

## On the Mend

The costs and benefits of an extension  
to the maximum duration of employment  
insurance sickness benefits

Hadrian Mertins-Kirkwood





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# On the Mend

The costs and benefits of an extension to the maximum duration of employment insurance sickness benefits

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## Introduction

Employment insurance (EI) is a fundamental component of Canada’s social safety net. Workers and employers across the country are required to pay into the national system, which then provides benefits to workers if they become unemployed or unable to work.

In addition to “regular” unemployment benefits, EI includes five “special” benefits to support workers whose regular employment is disrupted by the birth of a child (maternity and parental benefits), the need to care for a family member (family caregiver and compassionate care benefits) or personal illness or injury (sickness benefits). Some of these benefits, such as maternity leave, are well understood while others, such as sick leave, are less widely known. Nevertheless, EI sickness benefits fill an important role in the social safety net by supporting workers who temporarily cannot work due to illness or injury. More than 350,000 workers claim sick leave through the EI program every year.<sup>1</sup>

EI sickness benefits are limited to a maximum of 15 weeks per claim, but the high proportion of benefit claimants taking all 15 weeks suggests a higher maximum may be needed. Labour unions in Canada have called for an

expansion of the number of weeks of sickness benefits available to workers to better deal with episodic or long-term illness.<sup>2</sup>

In this paper we estimate the impact of an extension of maximum EI sickness benefits beyond 15 weeks using Statistics Canada's Social Policy Simulation Database and Model (SPSD/M).<sup>3</sup> The model allows us to estimate how many people might use the additional benefit each year and what the net annual cost would be if the maximum sick leave were extended.

The paper opens with a brief history of EI sick leave and a snapshot of annual usage patterns and costs. Results of the modelling exercise are then presented with a discussion of potential implications. The paper concludes that an extension of EI sick leave to as much as 30 weeks offers meaningful benefits at a reasonable cost.

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## Background on EI sickness benefits

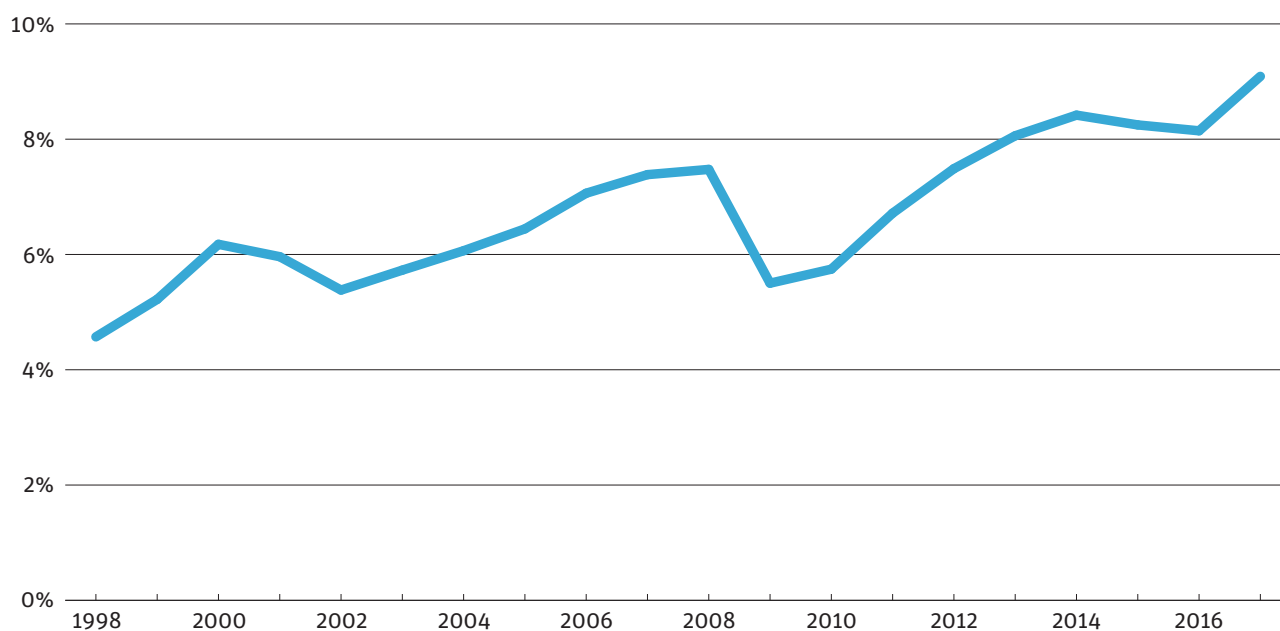
When unemployment insurance was first introduced in Canada in the 1940s, the program was limited in scope and restricted to particular professions.<sup>4</sup> Over the following decades the program became more comprehensive. Modest sickness benefits were introduced for the first time in the 1960s, then later expanded into full special benefits in the Unemployment Insurance Act of 1971.<sup>5</sup>

Today, sickness benefits are enshrined in Section 18(1)(b) of the Employment Insurance Act of 1996.<sup>6</sup> The phrase “sickness benefits” does not appear in the act itself, but the legislation guarantees that workers are entitled to EI benefits if they are “unable to work because of a prescribed illness, injury or quarantine, and that the claimant would otherwise be available for work.” This broad guarantee applies to all workers except for those in the fishing industry, the self-employed and some other specific work arrangements.<sup>7</sup>

Sickness benefits are a form of income maintenance for workers who are temporarily unable to work. Workers are generally only eligible if they have accumulated 600 hours of insurable employment. In contrast to regular EI benefits, the minimum number of hours worked to qualify for sick leave is not affected by the regional unemployment rate. In addition to the usual employment documentation, claimants must also provide a medical certificate indicating how long they are expected to be unable to work.

The Employment Insurance Act sets the maximum duration for sickness benefits at 15 weeks.<sup>8</sup> These benefits can be taken before, after, or in addition to other special and regular EI benefits. The value of sickness benefits

**FIGURE 1** Share of EI program spending on sickness benefits (1998–2017)



Source: Statistics Canada, CANSIM Table 276-0017.

is calculated as 55% of average insurable earnings, to a maximum of \$547 per week, including any family supplement for which the claimant is eligible.<sup>9</sup> Benefits are normally clawed back on a dollar-for-dollar basis if the worker continues to receive any income during the claim, but exceptions are made in a few circumstances and the Budget Implementation Act of 2018 is slated to make the clawback less punitive.<sup>10</sup>

Total EI program spending on sickness benefits was \$1.6 billion in 2017, which accounted for approximately 9% of total EI payouts.<sup>11</sup> The share of EI spending on sickness benefits has increased steadily over the past two decades, which indicates growing demand for sick leave relative to other EI programs (see *Figure 1*).

The increase in EI sick claims may be explained in part by the decline of comparable workplace sickness plans. EI has a premium reduction program for employers who offer benefits coverage for illness or injury. However, the share of workers covered by qualifying plans was only 34.8% in 2013 and the total number of employers offering such coverage is on the decline.<sup>12</sup> Unionized firms are more likely to offer sick leave, so the decline of union density may also be a factor in the increased demand for EI sick benefits.<sup>13</sup>

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## Usage and demographics

Sickness benefits are one of the most widely used EI programs after regular unemployment benefits. In fiscal year 2015-16, 370,400 new EI claims were filed that included sickness benefits (about 20% of all new claims).<sup>14</sup> The number of claims for sick leave is greater than the number of claims for maternity and parental leave put together.<sup>15</sup>

Sickness benefits can be taken on their own or in combination with other forms of EI. Nearly half of sickness benefit claims are combined with another type of EI each year.<sup>16</sup> The large number of people first claiming sickness benefits and then later turning to regular benefits (about 150,000 in 2015-16) implies that many workers who go on sickness leave from their jobs subsequently lose or leave that job and then cannot find employment once they are healthy.

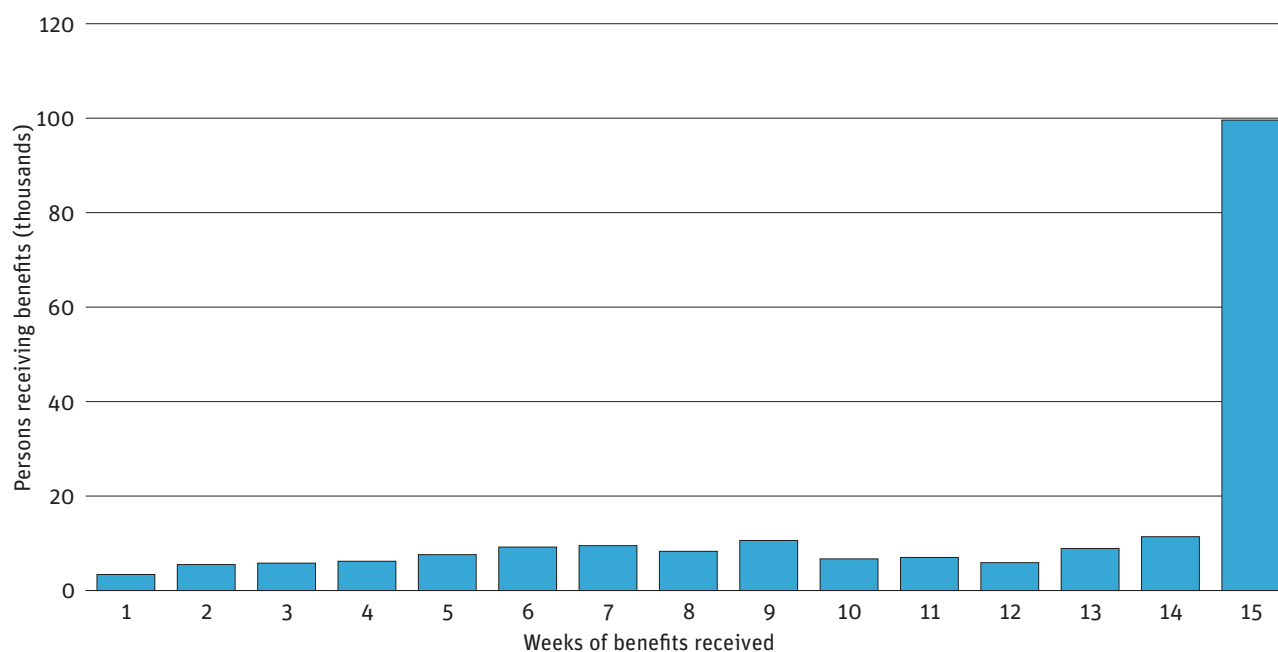
Notably, 36% of sickness benefit claims exhaust the maximum of 15 weeks each year.<sup>17</sup> That figure includes claims by workers who also claim regular benefits, parental benefits or other forms of EI. Of the workers making standalone sickness claims (i.e., not in combination with other EI benefits), nearly half exhaust the 15 weeks available (see *Figure 2*). The spike at 15 weeks suggests the present maximum is too short to meet the needs of many ill but employed workers, who may be forced to return to work before they are ready.

Sickness benefits are used disproportionately by marginalized and economically disadvantaged demographics. First, about 56% of sick leave claims are made by women — and 53% of sickness benefits go to women — even though they make up just 47% of the labour force.<sup>18</sup> The difference is explained in part by the challenges associated with late-stage pregnancy. Women are significantly more likely than men to make a sickness claim and then later combine it with maternity and parental benefits.

Second, workers on sickness benefits are more likely to be older. About 26% of recipients are 55 and above — compared to 21% of the total labour force — and those older workers receive 28% of sickness benefits.<sup>19</sup> Older workers are more vulnerable to illness and injury and may have a harder time finding new work, so sickness benefits are disproportionately valuable to them. Delays and challenges in applying for the Canada Pension Plan disability program may also drive some older workers to apply for EI sick leave as an alternative.<sup>20</sup>

Third, sickness benefits are used more often by lower-income workers and families. The average weekly benefit rate for EI sickness benefits was

**FIGURE 2** Duration of EI benefits for workers claiming sick leave and no other type of EI (2015)



Source: Statistics Canada, SPSPD/M v. 26.0 and author's calculations.

\$409 in 2015-16.<sup>21</sup> In comparison, the average payout was \$446 for regular benefits, \$446 for parental benefits and \$494 for EI fishing benefits.<sup>22</sup> Since EI benefits are calculated as a share of earnings, a lower benefit rate means the workers claiming sick leave have, on average, lower incomes to begin with than those claiming other types of EI.

Families earning less than \$50,000 in total income are 86% more likely to receive EI sickness benefits than families earning more than \$100,000.<sup>23</sup> In contrast, high-income families are more likely to claim maternity and parental benefits.<sup>24</sup>

Taken together, the data suggest the present EI sickness benefit is disproportionately helping disadvantaged workers and their families, but it is insufficient for the many workers who require more than 15 weeks of support.

The remainder of this paper assesses the potential costs and benefits of extending the maximum duration of EI sickness benefits beyond the current limit of 15 weeks. Our first scenario is a modest extension to 20 weeks. Our second scenario is an extension to 26 weeks (six months), which is also the current maximum for EI compassionate care benefits. Our third scenario is an extension to 30 weeks, which is double the current maximum.



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## Methodology

We model the impacts of three possible EI sick leave extensions against the current policy baseline of 15 weeks. We use Statistics Canada’s Social Policy Simulation Database and Model (SPSD/M) version 26.0, a publicly available software tool, to simulate changes to the tax and transfer system. We simulate each scenario as if those changes to the EI program were in effect in 2018. Importantly, SPSD/M models the number of individuals with an active sickness claim in a given year, not the number of new claims in the year. Consequently, our model data (and the terminology we use in the following sections) differ somewhat from the administrative data discussed in the preceding section.

SPSD/M can only comprehensively simulate the effects of a reduction (not an extension) of the maximum duration of EI sickness benefits, so forecasting requires multiple steps. First, we run 15 simulations where the maximum sick leave has been incrementally reduced (to 14 weeks, 13 weeks, 12 weeks, etc.). We use these outputs to identify trendlines in program usage and cost based on the number of sick weeks available. We then project the trendlines forward to simulate an extension in benefits. In general, we model the number of EI recipients and the cost of EI benefits increasing along a power curve as the maximum duration of benefits increases.

We divide the population of sickness beneficiaries into two groups: those making standalone sickness claims (i.e., not in combination with another type of EI) and those making mixed sickness claims. The former group is used to estimate uptake rates for additional weeks of sick leave. The latter group is used to estimate the total number of workers claiming sickness benefits and the value of those benefits. Our samples are smaller than the total population of workers claiming sickness benefits, so we scale our outputs – both in terms of the number of workers and the value of EI benefits – to the observed baseline.

As with any SPSD/M simulation, our calculations do not explicitly account for behavioural changes in response to extending sickness benefits. It may be that an increase in the duration of available sick leave encourages more workers to claim the benefit, but our model assumes the total number of claims will be relatively stable. The effects we are concerned with relate almost exclusively to the workers who currently take the maximum 15 weeks of sick leave. We are interested in the portion of these workers that would claim additional weeks of sick leave if they were available.

**TABLE 1** Results of modelled extensions of maximum EI sick leave (2018)

Maximum duration of EI sickness benefits	Baseline	Model scenarios		
	15 weeks	20 weeks	26 weeks	30 weeks
Workers claiming sick leave (thousands)	369	375	380	383
<i>Change from baseline</i>		6	11	14
Workers claiming maximum available sick leave and no other type of EI (thousands)	144	106	61	30
<i>Change from baseline</i>		-38	-84	-114
<i>Share of workers claiming sick leave and no other type of EI who claim the maximum available leave</i>	49%	35%	20%	10%
Total cost of EI sickness benefits (millions)	\$1,710	\$2,010	\$2,339	\$2,543
<i>Change from baseline</i>		\$300	\$628	\$833
Projected EI premium rate (per \$100 of insurable earnings)	\$1.66	\$1.69	\$1.74	\$1.81
<i>Change from baseline</i>		\$0.03	\$0.08	\$0.15

**Source** Statistics Canada, SPSPD/M v. 26.0 and author's calculations.

**Note** Totals may not add up due to rounding.

## Results

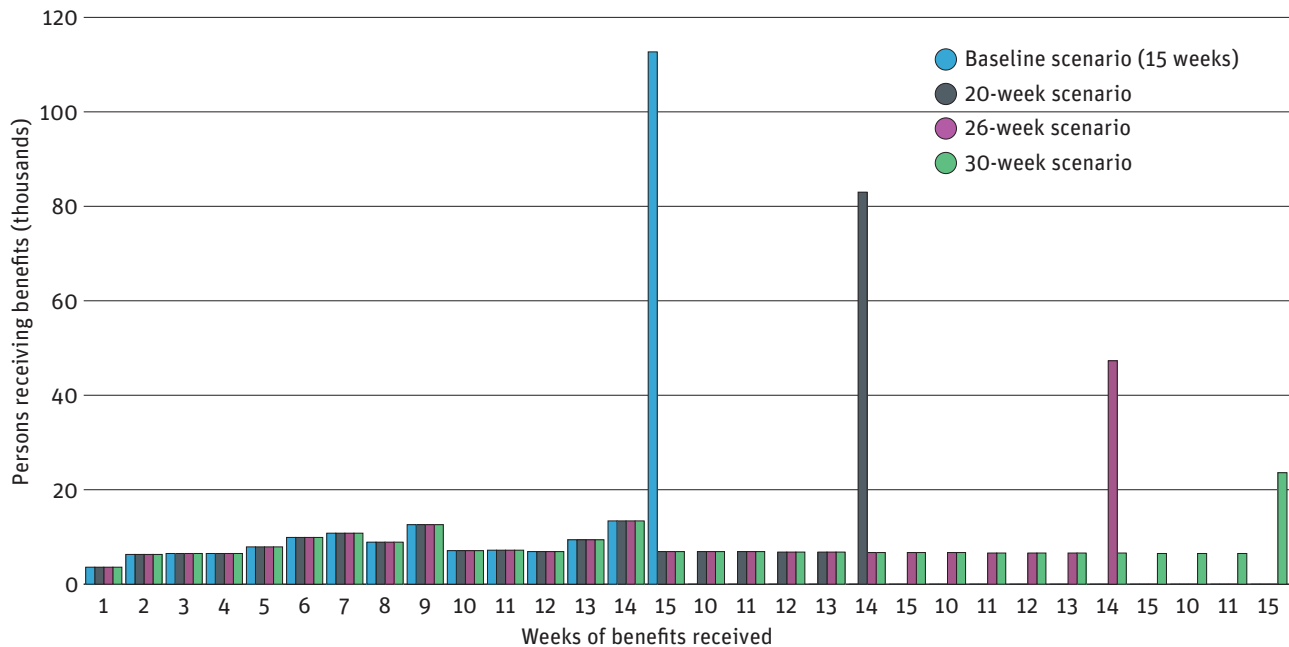
Results for the three scenarios as compared to the baseline are summarized in *Table 1*.

The small increases we see in the total number of workers claiming sick leave are the result of longer claims carrying over from year to year, not from additional workers making new claims. We expect the behavioural response to be negligible because all the workers who need sickness benefits should already be taking them. Put another way, workers who haven't claimed sickness benefits before are unlikely to take them simply because more weeks are suddenly available.

Instead, we find that as maximum sick leave increases, a portion of workers receiving sickness benefits claim some of the additional weeks available to them. Among workers claiming sick leave and no other type of EI, the average duration of benefits increases from a low of 11.6 weeks at baseline to a high of 16.1 weeks in the 30-week scenario.

The higher the maximum allowable sick leave, the fewer workers who claim all the available weeks (see *Figure 3*). Under the current policy, more than 100,000 workers use up all 15 weeks before returning to work (i.e., they do not claim another type of EI after sick leave expires). Those workers reaching the limit without claiming another type of EI currently make up half of sickness claimants.

**FIGURE 3** Duration of EI benefits for workers claiming sick leave and no other type of EI under different sick leave extensions (2018)



Source: Statistics Canada, SPSPD/M v. 26.0 and author's calculations.

However, if the maximum duration of available benefits is increased to 20 weeks, the proportion reaching the limit drops to a third. If the duration is extended to 26 weeks, those taking the maximum drops to a fifth. At 30 weeks of sickness benefits, only a tenth of workers on sick leave (and no other type of EI) claim the maximum. In other words, if sick leave were extended to 30 weeks, nine out of 10 workers receiving benefits could fully recover before returning to work. Based on our model, the apparent spike in “capped” sickness beneficiaries would disappear completely once benefits are extended to 33 weeks, although in practice there will always be a subset of workers who use the maximum weeks available.

Total EI program spending increases in proportion to the total number of benefit weeks paid (not necessarily to the number of people claiming benefits). We find the incremental cost for each additional week of maximum sick leave is about \$60 million, although the incremental cost declines with each subsequent week. In total, moving to a 20-week maximum costs \$300 million, which is an 18% increase over sick leave spending in the 15-week scenario. At 26 weeks the cost of the program is \$628 million or 37%

above the baseline. At 30 weeks the cost is \$833 million, which is 49% higher than the 15-week scenario. The relative cost increases in each scenario are much smaller in the context of the full \$20 billion EI program. The impact on total EI spending in the three scenarios is 2%, 3% and 4%, respectively.

Women benefit disproportionately from any extension of sickness benefits. About 54% of additional benefits go to women in all three scenarios, which helps bridge the gender gap in EI benefits. Men currently receive 53% of all benefits through the EI program (partly due to their higher average insurable earnings), so extending sick leave ensures women are getting a slightly fairer share of social security.

About 34% of the additional benefits of extended sick leave go to workers 55 and older, even though older workers make up only a fifth of the labour force.

The cost of an increase in sickness benefits could be absorbed into the EI operating balance, which is already slated to run a deficit for the next few years.<sup>25</sup> The federal government could also cover the increased cost with direct budget spending. However, a more likely outcome is an increase in EI premiums from the current rate of \$1.66 per \$100 in insurable earnings.<sup>26</sup> We calculate that a small increase to \$1.69 would be sufficient in the 20-week scenario, rising to \$1.74 in the 26-week scenario and \$1.81 in the 30-week scenario.

For context, the average EI premium over the past 20 years (from 1999 through 2018) was \$1.99 per \$100 in insurable earnings – ranging from a low of \$1.63 to a high of \$2.55.<sup>27</sup> In other words, an extension of sickness benefits to as much as 30 weeks would not increase premiums outside of the normal range.

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## Conclusions

Sickness benefits through the employment insurance program are an important component of Canada's social safety net. A third of a million workers rely on EI sick leave every year for income maintenance while they are unable to work due to illness or injury.

Sickness benefits are currently capped at 15 weeks, but half the workers who go on sick leave (without later claiming another type of EI) reach the 15-week limit before they are ready to return to work. Every year, more than one hundred thousand workers are forced to make the difficult choice between returning to work while sick or losing their job and claiming regu-

lar employment insurance. The current cap is especially problematic for women, older workers and lower-income families, who are all disproportionately reliant on sickness benefits.

This paper models an increase in the maximum duration of sickness benefits from 15 weeks to 20, 26 and 30 weeks. We find that as the maximum number of weeks is increased, the number of people reaching the maximum decreases. By 30 weeks, the proportion of workers on sick leave who claim all the weeks available to them is only 10%. In other words, if sickness benefits were extended to 30 weeks, nine out of 10 workers forced to go on sick leave could fully recover and return to work before benefits expired. That would be especially good news for the economically disadvantaged groups that more often depend on the program.

Expanding EI comes with upfront costs. Each additional year of sick leave adds about \$60 million to the total cost of the EI program. Covering the difference — upwards of \$833 million per year in the 30-week scenario — could be achieved by absorbing the cost into the EI program, paying for it directly out of the federal budget or by increasing EI premiums. A modest increase to premiums within the normal historical range would be sufficient to cover the entire cost of the expansion.

Given the large potential benefits to working people and the reasonable costs, an extension of the maximum duration of sickness benefits to as much as 30 weeks is a practical, progressive policy worth pursuing.

# Notes

- 1** The terms “sickness benefits” and “sick leave” are used interchangeably in this paper. The benefit period for EI can be longer or shorter than the leave period under certain circumstances, but for the purposes of the present analysis we assume that sickness benefits and sick leave are synonymous.
- 2** Canadian Labour Congress, “What Canada’s unions would like to see in the federal budget,” February 21, 2018, <http://canadianlabour.ca/news/news-archive/what-canadas-unions-would-see-federal-budget>.
- 3** This analysis is based on Statistics Canada’s Social Policy Simulation Database and Model version 26.0. The assumptions and calculations underlying the simulation were prepared by Hadrian Mertins-Kirkwood and the responsibility for the use and interpretation of these data is entirely that of the author.
- 4** Thomas J. Courchene and John R. Allan, “A short history of EI, and a look at the road ahead,” Policy Options (September 2009), pp. 19–28.
- 5** Canada Employment Insurance Commission, “Program historical overview” in Employment Insurance Monitoring and Assessment Report for the fiscal year beginning April 1, 2015 and ending March 31, 2016, Employment and Social Development Canada, March 2017, <https://www.canada.ca/en/employment-social-development/programs/ei/ei-list/reports/monitoring2016.html>.
- 6** Employment Insurance Act (S.C. 1996, c. 23), Section 18(1)(b).
- 7** Employment and Social Development Canada, “Digest of Benefit Entitlement Principles,” Government of Canada, last modified October 14, 2016, <https://www.canada.ca/en/employment-social-development/programs/ei/ei-list/reports/digest.html>, Section 11.1.1.
- 8** Employment Insurance Act (S.C. 1996, c. 23), Section 12(3)(c).
- 9** Government of Canada, “EI Sickness Benefit - How much could you receive,” last modified December 3, 2017, <https://www.canada.ca/en/services/benefits/ei/ei-sickness/benefit-amount.html>.
- 10** Government of Canada, “EI Sickness Benefit - While on EI,” last modified June 7, 2016, <https://www.canada.ca/en/services/benefits/ei/ei-sickness/while-receiving.html>; Division 14 of Part 6 in

**Bill C-74:** An Act to implement certain provisions of the budget tabled in Parliament on February 27, 2018 and other measures, First Reading, March 27, 2018, 42nd Parliament, First Session, <http://www.parl.ca/DocumentViewer/en/42-1/bill/C-74/first-reading>.

**11** Statistics Canada, “Table 276-0017: Employment Insurance program (EI), benefit characteristics by province, type of income benefits and class of worker, unadjusted for seasonality,” CANSIM, last modified April 19, 2018, <http://www5.statcan.gc.ca/cansim/a26?lang=eng&id=2760017>.

**12** CEIC, “Annex 6 - Key studies referenced in chapters II and IV,” Employment Insurance Monitoring and Assessment Report.

**13** Nicole Stewart, “Missing in Action: Absenteeism trends in Canadian organizations,” Conference Board of Canada, September 2013, pp. 4–5.

**14** The 20% figure includes mixed claims where sickness benefits were combined with other types of EI. See Table 5 in CEIC, “Chapter II - 1. Employment Insurance benefits overview,” Employment Insurance Monitoring and Assessment Report.

**15** Ibid.

**16** Ibid.

**17** Table 49 in CEIC, “Chapter II - 6. Employment Insurance special benefits,” Employment Insurance Monitoring and Assessment Report.

**18** Annex 2.16.1 and Annex 2.16.4 in CEIC, “Annex 2 - Employment Insurance benefits data tables,” Employment Insurance Monitoring and Assessment Report; Statistics Canada, “Table 282-0087: Labour Force Survey estimates (LFS), by sex and age group, seasonally adjusted and unadjusted,” CANSIM, last modified April 6, 2018.

**19** Ibid.

**20** For an analysis of the problems associated with the CPP disability program application process, see: Auditor General of Canada, “Report 6—Canada Pension Plan Disability Program” in 2015 Fall Reports of the Auditor General of Canada, Office of the Auditor General of Canada, February 2016, [http://www.oag-bvg.gc.ca/internet/English/parl\\_oag\\_201602\\_06\\_e\\_41063.html](http://www.oag-bvg.gc.ca/internet/English/parl_oag_201602_06_e_41063.html).

**21** Annex 2.16.3 in CEIC, “Annex 2 - Employment Insurance benefits data tables,” Employment Insurance Monitoring and Assessment Report.

**22** Annex 2.5.3, Annex 2.15.3 and Annex 2.10.3 in CEIC, “Annex 2 - Employment Insurance benefits data tables,” Employment Insurance Monitoring and Assessment Report.

**23** The term “family” refers to economic families. Author’s calculations using SPSD/M v. 26.0, 2015 model.

**24** Feng Hou, Rachel Margolis and Michael Haan, “Estimating Parental Leave in Canada Using Administrative Data,” Statistics Canada, August 29, 2017, <http://www.statcan.gc.ca/pub/11-633-x/11-633-x2017009-eng.htm>.

**25** Department of Finance Canada, Equality + Growth — A Strong Middle Class: Budget 2018, February 27, 2018, p. 323.

**26** Canada Employment Insurance Commission, “2018 Employment Insurance premium rate,” Employment and Social Development Canada, last modified September 20, 2018, <https://www.canada.ca/en/employment-social-development/programs/ei/ei-list/reports/premium/rates2018.html>.

**27** Government of Canada, “EI premium rates and maximums,” last modified November 16, 2017, <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/payroll-deductions-contributions/employment-insurance-ei/ei-premium-rates-maximums.html>.



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