



WORKERS LEFT OUTSIDE THE EI UMBRELLA

Explanations and a Simple Solution

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APPLIED PUBLIC POLICY RESEARCH
INFORMED BY ONTARIO'S REALITY

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EXECUTIVE SUMMARY

Canada's signature and only federal social support program for the unemployed, Employment Insurance (EI), has not kept up with fundamental changes to the Canadian labour market. The program is failing as an automatic stabilizer, it is failing to protect most workers against the risk of unemployment, and it is failing to treat workers equally across regions, communities, and sectors.

Assumptions about the nature of work and unemployment are embedded in the design of EI. Workers without traditional employment patterns or whose unemployment is inconsistent with these assumptions are excluded from the program's protection.

EI caters to workers who are either seasonally employed or who have stable, full-time employment and experience occasional or periodic layoffs. Workers in non-standard forms of employment—such as the self-employed, temporary contract workers, and multiple jobholders—are not well-served by the program. Neither are workers who are new to the labour market and have no recent work attachment. These workers are more likely to be young, to be immigrants, and to live in urban areas.

Changes to the EI program are needed but even an ambitious reform would not address these problems. Extensive analysis done by the Mowat Centre's EI Task Force shows that loosening EI rules would provide even more coverage to those already reasonably well protected and would do little to bring other workers in. Other changes, such as allowing more non-standard workers or workers without recent work attachment to access EI, would erode the insurance principles on which the program is based by too large a degree.

This paper makes the case for Temporary Unemployment Assistance (TUA), a repayable form of federal support for unemployed workers. TUA would be easily available for short periods of time. It would have no asset test and no up-front income test, making it flexible and responsive.

The objective of TUA would be to increase federal income support for unemployed workers who are currently excluded from or cannot access the EI program. It would be targeted particularly at non-standard workers, new labour force entrants, and some EI exhaustees who need more time finding work. If successful, the program would begin to even out the large differences in federal support across demographic groups, regions, and communities that EI is unable to bridge.

Two examples of TUA are presented in this paper. First, a “more generous” program design, with a higher weekly benefit and softer repayment requirements. Second, a less generous design with a lower weekly benefit and stronger repayment requirements. A design option that allows TUA to be repaid over several years is also presented.

TUA would be affordable, representing modest cost for the federal treasury, with a more generous example having an estimated net cost of about \$1 billion in the first year of implementation. This cost is projected to decrease over the following two years. This is a relatively small cost considering that TUA should fill major holes in the federal social safety net that are regionally and demographically skewed. When government resources are particularly scarce, it is essential that any proposed new spending is necessary, carefully focused, and cost effective. TUA passes these tests.

TUA would begin to reduce the regional disparities and urban-rural divide that have become defining aspects of Canada’s approach to supporting its unemployed. The federal government has a responsibility to provide protection against the risk of temporary unemployment in a manner that keeps up with changes in the Canadian labour market. TUA presents an opportunity for the federal government to address the current gap in support left by EI.

Workers Left Outside the EI Umbrella

EXPLANATIONS AND A SIMPLE SOLUTION

Mary Davis

Before 1991, Canada's Employment Insurance (EI) program provided benefits to as many as 80 per cent of unemployed workers at any given time. Today, that percentage has slipped to well below half.

This happened for two reasons. In the mid-1990s the federal government scaled back EI by restricting eligibility and reducing benefits. Also, the rise of non-standard employment and the increasing number of unemployed workers with no recent work history meant that fewer workers could meet the eligibility criteria or were not covered by the program at all. Why does this matter?

First, the program is responding less well to recessions now than it did in the past. During the recession of 2009, only 48 per cent of Canada's unemployed workers had access to EI benefits (see Figure 1), which was only four percentage points more than before the recession began. This is a significant drop in coverage compared to each of the two previous recessions when over three-quarters of unemployed workers had access to EI benefits. With the majority of unemployed workers left unprotected during a major recession, EI is failing in its role as an automatic stabilizer in many communities.

Second, EI provides too little support for some identifiable groups of unemployed workers, making it fail on equity grounds. Those left out are "clustered" demographically—they tend to be older, younger, recent immigrants, and women.

Third, the number of unemployed workers receiving EI benefits varies drastically from province to province, with some provinces achieving over 90 per cent coverage and others barely one-third. The same is true for urban and non-urban areas. For example, in 2011 about 90 per cent of New Brunswick's unemployed received EI benefits but the coverage rate in its largest city, Saint John, was only 57 per cent (see Figure 3). The substantial gap in coverage between urban and non-urban areas is consistent across all regions in Canada.

Is it acceptable that Canada's only national program for the unemployed serves some unemployed populations so well and others so poorly? Most would respond with a definitive "no."

The inability of EI to respond to the contemporary labour market calls for either a reworking of the system or a new program to help fill the gap it leaves. The Caledon Institute proposed a new form of repayable federal support for the unemployed as part of its new architecture for adult benefits (Battle et al., 2006) and followed up with the more detailed proposal *Fixing the Hole in EI: Temporary Income Assistance for the Unemployed* for the Mowat Centre EI Task Force (Mendelson and Battle, 2011). The Mowat Centre supports this proposal which would begin to fill the current gap in support facing workers. The Mowat Centre EI Task Force recommended the implementation of a system of Temporary Unemployment Assistance (TUA).

Why TUA?

Over the last three decades, Canada's labour market has undergone some marked shifts. A large majority of workers now live in urban areas and work in the service sector. More workers occupy non-standard forms of employment, such as self-employment and part-time work, pursue multiple jobs, or are in and out of temporary employment contracts. Each of the past three recessions has tended to lead to greater shares of workers in non-standard employment. There are also substantially more unemployed workers without recent work history. These include new labour force entrants, such as young workers and recent immigrants, and longer term unemployed workers, some of whom are casualties of industrial restructuring.

The EI program has not kept up with these fundamental changes and is ill-equipped to respond to contemporary unemployment patterns. This matters for two central reasons: 1) workers who are excluded can fall into destitution rather quickly should they lose employment; 2) the flexibility and adaptability of the workforce—elements considered essential to Canada's productivity and future prosperity—are undermined by the current approach.

The objective of TUA is to increase federal income support for unemployed workers who are currently excluded from or cannot access the EI program. TUA would be accessed largely by non-standard workers, new labour force entrants, and some EI exhaustees who need more time finding work. If successful, the program would begin to even out the large differences in support across demographic groups, regions, and communities that EI is unable to bridge.

This paper:

1. Explains how EI is failing to accommodate the modern labour market
2. Outlines changes in the labour force that have occurred over the past three decades and explains why EI cannot accommodate these changes

3. Shows that TUA is a logical and affordable solution to the growing income security gap in Canada
4. Illustrates two examples of TUA and discusses related policy issues
5. Discusses alternative proposals to address the income security gap and explains why TUA is the better option at this time

The bottom line is that Canada needs a flexible, effective, and cost-conscious federal program to plug the gap in the federal support system for the unemployed. TUA is all of these.

WHAT IS EI SUPPOSED TO DO?

This section examines EI and provides a brief assessment of its mandate, how it is failing to achieve it, and why a new program is necessary.

EI Should Absorb the Risk of Unemployment, but Does Not for Too Many

Like all insurance programs, EI is designed to pool risk. Specifically, the program should transfer at least some of the risk of unemployment away from the individual to the broader pool of contributors, which in the case of EI is all employers and employees.

EI is no longer absorbing the risk of unemployment for most workers, many of whom are non-contributors.

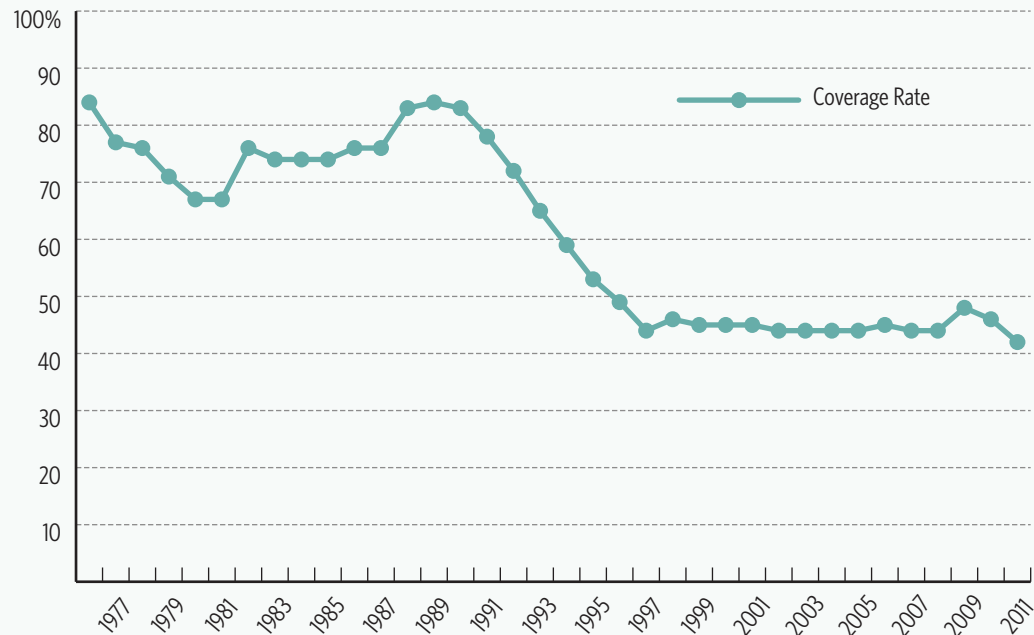
Figure 1 shows the number of persons receiving EI benefits as a share of all unemployed persons, also known as the “B/U ratio” or “EI coverage rate,” which is a simple way of illustrating the proportion of unemployed workers who are able to access EI benefits.¹ Until the mid-1990s, the large majority of unemployed individuals were covered by the program, with the B/U ratio reaching over 80 per cent in some years.

By 2011, only 42 per cent of Canada’s unemployed were receiving EI benefits, which is the lowest share recorded over the 35-year tracking period. Even considering the program’s generally declining coverage, this result is unexpected given that unemploy-

ment levels continued to be about 30 per cent higher in 2011 than before the 2009 recession began and the unemployment rate remained elevated at 7.4 per cent (Statistics Canada CANSIM Table 282-0002). This indicates that there are likely significant numbers of both EI exhaustees who remain unemployed and new labour force entrants experiencing longer than usual unemployment spells, but who are unable to access EI benefits.

FIGURE 1: EI No Longer Protects Most Workers Against the Risk of Unemployment

Percentage of Unemployed Persons Receiving EI Regular Benefits, 1976 to 2011



Sources: Author's calculation based on Statistics Canada CANSIM Tables 282-0002 and 276-0001; EI Regular Beneficiaries as a Share of Unemployed Persons.

Just over 40 per cent of Canada's unemployed can access benefits. The program is no longer providing adequate protection against the risk of unemployment in the broader Canadian economy.

EI Should Act as an Automatic Stabilizer, but Does Not

Employment Insurance was designed to help individuals who become unemployed. It is failing many workers in this respect. But EI also serves a larger macroeconomic purpose as an automatic stabilizer. Providing workers with earning replacement during periods of unemployment allows them to continue consuming without having to take on debt, sell assets, or resort to social assistance. In aggregate, EI benefits keep consumption levels more constant, thereby tempering the negative effects of a downturn and creating a stabilizing effect on the business cycle. Today, EI is failing in its role as an automatic stabilizer.

FIGURE 2: EI is Not Responding Adequately to Recessions

The Change in Unemployment Compared with the Change in EI Regular Beneficiaries (1000s of persons), 1977 to 2011



Sources: Author's calculation based on CANSIM Tables 282-0002 and 276-0001. Annual EI beneficiaries are calculated from monthly data.

Figure 2 shows the annual change in the number of unemployed persons compared with the change in the number of EI beneficiaries each year between 1977 and 2011. This can be thought of as the degree of “EI response” to increasing unemployment.² In 1982, the number of “new” unemployed workers and the number of “new” EI beneficiaries was very similar, showing that the program responded very well to increasing unemployment during that recession.

The situation changed by the next recession. In 1991, the EI response to increased unemployment was about 60 per cent. In 1992 it dropped to zero, even though unemployment grew by 126,000 in that year. Some researchers have pinned the declining response on program cuts that happened around the same time. However, EI program cuts did not begin until 1993 (HRSDC, 2010a), which is visible in the large decline in EI beneficiaries between 1993 and 1995.

The failure of EI to fully respond to rising unemployment in the early 1990s was, in part, due to the nature of that recession, which was gradual and prolonged with more structural unemployment, longer unemployment duration, and a higher incidence of non-standard work (HRSDC Strategic Policy and Research, 1998).

EI response in the latest recession was similar to that of the early 1990s, even though the recession itself was more similar to the recession of the early 1980s (i.e. quick onset and fairly quick recovery). In 2009, EI assisted just over 60 per cent of the newly unemployed. This was comparable to the program's response in 1991. Had unemployment continued to rise in 2010, EI would likely have had a weak response because of the ongoing dual effect of labour market changes and program cuts.

Breaking this down by region, the program's effectiveness as an automatic stabilizer is particularly weak in regions where EI coverage tends to be consistently low. For example, the "EI response" to rising unemployment during the last recession in Canada's largest cities—Toronto, Montreal, Vancouver, and Calgary, where overall EI coverage tends to be low—was about 50 per cent (Statistics Canada CANSIM Tables 282-0110 and 276-0009). Response was much better in some smaller communities, such as in Peterborough, where 90 per cent of the newly unemployed received benefits in 2009, and in Saskatoon where the response rate was about 75 per cent.

EI no longer responds to unemployment growth as effectively during recessions as it once did. The program's response varies considerably by location. Its role as an automatic stabilizer in the Canadian economy has eroded over time and has done so more dramatically in some communities than in others.

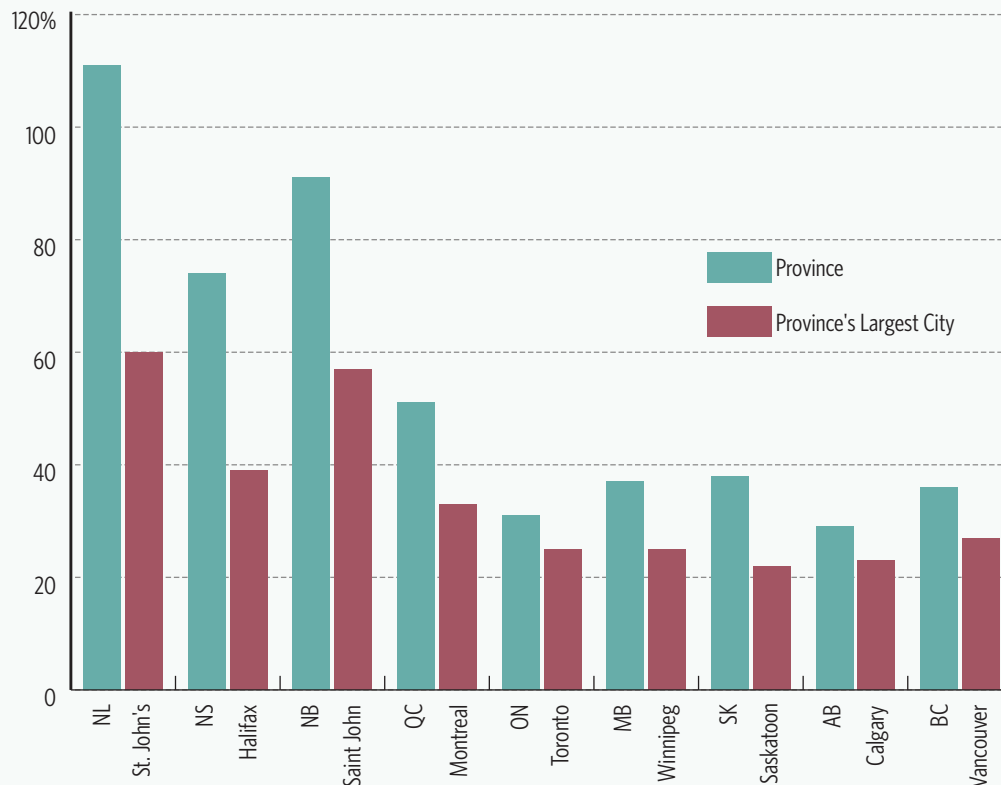
EI Should Provide Similar Support Across Regions and Between Urban and Rural Areas, but Does Not

A legitimate national program of support for the unemployed would provide similar or comparable access to benefits across regions and communities. Yet, EI heavily favours certain unemployed populations, particularly seasonal workers and other frequent claimants who have a strong presence in rural areas. Other unemployed populations are not as well served by the program, especially those in urban centres.

Figure 3 shows a considerable and consistent gap between EI coverage in each province and that of its largest city, with overall provincial coverage always being considerably higher than that of the urban centre. This trend even applies to provinces with very low coverage rates, such as Alberta and Ontario, though the difference is less pronounced. Smaller cities also tend to have lower EI coverage rates than the provinces in which they are located (e.g. Quebec City at 41 per cent versus Quebec at 51 per cent; Regina at 19 per cent versus Saskatchewan at 38 per cent).

FIGURE 3: The Large Majority of Urban Workers Cannot Access EI

Percentage of Unemployed Persons Receiving EI Benefits by Province and Largest City, 2011



Sources: Author's calculation based on Statistics Canada CANSIM series: 276-0001, 282-0002, 282-0110, 282-0110 and 276-0009

Notes: Data for EI beneficiaries in Charlottetown is not available. PEI's EI coverage rate was 92 per cent in 2011. The EI coverage rate can over- and under- represent the number of unemployed persons receiving EI benefits. As a result, coverage rates can exceed 100 per cent.

Canada is a highly urbanized country. In 2006, 80 per cent of the Canadian population lived in urban or suburban areas compared with only 54 per cent in 1941 (HRSDC, 2011). But the degree of urbanization still varies considerably from province to province. In 2006, at least 80 per cent of the populations of Quebec, Ontario, Alberta, and BC lived in urban areas. In Manitoba and Saskatchewan the share was only about 70 per cent and in Atlantic Canada it was just over half.

Figure 4 shows a clear negative relationship between the degree of urbanization and access to EI benefits across the provinces, further indication that the program provides stronger support to non-urban workers.

There is an undeniable bias in the EI program against the urban unemployed, who are appreciably less likely to have access to benefits even though they represent the vast majority of Canada's jobless.

FIGURE 4: More Urbanization Means Less EI

Percentage of Provincial Populations Living in Urban Areas Plotted Against Percentage of Unemployed Workers Receiving Regular Benefits



Sources: Author's calculation based on CANSIM Table 282-0002, CANSIM Table 276-001, and HRSDC (2011).

Note: The percentage of unemployed persons receiving regular benefits is derived from 2011 data and urbanization from 2006 census data.

The EI Program Should Provide Similar Support Across Sectors and Industries, but Does Not

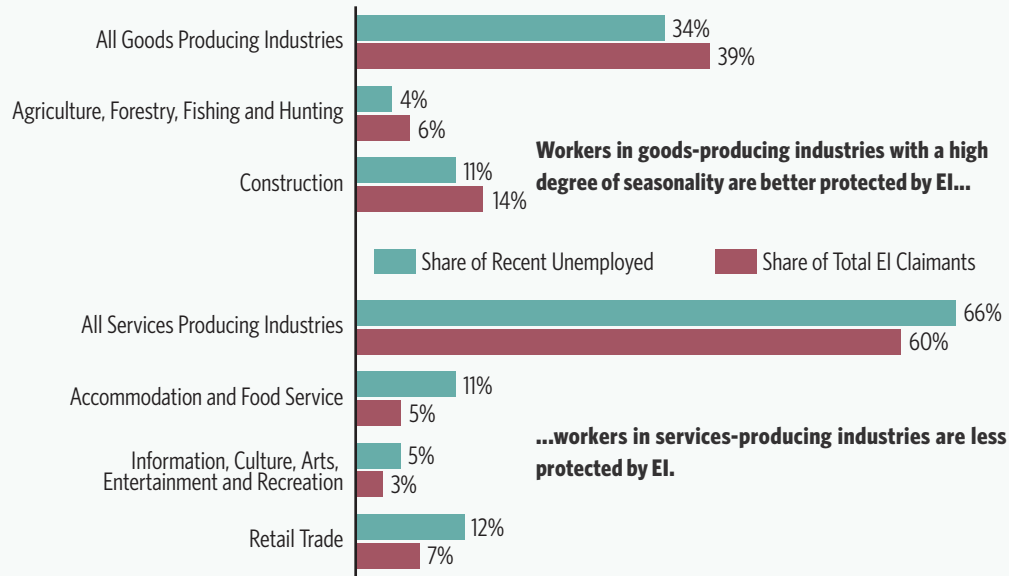
The 20th century shift from rural to urban living went hand in hand with the shift from the goods-producing sector to the services-producing sector. In the mid 1970s, the ratio of goods-producing employment to services-producing employment was 35 to 65; by 2011 it was 22 to 78 (Statistics Canada CANSIM Table 282-0008).

Despite this, the EI program continues to lend more reliable support to the goods-producing sector. In 2007-08, the last year before the recession began, about 39 per cent of EI regular benefits went to workers laid off from goods-producing industries, even though these workers represented only 34 per cent of the unemployed who had lost work recently and only 24 per cent of all unemployed persons.

Figure 5 shows that certain industries are over-represented in terms of EI benefit receipt while others are under-represented, when weighed against the concentration of unemployed workers in those industries.

FIGURE 5: EI Favours Workers in the Goods-Producing Sector

Share of EI Claims Versus Share of Workers Recently Unemployed, by Selected Industry, 2007-08



Sources: Author's calculations based on CANSIM Table 282-0008, Unemployment by Industry 2007 and 2008, and HRSDC (2008).

Note: Unemployment excludes long-term unemployment and workers without recent work attachment.

In general, goods-producing industries (e.g. construction) which tend to have a seasonal element and engage in regular layoffs, rely on the EI program disproportionately. Workers in these industries would tend to be full-time employees who are laid off periodically or on an annual basis and have reliable access to EI that is likely facilitated by employers. Seasonality and frequent claiming play a large role in the EI program. In 2007-08, over two-thirds of EI claims were workers who claimed either frequently or occasionally (HRSDC, 2008).³

By contrast, workers in industries with less seasonality, more precarious work arrangements, less union protection, and more employer diversity (e.g. accommodation and food service; information, culture, arts and entertainment; and retail trade) have more trouble accessing benefits.

EXPANDING EI IS NOT THE ANSWER

Ideally, some minor adjustments to EI eligibility criteria would enable the program to capture workers who now fall outside its sphere and are vulnerable to periods of unemployment. An important change would be the elimination of the higher entrance requirements for new and returning workers.

However, as shown by the Mowat Centre EI Task Force, loosening the program's entrance requirements would do little to bring in more excluded workers in, and at the same time would allocate even more resources to those workers who are already reasonably well covered (Mowat Centre EI Task Force, 2011).

The *Employment Insurance Coverage Survey* (2009) shows that among unemployed workers who did not receive EI benefits, about 23 per cent did not work enough hours to qualify. The remaining 77 per cent who did not receive benefits tended to have non-insurable employment, have no recent work attachment, or be EI exhaustees.⁴

Lowering the hours of work required to receive benefits to 360 hours across the country, as some have suggested, would benefit some (but not most) of the 23 per cent of workers who had insufficient hours. A recent report by TD Economics estimated that amending the existing hours-related eligibility structure would have improved Canada's B/U ratio "by a maximum of 10 percentage points" based on 2007 data (Bishop and Burleton, 2009).

Moreover, a change to EI eligibility would in no way assist the 77 per cent of excluded workers who are shut out primarily because they had employment that is not EI-eligible (e.g. self-employment), were new to the labour market and therefore had no work attachment, or had exhausted benefits.

Lowering the hours requirements would also direct more resources toward regions that are already well covered by the program. For example, in the Atlantic Provinces, which tend to have very high EI coverage rates, about 35 per cent of unemployed workers did not receive benefits due to insufficient hours (Employment Insurance Coverage Survey, 2009). Compare this with Alberta, where EI coverage is low: only 17 per cent of workers cited this reason. Therefore, a lowering of the hours requirements would further exacerbate the regional inequities that have come to define the program and would do little to support workers in non-traditional forms of employment.

A total redesign of the system into one that includes those without recent work history would erode the program's insurance principles to an unacceptable degree (Mowat Centre EI Task Force, 2011). Experts have generally concluded that attempting to

include the self-employed in the regular EI benefits system would be unfeasible. First, defining and verifying “unemployment” for the self-employed would be very difficult and entail a substantial administrative burden. Second, providing unemployment benefits to workers who control their hours of work and workloads would lead to problems of moral hazard (Mendelson and Battle, 2011).

EI is currently funded through employer and employee premiums charged in the form of a payroll tax. It would be neither reasonable nor politically feasible to expect employers and employees to fund the benefits of those without recent work history or contributions to the program.

THE LABOUR MARKET HAS CHANGED

Over the last three decades, Canada’s labour market has undergone a marked shift. Workers’ relationships with the labour market are more complex and less predictable. There are relatively fewer workers in goods-producing industries. The large majority of workers live in urban areas and work in the service sector. There are more workers in non-standard forms of employment and more unemployed workers with no recent work attachment, either because they are new to the labour market or are long-term unemployed.

The EI program, which still caters to a traditional model of employment, cannot accommodate these changes. Those in the traditional world of work have federal income support available when they need it. The unemployed in the “new world of work” do not.

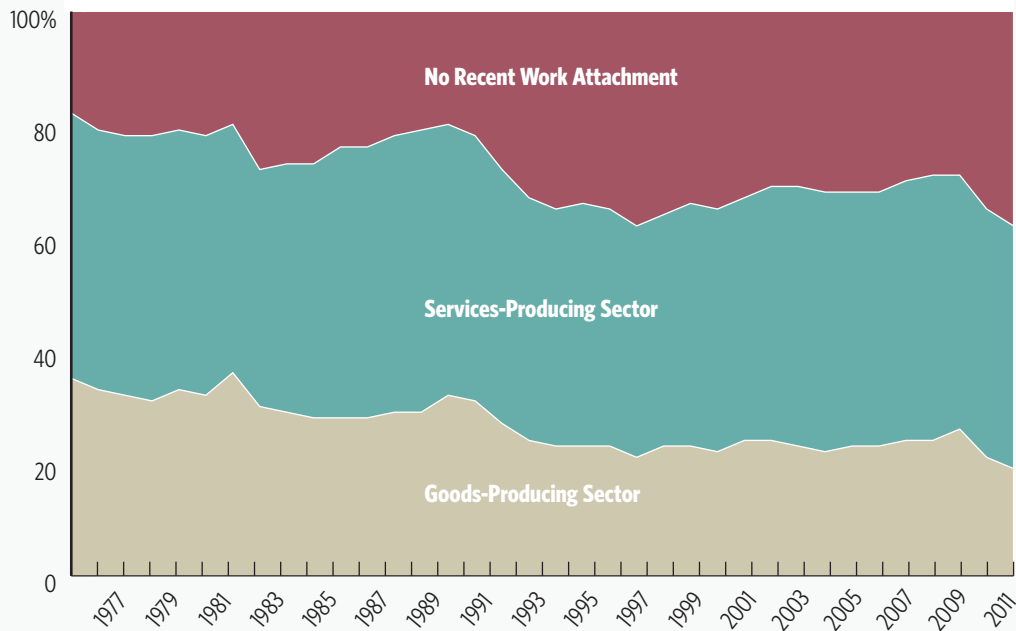
Changes to the Canadian labour market have been well documented.⁵ Some of these trends, such as the large increase in unemployed individuals with no recent work attachment and the rise of non-standard employment, are particularly relevant to the issue of federal support for the unemployed.

Many More Workers Have No Recent Work Attachment

The composition of unemployment has changed over the past three decades, with relatively fewer unemployed workers laid off from goods-producing industries and more unemployed workers with no recent work attachment.

FIGURE 6: The Composition of Unemployment in Canada has Changed

Unemployment by Sector, as a Share of Total Unemployment, 1976 - 2011



Source: Statistics Canada CANSIM Table 282-0008

Figure 6 shows this trend. Between 1976 and 2011, unemployment associated with the goods-producing sector fell by sixteen percentage points. Over the same period, having “no recent work attachment” became far more common, representing about 20 per cent of unemployment in 1976 and doubling to 40 per cent by 2011. The share of unemployment from the services-producing sector remained fairly constant over the period. In effect, the relative presence of unemployed workers from goods-producing industries has been replaced over time by unemployed workers with no recent work attachment.

This category of unemployed workers reflects a diverse group. It includes: the structurally unemployed, such as those affected by industry restructuring and who are perhaps EI exhaustees; other long-term or chronically unemployed persons who cannot find work due to labour force barriers (e.g. language, literacy, disability); and those who are new to the labour market, such as young workers, newly arriving immigrants, or workers re-entering the labour market after an absence.

Non-Standard Employment is More Prevalent

Labour market changes that began in the 1970s and accelerated in the 1990s have led to an increase in “non-standard” forms of employment, including self-employment, part-time employment, short-term contract work, and multiple job holding. Each reces-

sion tends to lead to larger shares of workers in non-standard forms of employment. Between 1976 and 2011, the incidence of part-time work increased by over 50 per cent, self-employment by 27 per cent, and multiple job holding by over 150 per cent. Growth in temporary work (i.e. contract, casual, and seasonal work) was also fast paced.⁶ Kapsalis and Tourigny calculate that about one-third of employment in Canada is non-standard (cited in Prince, 2009).

The rise in self-employment was strongest during the 1980s and 1990s and has been attributed to the aging of the labour force (older workers are more likely to be self-employed), technological changes that enable small businesses to operate with lower costs, and fewer opportunities in paid employment (Hou and Wang, 2011).

Growth in temporary employment was driven by short-term contract work, which now accounts for the majority of temporary jobs (Galarneau, 2010) and seven per cent of total employment in Canada (Statistics Canada CANSIM Table 282-0080).

In sum, Canadians' participation in the labour market has become more complex, with more workers opting for or being forced to take part-time work, self-employment, multiple jobs, or contract work. This can make their relationship to any particular job more tenuous and short-lived. More of today's unemployed also have no recent work attachment, which can go hand in hand with a longer duration of unemployment.

Perhaps not surprisingly, this "new" type of work and unemployment is clustered both geographically and demographically.

WHO THEY ARE

YOUNG WORKERS under age 25 are far more likely to be unemployed, have no recent work attachment, and pursue non-standard employment.

Due to changes in labour demand (more jobs requiring advanced technical skills, an absence of "good jobs" for those without higher education), youth can expect less employment security over their working lives than did previous cohorts (Saunders, 2006; Gunderson, 2011).

Reflecting these trends, youth unemployment rates have been higher than the general working population since the early 1990s (Usalcas, 2005). Young unemployed individuals are more likely to not have recent work attachment and to take on temporary employment, often as a gateway to permanent employment (Kapsalis and Tourigny, 2004; Statistics Canada CANSIM Table 282-0008).

Young workers are much less likely to receive EI benefits than other workers. In 2009-10, workers under age 25 represented only 12 per cent of EI claims but almost 30 per cent of total unemployment.⁷

WOMEN are more likely to work in services, have no recent work attachment, and be in non-standard employment.

Although womens' employment participation is now almost on par with mens', their participation in the labour force and their unemployment patterns tend to be different.

First, women are far less likely than men to be employed in goods-producing industries where EI coverage tends to be higher (Statistics Canada CANSIM Table 282-0008). Women are more likely to work part-time, have multiple jobs or temporary positions, and their presence in all forms of non-standard work (except part-time) has grown over time.⁸ In 2011, women comprised 44 per cent of total unemployment but 49 per cent of those with no recent work history (Ibid).

Given these trends, it is not surprising that women are less likely than men to receive EI benefits. The portion of EI claims made by women hovers around 40 per cent in most years (HRSDC, 2010b).

IMMIGRANTS have higher unemployment rates and greater presence in non-standard work.

Many immigrants have difficulty finding work when they arrive in Canada, making them more likely to be among the "no recent work attachment" category of unemployed (Vosko, 2011) and accept non-standard forms of employment, including temporary employment, self-employment, and involuntary part-time work (Hou and Wang, 2011; Gilmore, 2009). While immigrants are no more likely than Canadian born workers to be multiple job holders, they work longer hours in all their jobs compared with Canadian-born multiple job holders (Ibid).

Most of these trends have worsened over time, likely owing to the generally declining economic and employment status of immigrants in recent decades.⁹

The EI Monitoring and Assessment Report indicates that immigrants, and particularly recent immigrants, are indeed much less likely than other workers to receive EI benefits (HRSDC, 2010b).

LONG-TENURED WORKERS who have lost work bear a unique burden of economic change.

Industrial restructuring leaves many long-tenured unemployed for long durations without realistic prospects of reemployment at similar wages (Jones, 2011). Once EI benefits run out, many of these workers are left without support. Roughly 30 per cent of EI regular beneficiaries exhaust their benefits each year (HRSDC, 2010b).

WHERE THEY LIVE

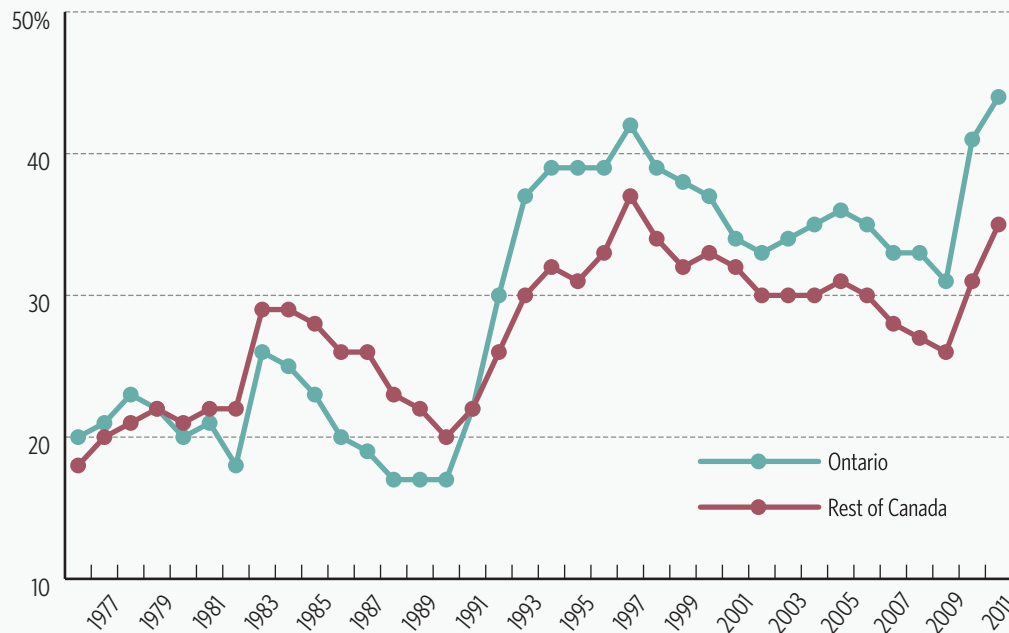
AMONG PROVINCES, Ontario has lost its relative position of employment strength.

In the past, Canada’s labour markets were generally less robust in its eastern regions and stronger in its western regions, with Ontario consistently outperforming national averages. The Mowat Centre EI Task Force found that measures of economic strength have converged across Canadian provinces in recent years, with Ontario losing much of its relative strength (Mowat Centre EI Task Force, 2011). Ontario’s relatively weakened economic position was also well documented by the Commission on the Reform of Ontario’s Public Services (2012).

The distribution of unemployed persons across Canada is one metric that shows this transformation. In 1976, Ontario held 33 per cent of Canada’s unemployed. By 2011, this share had risen eight percentage points to 41 per cent, and corresponded with decreases in the Atlantic provinces and Quebec (Statistics Canada CANSIM Table 282-0002). The trend is even stronger for unemployed youth.

FIGURE 7: Ontario Has More Workers Without Recent Work Attachment

Percentage of Unemployed Individuals who Did Not Work in the Preceding Year or Have Never Worked, 1976 - 2011



Source: Author’s calculation based on Statistics Canada CANSIM Table 282-0008, Unclassified Unemployment as a Share of Total Unemployment.
 Note: “Unclassified” unemployed workers are defined by Statistics Canada as those who have never worked or who last worked more than one year ago.

Figure 7 shows that Ontario also has relatively more unemployed workers with no recent work attachment compared with the other provinces.¹⁰

While Ontario does not have an overall higher incidence of non-standard work than other provinces, its non-standard workers tend to be more concentrated in the service sector, with fewer seasonal workers in primary industries (Statistics Canada CANSIM Tables 282-0012 and 282-0080). Ontario also experienced faster than average growth in all forms of temporary work arrangements during the 2000s than did other provinces (Ibid).

Despite this gradual overall deterioration in employment outcomes, Ontario's unemployed (along with those in Alberta and BC) are still far less likely to access EI benefits.

What are the reasons for this? Ontario's relatively high share of workers without recent work attachment, which includes young workers, recent immigrants, and unemployed long-tenured workers, is likely a main contributing factor.

Ontario also lacks the large numbers of seasonal EI claimants that tend to boost EI coverage rates in some provinces. Once seasonal claims are removed from the EI coverage rate calculation, the EI coverage gap between Ontario and the rest of Canada shrinks by nine percentage points, or more than half.¹¹

URBAN WORKERS are younger, more likely to be immigrants and are more likely to work in the services-producing sector.

As shown in Figures 3 and 4, the urban unemployed are considerably less likely to receive EI benefits.

Immigrants settle almost exclusively in urban areas. The 2006 census showed that about 90 per cent of immigrants lived in metropolitan areas. Urban centres are also home to most young workers, with about 72 per cent of Canada's young adults (age 20 to 24) living in large cities or their suburbs, compared with 68 per cent of the overall population (Martin Prosperity Institute, 2011).

The overall incidence of non-standard employment is higher in rural areas. This, however, is influenced by the high degree of seasonal employment in primary industries and agricultural self-employment.¹²

Temporary contract work and multiple job holding are more common in service industries (Statistics Canada CANSIM Table 282-0031), so these workers are likely to be more concentrated in urban areas where service employment dominates. Also, given the higher concentration of young workers and immigrants in cities, it is likely that there are relatively more unemployed workers with no recent work attachment in urban than in non-urban areas.

EMPLOYMENT INSURANCE CANNOT ACCOMODATE THE “NEW” LABOUR MARKET

The EI program provides temporary income replacement for workers who are laid off. To qualify for benefits a worker must accumulate sufficient work hours prior to the layoff and the work itself must be insurable. Self-employment, for example, is not insurable.

Such a program design was suitable for the workforce of the 1960s and 1970s when most workers held full-time, long-term employment, usually with one firm, and may have experienced occasional layoffs as part of the business cycle. The program is still suitable for many workers, but far fewer than was previously the case.

Today, an increasing number of workers are not covered by the program at all or do not qualify if they become unemployed. At any given time, EI provides benefits to less than half of unemployed individuals, compared with 70 to 80 per cent in past decades.

All of the categories of workers outlined in the previous section have limited access or no access to EI benefits during periods of unemployment or reduced earnings. The problem only worsens following recessions because of the program's inadequate response to lingering unemployment.

Because these workers are clustered in particular demographic groups and geographic areas, the EI system is failing some groups more than others. This of course is a problem for the individuals who are left unprotected. But an under-discussed aspect of the program's consistent lack of coverage among some groups is the absence of an automatic stabilizer during periods of economic slowdown. EI is denying specific groups (e.g. immigrants) and some communities (e.g. urban centres) the tempering effect of an automatic stabilizer during recessions, while consistently providing it to others.

TABLE 1: Employment Insurance Cannot Accommodate Today's Unemployed Workers

TYPE OF UNEMPLOYED WORKER	LABOUR FORCE TREND	WHO THEY ARE AND WHERE THEY LIVE	WHY THEY CANNOT ACCESS EI
Self-Employed	27 per cent more common now than in the 1970s. Tends to rise during and after recessions and decline during periods of growth.	Mostly men but increasingly women; immigrants; older workers. Self-employment is more common in non-urban areas, but self-employed immigrants are concentrated in cities.	Self-employed workers cannot participate in the EI regular benefit program. Self employment is not insurable.
Multiple Job Holders (2 or more jobs)	150 per cent more common now than in the 1970s. Nearly one million workers in Canada are multiple job holders.	Majority are women and share continues to grow. Immigrants are not more likely to have multiple jobs, but work longer hours. More likely in urban areas.	A person cannot be employed for a significant number of hours and receive EI benefits. There is currently no program in place to assist workers who lose one of multiple jobs.
Temporary Contract Workers	Strong growth throughout 1990s and 2000s, and now accounts for 7 per cent of total employment. This group of workers makes up a significant and growing part of the modern workplace.	Youth and recent immigrants are very likely to take up contract work. Temporary contract work is more common in the service sector and in urban areas.	Depending on arrangement with employer, temporary contract work may not be EI-eligible.
Part-Time Workers	Over 50 per cent more common now than in 1970s due to women's higher labour force participation. Stable during periods of growth, increases during recessions.	Part-time workers are largely women, but are increasingly men. Recent immigrants are more likely to work part-time. Part-time work among non-immigrants is more common outside cities.	Part-time workers cannot always accumulate the hours necessary to collect EI if they are laid off.
Workers Without Recent Work Attachment	Doubled from 20 per cent of unemployment to 40 per cent between 1976 and 2011.	Young workers (e.g. recent graduates), new immigrants, and long-term structurally unemployed are included in this group. High incidence among youth and recent immigrants means this type of worker is likely to be urban. Relatively more common in Ontario, Quebec, and Prairie provinces.	Unemployed workers cannot receive EI unless they worked recently and made contributions to the program. Workers who enter the labour market without recent work history have to work more hours before they can qualify for benefits.
EI Exhaustees	Workers affected by industrial restructuring are more likely to exhaust benefits and have skills mismatch (e.g. former manufacturing workers unable to find work in a different industry).	Long-tenured/older workers. Proportionally more are in urban areas, but those in small communities have greater difficulty finding new employment.	EI exhaustees who cannot find new work cannot collect benefits after they expire (though they may be eligible for income assistance through EI training programs).

Do These Workers Actually Need Income Support?

The current income security system as it exists today leaves gaps in support for many workers, such as those in non-standard forms of employment and without recent work attachment. Such individuals are much more common now than in the past.

Some may ask: do these workers actually need income assistance?

Unemployed individuals with no recent work attachment include very recent immigrants, newly graduated young workers, and the long-term unemployed, some of whom would be EI exhaustees from restructured industries. As is the case with anyone who is unemployed, many of these workers would need income support while they search for employment.

Not coincidentally, the same groups of workers who tend to be engaged in non-standard work patterns—young workers, women, recent immigrants—also tend to have lower incomes overall.

Fluctuating daily and weekly income is inherent to non-standard employment arrangements. This means that the increasing number of people engaged in the “new world of work” will have periods of low or no earnings and less predictable incomes from week to week compared to their counterparts in full-time, permanent employment. This often leads to lower overall income for these workers by the end of the year (Galarneau, 2010).

Temporary workers, in particular, experience periods of “economic instability,” as temporary jobs are “more likely to be interspersed with periods of unemployment, often without Employment Insurance because of short employment durations and the low number of hours worked” (Ibid).

A 2006 Statistics Canada study on income variability showed that 23 per cent of workers with fluctuating incomes had at least one year of low income compared with only six per cent of those with more stable work hours. Almost 40 per cent of workers with less stable hours fell into the bottom quarter of annual earnings versus only 15 per cent of those with regular hours (Heisz and LaRochelle-Côté, 2006). The relationship between non-standard work and lower income also arises because of the lower average hourly wages that these workers tend to secure.

The same study also noted that, in general, workers who have highly fluctuating work hours also have lower quality employment and tend to report lower well-being as measured by income, stress levels, and health.

What About Social Assistance?

While it is true that a worker who becomes unemployed and cannot access EI can always turn to provincial social assistance programs, welfare is not an appropriate alternative for individuals who may just need short term support while searching for work. Asking a worker with temporary income loss to exhaust their savings to acquire support is inefficient and runs the risk of compromising longer-term labour force attachment through the effects of the “welfare wall” (Mendelson and Battle, 2011).

Despite this, many unemployed workers do rely on welfare. For example, in November 2011 there were about 450,000 unemployed workers in Ontario who did not receive EI benefits. Of these, an estimated 330,000 adults relied on non-disability welfare payments.¹³ Although not a strictly accurate measure, the implication is that roughly 120,000 Ontarians were left without support that month from either EI or social assistance.

This paper thus far has demonstrated that growing numbers of workers are experiencing periods of unemployment or earnings disruption without access to Canada’s only national system of support for the unemployed. Moreover, EI has not adapted well to greater urbanization and the economic shift away from goods production. When coupled with the overall growing importance of non-standard work and the significant numbers of workers with no recent work attachment, this means that the program provides too little support to some communities and demographic groups. This puts EI at odds with the contemporary labour market, which requires support that is flexible, adaptable, and responsive to current conditions.

Overall, these facts point to the need for a program that would work with EI to help fill periodic gaps in income and smooth out earnings for important and growing segments of the workforce.

THE SOLUTION: TEMPORARY UNEMPLOYMENT ASSISTANCE

Canada has shifted toward a new employment model in which an increasing number of workers have a relationship with the labour market that is less predictable and requires a more flexible and advanced set of skills to succeed (Mowat Centre EI Task Force, 2011). Canada’s social safety net, which still caters to a labour force of the 1970s, needs modernizing.

The Mowat Centre EI Task Force proposed a new program for unemployed workers based on the work of the Caledon Institute (Battle et al., 2005; Mendelson and Battle, 2011). Temporary Unemployment Assistance (TUA) would provide income assistance for the unemployed who cannot access EI and who should not be required to turn to social assistance.

Goals and Objectives

The objective of TUA is to increase federal income support for unemployed workers who are currently excluded from or cannot access the EI program. It would be accessed especially by non-standard workers, new labour force entrants, and some longer-term unemployed workers, such as EI exhaustees who need more time finding work. If successful, the program would begin to even out the large differences in support across demographic groups, regions, and communities that EI is unable to bridge.

A number of program design features led the Mowat Centre EI Task Force to support TUA. A new income security program must meet essential goals and objectives—discussed below—to warrant implementation. TUA meets these goals and objectives.

FILL EXISTING GAPS

TUA would fill a number of holes in the system of support for working age adults. Specifically, it would make benefits available to non-standard workers, such as the self-employed, temporary contract workers, multiple job holders who lose one or more of their jobs, and part-time workers who cannot accumulate enough hours to be eligible for EI benefits.

TUA would also assist the unemployed who have no recent work attachment, particularly new labour force entrants, but also some EI exhaustees who are still looking for work. It could also be available for low-income workers waiting for EI benefits to commence, either because of the two-week waiting period or due to administrative delays.¹⁴

EI exhaustees who are facing long-term structural unemployment likely need interventions other than TUA, which would just extend support for a limited period of time and not address the underlying problem of skills mismatch. These workers require targeted training or education programs that enable entry into areas of work with greater demand. Older workers who have lost long-tenured work that was well paid (e.g. due to layoff from the manufacturing sector), may benefit from programs that assist in the transition to lower paid work.¹⁵

BE AFFORDABLE

Compared with other income security programs, TUA program costs would be relatively low because the benefit payments would be time-limited and taken up only by specific groups. For those workers with higher overall earnings, some or all of the TUA benefits received would be repayable, again mitigating costs.

As a program targeted toward the non-standard worker experiencing a disruption in earnings and the new worker with no recent work attachment,

TUA would represent a foundational change in the architecture of Canada's income security system for working-age adults... It would function as an intermediary program between EI and social assistance, helping to fill the existing gap in support, without allocating scarce resources to those not truly in need. (Mowat Centre EI Task Force, 2011 p.35)

Administrative costs would be minimal because, aside from the initial application, there would be little ongoing involvement between recipients and administrators.

BE FLEXIBLE AND CLIENT-CENTRED

Modern program delivery demands that programs are accessible, efficient, and easy to navigate.

TUA would provide immediate assistance to those eligible. It would have no asset test and, unlike most benefit programs, no up-front income test. Documentation burden would be minimal and any repayment owing would be evaluated after-the-fact through the tax system. The administrative burden would be relatively light on both clients and government. These features would make TUA flexible, easy to access and client-centred.

NOT CREATE DEPENDENCY OR DISINCENTIVES TO WORK

TUA would provide benefits that are time-limited, removing concerns about dependency.

TUA is unlikely to have an appreciable effect on work incentives as the weekly payments it provides would be time limited and only repayable for those with higher incomes, ensuring that accepting employment or increasing work hours would not be punitive. (see section on Marginal Effective Tax Rates (METRs)).

TUA: THE BASIC DESIGN

TUA's program design would have to be tested against policy objectives, government priorities, fiscal constraints, and interaction with other programs such as provincial social assistance.

An overall architecture could be constructed around the following parameters:

BENEFIT LEVEL: TUA would be payable as a flat weekly benefit. Weekly TUA benefits should be no more than what a worker could earn working full-time at the minimum wage in order to preserve work incentives.

BENEFIT PERIOD: TUA benefits would be available for a maximum number of weeks each eligibility period. For example, workers could claim TUA benefits for up to 26 weeks, or six months.

TOTAL BENEFIT ENTITLEMENT: The weekly benefit multiplied by the maximum number of weeks it can be taken (calculated based on the above two parameters).

ELIGIBILITY: All workers would be eligible for TUA with some exceptions. Full-time students would be excluded, as would social assistance recipients. The same job-search requirements applied to EI beneficiaries could also be applied to TUA beneficiaries. It may also be necessary to restrict eligibility for TUA to workers who have an established history of taxfiling in order to reduce the incidence of recipients avoiding repayment.

ELIGIBILITY PERIOD: All workers would be entitled to full TUA benefits upon turning a certain age, such as 18. The eligibility period would be set at, for example, three years or five years. TUA entitlement would be renewed at the start of each eligibility period. This means that workers who exhaust all of their TUA entitlement have to wait for a new eligibility period to start before they could access TUA again.¹⁶

INCOME TEST: The income test for TUA would be based on income earned in the year TUA is received as determined through the tax system the following spring.

REPAYMENT: Those with lower incomes would not have to repay any of their TUA benefits; those with higher incomes would repay in part or in full.

Repayment would be organized through the tax system, with the repayment amount processed like a tax bill owing. TUA repayments could be paid directly out of tax

refunds. Individuals who do not have a refund should be sent a statement outlining the amount of TUA owing and due date for repayment. TUA repayments should not be collected from recipients by reducing other tax benefits that they may be entitled to, such as child benefits.

For the purpose of this paper, amounts owing are assumed to be interest free. However, the government may wish to charge low interest on TUA repayments, especially if interest rates rise in the future or if recipients are allowed to pay TUA back over time.

In general, stronger repayment provisions would lower program costs.

Whose Income Should be Tested?

TUA's income test could either apply to the individual recipient or to the family/household.

There are pros and cons associated with each approach. The "family income test" is more likely to capture a recipient's broader circumstances, given that cohabiting in most cases means pooling resources and sharing amenities. Most government tax benefits, such as the Canada Child Tax Benefit, look at family income.

On the other hand, the "individual income test" recognizes that the person whose spouse has a reasonably well paying job should also benefit from assistance. For example, it could allow a spouse returning to the labour market to pursue a more thorough job search or pay for child care without worrying about benefit clawbacks.

There is a strong argument for an individual income test for TUA. An individual income test would:

- Encourage greater take-up
- Be a more natural complement to EI, which in most respects considers only the situation of the individual worker
- Allow TUA to better fill in the existing gap in coverage left by EI
- Be more client-centred

However, the individual income test implies a higher program cost. In the current fiscal environment, the government would likely opt for a family income test to contain program expense.

TUA: ILLUSTRATIVE EXAMPLES

There are many ways to design TUA. The final design would depend on fiscal considerations, political priorities, and whether the federal government undertakes other changes to EI. The important step is for the federal government to recognize that the current system leaves too many workers unprotected and that a program like TUA is necessary.

The main variables that will determine the generosity of TUA are the weekly benefit level, the repayment provisions, and the eligibility period (i.e. how quickly TUA can be accessed again). Two examples and a design option are illustrated in this section.

Example 1: More Generous TUA

A “more generous” TUA would offer a relatively high weekly benefit with a greater degree of forgiveness (especially for those with lower incomes) and more quickly renewed eligibility for all recipients.

For illustration purposes, a more generous TUA benefit could provide a weekly benefit equal to 75 per cent of the average of provincial and territorial minimum wages, available for a maximum of six months out of every three years. This would mean about \$276 per week, available for as long as six months in each three-year period, or a maximum TUA benefit of \$7,166 in each three year period.

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

A more generous repayment schedule could reflect average annual earnings. Those with incomes equal to half of Canadian average earnings, or less than \$23,000 in 2011,¹⁷ would have no requirement to repay. Those with higher incomes would repay part or all TUA received.

TUA repayment should be structured to occur gradually as income increases. In this example, we propose a repayment equal to 10 per cent of income between \$23,000 and \$46,000, and 25 per cent of income above \$46,000. Based on a total benefit of \$7,166, this means that TUA would be fully repaid for those with incomes of \$65,465 or more.¹⁸

Estimated Cost: about \$1.2 billion in gross program costs in the first year of the program, or about \$1 billion net of repayments. TUA costs should fall slightly in the second and third year as eligibility for TUA has to be renewed for the initial group of recipients before they can access it again (see Appendix 1 for details).

Example 2: Less Generous TUA

A second example is a TUA benefit set at 60 per cent of the average provincial and territorial minimum wages, with a lower degree of repayment forgiveness for those who earn less than average wages and a longer eligibility period.

In this example, TUA would provide a benefit of \$221 per week for up to six months. This would mean a maximum TUA benefit of \$5,733 in each five year period.

The repayment schedule would again be based on annual earnings, but with repayment required at lower income levels.¹⁹ TUA recipients with incomes less than the basic federal personal amount (\$10,572 in 2011) would not be required to repay the benefit. Repayment would begin after this income threshold is crossed.

Specifically, those with incomes between the basic personal amount and the second tax bracket (i.e. between \$10,572 and \$41,544) would repay 7.5 per cent of income in this range (which is equal to half the federal tax rate in this income bracket of 15 per cent). Those with incomes above \$41,544 could repay 22 per cent above that level. In this example, TUA benefits would be fully repaid at income of \$57,044.

Estimated Cost: about \$800 million in gross program costs in the first year, or about \$600 million net of repayments. Costs would fall slightly over the initial five years (see Appendix 1 for details).

In general, stronger repayment provisions will have a negative effect on program take-up, particularly for those with lower incomes.

A Design Option: Repaying TUA Over Several Years

Some critics of TUA will point out that any requirement to repay will discourage eligible workers from applying for the benefit. A way of addressing this concern is to structure TUA such that any repayment owing could be repaid over several years, as is currently done with the Registered Retirement Savings Plan (RRSP) homebuyers' plan.

Repayments could still be determined as described in the examples above. The beneficiary could pay the amount owing gradually over, for example, three years. This would allow repayments to be complete in time for TUA eligibility to be re-acquired (in the case of the "less generous" TUA). The recipient could repay TUA faster if he or she wished.

This design should encourage greater take-up, especially among lower-income workers or those with unpredictable incomes who may hesitate to apply for a benefit that could

have to be repaid even in part. It would also further alleviate any concerns about negative work incentives that might arise from TUA's repayment requirements.

TROUBLESHOOTING TUA

Some parties have raised legitimate concerns about TUA in discussions of this policy proposal to date. Some of these concerns are addressed below.

Interacting with Social Assistance

TUA is not a social assistance program and is not intended for individuals who require longer-term income support or who are experiencing serious labour market difficulties. Also, it should not be seen as a replacement for provincial expenditure on social assistance programs.

However, many people who access welfare are employable and may only need assistance for just a few weeks or months. Various social assistance “diversion” programs have been created in recent years for this group, such as Saskatchewan’s Transitional Employment Allowance. TUA could and should absorb this kind of worker from welfare rolls. Likewise, welfare applicants who fall into this category should be diverted to TUA by provincial caseworkers.

“Diversion” from welfare to TUA would require communication and collaboration between provincial social assistance programs and the federal government. In all respects, social assistance would remain the last payer.

Marginal Effective Tax Rates (METRs) and Work Disincentives

In some cases, as earned income goes up, the impact of tax rates and statutory reduction in benefits encourage some individuals to reduce their hours of work or limit their work attachment. It is important to consider whether TUA’s repayment provisions might discourage individuals from increasing their earnings.

For the small portion of workers who access TUA, the “more generous” example would increase METRs by 10 percentage points on income between \$23,000 and \$46,000, and 25 percentage points on income between \$46,000 and \$65,465. In the “less generous” example, METRs would rise 7.5 percentage points on incomes between \$10,572 and \$41,544, and 22 percentage points on incomes between \$41,544 and \$57,044.

Despite this, work disincentives should not be a significant concern for several reasons. First, TUA would provide very modest payments (i.e. a fraction of minimum wage in our examples) for a limited period of time, and would therefore not compare in value to most forms of employment. Second, TUA would be fully or partially forgivable for those with lower incomes, making work disincentives irrelevant or less relevant for this group. Third, TUA benefits are time-limited, so workers cannot rely on TUA indefinitely. This means that seeking out employment is necessary.

The after-the-fact nature of the income test should also reduce the METR impact. Upon applying for TUA, an individual will make an assessment about his or her likelihood of having to repay the benefit, taking into account other income and prospects of re-employment ahead of time.

A government very concerned about increased METRs arising from TUA could use the approach proposed in Example 3 and allow repayment over several years.

Overall, TUA should not dissuade workers from pursuing employment to any meaningful degree.

TUA as a “Payday Loan”

Some early criticism of TUA has characterized the benefit as a “government run payday loan scheme” (Ontario Federation of Labour, 2011).

This is a false characterization of TUA. The program would establish new income assistance for the unemployed that is funded out of federal general revenue with the objective of increasing support for unemployed workers who are currently excluded from or cannot access EI. It would be particularly aimed at non-standard workers, new labour force entrants, and some longer-term unemployed workers, such as EI exhaustees who need more time finding employment.

The Ontario Federation of Labour has called for a loosening of EI rules. As shown, this approach would do little to fix the gaps in coverage that currently exist, especially in Ontario. Therefore, a program like TUA is necessary to solve the problem of too little federal support for the working age population, and particularly among certain demographic groups and in specific regions and communities.

TUA’s design, particularly the after-the-fact nature of the income test, allows TUA to be responsive to an applicant’s immediate need for assistance. This contrasts with most tax-delivered benefits which are issued based on information about recipients’ income from the previous tax year.

If successful, the program would prevent some workers from having to turn to welfare and would begin to even out the large differences in support across demographic groups, regions, and communities that EI has proved unable to bridge.

Gaming

There is serious concern among potential supporters of TUA that there will be a significant number of individuals accessing TUA who are either not truly in need or who might put the benefit toward inappropriate use.

Some potential problem groups include: full-time students; social assistance recipients or recipients of other government support programs; those with low-incomes who are not actually unemployed; small business owners who benefit from income deductions and therefore have “artificially” lower incomes; those needing to pay down credit card debt; or individuals with drug or gambling addictions.

Potential gaming of TUA is no different from potential gaming of other government programs. For example, addiction is a significant factor in welfare dependency. TUA should be established and monitored. If after a few years there appear to be some recipients who are using TUA in an illegitimate manner, steps could then be taken to address the misuse directly.

Possible Low Take-Up

“Niche” government programs that rely on application can suffer from low take-up. This could be of particular concern with TUA due to the nature of the income test. Before accepting TUA, possible applicants will assess their likelihood and tolerance of potentially having to repay a portion or all of the benefits received. This will inevitably dissuade some workers from applying.

The answer to the problem of low take-up is usually addressed through government advertising and reaching out to potential applicants. At the very least, all EI applicants who do not qualify for EI should be directed to TUA. In the future, it would be beneficial for government to establish more sophisticated and targeted means of publicizing programs like TUA, perhaps through social media and new technologies.

ANALYSIS OF ALTERNATIVES TO TUA

This paper has argued that federal support for the unemployed is failing to provide even and reliable protection for too many workers in the modern labour market and that a new program is necessary to fill the growing gap.

Some have suggested that it is a provincial responsibility to provide temporary support for those who cannot access EI. Others believe that Canada should implement a guaranteed annual income for working age adults. The following sections briefly address why these alternatives would be either ineffective or impracticable at this point in time.

New Temporary Support Within Social Assistance Will Not Address Regional Gaps in Federal Support

Some provincial governments have implemented temporary forms of non asset-tested welfare support for workers who are expected to find employment quickly. An example of a program like this is Saskatchewan's Transitional Employment Allowance.

The target group for temporary welfare assistance that does not require applicants to deplete assets would be similar to the target group for TUA: unemployed workers who cannot access EI benefits and do not have significant labour force barriers. If all provinces were to establish such a program, the gap in support that exists between EI and traditional welfare support would close somewhat.

However, closing this gap is a federal responsibility. EI is Canada's signature program of support for the unemployed but changes in the labour market have resulted in the majority of unemployed workers being unable to access its benefits.

EI is no longer fulfilling its role as automatic stabilizer, nor does it adequately absorb the risk of unemployment in the contemporary economy. In short, the program is failing as national social insurance.

Moreover, EI coverage varies wildly from province to province, meaning that the cost of those not covered is already unevenly distributed among provincial governments. Provinces with low EI support have greater pressure on their social assistance caseloads and other labour market programs.

Should provinces go one step further and adopt specific programs to address the growing gap in support for the unemployed, the existing regional inequities inherent

to EI will translate directly into greater additional provincial expenditure for those provinces with low EI coverage. Moreover, asking provinces and their tax base to pay for additional support for workers due to shortcomings in a federal program, which they already bear the indirect burden of, defies logic. Provinces, particularly Ontario, cannot afford this undertaking.

It is up to the federal government to address the gap in income support for the unemployed so that it provides adequate and even protection for all workers in all provinces across Canada.

A Larger Expansion of the Income Security System Is Not Practical at This Time

A common proposal for providing more assistance to those with low-incomes, including the unemployed who cannot access EI benefits, is to expand the system of refundable tax credits, or, more comprehensively, implement a guaranteed annual income for working age adults that mirrors the one already in place for seniors (i.e. OAS/GIS).

Income security programs compete for funding with other spending priorities that have much higher public profile and support, such as health care, education, and increasingly, infrastructure. In general, income security programs for “favoured groups,” such as the elderly or children, have the best chance of being enhanced or preserved. Transfer programs targeted to the working population tend to attract less public support.

Also, governments may find it difficult in the near-term to balance the income assistance needs of younger workers with the demands of a politically engaged older or retired population, who may be reluctant to support significant transfers for other age groups.

Overall, the implication is that if the federal government wants to address the income needs of unemployed workers who cannot access existing programs and who have a growing presence in the labour market, it will have to narrowly direct assistance to these intended groups and at low cost, at least in the short-term. TUA meets these criteria.

In the future, TUA could be repurposed or expanded to provide more federal support for the unemployed or low-income workers more generally. Unlike more complex public services that involve a mix of staff and infrastructure (e.g. health care, education) cash benefit programs can be established or redirected within a few months.

CONCLUSION

EI cannot accommodate Canada’s evolving labour market. It fails non-standard workers, it fails urban workers, and it fails demographic groups that are key to Canada’s future prosperity, such as youth and immigrants.

The inability of EI to respond to modern labour conditions calls for either a reworking of the system or a new program to help fill the gap it leaves.

Ideally, adjusting EI rules would enable the program to better protect more workers against the risk of unemployment. But in fact, loosening the eligibility criteria would do little to bring more excluded workers in and at the same time would allocate even more resources to those workers who are already reasonably well covered by the system. Extending eligibility to more categories of workers, such as the self employed or those without recent work history, would erode the program’s insurance principles by too large a degree.

TUA is a practical solution to the growing gap in support for the unemployed.

The program would establish a time-limited form of repayable support for unemployed workers who cannot access EI and are ineligible for, or should not be resorting to provincial social assistance. Its design makes it affordable, with a “more generous” example having an estimated net cost of about \$1 billion in the first year of implementation, and falling over the next two years.

Just as important, TUA would begin to reduce the regional disparities and urban-rural divide that has become a defining aspect of the federal government’s approach to supporting Canada’s unemployed. The federal government has made a commitment to provide protection against the risk of unemployment in the Canadian economy in a way that is accessible for all workers. TUA presents an opportunity for the federal government to address the gap in support being left by EI. MC

APPENDIX 1: ESTIMATING THE COST OF TUA

Cost estimates assume that roughly 250,000 unemployed workers were potentially eligible for TUA in 2011, based on the total number of unemployed workers that year, minus the number of unemployed who received EI benefits, minus an estimate of the number of unemployed individuals receiving non-disability provincial social assistance. The estimates assume that a small share of multiple job holders access TUA each year, and that welfare recipients who are approved for EI benefits but waiting for them to commence can also access TUA. Estimates also assume that 10 per cent of individuals receiving non-disability welfare will initially be diverted to TUA. Over time, this percentage could grow as TUA becomes more widely used.

Depending on their incomes, potential recipients will be either more or less likely to take up the benefit. The income distribution of the potentially eligible recipients is based on the total before-tax income distribution of working-age individual taxfilers (Statistics Canada CANSIM Table 111-0008), with adjustments made to exclude students and seniors.

Among the potentially eligible, those with low incomes are assumed to be very likely to access TUA (e.g. 90 per cent take-up), with the likelihood of take-up falling as income rises (e.g. 25 per cent take-up among those with high incomes). After these adjustments, an estimated 190,000 recipients might have claimed the “more generous” TUA in 2011, or an estimated 170,000 the “less generous” TUA.

Repayment assumptions are again based on the total income distribution of working-age taxfilers, with an adjustment taking into account that the TUA population is unemployed for at least part of the year and would not have an income distribution the same as the general population. Income distributions of the short-term unemployed population were not available at the time of the estimate.

ENDNOTES

1. Some researchers are uncomfortable using the B/U ratio as an indicator of EI coverage because it captures workers who do not contribute to the program (e.g. long-term unemployed) and thereby understates the program's coverage of the working population (Busby and Gray, 2011). However, the B/U ratio is an appropriate measure of how well the EI program is serving the unemployed population as a whole, how the breadth of its protection has changed over time, and how the program's support differs between unemployed workers across regions, communities, sectors, and demographic groups.
2. The change in the number of EI beneficiaries reflects the degree to which EI responds to changing unemployment better than the percentage change in beneficiaries, which would not reveal the portion of newly unemployed workers who were left without support.
3. "Frequent claimants" are those with three or more active claims in the past five years; "occasional claimants" have fewer than three active claims in the past five years; and "first time claimants" have no claims in the past five years (HRSDC, 2008).
4. This ignores students, those still expecting EI benefits, or those expecting to return to work.
5. See: Kapsalis and Tourigny, 2004; Vosko, 2011; Gunderson, 2010; Drummond and Fong, 2010.
6. Statistics Canada CANSIM Tables 282-0002, 282-0012, 282-0036, and 282-0080. Statistics Canada began measuring temporary employment in 1997.
7. HRSDC EI Monitoring and Assessment Report (2010) and Statistics Canada CANSIM Table 282-0002.
8. Women's growing presence in non-standard work arrangements is documented in Ferrao (2010).
9. The declining economic status of immigrants in Canada is documented in Picot and Sweetman (2005).
10. The Employment Insurance Coverage Survey (2009) supports this finding and identifies relatively more unemployed individuals in Ontario as either "EI exhaustees" or having "no recent work history."
11. Calculated from Statistics Canada CANSIM Tables 276-0001, 282-0002, and HRSDC Monitoring and Assessment Report 2010, Table 4: Seasonal Claims as a Percentage of Regular Claims 2009-10.
12. See Kapsalis and Tourigny (2004) for analysis of non-standard employment in rural areas.
13. Author's calculation based on social assistance caseload count (Ontario Ministry of Community and Social Services, 2011).
14. The EI program has experienced considerable delays processing claims in recent months.
15. The Final Recommendations of the Mowat EI Task Force (2011) explores wage insurance as an option for laid off long-tenured workers.
16. An alternative design could allow eligibility to accumulate over time. In this case, workers who accessed TUA once would accumulate eligibility gradually over time before they could access TUA again. Eligibility could accumulate at a rate of, for example, one week of TUA for every 10 weeks that pass. After 50 weeks, the worker would have accumulated 5 weeks of TUA, which he or she could access if needed. After 260 weeks, or five years, the worker would be entitled to another full 26 weeks of TUA, assuming none had been used in the meantime. The advantage of this design is that it avoids a situation where a worker needs TUA but can access it because the date of renewed eligibility hasn't arrived. The alternative design would, however, encourage more take-up of partial TUA benefits.
17. Average earnings assumed to be about \$46,000 in 2011, based on Statistics Canada Survey of Employment, Payroll and Hours, November, 2011.
18. Because TUA is application-based and requires an individual to assess his or her likelihood of repayment, TUA's success will depend strongly on applicants' understanding of the program. The federal government may find that a more simple design that incorporates stepped repayments (for example, if income is greater than \$23,000, recipients would repay exactly one-quarter of TUA), rather than repayments as a fraction of incremental income, would be more simple to communicate and possibly encourage greater take-up.
19. The repayment schedule in this example is based on Mendelson and Battle (2011).

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