Employment Insurance

Background

Employment Insurance (EI) is a vital part of Canada's social safety net. Successive federal governments have made the program less generous and harder to access at the same time as our society has undergone major changes. Workers in Canada are desperately in need of a sturdy social safety net, as more and more of us live with the realities of precarious employment.

The EI Operating Account had accumulated a deficit of $9.2 billion by 2011 but is expected to return to surplus in 2015. The narrative around future surpluses continues to be centred on reducing premiums rather than increasing benefits and training supports.

The basic parameters of Canada's EI system are widely perceived as ungenerous. The benefit rate is low — just 55% of earnings averaged over the previous six months, which often include weeks of very low earnings. Women still face a significant earnings gap in Canada, and thus their EI benefits are also lower. Between 2006 and 2013, women's average weekly benefits were consistently about $60 lower than men's.[1]

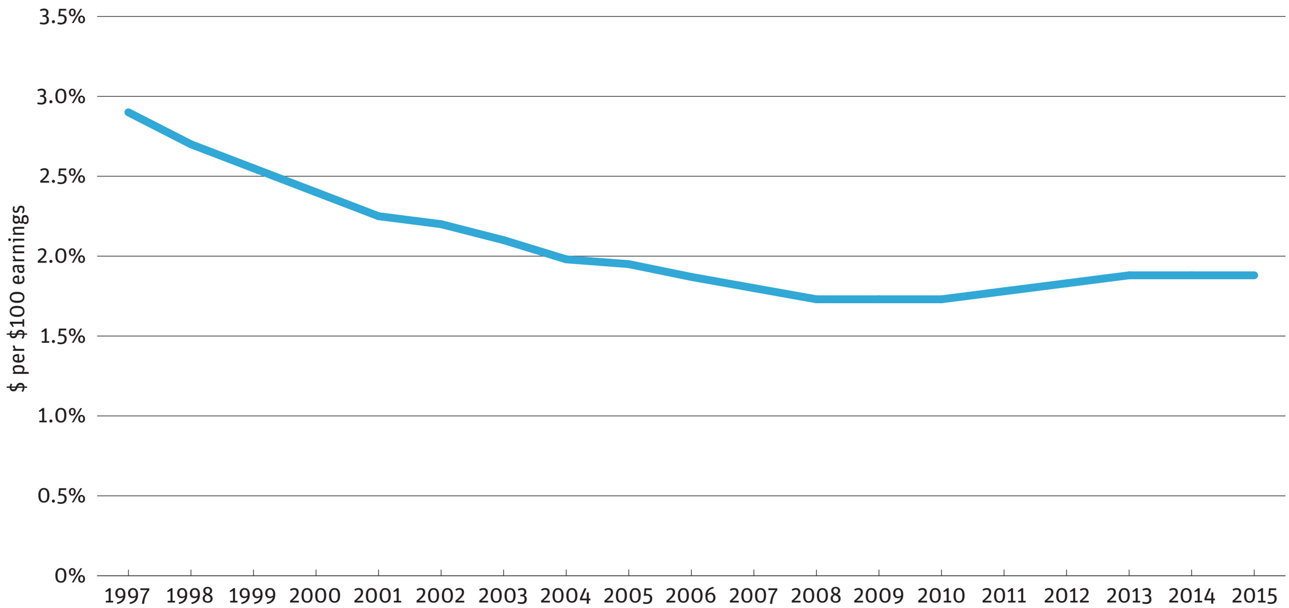
Workers qualify for benefits based on the number of hours they have worked over the previous year and the local unemployment rate. Fewer hours are needed to qualify in regions with high unemployment rates, and claimants in those regions receive more weeks of benefits. The qualifying level for new entrants and re-entrants to the workforce is 910 hours, which represents almost six months of steady full-time work.

In an average EI region with an unemployment rate of 7% to 8%, workers need at least 630 hours — about four months of full-time work — to qualify for EI. They are eligible for between 17 weeks and 40 weeks of benefits, depending upon how long they've worked over the previous year. That leaves out many workers who work part-time or in temporary jobs, or who combine such precarious work with spells of self-employment.

EI is not keeping up with the realities of today's job market, in which 20% of jobs are part-time, and roughly 14% are contract or seasonal. A key disadvantage of temporary and part-time employment is that when the job ends workers are unlikely to qualify for EI. In the event they do qualify, it can be for as few as 14 weeks of benefits. In 2013, 45% of unemployed workers were new entrants or re-entrants to the workforce compared to only 25% in the early 1990s. This indicates that the bar for entry is now much higher for those who are just entering the labour market and those who have been out of the labour force for a period of time.

Today there are over 1.3 million unemployed workers in Canada. Even more telling is the fact that the proportion of Canadians who have jobs has remained steady since the end of the recession, indicating

FIGURE 8 EI Premium Rate, 1997–2015



Source Canada Revenue Agency (http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/clcltng/ei/cnt-chrt-pf-eng.html)

that job growth has barely kept up with population growth.

The proportion of unemployed workers that remain unemployed for long stretches is also significantly higher than it was pre-recession. So far in 2014, 20% of unemployed workers have been unemployed for more than 27 weeks, and 7% have been unemployed for more than a year. Before the recession, these figures were 13% and 4% respectively.

An increasing number of unemployed workers are ineligible for EI benefits for two key reasons. First, many (about 25% of all claimants) run out of benefits before they can find a new job. Second, many unemployed workers are laid off from temporary and part-time jobs in which they worked too few hours to qualify for benefits, or only enough hours to qualify for very few weeks of benefits. High entrance requirements for new labour market entrants or re-entrants present an unfair barrier especially during periods of labour market slack.

Current Issues

The EI Operating Account had accumulated a deficit of $9.2 billion by 2011, thanks to temporary stimulus measures and the counter-cyclical nature of EI. These stimulus measures were removed long before the labour market reality warranted, and various measures were put in place to discourage unemployed workers from accessing EI. This EI deficit will be fully repaid in 2015, and the account is expected to return to surplus ($3.5 billion) in 2015.

There remains significant slack in the Canadian labour market, with a national average of six unemployed workers to every job vacancy. In October 2008, 63.5% of Canadians were employed. This number has been at or below 62% since February 2009. Since 2011, the number of underemployed and marginally attached workers has exceeded the number of unemployed. In 2013 the full count of underemployed and marginally attached workers was 1.38 million, and official unemployment was 1.37 million.

There is a danger that the long-term unemployed will lose touch with the job market, leading to an erosion in their skills and potentially making them permanently unemployable. This would be especially grievous, in both human and economic terms, since few new workers are projected to enter Canada's workforce in the years ahead as the baby-boomer generation retires.

The federal government's response to labour market issues has been the controversial Canada Job Grant. The government plans to fund its share of the program by taking $300 million out of the $500 million it now transfers to provinces and territories for Labour Market Agreement programs. These programs provide training for workers who are under-represented in the workforce, such as new immigrants, youth at risk, Aboriginal people, persons with disabilities, older workers, and social assistance recipients. Literacy and essential skills training have been a key focus of the Labour Market Agreement programs.

According to an evaluation by Human Resources and Skills Development Canada done in 2013, the Labour Market Agreement programs have been very effective. Over 85% of trainees got jobs; 72% increased their weekly earnings; 87% received a credential; and reliance on social assistance was reduced from 25% to 19%. Despite these positive results, the federal government will cut $300 million from the Labour Market Agreement programs to use as their share of the Canada Job Grant. The provinces and territories must also contribute an additional $300 million as their share of the Canada Job Grant. The net effect is that the provinces and territories are taking a $600 million hit in funding to the successful Labour Market Agreement programs. Vulnerable under-represented workers will be left out in the cold.

AFB Actions

- Currently, the EI Operating Account is forecast to have a surplus of $3.5 billion in 2015. The AFB will use most of this surplus to fund an expansion of regular benefits and training programs.
- The AFB will renew the Extended Employment Insurance Benefits pilot project, phasing regions out only when their unemployment rate falls below 8% for 12 consecutive months. (Cost: $500 million.)
- The AFB will replace the Working While on Claim pilot project with an earnings exemption on the first $100 per week *or* 50% of weekly earnings, whichever is greater. (Cost: $200 million/year.)
- The governments Expert Panel on Older Workers recommended special perma-

nent EI measures to support long-tenure displaced workers. These workers have the biggest challenge in finding new jobs and often experience large income losses due to permanent layoffs. The AFB will provide an additional benefit extension to these workers. (Cost: $100 million/year.)

- The AFB recognizes the economic and social need to ensure Canada has a highly skilled, adaptable, inclusive workforce. The AFB will continue to help vulnerable groups enter the workforce, and support literacy and essential skills training, by maintaining $500 million in funding for the Labour Market Agreement programs.

The AFB will increase funds spent on training and retraining through the EI system. The federal government currently transfers $2 billion to the provinces and territories from the EI account to provide training for workers who are eligible for EI. Under the EI Act, the government may transfer up to 0.8% of total insurable earnings for training programs. In 2013–14, the maximum amount that could have been transferred under the act was $4.3 billion. As a result, there is $2.3 billion of unspent funds in the EI account for training programs. The AFB will use $1 billion of these unspent funds to increase the transfer to provinces and territories for new training programs, focusing on training and paid on-the-job experience for unemployed and underemployed workers. (Cost: $1 billion/year from EI Account, $500 million for LMAs from general revenue.)

- The AFB will introduce a pilot project to establish a uniform national eligibility requirement of 360 hours. Only 40% of workers now qualify for regular EI benefits, partly due to the disproportionate growth of temporary and part-time jobs. The annual cost of a national 360-hour entrance requirement has been estimated by the Parliamentary Budget Officer to be $1.1 billion. The AFB's pilot project will allow the government to judge whether concerns about the labour-market implications of a lower entrance requirement are well founded. The lower entrance requirement will also apply to new labour force entrants and re-entrants, who now must jump over a 910-hour hurdle. (Cost: $1.1 billion/year)

Notes

1 Canadian Employment Insurance Commission. (2013). *Monitoring and Assessment Report 2012*. Gatineau, Quebec, p. 211.