

# Eleven propositions for a better EI regime

By Michel Bédard and Pierre Fortin

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## Summary

Canada's largest and most important labour market program, employment insurance (EI), is failing to meet the needs of working Canadians, and policy-makers are not addressing the problem.

In EI in its present form, a worker's eligibility for benefits and the amount of time they will be able to claim benefits is determined by two factors: the unemployment rate in their local economic region (there are 62 regions), and the number of hours the claimant has worked during the reference period. Because of this complex matrix, EI effectively discriminates against workers based on where they live and whether they work full-time or part-time.

Consider the example of workers earning \$560 a week in May 2015. If they were living in Cape-Breton, they would need only to work a minimum of 420 hours (12 weeks) before being laid off to receive an EI benefit of \$264 a week and lasting a maximum of 30 weeks. The same worker in Saskatoon would have to work 700 hours (20 weeks) to be eligible for an EI benefit of \$280 a week, which would last for a maximum of 14 weeks. In essence, for every dollar of employment earnings during the reference period the worker in Cape-Breton would receive up to \$1.18 in EI benefits, compared with \$0.35 for the worker in Saskatoon.

These disparities are inhibiting the development of an efficient pan-Canadian labour market. Moreover, by linking benefit eligibility to a formula based on hours worked, the system makes it particularly difficult for part-time workers to access EI. This represents a major challenge for labour market policy, because part-time employment has become more prevalent in recent decades.

Rather than address these fundamental issues, successive governments have increased the number of economic regions within the program, restricted the eligibility and generosity of income support for the unemployed, and expanded the program's reach into other areas of social policy (e.g., parental and compassionate care leave). Today, Canada spends less on unemployment benefits – which is EI's core mandate – than at any time since the 1970s (0.55 percent of GDP in 2014). Close to 40 percent of the benefits now delivered by EI go toward programs other than direct income replacement for the unemployed. It is time to hit the reset button.

In this paper, Michel Bédard (former chief actuary for the EI program) and Pierre Fortin (Université du Québec à Montréal) identify a number of practical ways we can improve the design of EI to better reflect current labour market realities and enhance the legitimacy, efficiency and effectiveness of the overall program.

Bédard and Fortin outline a comprehensive, 11-point plan that would produce an EI system that is more coherent, covers more Canadians, is less costly for employers, supports a more efficient labour market and is better aligned with the principles of social insurance. They recommend that the federal government:

- Replace Canada's geographically fragmented system with a single national standard for benefit eligibility and duration. The loss of employment imposes significant costs on households, regardless of where they live. A single national standard would remove the current discrepancies between workers in different parts of the country and encourage labour mobility.

- Change the formula for benefit eligibility from one based on the number of hours worked to one based on weeks worked, which they would set at a minimum of 20 weeks. This change would remove the current discrepancy between full-time and part-time work and provide greater freedom and protection for workers.
- Require workers to have worked a minimum of 15 hours for each insurable week.
- Limit the duration of benefits to a 1:1 ratio, such that unemployment benefits last no longer than the amount of time worked during the reference period. The government would still be able to modify this rule to provide enhanced support to those most in need, but this would only be applied in truly exceptional situations and would have to be administered in a circumspect manner.
- Increase the amount of earnings that are insured within EI from the current maximum of \$49,500 per year to \$104,000 per year. This will bring EI into line with the way insurance programs for occupational health and safety are designed, provide broader insurance coverage to middle-income workers, and enable the program to benefit from greater contributions from higher-income workers, who are less at risk of involuntary unemployment.
- Change the income replacement formula from a flat rate (currently 55 percent of insured earnings) to a rate that varies in relation to income and is thus more progressive. While the authors recommend keeping the combined average level of income replacement at 55 percent, their formula would provide higher income replacement for lower-income workers and lower income replacement for those in higher-income categories.
- Reduce the waiting period for benefits from two weeks to one week.
- Continue to require that claimants submit to income verification and accept suitable employment offered to them. However, in contrast to the 2013 changes to EI, “suitable employment” would be defined in accordance with the broader international standard used by the International Labour Organization. Limiting the maximum duration of benefits to the length of employment in the reference period will already significantly address the problem of frequent EI use.
- Adjust the contribution structure so there is an equal split in costs between employers and employees (the split is approximately 58-42 today). The government would retain the power to supplement benefits in the event of a severe economic downturn.
- Separate EI from general government revenues so that it is financed and administered in an independent, transparent and objective manner.
- Remove all noncore programs from EI (sick leave, parental leave, training, etc.) so these can be delivered as part of distinct social programs.

In effect, what Bédard and Fortin are proposing is a major simplification of EI so the system can better focus on its core mandate and do it well. This is an important wake-up call for policymakers to think more critically about how EI is designed.