurate with their contributions to the program.

EI benefits are normally determined by very recent work history (i.e. six months prior to lay off). Loss of a long-term job can involve lower chances of attaining a new job at an equivalent wage quickly (Jones, 2011; Riddell, 2011). The insurance component of EI does not adequately consider the magnitude of contributions from long-tenured workers.

The EI system could simply look at more than one year of work history to calculate a longer benefit duration for longer-tenured laid off workers. This approach would better recognize their length of contribution.

However, basing EI benefit duration on non-recent work history would represent a fundamental change to the current approach to benefit entitlement and would cause a significant redistribution in EI resources away from those with shorter work tenure (e.g. young workers, recent immigrants) to those with longer tenure (e.g. older workers with established labour force attachment). A prolonged benefit duration could also have a negative influence on incentives to find new work.

Typically, the most significant impact of a lay off on a long-tenured worker is lower pay in a new job (rather than a longer period of unemployment). Extending benefits for a longer period does not address this issue.

It is also worth noting that providing a significant number of additional weeks of benefits to those with longer tenure would entail substantial additional program costs.

WAGE INSURANCE

Wage insurance is intended to help long-tenured workers transition from long-term, stable employment to new jobs. The federal government's 2008 Expert Panel on Older Workers recommended its implementation. The broad parameters of wage insurance are permissible through the *Employment Insurance Act's* provisions for targeted wage subsidies.

Wage insurance addresses economic losses suffered by long-tenured workers that cannot be mitigated by an EI benefit extension. "Enhanced EI benefits do not help insure against the most significant income loss associated with job loss among long-tenured workers—the lower earnings" from a new job (Riddell, 2011, p. 23). Long-tenured workers who become unemployed find it difficult to secure stable, long-term employment at their previous wages after collecting EI (Finnie et al., 2011).

Wage insurance would offer a time-limited wage top-up to laid off long-tenured workers who accept lower paid jobs. It would come out of the EI account and be used by workers to supplement their new salary. It is expected that wage insurance will encourage these workers to return to paid employment more quickly.

Most training programs that strive to increase the post-layoff wages of long-tenured workers have had poor results (Jones, 2011). Though efforts to develop new and better approaches to training for laid off long-tenured workers should continue, wage insurance should be instituted to provide direct monetary support to such workers who take on new employment at lower wages. Wage insurance would support career transitions. Starting a new career often implies reduced wages.

The Expert Panel on Older Workers recommended that this policy be tested with a pilot project funded through the EI account. This would allow experimentation with design and better anticipation of possible negative influences on labour market behaviour. For example, wage insurance could lead to shortened job searches and encourage workers to take jobs that may not best utilize their skills (Jones, 2009 p. 504; Jackson, 2011).

Numerous design questions would have to be answered as well (e.g. Who qualifies as a long-tenured worker? How long should wage insurance last? How large should wage insurance top-ups be?) The Expert Panel made some preliminary suggestions. The Panel's guidelines could be used as a starting point in the design of the pilot project.

TREATMENT OF SEVERANCE PAY

By cutting short the benefit period, the EI system penalizes the longest tenured workers who have significant earnings loss and who have likely contributed to the program for a lengthy period. This runs contrary to the general functioning of an insurance system. This problem can be rectified by eliminating the 104-week maximum on combined receipt of severance and EI.

There have been proposals that EI benefits be paid immediately to laid off workers who are also receiving severance pay. Such a proposal would be quite costly and would also cause EI benefits to flow to individuals who are receiving compensation for their loss of employment. Our recommendation to eliminate the 104-week cap will ensure that EI benefits are never displaced by severance pay while also ensuring that severance pay is used before EI is accessed.

RECOMMENDATION 7 MODIFY BENEFITS IN RESPONSE TO ECONOMIC CONDITIONS (E.G. EXPAND WORK-SHARING DURING RECESSIONS)

A nationally standardized system does not imply a static system. The Task Force recommends that while maintaining national uniformity, the federal government use EI to respond to the business cycle, particularly during recessionary periods. In particular, we recommend the expansion of work-sharing arrangements.

In addition, the recently established Canada Employment Insurance Financing Board (CEIFB) should be empowered to recommend such measures within EI to respond to changing economic conditions (the roles and responsibilities of the CEIFB will be discussed in the Changes to Financing and Management section).

HOW IT CURRENTLY WORKS

The current system reacts automatically to economic changes. For example, when the unemployment rate increases in a region, workers in that region need fewer hours of work to qualify for benefits, and they can receive those benefits for a longer period of time.

During the most recent recession, the federal government also introduced changes to the EI system that went beyond its current, built-in responses. Work-sharing arrangements were expanded on a national basis. All EI recipients received a five week benefit extension. The Targeted Initiative for Older Workers expanded training funding for displaced older workers in smaller, high-unemployment communities. And laid off workers who qualified as “long-tenured” could receive up to 20 weeks of extra benefits (Service Canada, n.d.b).

RATIONALE FOR CHANGE

During a recession like the one that occurred in 2008, jobs are lost in high- and low-unemployment regions alike. More people are unemployed for longer periods across the country.

It may be important that the parameters of EI adjust with economic change, but doing so within 58 regions in response to micro-changes in the unemployment rate results in unfairness and incoherence.

There are different ways of responding. Lowering the entry requirements across the country is one option but, as discussed elsewhere, the difference between the highest entry requirements and the lowest is not large. As a result, plausible adjustments to entry requirements would affect few of the unemployed.

Extending the duration of benefits may make more sense. Recessions can prolong the duration of unemployment, with workers experiencing spells that extend beyond typical EI benefit durations (Drummond, 2010 p. 10).

There are other options as well.

When the most recent recession began, the federal government expanded work-sharing arrangements. Work-sharing helps workers stay in their jobs by “avoiding a temporary layoff of employees. It does so by spreading the work

reduction across all the employees in the work unit rather than laying off a portion of the unit” (HRSDC Strategic Policy and Research, 2009b p. 1).

Work-sharing is contingent on employer and employee agreement. Wages of the participating workers are supplemented by EI benefits. In 2009, work-sharing arrangements were extended by 14 weeks to a maximum of 52 weeks and greater flexibility was introduced in qualifying criteria.

There were 67,770 new workers in the work-sharing program in 2008-09. The result was 20,128 layoffs averted or postponed.

Work-sharing serves as a pre-emptive measure against unemployment rather than as simply a response to unemployment. It is good for employers and employees, and is also cost-effective for the EI account. The 20,128 layoffs that were averted would have cost the EI account more than the amount spent through work-sharing. There is every reason to replicate and expand on this success. “The government deserves credit for greatly expanding work sharing under EI” (Schetagne and Jackson, 2010 p. 7).

The German federal program, *Kurzarbeit*, is the largest work-sharing program in the world. The program included 64,000 workplaces and 1.5 million workers at the peak of the recession in mid-2009. During the recession, the decrease in German GDP was roughly equivalent to GDP decreases in other industrialized countries, but unemployment did not increase as much (Crimmann et al., 2010 p. iii).

There is clear scope for expansion of work-sharing in Canada as a response to economic turmoil.

With a nationally standardized EI system replacing the current 58 regions with their automatically-shifting entrance requirements and benefit durations, the federal government will have far more control over the program’s response to recessions. This will give the federal government the freedom to craft a consistent national response to recessions that pulls the right levers for the right circumstances, perhaps emphasizing work-sharing or benefit duration extensions rather than changes to entrance requirements.

Accordingly, we also recommend that the CEIFB be given the authority to propose modifications to the EI system, especially in response to a change in economic conditions (see page 71).

RECOMMENDATION 8 ESTABLISH A TRANSPARENT PROCESS FOR TESTING CHANGES TO THE EI PROGRAM

EI pilot projects are supposed to provide an “opportunity and time to test proposed improvements to the Employment Insurance Program prior to

considering a legislative change and national application” (HRSDC Strategic Policy and Research, 2009a p. 1).

However, many EI pilot projects have become vehicles for enhancing regional inequities in the system and targeting income support to particular groups for long periods, without explicit rationale and without legislative change. The EI pilot project system should be reformed so that these projects fulfill their intended purpose: to test policy changes intended for national application.

Pilot projects should be transparent, fair, and based on up-to-date metrics. In general, a wide range of regions across Canada should be selected in order to gain an understanding of how policy changes would play out in a variety of local contexts.

The objectives of the projects should be articulated and evaluation criteria should be published at the outset of a project and used to determine the impact of the experiment and whether changes should be applied nationally. Strict timelines should be set and adhered to.

At the conclusion of each project, the federal government should quickly and transparently report on the results and decide whether to apply the policy nationally or abandon it.

HOW IT CURRENTLY WORKS

EI pilot projects are generally used to target enhanced benefits to regions with significant seasonal labour markets and to provide support for seasonal industries.

For example, the 1996 *Employment Insurance Act* establishes a system of minimum divisors designed to lower the EI benefits of short-tenured workers. The “best 14 weeks” pilot project, however, overrides the minimum divisor system and raises benefits for short-tenured workers in selected regions. This particular pilot project has been in effect for seven years, with no indication that it will ever end or be rolled out nationally.

RATIONALE FOR CHANGE

EI pilot projects should be used to test policy changes truly intended for national application.

Currently, EI pilot projects tend to be applied disproportionately in rural areas with high rates of unemployment. If these pilot projects were truly testing policy changes intended for national application, they would be applied in a wide variety of regions in order to gauge potential outcomes of national application.

In some cases, pilot projects have instituted de facto longer term changes to the EI system in ways that contradict the *Employment Insurance Act* itself, but only in some regions. The operation of some of the EI pilot projects for extended periods appears to contradict the intentions of Parliament as outlined in the Act.

Regardless of the merit of EI pilot projects, setting time limits on such projects is especially important if they include changes that are different from or contradict the intentions of existing legislation.

The Task Force’s recommendations on financing and management presents a new mechanism for the proposal of EI pilot projects (see page 71).

RECOMMENDATION 9 TREAT TEMPORARY FOREIGN WORKERS FAIRLY

Temporary foreign workers are becoming a more common feature of the Canadian workforce. Temporary foreign workers should either be eligible for the full range of EI benefits or should not have to pay premiums for benefits that they cannot access. Given that many temporary foreign workers are staying in Canada for longer periods of time, the full inclusion and equal treatment of temporary foreign workers is likely the best route forward.

HOW IT CURRENTLY WORKS

Foreign workers on closed work permits—those that stipulate a specific employer, occupation, and/or location—are generally interpreted by the EI system as being unavailable for work in Canada when they lose a job. As a result, they are ineligible for regular benefits (Pal and Choudhry, 2011).

MacLaren and Lapointe estimate that in 2008, Canada’s temporary foreign workers contributed \$126.6 million in EI premiums. Though these temporary foreign workers currently pay full EI premiums, they are usually only eligible to qualify for special benefits, not regular benefits (MacLaren and Lapointe, 2009 p. 3).

However, the extent to which temporary foreign workers are eligible for benefits is unclear. There is anecdotal evidence of inconsistent treatment of these workers across Canada.

Recently in Alberta some unemployed temporary foreign workers have qualified for EI. Elsewhere, EI officers continue to deny these workers benefits based on their interpretation of the existing guidelines. The guidelines with respect to this group are unclear. HRSDC has indicated they are “currently under review” (Nakache and Kinoshita, 2010 p. 20).

RATIONALE FOR CHANGE

Part of the rationale for making EI into a principled, nationally standardized system is to ensure that the system is fair to its contributors. By collecting premiums from workers who have little chance of accessing most benefits, the current system contravenes both basic insurance principles and principles of fairness.

“The formal eligibility but informal exclusion of most temporary foreign workers requires vulnerable workers to pay into EI without being insured against job loss” (Pal and Choudhry, 2011 p. 31). Foreign workers on closed work permits should not be paying to support a system of insurance from which they cannot benefit.

The federal government could pursue one of two routes to redress this inequity. Temporary foreign workers should clearly be made either eligible or ineligible for regular benefits. If these workers are deemed to be ineligible, then the premiums they contribute to the system should be lowered to reflect the limited nature of their EI coverage (i.e. only special benefits).

However, given that temporary foreign workers are a growing portion of the Canadian workforce, full inclusion in the EI system is likely the best route forward. If this population continues to take on characteristics of landed immigrants holding successive jobs in Canada, they should have the same access to the EI system enjoyed by other workers.

Information barriers are also a crucial issue to overcome in order to create fairness in the system. The federal government should ensure that newly arrived temporary foreign workers in Canada are fully informed of the aspects of the EI system to which they are entitled.

RECOMMENDATION 10

MODIFY THE LOW INCOME FAMILY SUPPLEMENT TO TRACK GROWTH IN MAXIMUM INSURABLE EARNINGS

The low income family supplement cutoff should increase at the same rate as maximum insurable earnings. Further, the current supplement should be adjusted retroactively to match increases in maximum insurable earnings since 1996.

HOW IT CURRENTLY WORKS

Families with net incomes of \$25,921 per year or less are eligible for higher EI benefits. Under the supplement, recipients with children can have their re-

placement rates increased to up to 80 per cent from the standard 55 per cent, as long as the benefit amount does not exceed the weekly maximum.

To qualify, recipients must have a family income below \$25,921, and one adult in the family must be receiving the Canada Child Tax Benefit. The \$25,921 cutoff for qualification has not changed since 1996.

In 2009-10, 5.6 per cent of EI beneficiaries received the supplement and its total cost was \$143 million. The supplement benefited 9.8 per cent of female beneficiaries (91,800 female claimants received a total of \$113 million in additional benefits) and 2.3 per cent of male EI recipients (28,490 male claimants received \$30 million in additional benefits).

RATIONALE FOR CHANGE

EI maximum insurable earnings have increased with average wages since 2007. The low income family supplement cutoff has not kept pace. Access to the supplement is lower today than it was in 1996. Had the low income family supplement cutoff increased in tandem with the maximum insurable earnings, it would be over \$29,000 today instead of \$25,921.

Increasing the low income family supplement cutoff would be inexpensive and would significantly help low income families receiving EI and could prevent some from turning to provincial social assistance for top-ups to their EI entitlements.

If the EI maximum insurable earnings continues to track wage growth, there is no rationale justifying why the low income family supplement threshold should not move in step.

RECOMMENDATION 11 TRANSITION THE DELIVERY OF BENEFITS FOR SELF-EMPLOYED FISHERS OUT OF EI

Self-employed fishers who have received benefits should remain eligible for them. However, new self-employed fishers should not enter the system; governments should examine whether or not to deliver benefits outside of EI to these new self-employed individuals.

HOW IT CURRENTLY WORKS

Unlike other self-employed workers, self-employed fishers have access to EI benefits that provide income when revenue is low or ceases.

Unlike EI regular benefits, EI fishing benefits are based on earnings, not hours of employment. Depending on the local unemployment rate, fishers need to earn between \$2,500 and \$4,200 in income from self-employed fishing or a fishing-related activity within a 31 week period in order to qualify for benefits. Fishing benefits can last up to 26 weeks.

In 2009-10, the EI system delivered a total of \$245.1 million in fishing benefits, accounting for 1.3 per cent of all EI benefits (CEIC, 2011 chap. 2). Expenditures on fishing benefits are steadily declining.

EI fishing benefits are designed with the expectation that self-employed fishers will collect them frequently. In 2009-10, 90.7 per cent of fishing beneficiaries were frequent claimants. Frequent claimants are individuals who have had three or more active claims in the five years prior to their current claim (CEIC, 2011 chap. 2).

The number of self-employed fishers collecting benefits has also been steadily declining in recent years. For example, “There were 21,194 fishers who made fishing claims in 2009-10, a decline of 2.3 per cent from 2008-09” (CEIC, 2011 chap. 1).

The self-employed fishing workforce is aging and fewer young people are entering the industry. In 2009-10 only 4.3 per cent of fishing claimants were youth aged 15 to 24. The only age cohort that saw an increase in fishing claims between 2008-09 and 2009-10 were fishers aged 55 and above.

RATIONALE FOR CHANGE

EI regular benefits are intended to provide support during unexpected and involuntary unemployment. A primary obstacle to inclusion of the self-employed in EI for regular benefits is that it is virtually impossible from an administrative perspective to determine whether a self-employed person’s unemployment is involuntary and unexpected.

Fishers are the only group of self-employed workers who are eligible for EI benefits.⁵ “It is not obvious why someone should be covered by EI if they harvest the sea but not the land” (Gunderson, 2011 p. 9). Self-employed farmers are not covered by EI benefits.

Given the regressivity of the EI system (see page 15), it is inequitable for low income workers in stable employment to pay premiums for a benefit that they themselves cannot access.

As noted, the number of fishing claims is in steady decline due to an aging self-employed fishing workforce. Only a small cohort of young people are becoming self-employed fishers. “In the last decade, most young people chose to stay in school rather than go into a highly seasonal fishery” (Fenwick, 2002).

⁵ All self-employed workers can opt into EI special benefits


Those who have used EI fishing benefits before should maintain their eligibility. New fishers should not be eligible for support through the EI system.

This is not to say that there is no role for federal and provincial governments in supporting new fishers. Just as there is an array of policies that provides support to farmers, support for fishers could be offered by federal or provincial governments from general revenue (if governments conclude there is a compelling public interest in offering such support).

National standardization of the EI system implies transitioning away from the practice of offering EI benefits to self-employed fishers during their off-seasons.

SECTION SUMMARY

WHAT A NATIONALLY STANDARDIZED SUPPORT SYSTEM FOR THE UNEMPLOYED MEANS FOR CANADIANS

From 	To
A deeply complex, opaque system of regionally-differentiated entrance requirements, maximum benefit durations, and formulas for calculating weekly benefits that treats workers inequitably without principled justification.	A system that is simple and fair: a single entrance requirement, a single benefit duration range, and a single method for calculating weekly benefits.
An EI system that is unfair to the most vulnerable workers, making qualification more difficult for them.	
A federal income security architecture with large gaps and no protection against income shocks for non-EI recipients.	A federal approach to income support that includes efficiently delivered, time-limited assistance to unemployed non-EI qualifiers, EI exhaustees, and all Canadians experiencing a need for temporary income support.
A system that treats long-tenured workers unfairly by not acknowledging their length of contribution.	A system that helps laid off, long-tenured workers transition back into employment.
A system that exacerbates interregional and intergovernmental tension due to its complexity and unequal application.	A principled EI system that places EI in line with other federal income security programs that are nationally standardized (e.g. Canada Pension Plan).

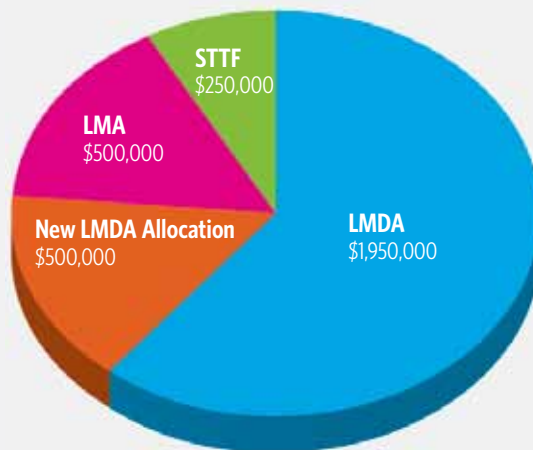
CHANGES TO ACTIVE EMPLOYMENT MEASURES

Active employment measures include training, programs to support skills development, job search, and labour market readiness (such as resumé help and skills assessments). In 2010-11, the federal government allocated \$3.2 billion to active labour market programs. Most of these funds are transferred directly to provinces to deliver programs, but most also come with the stipulation that they can only be spent on EI recipients.

The largest portion of federal funding, \$1.95 billion, is transferred annually to the provinces as part of the LMDAs. These transfers and training dollars are funded by EI premiums and only workers receiving EI or recent recipients can access programs funded by them. The federal government has also introduced Labour Market Agreements (LMAs), which transfer funds to provinces that they are able to use in more flexible, less restricted ways to serve larger clientele.

The federal government plays only a small role in the delivery of active employment measures, retaining primary responsibility for programs aimed at persons with disabilities, youth, and Aboriginal people.

FIGURE 13 Breakdown of Federal Transfers to Provinces for Active Employment Measures, 2010-11 (\$000s)



Source: HRSDC and Ontario Ministry of Finance

Note: STTF is the Strategic Training and Transition Fund, a one-time transfer that was part of the federal government's response to the recession.

The decision to transfer responsibility for active employment measures has allowed provinces to implement programs better suited to local needs. The LMAs in particular were a positive step forward in allowing provinces to tailor active labour market measures to specific needs. The LMDAs, however, prevent provinces from targeting funds at people outside the EI system. In some provinces, this results in too many communities having insufficient access to labour market programs. Given the very different levels of EI coverage in various provinces, the result is widely varying federal support for active labour market measures across the country.

Our recommendations focus on the policy architecture and funding mechanisms for active labour market measures. It is beyond the scope of the Task Force to suggest improvements to the design of training programs, although we recognize that many training programs do not do a good job in preparing workers for new or better employment.

RECOMMENDATION 12

FUND ALL TRAINING AND ACTIVE EMPLOYMENT MEASURES THROUGH A GENERAL REVENUE-FUNDED TRANSFER TO PROVINCES

The Task Force recommends that the federal funding streams (LMDAs, LMAs, Labour Market Agreements for Persons with Disabilities, and the Targeted Initiative for Older Workers) be collapsed into a single transfer, funded from general revenues, and modelled on the LMAs. EI qualification should be eliminated as a precondition for accessing active employment measures.

The definitions that govern EI eligibility and access to regular EI benefits should not act as a barrier to workers getting training. As the labour market has evolved, it is often those outside EI who are most in need of active employment measures. A national approach, designed to take full advantage of our human capital, would target programs flexibly and strategically, without first excluding all those outside of EI.

Removing active labour market funding from EI would result in lower EI premiums for workers and businesses.

The federal transfer for training should also include devolved funding for active employment measures for persons with disabilities and youth. The federal government could also transfer to provinces its role in directly funding active employment measures targeted for and delivered by Aboriginal people (the Aboriginal Skills and Employment Training Strategy), although this would require the collaboration and approval of Aboriginal organizations and leadership.

The new transfer should be conditional on:

1. The portability of benefits (i.e. no provincial residency requirements).
2. Use of funds for their intended purpose.
3. Public reporting of program outcomes.
4. Public acknowledgement of the federal contribution to provincial training programs.

Other conditions, such as the requirement that funding be directed at EI recipients, would be removed so that provinces could develop their own programs to meet their own labour market needs.

For example, some provinces may wish to use funds to provide programs to individuals who are employed but have weak attachment to the labour market. Others may wish to devote more funds to new Canadians who are ineligible for EI and are having a difficult time securing work in their field. Still others may choose to target measures toward Aboriginal people who will account for most of the labour market growth in some provinces in the coming decades.

The transfer should be allocated to provinces to reflect their share of unemployed workers in Canada.

HOW IT CURRENTLY WORKS

One must qualify for EI or have recently qualified for EI in order to benefit from the great majority of active employment measures funded from EI through the Labour Market Development Agreements.

Funding for active labour market measures is not fairly distributed to provinces. Ontario receives considerably less than its share of funding per unemployed person.

There are several reasons for this unbalanced distribution of resources. Of the \$1.95 billion transferred to provinces through LMDAs, \$800 million is based on the relative impact on provinces of EI reforms in 1996. Ontario's share of this \$800 million is fixed at 23 per cent—far lower than either its population share (39 per cent) or its share of the unemployed in Canada (42 per cent).⁶

The remaining portion of the \$1.95 billion is distributed based on 17 labour market indicators, the most important of which include the unemployment rate (36 per cent), the average number of EI beneficiaries (19 per cent) and the number of initial and renewal claims (19 per cent).

⁶ It was determined that Ontario experienced fewer negative effects from the 1996 reforms.

Overall, these allocation criteria are outdated and cannot be defended given current labour market realities across the country. They are particularly discriminatory against unemployed workers in Ontario.

TABLE 2 Transfers to Provinces for Active Employment Measures and Provincial Share of Unemployed, 2009-10

Province	Total Allocation (\$000s)	Share of Total Allocation	Share of Canada's Unemployed	Total Allocated per Unemployed
NL	\$162,806	5%	3%	\$4,889
NS	\$120,306	4%	3%	\$3,208
NB	\$125,181	4%	3%	\$3,737
PE	\$36,072	1%	1%	\$4,294
QC	\$909,317	29%	27%	\$3,006
ON	\$1,046,196	33%	42%	\$2,244
MB	\$81,249	3%	2%	\$3,066
SK	\$67,563	2%	2%	\$3,114
AB	\$209,414	7%	7%	\$2,720
BC	\$424,425	13%	10%	\$3,862

Source: HRSDC and Ontario Ministry of Finance

Notes: Includes LMDA, new LMDA allocation, Strategic Training and Transition Fund, and Labour Market Agreements. Totals may not add up to 100 per cent due to rounding.

RATIONALE FOR CHANGE

Responsibility for active employment measures has been largely devolved to provinces, yet the funding of these measures continues to be governed by criteria set by the federal government that determines who can access regular EI benefits. Although it is appropriate to have criteria that determine eligibility for training programs, there is no reason to presume that these criteria should be the same as those used to determine who has access to EI income support following an involuntary job loss.

The transition toward provincial delivery of active employment measures coincided with a broad trend across OECD countries toward local design and delivery of active employment measures (Bramwell, 2011). This devolution of responsibility “has provided provincial governments with significantly greater

flexibility to match programming to local conditions, thereby improving the effectiveness of labour market programming” (Klassen and Wood, 2011 p. 7).

The current system leaves too many workers outside looking in. It is also deeply complicated, contributing to fragmented program delivery at the provincial level and between the federal and provincial governments. For example, provinces that are using combinations of federal and provincial funds to deliver programs often have to turn people away if they do not conform to the criteria outlined in the LMDAs.

A simplified federal transfer, along with a clarification of responsibility, would represent an important step in developing a pan-Canadian human capital strategy. Note that education, though a provincial responsibility, has attained a remarkable degree of policy cohesion across Canada (Wallner, 2010).

So long as the bulk of federal funding is restricted to EI recipients, our national efforts to better develop and deploy our human capital will remain fragmented and will underperform.

The ability to provide skills training to those precariously attached to the labour force or at risk of losing a job—both groups that are currently precluded by the LMDAs—could play an important role in keeping people in employment and in jobs that take advantage of their skills. Over time, more nimble use of active labour market measures could decrease the use of EI regular benefits if more workers are able to acquire the skills necessary to fill labour shortages in many sectors.

From a worker’s perspective, the universe of government funded training and other employment support programs for unemployed individuals is complex and the rules governing eligibility are often confusing. Sometimes, in practice, rules are bent to help workers in need but in inconsistent ways across the country. Services are fragmented, with different populations qualifying for different sets of programs delivered by different levels of government.

A 21st century human capital strategy requires an understanding of the labour market and the real needs of many workers. Tying active labour market measures to EI eligibility fails that test.

In addition, there are other activities funded through EI under the rubric of active employment measures that do not directly benefit unemployed workers. The EI account is currently used to fund labour market research and business-labour collaboration on human resource issues. Although these activities may be worthwhile, there is no reason why they should be funded through premiums intended to fund a workers’ insurance system. If the federal government chooses to fund such activities it should do so through general revenue.

RECOMMENDATION 13 ENHANCE THE RELEVANCE AND EFFECTIVENESS OF THE FORUM OF LABOUR MARKET MINISTERS

Reinvigorate the Forum of Labour Market Ministers (FLMM) to serve as a leading institution in the development of a pan-Canadian human capital and labour market development strategy.

HOW IT CURRENTLY WORKS

There is currently no pan-Canadian human capital or labour market development strategy. Instead, there are a series of bi-lateral agreements between the federal government and each provincial government.

The FLMM currently plays a modest role in coordinating the activities of provinces in the field of active labour market measures. For example, a Labour Market Best Practice Workshop is held annually in which all jurisdictions participate and new ad hoc working groups have been formed to discuss specific labour market issues, such as apprenticeship.

None of this good work, however, could be considered part of a broad, forward-looking, pan-Canadian human capital strategy. Participating ministers are responsible for active labour market measures in their own provinces, but the FLMM plays only a modest role in strengthening the Canadian economic union and encouraging an efficient national labour market.

RATIONALE FOR CHANGE

Canada needs a forum and process to develop a pan-Canadian human capital strategy and encourage the development of a national labour market. Given the devolution of responsibility to deliver most active labour market measures to the provinces, the federal government is no longer in a position to play the lead role. It could act as a supporting partner with provinces and territories as they all work together to strengthen the Canadian economic union. These efforts could support on-going Federal-Provincial-Territorial processes to strengthen labour mobility in Canada.

The FLMM is an existing forum that could be reinvigorated to steward research, information and knowledge on active employment measures, with a focus on which programs are successful and why. The FLMM should be a forum for improving the delivery and outcomes from Canada's active employment measures.

In particular, provinces working with the FLMM should undertake evaluation and public reporting of the outcomes of active labour market programs. The

Task Force has not addressed the question of how to improve training programs, but we accept the conclusion of most research that many active labour market measures fail to prepare clients for new work. We conclude that it is both fiscally unwise and potentially misleading to offer the promise of a job through training if it is unlikely to materialize. To that end, evaluation and reporting are crucial tools in the development of better active labour market measures.

Better assessment of labour market information and economic factors would also help. To this end, the FLMM can engage to a greater degree with analysis of local markets and advocate for better data collection. For example, a detailed job vacancy rate survey, which does not currently exist in Canada, would help inform a training strategy and facilitate mobility.

As the provincial role in the delivery of active employment measures expands, it is crucial that provinces learn from one another. While there is a great deal of local thinking on local labour market and workforce development (see for example: Zizys, 2011), these insights are not as widely shared as they should be.

The FLMM should play a leadership role in Canada by strengthening our active labour market measures, assessing and reporting on programs, and in the process, securing better outcomes for workers and employers. Too many workers are not achieving their full potential and not contributing as much as they could. Currently, nobody in Canada is really accountable for this shortcoming. In the coming decade, this gap must be filled.

RECOMMENDATION 14

ENABLE INDIVIDUALS TO PURSUE SKILLS DEVELOPMENT (SUCH AS HIGH SCHOOL AND POST-SECONDARY EDUCATION) WHILE RECEIVING REGULAR EI BENEFITS

Under current guidelines, EI recipients not available for work because they are studying can be disqualified from receiving benefits. This should be changed. EI recipients should not be disqualified from regular benefits if they independently pursue skills development and education.

HOW IT CURRENTLY WORKS

In order to receive regular EI benefits, beneficiaries must be considered “available for work in Canada.” EI beneficiaries who pursue training or education for more than 10 hours per week without prior approval from the EI system can lose their benefits.

This occurs because engaging in training or education opportunities for more than 10 hours per week can be interpreted as interfering with one’s job search,

thus making individuals “unavailable for work” (Service Canada, n.d.a). EI is more flexible in approving training and education participation for some recipients, such as those collecting parental benefits.

RATIONALE FOR CHANGE

The EI program generally does not provide benefits to individuals who are unavailable for work in Canada. The same rule that prevents EI recipients from taking an extended vacation also prevents some from learning to read and write, upgrading computer skills, finishing high school, or pursuing post-secondary education.

Preventing recipients from pursuing training while receiving EI is inconsistent with Canadian ambitions to better prepare workers for a knowledge-based economy.

This has been a known problem for decades. For example, the 1986 Newfoundland Royal Commission on Employment and Unemployment made an identical recommendation: “Any Unemployment Insurance beneficiary should be permitted and encouraged to participate in any education and training program” (Royal Commission on Employment and Unemployment-Newfoundland and Labrador, 1986 p. 404). Given changes to the nature of work in the past three decades, acting on this recommendation is now even more important than ever.

The current approach puts barriers in front of unemployed individuals who want to help themselves. EI recipients who enter training or education not delivered through government labour market training programs, without seeking preapproval from the federal government, can have their benefits cut off.

University education is barred completely. EI recipients can never be approved to attend university while they are receiving benefits, even if they only need a few more credits to graduate. Individuals can even be cut off from regular EI benefits if they spend too much time working towards a high school diploma or toward the development of basic skills.

The EI system should encourage recipients to improve their long term employment prospects, or at the very least not prevent them from doing so.

It is unreasonable to expect an adult in need of support for basic literacy development or a high school diploma to seek preapproval from government. The EI program should evolve to allow workers more flexibility in how they access their benefits. A worker should be encouraged if she wishes to spend her own money or access student financial aid to pursue post-secondary education while receiving EI benefits.


Allowing all EI beneficiaries to independently pursue skills development and education would be a logical extension of the flexibility already shown to other recipients of EI, such as those on parental leave.

Better development of our human capital is a priority for all governments. Actively encouraging the pursuit of training and education while receiving EI benefits could help reduce cycles of unemployment often experienced by lower skilled workers and, ultimately, reduce dependence on EI.

Ensuring that those coming straight out of high school or working in the summer while at a post-secondary institution are not eligible for benefits would be important, and could be dealt with through a variety of program design parameters. For example, collecting regular EI benefits while in post-secondary education may be an option only available to those who have been in the labour market for a significant number of years.

SECTION SUMMARY

WHAT CHANGES TO ACTIVE EMPLOYMENT MEASURES MEAN FOR CANADIANS

From 	To
<p>An inflexible training system that:</p> <ul style="list-style-type: none"> • has an unfair formula for allocation, • often denies support to individuals who have not qualified for EI, and • discourages some workers from independently pursuing skills development or education. 	<p>A system that can be part of an overall human capital strategy and is:</p> <ul style="list-style-type: none"> • fairly allocated, • more flexible, allowing provinces to tailor programs to local needs, and • enables individuals to freely pursue education and skills development opportunities without fear of losing EI regular benefits.

CHANGES TO SPECIAL BENEFITS

The EI system is the vehicle for delivery of a suite of benefits collectively known as “special benefits.” These consist of maternity and parental benefits, sickness benefits, and compassionate care benefits (for individuals who must take a short period off from work to care for an ill relative at significant risk of death).

These benefits have been added over time onto the system of support for the unemployed. Many Canadians have come to see these benefits as core entitlements necessary for the modern labour market. Special benefits have continued to expand in recent years and are today an important element of the Canadian welfare state that facilitates the participation of parents, particularly women, in the labour market.

The special benefits system differs from much of the EI system in that it treats Canadians identically no matter where they live. In this respect, the system of special benefits is a model for the rest of the EI System.

RECOMMENDATION 15 PROVIDE PARENTAL BENEFIT RECIPIENTS WITH A CHOICE BETWEEN HIGHER BENEFITS OVER A SHORTER PERIOD OR LOWER BENEFITS OVER A LONGER PERIOD

Workers in different sectors often have access to very different suites of benefits on top of EI. For example, most public sector workers have parental leave benefits that are significantly more generous than EI.

EI as currently designed does not allow individuals to tailor their benefits to meet their own circumstances. To accommodate differences in employment, family, and financial status, EI parental benefits could incorporate an element of choice in the benefit payment size, structure, and duration. A flexible, client-centred approach would support the ongoing modernization of EI as it adjusts itself to a much more diverse workforce with less homogeneous employment patterns and cycles.

HOW IT CURRENTLY WORKS

EI parental benefits are payable to the biological or adoptive parents of a newborn or newly adopted child. To receive parental benefits, a parent must have insurable employment, have paid EI premiums as part of that employment, and accumulated at least 600 hours of work during the qualifying period. Parents can receive up to 35 weeks of benefits, which can be shared between the two primary caregivers. This, in addition to the 15 weeks of maternity benefits available to mothers following the birth, leads to a total maximum leave period of 50 weeks.

Benefit payments are equal to 55 per cent of average insurable weekly earnings, up to a maximum of \$468 per week. The average parental benefit payment was \$371 per week in 2009-10.

As with all special benefits, parental benefits do not vary by region. All applicants across Canada (except Quebec) are subject to the same eligibility requirements, benefit duration, and method of calculating benefits.

RATIONALE FOR CHANGE

In 2005, Quebec instituted the Quebec Parental Insurance Plan (QPIP), which includes a choice in the parental benefit replacement rate. Early analysis of QPIP indicates that the program has been successful in fostering greater labour force attachment among women and longer parental leaves, especially by fathers.

The rest of Canada can examine this example of provincial policy experimentation to see if any of the features of the Quebec system could be incorporated into the federal EI system (Turgeon, 2011). QPIP offers parents a choice between a “basic package” of 32 weeks of benefits or a “special package” which offers a higher replacement rate but is paid for only 25 weeks.

Outside of Quebec, a worker collecting parental benefits receives the same weekly rate, regardless of how many weeks of benefits they collect.

While most parents tend to take a full parental leave, some recipients return to work prior to exhausting their full entitlement. One reason for returning to work quickly is the need for money.

EI parental benefits pay a maximum of \$468 per week; the average weekly benefit for younger parents in 2009-10 was only \$275. In the absence of other household income or personal savings, it is difficult for most parents to manage on these amounts for very long.

The need to go back to work early is usually more urgent for parents who do not have a maternity or parental benefit top-up provided by their employer. According to Statistics Canada, only about one-fifth of mothers receive an

employer top-up to their EI benefits during the parental leave period, and these top-ups last on average for about four months. Most workers who do receive additional parental benefits work in the public sector (Marshall, 2010).

A choice would allow parents, particularly those without an employer top-up, to take a higher weekly benefit, thereby enabling a longer parental leave and creating fewer financial constraints during the first months of parenting.

A higher replacement rate option could also encourage parental leave. Many new mothers do not take parental leave in part because the benefit levels are inadequate for their needs (Courchene and Allan, 2009 p. 21).

A concern that arises with offering parents a choice of a higher weekly benefit for a shorter period is that parents may choose the shorter option and cut short their time at home following the birth of a child. There is good evidence that, overall, longer periods of infant-parent bonding are beneficial to early childhood development. A program which threatened these longer periods at home would have to be seriously questioned.

However, evidence suggests that most parents would not choose the higher benefit with the shorter duration. Results from QPIP suggest that when given a choice, parents (and mothers in particular) continue to choose the longer benefit duration. According to the 2010 QPIP Actuarial Report, in 2010 the large majority of salaried mothers opted for the QPIP “basic” parental benefit with a lower replacement rate (Therrien, 2011).

Outside Quebec, the vast majority of new parents take almost a full year of leave. In 2009-10, parents claimed about 30 weeks, or 85 per cent of the total weeks available to them. When added to the EI maternity leave and the two-week waiting period, this is a total leave of about 47 weeks, or ten-and-a-half months. Parents are clearly already choosing to remain at home as long as possible, despite the fact that EI benefits are relatively low and most do not benefit from employer top-ups.

We acknowledge that there is some risk that some parents would shorten their parental leave period, which could have negative effects on early childhood development. However, this risk is more than offset by the number of parents who would stay at home longer because they would be able to more easily afford it.

It would also be possible to build incentives into the structure of a flexible benefit so that the longer benefit would be somewhat more attractive. That is, workers choosing the shorter period could be provided with benefits that are larger on a weekly basis than those taking the basic benefit, but that would still have a lower total value over the entire period of the benefit.

In the end, we support flexibility and parental choice in entitlements. Our recommendations are also driven by equity concerns: some new parents with low incomes are forced back to work most quickly, taking far less of their entitlement than parents with higher incomes. Allowing for somewhat higher benefits for a shorter period of time may allow more low and middle income

workers, particularly those in the private sector, to access more of their entitlement and spend more time at home with a new child.

EXAMPLE OF A PARENTAL BENEFIT CHOICE

The program could offer beneficiaries a choice between the current payment that replaces 55 per cent of weekly earnings for 35 weeks or an option that replaces 80 per cent of earnings for 24 weeks. When these 24 weeks are combined with the maternity benefit period, total leave would be about 39 weeks (instead of 50 weeks under the basic existing option). This payment schedule would provide a maximum weekly benefit of \$682 (instead of \$468).

This proposal would enable families to achieve a significantly higher weekly EI replacement rate. It would also introduce flexibility into the EI system without significantly increasing program spending. It would be possible to design these benefits with even more flexibility, whereby parents could choose from a wider range of benefit levels and durations, so long as the principle remained intact (i.e. longer duration, smaller weekly benefit).

The proposal as presented above could result in higher program costs due to more people taking their full entitlement. For example, new parents who planned on returning to work quickly regardless of their benefit package would be drawing larger weekly benefits.

In order to minimize the fiscal impact of the option of more flexible benefits, it would be possible to set the size of the benefit at something lower than 80 per cent but higher than 55 per cent. Those who choose the shorter benefit would still receive a greater weekly benefit than under the basic option, but the overall maximum benefit entitlement under the two options would not be identical. This approach may also create an additional incentive for new parents to take the longer benefit package if they can afford to, addressing concerns about parents truncating parental leave and negatively affecting early childhood development.

RECOMMENDATION 16 REMOVE THE TWO-WEEK WAITING PERIOD FOR SPECIAL BENEFITS

The two-week waiting period lacks a policy rationale when applied to special benefits and should be eliminated.

HOW IT CURRENTLY WORKS

After eligibility is established, applicants must wait two weeks for payments to begin. The two-week waiting period applies to special beneficiaries just as it does to individuals receiving regular EI benefits.

RATIONALE FOR CHANGE

Within the framework of regular benefits, the two-week waiting period serves as a “deductible” and prevents EI benefits from intervening in normal job churn. Other than cost containment, there is no clear justification for the waiting period for special benefits, and it may cause inconvenience or hardship for individuals.

Eliminating the waiting period for special benefits would have a relatively small impact on program costs. As most recipients of special benefits exhaust them, eliminating the waiting period for these beneficiaries would in most cases imply providing the same total benefits earlier.

Eliminating the two-week waiting period for special beneficiaries is an easy and affordable way to enhance support for new parents and caregivers. It would also support the reforms to sickness benefits discussed below.

RECOMMENDATION 17 TEST A CHANGE TO SICKNESS BENEFITS TO SUPPORT LABOUR MARKET PARTICIPATION OF PERSONS WITH DISABILITIES

To support the labour market participation of persons with disabilities, periodic use of sickness benefits should be tested. This would allow individuals to qualify for benefits once, and with medical certification take benefits periodically throughout the year without having to re-qualify.

HOW IT CURRENTLY WORKS

EI sickness benefits are payable to those who are forced to reduce their work hours or withdraw from their position of employment because of sickness, injury, or quarantine. To receive sickness benefits, the applicant needs to obtain a medical certificate signed by a doctor or medical practitioner. EI sickness benefits are available for a maximum of 15 weeks following the two-week waiting period.

There is currently no income support available to help individuals with sporadic or episodic illnesses or disabilities to remain in the workforce or to avoid other forms of assistance, such as provincial social assistance for persons with disabilities or Canada Pension Plan-Disability. This issue has been consistently raised by advocates such as the Episodic Disabilities Network.

RATIONALE FOR CHANGE

In coming decades, Canada will experience labour shortages and an aging population. More Canadians are finding themselves on long-term provincial disability programs. This is not an efficient use of our human capital. Canadian social programs should not create barriers to labour market participation or disincentives to work for those who would like to.

In some ways, Canada's income security framework currently categorizes individuals as either able-bodied and employable or disabled and unemployable. This blunt categorization can be demoralizing for individuals who have the capacity to work part-time and can discourage self-sufficiency. It may also place unnecessary pressure on disability support programs.

Rigid program design and definitions have not kept pace with the increasingly diverse workforce that often needs to access benefits in more flexible ways. Deploying sickness benefits in a more flexible, client-centred manner could help address Canada's labour shortages.

The OECD recognizes the lack of supports for employment as a primary weakness in Canada's approach to income security for persons with disabilities. "Similar to a number of other OECD countries, Canadian disability benefit systems still too often appear geared to steer people into welfare dependency and labour market exclusion rather than participation" (OECD, 2011 p. 44).

Moreover, "the 'all-or-nothing' nature of most disability income supports leaves these individuals with no realistic alternative to long-term dependence on disability income programs, and no realistic opportunity to contribute to society" (Episodic Disabilities Network, 2010 p. 4).

The objective of this proposal is to test measures that would support the labour market participation of individuals with disabilities. Allowing sickness benefits to be taken periodically and concurrently with employment, along with eliminating the two-week waiting period for special benefits, could greatly enhance the ability of some persons with disabilities to remain employed. Elimination of the two-week waiting period will facilitate use of the sickness benefit as a reactive support during short absences.

Programs that allow workers with disabilities the flexibility to access benefits and work at the same time will become increasingly important as Canada's population ages. They could also lower the use of other—more expensive—modes of government support.

This proposal aligns with a recommendation of the Social Research and Demonstration Corporation made in a study conducted on behalf of HRSDC: "The federal and provincial governments should continue to make eligibility rules for income support programs less restrictive and more flexible to reflect the fact that many people experience disability and work capacity as variable, episodic, and intermittent" (Smith Fowler, 2011 p. 58).

Moving forward with this proposal would not preclude a broader discussion of reforms to income support for persons with disabilities, including the re-ordering of the suite of disability benefits offered at the provincial and federal levels (Battle et al., 2006).

SECTION SUMMARY
WHAT CHANGES TO SPECIAL BENEFITS MEAN FOR CANADIANS

From 	To
<p>A special benefits system that is generally well-regarded but creates barriers to workplace attachment for people with disabilities and is rigid in how it allows new parents to take up their benefits.</p>	<p>A special benefits system designed to support the labour market participation of people with disabilities and to offer a new flexible, client-centred approach to parental benefits.</p>

CHANGES TO EI FINANCING & MANAGEMENT

The financing, management, evaluation, and policy experimentation system that surrounds the EI program is in need of change. Information crucial for understanding the operation of the EI system remains outside the public realm and unavailable for analysis by those outside government.

EI's funding model is currently broken and its design exacerbates recessions. The system is structured to take money out of the economy when it is needed most, rather than to save it in good times for use in bad. The federal government understands this and has intervened on an ad hoc basis to override the financing system. The federal government is currently consulting on the EI premium rate-setting process and whether it should be adjusted.

RECOMMENDATION 18 STRENGTHEN AND BROADEN THE AUTHORITY OF THE CANADIAN EMPLOYMENT INSURANCE FINANCING BOARD (CEIFB)

The CEIFB—or a successor body—should take on greater responsibilities.

This enhanced body should be empowered to make recommendations on EI premiums in response to the business cycle, with a bias toward stable premiums. The federal government would retain ultimate authority to set rates.

The authority to make public recommendations about policy experimentation (pilot projects) and evaluative functions relating to EI should be transferred from HRSDC to the newly strengthened CEIFB.

The CEIFB should publish yearly data and analysis regarding the EI system's operation and impact. Such data and analysis should be organized in a consistent fashion from year to year and should include more detail than is currently available.

The CEIFB should also be charged with making evidence-based recommendations to government on the EI system's response to economic or labour market changes. For example, the board could recommend an expansion of work-sharing or benefit duration when there is an economic downturn.

The board should also be mandated to ensure consistent interpretation and enforcement of EI regulations and guidelines nationally. During our consultations, we often heard complaints of rules being interpreted and applied differently by local offices in different regions, adding one additional element to the regional inequities already built into the system.

We also heard complaints about unanswered calls and long application processing time. The board would also be responsible for setting and reporting on the achievement of service standards consistent with a client-centred approach.

Parliament would appoint the CEIFB's Board of Directors, approve its annual budget, and set targets for the management of the EI fund (such as a deficit floor and a surplus ceiling). The board would be directed to make recommendations on premiums to ensure balance in the EI account over the business cycle, rather than on a yearly basis.

The Board of Directors should include representation from labour, business, and government.

HOW IT CURRENTLY WORKS

Management of the EI system is divided between Parliament, HRSDC (and the EI Commission housed within it), and the CEIFB.

Prior to 2006, the EI Commission set premium rates. It was mandated to balance EI revenues with expenditures over time. However, the premium rate was consistently set too high, leading to annual surpluses accruing for more than a decade. The cumulative value of the notional surplus amounted to \$57 billion by 2008.

Because the EI account was an integral part of federal general revenue, EI surpluses were used to fund other federal spending priorities, mostly deficit reduction. "Employees and employers alike quite rightly objected to the EI system being used as a revenue siphon for the federal government instead of a self-funding insurance program" (Mallett, 2011 p. 2).

From 2006 onward, the EI Commission was required to set premium rates so that the revenue they generated would cover expected benefit payments for the coming year, an approach referred to as "break even" rate-setting. This method was employed to increase transparency and, presumably, to stop the surplus from growing further. However, "year to year budgeting" in a public insurance program exacerbates economic cycles by increasing premiums during economic downturns and lowering premiums during periods of strong economic growth. As a result, the break even approach to rate-setting, which is still technically in effect, has become the subject of much criticism.

In 2008, the federal government created the CEIFB, an ostensibly autonomous, independent board mandated to set premiums. It was tasked with balancing

revenues and expenditures over time, with any surpluses to be used to lower future premiums. However, the board has no mandate to ensure premiums remain stable over the business cycle. Also, the board's first attempt to set the premium rate in 2011 was overridden by the federal government (Department of Finance Canada, 2010).

The CEIFB is also charged with managing any future EI surpluses. The board was to be provided with an initial \$2 billion reserve fund to help stabilize premium rates. Notably, this amount has yet to be transferred to the CEIFB, even though large benefit claims during the recent recession caused the account to go into deficit far in excess of \$2 billion (estimated by the EI Chief Actuary at a cumulative \$10.4 billion in 2011; see Taillon, 2010).

Beyond financing, HRSDC manages EI pilot projects, evaluates them, and reports on the operation of the EI system through its *Monitoring and Assessment Reports*.

RATIONALE FOR CHANGE

For the past 15 years, the EI rate-setting process and the management of the EI account have not worked well. There is a general lack of confidence among business groups, labour, experts, and the general public in the rate-setting process.

The creation of the CEIFB was a good start. Should it—or a successor body—be given the chance to fulfill its mandate and remain independent, the board may succeed in establishing a sound and transparent approach to setting the EI premium rate and managing future surpluses responsibly. Parliament would retain authority over the operation of the EI system and authority to override EI premium rates recommended by the CEIFB.


Canadians should have access to information about how well the EI system is working. A great deal of data exists, but it is not easily accessible. Accountability within the system suffers as a result.

For example, there is “no monthly data on the number of persons exhausting an EI claim” (Jackson and Schetagne, 2010), nor is there any information produced on the job vacancy rate in Canada. This type of information is essential to evaluating the effectiveness of the EI system, and should be published monthly in a consistent and comparable format, broken down by province and metropolitan region, and easily accessible to the public. A newly designed CEIFB should have the mandate to report information to Canadians in an accessible way for secondary analysis.

Canada also has no transparent process for implementing, evaluating, and reporting on pilot projects for possible national application. This too is a weakness in our ability to get the most out of our social policy choices. On these issues, provincial and municipal governments, along with the broader policy community, have articulated their need for more and better information

and analysis about the program in order to evaluate its performance and effectiveness and to recommend changes.

SECTION SUMMARY
WHAT CHANGES TO EI FINANCING AND MANAGEMENT MEAN FOR CANADIANS

From 	To
<p>A rate-setting process that is structured to exacerbate rather than moderate economic downturns.</p> <p>Inaccessible data and inconsistent reporting that hampers independent evaluation of EI's effectiveness and performance.</p> <p>An evaluation and pilot project process that is not open and is geared toward providing regional assistance rather than testing potential policy changes for possible national application.</p>	<p>A predictable and principled rate-setting mechanism that helps moderate the business cycle and stabilize premiums.</p> <p>Transparent, consistent, and open data that enables independent evaluation and improves accountability.</p> <p>A transparent process for proposing, evaluating, and reporting on outcomes of EI pilot projects.</p>

SECTION D

**CONCLUSION,
REVIEW OF
RECOMMENDATIONS
& IMPLICATIONS**

CONCLUSION, REVIEW OF RECOMMENDATIONS & IMPLICATIONS

The Mowat Centre EI Task Force has concluded that a renewed, national support system for the unemployed is required.

Canada's economy and its labour market are fundamentally different than when the EI system was designed and when it was last significantly reformed. The federal income security system for workers has not kept up.

Some Canadians continue to be reasonably well-served by the program, but too many are now left out, too many pay premiums but have little chance of benefitting from the program when they need it most, and too many are not treated equitably. Many of the workers poorly served by the current system are clustered in Canada's largest cities or in industries facing structural decline.

Our bottom-line recommendation is to create a nationally standardized EI system, supplemented by new benefits that would help those who are currently outside the EI umbrella and others not well-served by the current system. We propose a client-centred system that is simple, fair, and treats people the same regardless of where they live in the country.

EI is not just social policy; it is also economic and labour market policy. Our proposals eliminate the barriers to labour mobility to the extent that they exist in the current EI system and would encourage a more efficient, pan-Canadian labour market. Removing the training component from EI will permit the development of a more sophisticated national approach to human capital, while allowing premiums to come down.

Our recommendations are architectural in nature and are focused on program design. Although some have costs attached to them, most of our recommendations could be calibrated to have minimal cost, depending on the choices made within this new framework.

For example, while we have concluded that a nationally standardized EI system is required and that a new system of support needs to be established for those who do not qualify for EI, these reforms could be achieved using different parameters and at different costs depending on government preferences. We have sketched the broad structure of a new system and analyzed the cost of some options as reference points.

The new system described in these pages is intended to align with evolutions in the Canadian labour market and Canadian values. It would do a better job supporting Canadian workers who lose a job, while contributing to Canada's productivity, prosperity, and labour market efficiency.

The proposed changes are transformational but they do not require rebuilding the EI system from scratch. None of these recommendations would take years to implement.

The Mowat Centre Employment Insurance Task Force committed that its recommendations would be evidence-based and driven by a desire to identify good public policy that works in the national interest. For a variety of reasons, successive governments of different orientations have been unable to act.

Our proposed new framework is a pathway to reform that should be appealing to people across the political spectrum. We hope you will join us in advocating for this new, more effective, efficient, and equitable system of support for the unemployed in Canada. ^{MC}

“Our bottom-line recommendation is to create a nationally standardized EI system, supplemented by new benefits that would help those who are currently outside the EI umbrella and others not well-served by the current system.”

A NATIONALLY STANDARDIZED SUPPORT SYSTEM FOR THE UNEMPLOYED

Recommendations	Rationale	Implications
1. Introduce a single national entrance requirement for all workers across Canada.	To achieve greater equity in the system.	Depending on the entrance requirement, benefit range, and benefit formula selected by government, some could find it either harder or easier to qualify for benefits and some could see the weekly size and duration of their benefits increase or decrease.
2. Introduce a single national benefit duration range.	To facilitate a client-centred system where it is easier for individuals to understand their entitlements.	
3. Introduce a single national weekly benefit formula.	To support an integrated national labour market and eliminate disincentives to mobility.	A more transparent system whereby workers would be able to audit their benefits and understand why they do or do not qualify.
4. Eliminate the higher entrance requirement for new entrants and re-entrants to the workforce.	To ensure fairness and equity in the system for new workers and those who are returning to the workforce after longer absences.	New entrants and re-entrants, including many immigrants, will be treated the same as other workers and find it easier to qualify for EI benefits.
5. Create a new system of temporary unemployment assistance outside the EI program.	To provide support to those who are unable to access regular benefits (e.g. the self-employed, individuals without sufficient hours, those who have just entered the labour market) and to those who have exhausted EI benefits without finding new work. TUA is very flexible and is responsive to several different shortcomings with the current system.	The federal income security net would be cast wider, with fewer people falling into destitution. Fewer individuals may access provincially-run social assistance. Social assistance expenditures should decrease.
6. Test wage insurance for long-tenured workers and eliminate provisions whereby severance pay can displace EI benefits.	To support transitions to lower paid employment or new careers for laid off long-tenured workers who have made significant contributions over their working life. To ensure that the EI system does not disadvantage its longest-term contributors.	Laid off long-tenured workers would return to employment more quickly. Laid off long-tenured workers would have access to their full EI entitlements.

<p>7. Modify benefits in response to economic conditions (e.g. expanding work-sharing during recessions).</p>	<p>To give the federal government a better set of tools to respond to recessions.</p>	<p>With an EI system that does not automatically adjust to local unemployment rates, government will have more latitude to craft context-appropriate changes on a time-limited basis.</p>
<p>8. Establish a transparent process for testing changes to the EI program.</p>	<p>To ensure that pilot projects are time-limited and used to test policy changes intended for potential national application.</p>	<p>An end to pilot projects that provide additional benefits to specific regions on an ongoing basis. Align government practice with legislative intent.</p>
<p>9. Treat temporary foreign workers fairly.</p>	<p>To fairly treat workers who currently pay into the EI system but have ambiguous entitlement to it.</p>	<p>Temporary foreign workers should be made eligible for the full range of EI benefits or, failing that, should not have to pay premiums for benefits they cannot access.</p>
<p>10. Modify the low income family supplement to track growth in maximum insurable earnings.</p>	<p>To ensure that the EI system's definition of a low income family keeps up with rising wages.</p>	<p>Some low income families will receive additional benefits.</p>
<p>11. Transition the delivery of benefits for self-employed fishers out of EI.</p>	<p>To ensure that EI serves as a system of protection against unexpected unemployment.</p>	<p>Current users of fishing benefits will remain eligible. Governments would need to examine whether there is a rationale for delivering support outside of EI for new fishers. If so, a program should be created and funded through general revenue.</p>

CHANGES TO ACTIVE EMPLOYMENT MEASURES

Recommendations	Rationale	Implications
<p>12. Fund all training and active employment measures through a general revenue-funded transfer to provinces.</p>	<p>To ensure that more workers in need of training are able to access it.</p> <p>To enable provincial governments to tailor active employment measures to local needs, experiment, and learn from each other.</p> <p>To provide a more principled and transparent allocation of resources for active labour market measures.</p>	<p>Lower premiums for workers and employers, but with a need for additional funds from general revenue.</p> <p>Expanded opportunities for non-EI recipients.</p> <p>A more appropriate allocation of federal resources for active measures by province.</p>
<p>13. Enhance the relevance and effectiveness of the Forum of Labour Market Ministers.</p>	<p>To improve coordination, quality of labour market information, and policy learning.</p> <p>To support the development of a national human capital strategy.</p>	<p>Improved data to assess labour market conditions and opportunities.</p> <p>Diffusion of best practice across provinces.</p>
<p>14. Enable individuals to pursue skills development (such as high school and post-secondary education) while receiving EI benefits.</p>	<p>The EI system should not serve as a disincentive to training and education.</p> <p>Unemployed workers who independently pursue education and training should not be penalized.</p>	<p>More flexibility in options for newly unemployed workers.</p> <p>A more nimble and better trained workforce.</p>

CHANGES TO SPECIAL BENEFITS

Recommendations	Rationale	Implications
<p>15. Provide parental benefit recipients with a choice between higher benefits over a shorter period, or lower benefits over a longer period.</p>	<p>To enable individuals to exercise greater control over their EI benefits and enhance the affordability of parental leave, particularly for middle and lower income families.</p>	<p>More flexibility for new parents. Potentially make parental leave more accessible for parents who may currently choose not to take significant amounts of leave at a 55 per cent replacement rate. Some new parents may return to work sooner than at present; some may be able to afford to stay off work longer than at present.</p>
<p>16. Remove the two-week waiting period for special benefits.</p>	<p>The two-week waiting period does not serve a purpose in the system of special benefits beyond minimal cost containment.</p>	<p>Those accessing special benefits will receive payment without the two-week waiting period.</p>
<p>17. Test a change to sickness benefits to support labour market participation of persons with disabilities.</p>	<p>To encourage labour market participation for persons with disabilities.</p>	<p>Potentially greater labour market attachment for persons with disabilities. Potentially fewer users of federal and provincial disability income assistance programs.</p>

CHANGES TO EI FINANCING AND MANAGEMENT

Recommendations	Rationale	Implications
<p>18. Strengthen and broaden the authority of the Canada Employment Insurance Financing Board (CEIFB).</p>	<p>To establish a predictable and principled rate-setting mechanism that helps moderate the business cycle and stabilize premiums.</p> <p>To improve quality and access to EI data and improve program evaluation.</p>	<p>More stable premiums across the business cycle.</p> <p>Better and more consistent EI information for public use.</p> <p>Better testing and measurement of the effects of policy changes.</p> <p>Improved system accountability and policy capacity.</p>

APPENDICES

APPENDIX 1

COST ANALYSIS & ADDITIONAL TECHNICAL CONSIDERATIONS

This section presents a cost analysis of the Task Force's recommendations. Estimating the cost of changes to the EI program is difficult due to a lack of publicly available data, particularly data that is specific to EI regions. We discuss this issue in the section on "Changes to Financing and Management." Given the secrecy around EI data and the difficulty in predicting individual level behaviour to policy changes, the actual costs of our recommendations may vary from the estimates presented below.

The estimates presented do not incorporate dynamic estimates of individual level behaviour change. They also do not include administrative costs. Some of the recommended changes will have short-term start up costs as new systems are introduced and others redesigned. However, operating and administrative costs for the program will go down over time due to reduced complexity (from the elimination of the 58 EI regions) and streamlined and simpler administration.

Recall that in 2009-10, EI benefit expenditures totalled \$21.6 billion dollars and accounted for approximately 8 per cent of all federal spending. EI is primarily funded by premiums levied on workers and employers.

EI revenues were insufficient to fully cover the increase in benefit claims during the recession, causing a projected cumulative deficit of about \$10 billion. This deficit is temporary. When the economy improves, EI premiums will once again be large enough to cover program costs. For example, the current EI deficit of \$10 billion is small compared to the \$57 billion surplus that accrued between 1996 and 2008.

The presence of a cyclical rather than structural deficit should not prevent changes that improve the system's the overall effectiveness and efficiency.

A NATIONALLY STANDARDIZED SUPPORT SYSTEM FOR THE UNEMPLOYED

1. **INTRODUCE A SINGLE NATIONAL ENTRANCE REQUIREMENT FOR ALL WORKERS ACROSS CANADA**
2. **INTRODUCE A SINGLE NATIONAL BENEFIT DURATION RANGE**
3. **INTRODUCE A SINGLE NATIONAL WEEKLY BENEFIT FORMULA**

The following table presents cost estimates for nine options in the establishment of a nationally standardized system of regular EI benefits. The table is constructed around the high, medium, and low entrance requirements and high, medium, and low benefit duration ranges employed by the current EI system. We do not suggest that these are nine equally viable options for national standardization. These nine estimates are presented as reference points designed to illustrate what drives the cost of regular EI benefits.

Note that a cost-neutral option for national standardization—not presented in this table—would be an entry requirement of 560 hours and a benefit duration range of 17 to 44 weeks.

Our analysis shows that the main driver of costs is not the entrance requirement, but the duration of benefits. For example, moving to a shorter duration for benefits saves about the same amount of money regardless of entrance requirements.

Our costing of the changes to entrance requirements and the duration of benefits assumes a cost-neutral, national formula for the calculation of weekly benefits. We do not analyze the various options for arriving at this formula (e.g. what minimum divisor would be chosen? Would elements of the best 14 weeks pilot project apply?).

TABLE 3 Cost Analysis of EI National Standardization

	420 Hours	560 Hours	700 Hours
Low Duration 14 to 36 weeks	(\$2.0 billion)	(\$2.2 billion)	(\$2.6 billion)
Medium Duration 20 to 44 weeks	\$1 billion	\$700 million	\$120 million
Long Duration 32 to 45 weeks	\$3.3 billion	\$2.9 billion	\$2.1 billion

Notes: All estimates are based on publicly available data, with 2009-10 as a base year. Additional costs are over and above actual program costs for 2009-10. Does not include change in weekly benefit calculation. A nationally standardized weekly benefit formula could either increase or decrease costs depending on the calculation chosen.

4. ELIMINATE THE HIGHER ENTRANCE REQUIREMENT FOR NEW ENTRANTS AND RE-ENTRANTS TO THE WORKFORCE

There is very little information available about the effect of the NERE (910 hour) on workers' ability to access benefits, particularly in regions that are not part of the NERE pilot project.

The NERE pilot project allows new entrants and re-entrants in specified regions to access EI regular benefits after 840 insurable hours of employment, rather than the usual 910 hours. The HRSDC 2010 Monitoring and Assessment Report indicated that the impact on take-up was likely to be moderate.

Based in part on this result, we estimate that lowering or eliminating the NERE to 700 hours would cost at least \$500 million; a 560 hour entry requirement would cost about \$900 million; and a 420 hour entry requirement would cost \$1.3 billion.

5. CREATE A NEW SYSTEM OF TEMPORARY UNEMPLOYMENT ASSISTANCE OUTSIDE THE EI PROGRAM

In one estimate, TUA would have a gross cost of \$1 billion annually, or a \$900 million net cost after repayments are made. This estimate is based on the TUA example presented in this report on page 37 and was produced with the assumption that up to one-fifth of the unemployed who are not eligible for EI benefits apply for TUA in a given year, translating into about 140,000 TUA recipients per year, at least initially. A repayment rate of 10 per cent is also assumed.

REPAYMENT

Repayment provisions could be structured in this example as follows:

1. Those with incomes between the basic personal amount and the second tax bracket (i.e. between \$10,382 and \$40,970 in 2010) would repay at a rate of half the first federal tax rate of 15 per cent, which works out to 7.5 per cent on income above the basic personal amount repaid.
2. Those with incomes in the second bracket would repay at a rate of the federal tax rate for that bracket, or 22 per cent of income above \$40,970.
3. Under the repayment schedule described above, TUA benefits would be fully repaid at income of \$64,579.

Under the design presented, repayment would be quite forgivable (e.g. not fully repayable until annual income is over \$64,579). Stronger repayment provisions or implementing more features of an "individualized account" would lower costs.

WOULD THERE BE A MARGINAL EFFECTIVE TAX RATE (METR) PROBLEM?

Policymakers must always be concerned about the impact of social benefits on METRs and must strive to ensure that finding and taking new work is always a better financial option than collecting benefits.

In some cases, as earned income goes up, the impact of tax rates and statutory reduction in benefits encourage some individuals to stay out of the labour force. It is important to consider whether TUA's repayment provisions would also discourage individuals from finding new work.

TUA as proposed would increase marginal effective tax rates (METRs) for those with modest to middle incomes who receive TUA. A government very concerned about increased METRs for those who go back to work could allow repayment over two years, or over what remains of the recipient's five year eligibility period. A similar approach is used in first time homebuyers' withdrawals from RRSPs. Recipients could, of course, choose to repay sooner if they wished.

Given its temporary and time-limited nature, we believe that TUA can be appropriately calibrated so that it does not create clawback rates that are disincentives to finding new work.

6. TEST WAGE INSURANCE FOR LONG-TENURED WORKERS AND ELIMINATE PROVISIONS WHEREBY SEVERANCE PAY CAN DISPLACE EI BENEFITS

We recommend that wage insurance first be tested through a pilot project in order to evaluate outcomes such as take-up, effectiveness in promoting continued labour force attachment, and to estimate the possible cost of full implementation.

The ultimate cost of a wage insurance program would depend on the program's design, including eligibility (e.g. what is considered "long-tenure"), the length of time wage insurance would be paid, and the portion of the difference between the worker's old earnings and new earnings that would be replaced.

Ensuring that severance pay never displaces EI by eliminating the maximum period of 104 weeks in which EI and severance (pro rated) can be received would cost an estimated \$5 million per year.

7. MODIFY BENEFITS IN RESPONSE TO THE BUSINESS CYCLE (E.G. EXPAND WORK-SHARING DURING RECESSIONS)

This would result in additional program costs during recessions only. Expanded work-sharing arrangements would offset the cost of EI regular benefits for those who would have been laid off in the absence of work-sharing.

8. ESTABLISH A TRANSPARENT PROCESS FOR TESTING CHANGES TO THE EI PROGRAM

Changing the approach to EI pilot projects should have no additional cost. It would likely save money if it results in an end to pilot projects that are in fact additional regional subsidies.

9. TREAT TEMPORARY FOREIGN WORKERS FAIRLY

It is very difficult to determine from the information available how many temporary foreign workers cannot access EI regular benefits. Using publicly available statistics from Citizenship and Immigration Canada, we assume that temporary foreign workers who require a “labour market opinion,” particularly live-in caregivers, seasonal agricultural workers, and those participating in the low skill pilot project, are the most likely to be experiencing difficulty accessing benefits. If these workers were able to receive EI regular benefits, the additional annual program costs could be up to \$300 million.

If temporary foreign workers are fully exempted from the EI regular benefits system, an appropriate premium reduction for these workers would be calculated by the EI actuarial department.

10. MODIFY THE LOW INCOME FAMILY SUPPLEMENT TO TRACK GROWTH IN MAXIMUM INSURABLE EARNINGS

We estimate that increasing the low income family supplement cutoff to match increases in the EI maximum insurable earnings since 1996 would cost an estimated \$30 million in the first year. This estimate assumes a new zero benefit level of \$29,377 and that the benefit phase-out range moves in tandem with the increased threshold.

11. TRANSITION THE DELIVERY OF BENEFITS FOR SELF-EMPLOYED FISHERS OUT OF EI

Governments should examine whether there is a rationale for supporting new self-employed fishers outside of EI. If so, a program should be created and funded through general revenue. Self-employed fishers currently within the program should maintain benefit eligibility.

Based on the 2010 EI Monitoring and Assessment Report (CEIC, 2011), the amount no longer spent on EI fishing benefits in the first year would be about \$7 million. The cumulative amount transferred out of EI after five years would be an estimated \$38 million. A \$7 million transfer of spending from EI would have a negligible effect on the EI premium rate.

CHANGES TO ACTIVE EMPLOYMENT MEASURES

12. FUND ALL TRAINING AND ACTIVE EMPLOYMENT MEASURES THROUGH A GENERAL REVENUE-FUNDED TRANSFER TO PROVINCES

The federal government spends \$1.95 billion annually through the EI account on transfers to provinces for delivery of active employment measures. If these were removed from the EI system, the EI employee premiums rate could go down by roughly 17 cents, with LMDA transfers funded from federal general revenue.

13. ENHANCE THE RELEVANCE AND EFFECTIVENESS OF THE FORUM OF LABOUR MARKET MINISTERS

This proposal would imply a modest increase in administrative costs.

14. ENABLE INDIVIDUALS TO PURSUE SKILLS DEVELOPMENT (SUCH AS HIGH SCHOOL AND POST-SECONDARY EDUCATION) WHILE RECEIVING EI BENEFITS

It is difficult to estimate how many potential EI recipients are foregoing benefits in order to pursue education. Minimal additional cost is expected. Under EI rules, workers have to be laid off in order to receive benefits (i.e. workers cannot voluntarily quit their jobs in order to go back to school and at the same time apply for EI benefits). This rule should prevent excessive additional costs. Our proposal is targeted only to individuals who lose a job through no fault of their own, then choose to pursue educational opportunities.

CHANGES TO SPECIAL BENEFITS

15. PROVIDE PARENTAL BENEFIT RECIPIENTS WITH A CHOICE BETWEEN HIGHER BENEFITS OVER A SHORTER PERIOD OR LOWER BENEFITS OVER A LONGER PERIOD

Our upper-limit estimate for this change is \$100 million, if all recipients choose a higher weekly benefit with a shorter duration, which is unlikely. If the portion of parents taking the higher weekly benefit amount proves to be similar to QPIP, the cost could be about \$50 million. These amounts do not include elimination of the two-week waiting period for special benefits.

Cost could be lower or zero if the options are structured so that opting for a higher weekly benefit for shorter duration results in lower total benefits paid out.

16. REMOVE THE TWO-WEEK WAITING PERIOD FOR SPECIAL BENEFITS

We estimate that removal of the two-week waiting period for special benefits will cost \$150 million. This assumes that all recipients who do not exhaust benefits receive an additional two weeks of benefits. This is a liberal estimate of costs. Most of this cost arises from extra weeks paid to those receiving sickness benefits. Sickness benefits tend not to be exhausted, therefore eliminating the two week waiting period would imply an additional two weeks of benefits for most recipients.

17. TEST A CHANGE TO SICKNESS BENEFITS TO SUPPORT LABOUR MARKET PARTICIPATION OF PERSONS WITH DISABILITIES

We recommend that this proposal first be tested through a pilot project in order to evaluate outcomes such as take-up; effectiveness in promoting labour force attachment, particularly among those with episodic disability; and to estimate the possible cost of full implementation. The cost would depend strongly on the number of individuals with episodic disabilities who choose to take advantage of this new option.

CHANGES TO EI FINANCING AND MANAGEMENT

18. STRENGTHEN AND BROADEN THE AUTHORITY OF THE CANADA EMPLOYMENT INSURANCE FINANCING BOARD (CEIFB)

This proposal may entail some additional administrative cost due to the expanded role of the CEIFB. There will be, for example, additional costs from collecting and producing EI data that is currently not available, sharing it with other governments, and making it more accessible to researchers and the public generally. Other aspects of this proposal, such as more evaluation or program assessment or recommendations about recessionary measures, could entail a transfer of responsibility from HRSDC or the EI Commission, but should not lead to significantly higher overall spending.

More rigorous evaluation, measurement, and reporting should lead to cost-savings over time as policy choices are tied more closely to evidence of effectiveness.

IMPACT OF THE PROPOSALS ON FEDERAL SPENDING AND THE EI PREMIUM RATE

In total, if a cost-neutral approach to national standardization were taken, the Task Force's proposals would mean additional EI benefit payments of \$1.4 billion, which is about a 7 per cent increase in annual spending on EI income benefits.

Including the Temporary Unemployment Assistance (TUA) estimate of \$900 million, total additional federal spending on benefits would be about \$2.3 billion.

Once funding for active employment measures is removed from EI, the net impact of the recommendations on the EI program would be an overall decrease in EI program expenditure of about \$500 million. The TUA (\$900 million) and LMDA transfers to provinces (\$1.95 billion) would have to be funded through federal general revenue.

The most expensive recommendations are the creation of TUA and the elimination of higher entry requirements for new and returning workers. Both of the changes would help those in the new labour market; these are the primary recommendations designed to provide more income-security to new workers, those with multiple part-time jobs and the self-employed.

The EI system is funded through EI premiums. Any change in EI expenditure would have to be reflected in the premium rate. Based on insurable earnings projections for 2011 from the EI Actuarial Report, a \$500 million decrease in spending would lead to about a \$0.04 decrease in the employee premium rate. As noted, \$2.9 billion in additional funding would have to be sourced from federal general revenue.

APPENDIX 2

OVERVIEW OF POLICY PROPOSALS NOT RECOMMENDED

INCLUDING THE SELF-EMPLOYED IN EI REGULAR BENEFITS

EI regular benefits are designed to serve as a system of protection against unexpected and involuntary unemployment. A primary (and overwhelming) obstacle to including the self-employed in regular benefits is the difficulty in determining whether a self-employed person's unemployment is involuntary and unexpected.

It is also not clear what constitutes unemployment for this group of workers. Many of the self-employed experience normal and expected time between contracts and clients. Do these periods without work constitute unemployment? How, administratively, would the EI system determine the difference between the normal work-cycle of a self-employed person and "actual" unemployment? How would the system verify what contracts the self-employed person has with clients and whether or not payments are in fact forthcoming for work that is being done?

Much discussion around income security for self-employed individuals stems from concern about "misclassification," a situation that occurs when workers in traditional employment are formally classified as self-employed by their "employers." These workers and their employers do not contribute EI premiums and the workers cannot qualify for benefits as a result. Some are concerned that such arrangements are on the rise (Gellatly, 2007 p. 30). This is a problem that should be addressed through labour standards and adequate enforcement of existing legislation, not through changes in the EI system.

This is not to say that there should be no safety net for the self-employed. The Task Force has recommended implementing TUA, which is a form of temporary assistance available to the self-employed and others who are currently not covered by the EI umbrella. We concluded that this was a more nimble, flexible response to the varied employment situations of those termed "self-employed."

EXPERIENCE RATING

Experience rating can be "employer-side" or "employee-side." Employer-side experience rating adjusts employer premiums according to the number of workers laid off in the past. For example, firms that frequently lay off workers pay more; firms that infrequently lay off workers pay less. Employee-side experience rating links employee premiums or benefits to the frequency of their use of the system.

The purpose of experience-rating is to make EI a “tighter” insurance system. Frequent users pay more into it or can access less out of it. Its goal is to ensure that the EI system does not lead to some sectors, firms, or workers being subsidized by others. It is particularly intended to prevent employers or employees from extracting benefits as part of their business models or employment choices.

The EI system briefly employed a system of employee-side experience rating in the form of the “intensity rule” in place between 1996 and 2000. This rule reduced the EI replacement rate of repeat EI beneficiaries by up to five per cent.

Many have advocated for the inclusion of experience rating in the EI system (see for example Gunderson, 2011; Nakamura and Diewert, 2004). While the Task Force sees experience rating as theoretically attractive, several concerns prevent us from recommending its reintroduction at this time. Experience rating can impinge upon the EI system’s core objective: to provide earnings replacement for workers experiencing unexpected unemployment. It can also cause other unintended consequences.

Under systems of employer-side experience rating, firms may pressure employees not to make claims, challenge the legitimacy of laid off employees’ claims, or simply pass on the cost of increased premiums in the form of reduced wages. For example, the introduction of employer-side experience rating in Washington State negatively impacted wages and caused the number of benefit claims rejected to go up (de Raffe, 2005).

Such systems can also penalize firms that experience a succession of difficulties caused by external factors. Under systems of employee-side experience rating, workers who face a succession of layoffs through no fault of their own can similarly be penalized.

Experience rating is also administratively onerous. In our view, the costs of administration and negative unintended consequences do not clearly outweigh benefits. It could result in a more complex EI system where benefit entitlements are more difficult to understand.

In Canada, experience rating has often been recommended by those concerned with the regionally differentiated EI system and the incentives it creates to organize work in some communities around short-term employment. The EI Task Force proposal for a nationally standardized entrance requirement, benefit duration, and benefit calculation should go some distance in reducing these concerns.

We acknowledge, however, that should a nationally standardized system fail to reduce the incentives for some employers to use the EI system as a subsidy for their business model and an unfair competitive advantage, experience rating would again need to be considered.

LOWERING ENTRANCE REQUIREMENTS TO INCREASE EI ACCESS

Many of those concerned with access to the EI system and the fact that lower percentages of the unemployed currently receive EI benefits than in the past often focus upon the hours-based requirement for accessing EI. The hours-based entrance requirement is often assumed to be the primary mechanism that determines whether or not unemployed individuals qualify for EI benefits.

As discussed under the Task Force’s recommendation for the creation of a system of Temporary Unemployment Assistance, a lack of sufficient hours is not a primary reason why many of the unemployed do

not qualify for EI. Depending on the region, lowering the hours requirement to virtually nothing could benefit only approximately 15% of the unemployed who were not receiving EI in 2010. Any realistic lowering of the entrance requirement could only benefit a portion of this 15 per cent.

Lowering the EI entrance requirement would be of small benefit to the unemployed, and the benefits would tend to accrue in seasonal labour markets, increasing the degree to which firms and workers across the country subsidize those engaged in seasonal industries.

A substantial portion of unemployed workers would not benefit from any modification to EI qualification rules. In 2010, a full 43 per cent of the unemployed in Ontario made no recent EI contribution, meaning that no change to EI qualification rules could have benefited them. Even re-allowing voluntarily quitting as a qualifying job separation for EI benefits—which would increase the number of beneficiaries and add substantial costs—would not assist these individuals.

All of this suggests that lower levels of access to the EI system today should be addressed by a new program to accompany EI rather than modification to the EI system aimed at increasing EI access.

We conclude that the introduction of TUA is a more nimble, flexible policy response for workers who lose their job but have insufficient hours to qualify for EI. We also conclude that TUA would not create the same negative incentives produced with lowering the entrance requirement.

ELIMINATING THE TWO-WEEK WAITING PERIOD FOR REGULAR BENEFITS

The two-week waiting period is intended to prevent the EI system from intervening in normal “job churn” by not paying benefits to individuals who may be rapidly reemployed or who have the capacity to “self-insure” for a brief period.

However, the two-week waiting period is often a source of hardship. Some workers are not able to sustain themselves for two weeks without pay, which can push those who qualify for EI to provincial social assistance systems. Once EI benefits begin, social assistance payments are then recovered by deducting them from EI payments. It can be many weeks before a recipient receives full EI benefits.

The two-week waiting period is long by international standards and is in fact an outlier. Most other comparator countries to Canada employ either a one-week waiting period or no waiting period (Van Audenrode et al., 2005).

The intergovernmental entanglement caused by the interaction between EI and social assistance is unnecessary and harmful to some new EI qualifiers. However, eliminating the two-week waiting period for regular benefits has been estimated to cost \$1 billion per year and would also benefit individuals who have the capacity to support themselves during the waiting period. An investment of \$1 billion elsewhere can achieve more substantial outcomes for Canada’s unemployed.

We conclude that the introduction of TUA is a better policy response to help those in need of short-term assistance while they wait for their EI payments. Unlike the elimination of the two-week waiting period, the use of TUA would target assistance to those in need rather than all those who lose their job. Given the need for fiscal prudence and the costs associated with the introduction of a new benefit like TUA,

we conclude that the elimination of the two-week waiting period is not the best use of \$1 billion. Any incremental new spending to support the unemployed should be directed towards those most in need.

REMOVING SPECIAL BENEFITS FROM EI

Opinions differ on whether it is appropriate to fund special benefits, particularly maternity and parental benefits, through a system of social insurance or from general revenue.

For example, in an analysis conducted for HRSDC, Michael Prince argued that maternity and parental benefits fit tightly with the rationale behind an unemployment insurance system: “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” (Prince, 2009).

On the other hand, Todd Mallett of the Canadian Federation of Independent Business has argued that, “...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” (Mowat Centre EI Task Force, 2010b). Courchene and Allan similarly emphasize that maternity and parental benefits should be removed from EI and “to the extent-possible be citizen-based (like medicare)” (Courchene and Allan, 2009 p. 21).

The Task Force carefully considered input from our consultation phase. Deep reservations were expressed about reordering the funding model for special benefits. Special benefits are integral to the modern Canadian labour market and have been very successful in supporting the labour force participation of women. If we were faced with a blank slate, there might be better ways to fund special benefits than through EI premiums. However, given the importance of these benefits and the difficulty in removing them, we do not recommend fundamentally reordering the funding model for special benefits.

The current approach has achieved much success and any attempt to reorder it could threaten that success. Our recommendations are designed to improve upon special benefits for those who are currently covered by EI, as well as for some who could conceivably be covered (i.e. those with disabilities).

We would note, however, that this does little for those who fall outside the EI umbrella. If the federal government considers expanding social benefits, we would prefer that these be delivered as refundable tax credits available to all. We are concerned about the expansion of elements of the Canadian social safety net that are available only to workers who are part of the EI system. Those outside the EI system should not be left even further behind.

CHANGES TO THE STANDARD REPLACEMENT RATE

We chose not to deal with the question of what an appropriate replacement rate should be (i.e. what percentage of an employee’s salary should be replaced by EI if they lose a job). This is clearly a crucial question.

The replacement rate determines how much EI recipients will receive in benefits, and is a significant determinant of overall system cost, premium rates, and the incentives for EI recipients to return to work. Any renewed discussion of EI should likely include a discussion of replacement rates.

PREMIUM REFUND FOR LOW INCOME WORKERS

Some have proposed that the EI premiums paid by very low income workers be refunded if they have not recently accessed the EI system. This proposal is motivated by equity considerations: EI is a regular source of income support for seasonal low income workers, while it is low income workers in non-seasonal work who pay a disproportionate share of their income to support the system. Our recommendations pre-empt much of the motivation for this proposal by ensuring that all workers have equal access to the same EI benefits and that there is an accessible safety net in times of need for non-EI qualifiers (TUA).

If implemented, a premium refund would be experienced by low income workers as an income-raising, tax-delivered benefit. There could certainly be a policy rationale for implementing such a benefit. In fact, the Working Income Tax Benefit (WITB), which already exists, achieves this purpose. If the federal government were to pursue enhancement of support for low income workers, it would be preferable to expand the existing WITB that could conceivably benefit all low income workers rather than create a new benefit delivered to EI contributors only.

APPENDIX 3 CURRENT EMPLOYMENT INSURANCE ENTITLEMENT TABLE

Number of hours of insurable employment in the qualifying period	6% and under	More than 6% but not more than 7%	More than 7% but not more than 8%	More than 8% but not more than 9%	More than 9% but not more than 10%	More than 10% but not more than 11%	More than 11% but not more than 12%	More than 12% but not more than 13%	More than 13% but not more than 14%	More than 14% but not more than 15%	More than 15% but not more than 16%	More than 16%
420-454	0	0	0	0	0	0	0	0	26	28	30	32
455-489	0	0	0	0	0	0	0	24	26	28	30	32
490-524	0	0	0	0	0	0	23	25	27	29	31	33
525-559	0	0	0	0	0	21	23	25	27	29	31	33
560-594	0	0	0	0	20	22	24	26	28	30	32	34
595-629	0	0	0	18	20	22	24	26	28	30	32	34
630-664	0	0	17	19	21	23	25	27	29	31	33	35
665-699	0	15	17	19	21	23	25	27	29	31	33	35
700-734	14	16	18	20	22	24	26	28	30	32	34	36
735-769	14	16	18	20	22	24	26	28	30	32	34	36
770-804	15	17	19	21	23	25	27	29	31	33	35	37
805-839	15	17	19	21	23	25	27	29	31	33	35	37
840-874	16	18	20	22	24	26	28	30	32	34	36	38
875-909	16	18	20	22	24	26	28	30	32	34	36	38
910-944	17	19	21	23	25	27	29	31	33	35	37	39

945-979	17	19	21	23	25	27	29	31	33	35	37	39
980-1014	18	20	22	24	26	28	30	32	34	36	38	40
1015-1049	18	20	22	24	26	28	30	32	34	36	38	40
1050-1084	19	21	23	25	27	29	31	33	35	37	39	41
1085-1119	19	21	23	25	27	29	31	33	35	37	39	41
1120-1154	20	22	24	26	28	30	32	34	36	38	40	42
1155-1189	20	22	24	26	28	30	32	34	36	38	40	42
1190-1224	21	23	25	27	29	31	33	35	37	39	41	43
1225-1259	21	23	25	27	29	31	33	35	37	39	41	43
1260-1294	22	24	26	28	30	32	34	36	38	40	42	44
1295-1329	22	24	26	28	30	32	34	36	38	40	42	44
1330-1364	23	25	27	29	31	33	35	37	39	41	43	45
1365-1399	23	25	27	29	31	33	35	37	39	41	43	45
1400-1434	24	26	28	30	32	34	36	38	40	42	44	45
1435-1469	25	27	29	31	33	35	37	39	41	43	45	45
1470-1504	26	28	30	32	34	36	38	40	42	44	45	45
1505-1539	27	29	31	33	35	37	39	41	43	45	45	45
1540-1574	28	30	32	34	36	38	40	42	44	45	45	45
1575-1609	29	31	33	35	37	39	42	43	45	45	45	45
1610-1644	30	32	34	36	38	40	42	44	45	45	45	45
1645-1679	31	33	35	37	39	41	43	45	45	45	45	45
1680-1714	32	34	36	38	40	42	44	45	45	45	45	45
1715-1749	33	35	37	39	41	43	45	45	45	45	45	45
1750-1784	34	36	38	40	42	44	45	45	45	45	45	45
1785-1819	35	37	39	41	43	45	45	45	45	45	45	45
1820-	36	38	40	42	44	45	45	45	45	45	45	45

Source: Service Canada, 2010 p.24

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ABOUT THE MOWAT CENTRE EI TASK FORCE

The Mowat Centre convened the Employment Insurance Task Force to examine Canada's support system for the unemployed and propose a blueprint for a strengthened national system. The Mowat Centre EI Task Force is independent, non-partisan, and research-driven.

ADVISORS

The Task Force was supported by an Advisory Committee, co-chaired by Roy Romanow, former Premier of Saskatchewan, and Ratna Omidvar, President of the Maytree Foundation.

The Advisory Committee provided the Task Force with invaluable sectoral, technical, and regional perspectives and insights, although some members were not able to participate in all of the Task Force's activities or for the duration of the Task Force's work. The conclusions and recommendations presented in this report do not necessarily reflect the views of those who served as advisors:

Rahul K. Bhardwaj, Ken Boessenkool, Mel Cappe, Ian Clark, Don Drummond, W.E. (Bill) Fearn, Danny Graham, Diane Gray, Ron Jamieson, The Hon. Frances Lankin, William A. MacKinnon, The Hon. Roy McMurtry, Alain Noël, Dr. Susan Pigott, and Robbie Shaw.

The Task Force also benefited from exceptional advice from many others who were not part of the advisory committee. We would like to thank all those who provided generously of their time and counsel, in particular David Carter-Whitney, Peter Gusen, George Jackson, James Lahey, Richard Shillington and Arthur Sweetman. We would also like to thank those from various governments who helped us understand how the program was working in their provinces. Many of the authors of our background research papers also provided additional advice throughout the process. The recommendations of the Task Force do not necessarily reflect the views of any of our advisors.

CONSULTATION

The Task Force consulted with stakeholders across Ontario and received written submissions from individuals, organizations, and provincial governments across Canada.

In Kingston, North Bay, and Windsor, we met with social service, non-profit, business, labour, Aboriginal, and municipal government stakeholders as well as people with real life experience with the EI system. In each community, we learned about the operation of the EI program in the local context.

In Toronto, we convened a larger conference and dialogue attended by representatives of provincial and national labour unions, business and industry associations, Aboriginal organizations, financial institutions, non-profit organizations, and private charitable foundations. Representatives of organizations engaged with issues surrounding unemployment, labour market development, and training in the GTA also attended along with representatives from the City of Toronto, Ontario, and federal governments. Several authors of EI Task Force research papers (discussed below) gave their time to help guide discussion. Mowat Centre staff and volunteers served as moderators and note takers.

The Task Force's consultations were structured by our consultation workbook (Mowat Centre EI Task Force 2010a) and supported by our discussion paper (Mowat Centre EI Task Force, 2010b). The outcomes of the consultation process were reported in the Task Force's Consultation Report Back (Mowat Centre EI Task Force, 2011).

We also held three technical working group meetings with current and former government officials and leading public policy analysts in order to assess the administrative and broader policy implications of potential reforms. We also received submissions from across the country that have informed our conclusions.

We wish to thank all the participants, attendees, authors and presenters, dedicated staff and volunteers, and other contributors who made these events a success.

RESEARCH

Keith Banting served as the Task Force's Research Director. Dr. Banting is professor in the School of Policy Studies and the Department of Political Studies at Queen's University and is holder of the Queen's Research Chair in Public Policy.

The Mowat Centre EI Task Force commissioned independent research papers on Canada's support system for the unemployed from Canada's leading experts. These papers each addressed different areas of the EI system and provided us with crucial input and options for reform.

Each paper went through a peer review process and was also reviewed by practitioners in government and other organizations engaged with the EI program. An authors' workshop was held in Toronto in which the researchers had the opportunity to comment on each other's drafts early in the process. The papers are available from the website of the EI Task Force: www.mowateitaskforce.ca.

We wish to thank the anonymous reviewers who gave of their time to review this research.

AUTHORS & THEIR PAPERS

The Design of Employment Insurance in a Federation

by Robin Boadway and Jean-Denis Garon

Training Policy for the 21st Century: Decentralization and Workforce Development Programs for Unemployed Working-Age Adults in Canada

by Allison Bramwell

What do We Know about the Relationship Between Regionalized Aspects of the Unemployment Insurance System and Internal Migration in Canada?

by Kathleen Day and Stanley Winer

The Income Sources for Long-Term Workers Who Exhaust Employment Insurance Benefits

by Ross Finnie, David Gray, Ian Irvine, and Yan Zhang

Employment Insurance in the New World of Work

by Morley Gunderson

The Effectiveness of Training for Displaced Workers with Long Prior Job Tenure

by Stephen Jones

Hidden Regional Differentiation: EI and Unequal Federal Support for Low Income Workers

by Jon Medow

Fixing the Hole in EI: Temporary Income Assistance for the Unemployed

by Michael Mendelson and Ken Battle

Asymmetry at Work: Quebec's Distinct Implementation of Federal Programs for the Unemployed

by Alain Noël

The Impact of Regionally Differentiated Entitlement to EI on Charter-Protected Canadians

by Michael Pal and Sujit Choudhry

Unemployment Compensation and Adjustment Assistance for Displaced Workers: Policy Options for Canada

by Craig Riddell

Employment Insurance: A Macroeconomic Comparison with Other Income-Support Initiatives

by William Scarth

What's Happening with Welfare in Canada?

by John Stapleton

Reforming EI Special Benefits: Exploring Alternative Financing and Delivery Options

by Luc Turgeon

The Challenge of Expanding EI Coverage: Charting Exclusions and Partial Exclusions on the Bases of Gender, Immigration Status, Age, and Place of Residence and Exploring Avenues for Inclusive Policy Redesign

by Leah F. Vosko

The Governance Problem in Employment and Training Policy in Canada

by Donna Wood and Thomas Klassen



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