



CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
CENTRE CANADIEN
de POLITIQUES ALTERNATIVES

AFB2010

TECHNICAL PAPER

January 2010

TECHNICAL PAPER | ALTERNATIVE FEDERAL BUDGET 2010

Is EI Working for Canada's Unemployed?

Analyzing The Great Recession

Andrew Jackson and Sylvain Schetagne

Introduction

The current economic crisis can be considered as an extreme “stress test” for Canada’s EI program. This is the first recession we have experienced since the mid-1990s when major changes were made to the program which raised entrance requirements, reduced the duration of benefits in many cases, and reduced the dollar value of weekly benefits by freezing maximum insurable earnings for a full decade.

Before trying to answer the question of how the system has responded to the crisis, it is worth noting that only quite limited real-time information is available on the EI system. Statistics Canada provides monthly data on the number of claimants, with some detail by gender and place of residence, as well as the level of benefits. But — unlike the U.S. — we get no monthly data on the number of persons exhausting an EI claim.

Rising Unemployment and Access to EI

The impact of the recession on the job market began from October 2008 when the national unemployment rate was 6.3%, a shade above the average rate of 6.0% in 2007. The national unemployment rate rose to a recession high of 8.7% in August 2009, and still stood at 8.6% in October 2009. Over the year, October 2008 to October 2009, the number of regular EI beneficiaries rose from a near low of 500,340 to 809,600, an increase of 309,260 or 61.8%. As shown in Table 1, the number of regular EI beneficiaries increased by more than the total number of unemployed (by 61.8% compared to 37.9%), and the percentage of unemployed workers drawing regular EI benefits (the so-called B/U rate) rose from 43.4% to 51.0%.

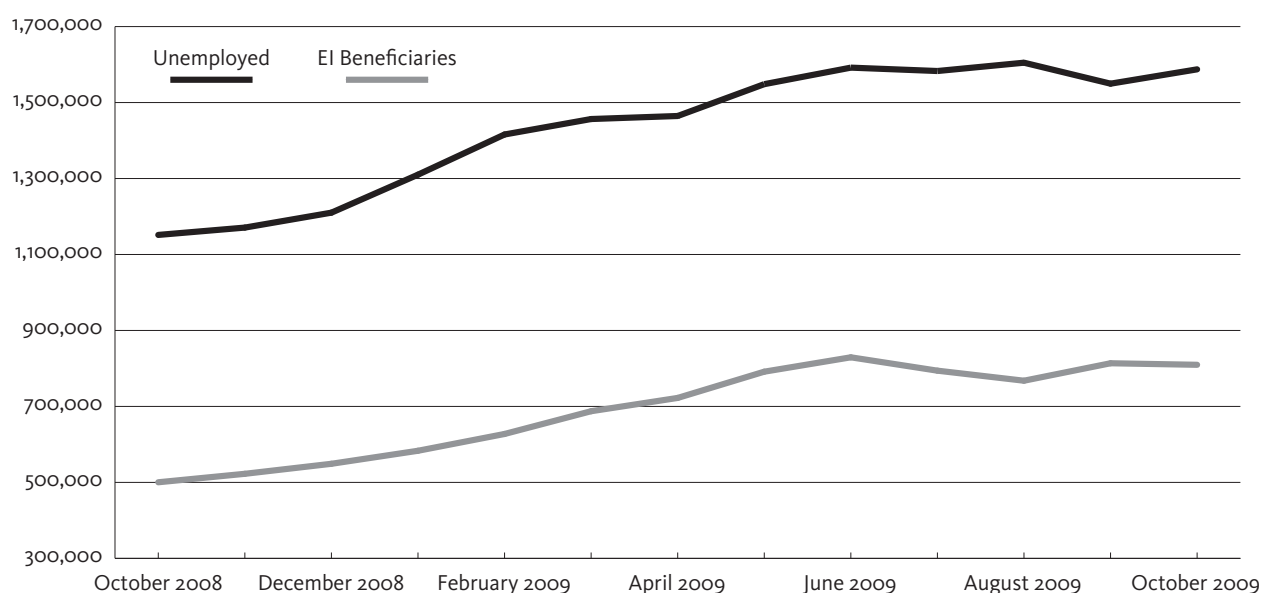
This modest rise in the B/U rate has been driven by two key factors.

First, the initial stages of the downturn were marked by major layoffs of workers, especially male industrial and construction workers, who had typically been employed and paying into the system before becoming unemployed. Before the

TABLE 1 EI and the Recession

	October 2008	October 2009	Increase (%)
Number of Unemployed	1,151,100	1,587,000	435,900 (37.9%)
Number of Regular EI Beneficiaries	500,340	809,600	309,260 (61.8%)
Beneficiaries as % of Unemployed	43.4%	51.0%	

SOURCE Statistics Canada Employment Insurance Statistics and Labour Force Survey for October 2008 and October 2009. (Data seasonally adjusted.)

CHART 1 Canada: Number of Unemployed and EI Beneficiaries (Regular Benefits) October 2008 to October 2009

recession, proportionately more of the unemployed were new entrants and re-entrants to the workforce who need 910 hours of work (almost six months of full-time work) to get into the system. This requirement disqualifies many young workers, as well as parents (almost all women) returning to work after a leave, as well as recent immigrants.

Recessions are typically marked by major new inflows into unemployment arising from layoffs, and an increase in the duration of unemployment as new jobs become much harder to find. If the newly unemployed had been in relatively stable jobs before a layoff, they would have not only got into the system, but would also have qualified for longer periods of benefits than was the case for the average unemployed worker before the recession.

Second, the EI system automatically responds to downturns, though with an important lag, because entrance requirements and the duration of benefits depend on the local unemployment rate (based on a three-month moving average).

If Canada were a single region and the unemployment rate rose from under 6%, to 8% to 9%, the number of hours of work required to qualify for a benefit would have fallen from 700 hours to 595 hours, and the duration of benefits would have changed from a range of 19 to 41 weeks, to a range of 23 to 47 weeks (this includes the extra five weeks added in the 2009 federal Budget). While Canada is not one region, of course, a change of this scale would have been experienced in many regions.

Before the recession, all major cities in Western Canada had unemployment rates of less than 6%, as well as Halifax, Quebec City, and several larger cities in Ontario (Ottawa, Kitchener, Hamilton, Sudbury). One feature of the current recession is that unemployment has increased much less rapidly in traditionally high unemployment regions (such as rural Atlantic Canada and parts of Quebec) than it has in traditionally low unemployment regions in Western Canada and Southern Ontario. (However, several hard-hit industrial cities in Ontario, such as

TABLE 2 EI and The Recession by Gender

EI Beneficiaries	October 2008	October 2009	Increase (%)
Men 25+	194,960	320,040	125,080 (64.2%)
Women 25+	152,210	212,330	60,120 (39.5%)
Unemployed			
Men 25+	454,900	684,300	229,400 (50.5%)
Women 25+	336,600	465,300	128,700 (38.2%)

SOURCE Statistics Canada Employment Insurance Statistics and Labour Force Survey data for October 2009. (EI data by gender, not seasonally adjusted.)

TABLE 3 EI Beneficiaries as % of Unemployed Workers (B/U Rate) by Province

	October 2008	October 2009
Canada	43.4	51.0
Newfoundland and Labrador	104.6	97.3
Prince Edward Island	87.7	97.3
Nova Scotia	74.2	74.8
New Brunswick	83.2	108.1
Quebec	52.3	58.6
Ontario	32.3	41.4
Manitoba	39.2	45.1
Saskatchewan	39.9	49.7
Alberta	23.4	46.5
British Columbia	36.2	48.2

SOURCE Statistics Canada Employment Insurance Statistics and Labour Force Survey. (Seasonally adjusted data.)

Windsor, began the recession with high unemployment rates due to major layoffs in manufacturing before the global crisis.)

By mid-2009, the entrance requirement to qualify for EI had fallen compared to October 2008 in about 40 of the 58 EI Regions, accounting for over 80% of workers.

The responsiveness of the system to a higher unemployment rate is, however, gradual. Many industrial workers lost their jobs before the recession and in its early stages in 2008 when unemployment rates were low, and their claims were approved and their duration established on the basis of a low unemployment rate. By contrast, those who lost their jobs after early 2009 found it easier to qualify, and qualified for longer periods of benefits.

That said, even as the system became somewhat easier to access, many, many unemployed workers have fallen through the cracks. In fact, the number of unemployed workers NOT in receipt of EI benefits jumped from 650,760 in October 2008 to 777,400 in October 2009.

Many of those falling through the cracks have been women. As shown in Table 2, between October 2008 and October 2009, the number of male regular EI beneficiaries (aged 25 and over) rose much faster than the number of unemployed (64.2% vs. 50.4%). For women, the increase in the number of EI beneficiaries just matched the increase in the number of unemployed. This is likely because more men impacted by the recession had been previously employed in relatively stable jobs.

The performance of the EI system has also varied considerably by region and by province. The biggest increases in claims over 2009 compared to 2008 have been in Alberta, British Columbia, and Ontario, in that order, but the former two began the recession with low unemployment rates. As shown in Table 3, the number of EI beneficiaries has increased more than the number of unemployed in all provinces except Newfoundland and Labrador over the period October 2008 to October 2009, but the B/U rate continues to vary a great deal by province. (Note that a ratio of more than 100% sometimes occurs since some workers with an active claim may, quite le-

gitimately, have found temporary work and declared earnings in a particular week.)

Most strikingly, the B/U rate is very low — just 41.4% in Ontario in October 2009, even though Ontario had an unemployment rate of 9.3% in that month. This may be due to the relatively high proportion of recent immigrants in Ontario, especially the Greater Toronto Area, many of whom may have not been able to get over the 910-hour new entrant hurdle. The B/U rate in October 2009 was also low — in the range of 45% to 50% — in the Western provinces.

Entrance requirements in terms of hours worked continue to exclude many unemployed workers from benefits. Human Resources and Skills Development Canada (HRSDC) EI Monitoring and Assessment Reports show that about 10% of all unemployed workers in recent years worked before becoming unemployed, but did not have enough hours of work to qualify for benefits. That amounts to about 160,000 unemployed workers in any given month today, and a much higher number over the course of a year.

HRSDC and Parliamentary Budget Office (PBO) studies of a proposal by the Liberal Party to temporarily drop the entrance requirements to 360 hours from the current range of 420 to 700 hours depending upon the local unemployment rate showed that this would bring about 184,000 more workers into the system over a year. (The proposal which was studied would still have imposed a 910-hour requirement, or about six months full-time work, on new labour force entrants and re-entrants, and would have let workers with relatively low qualifying hours into the system for only 14 to 36 weeks, depending on the local unemployment rate.) The proposal was costed by HRSDC at \$1.14 billion on a “static” basis, which the PBO agreed was reasonable.

Benefit Levels

The entry of many relatively well-paid workers into the ranks of the unemployed has modestly increased the average weekly regular EI benefit. This rose from \$323.63 in October 2008 to \$343.80 in October 2009, an increase of 6.2%. This is still well below the current maximum weekly benefit of \$447 because many claimants — especially women and younger workers — were earning well below average incomes before the crisis. Also, earnings are averaged over a six-month period. Often, even better paid workers experience a period of interrupted and thus lower earnings due to short time working

before a layoff happens, lowering their weekly EI benefit. Also, many workers take part-time and/or temporary lower paid work while on claim, establishing the basis for a later claim, but the later claim will be at a much lower benefit level than a first claim.

Average benefit levels are clearly barely sufficient to support a single person, let alone a family, and basically match earnings from a full-time job at minimum wage.

Exhaustion of Benefits

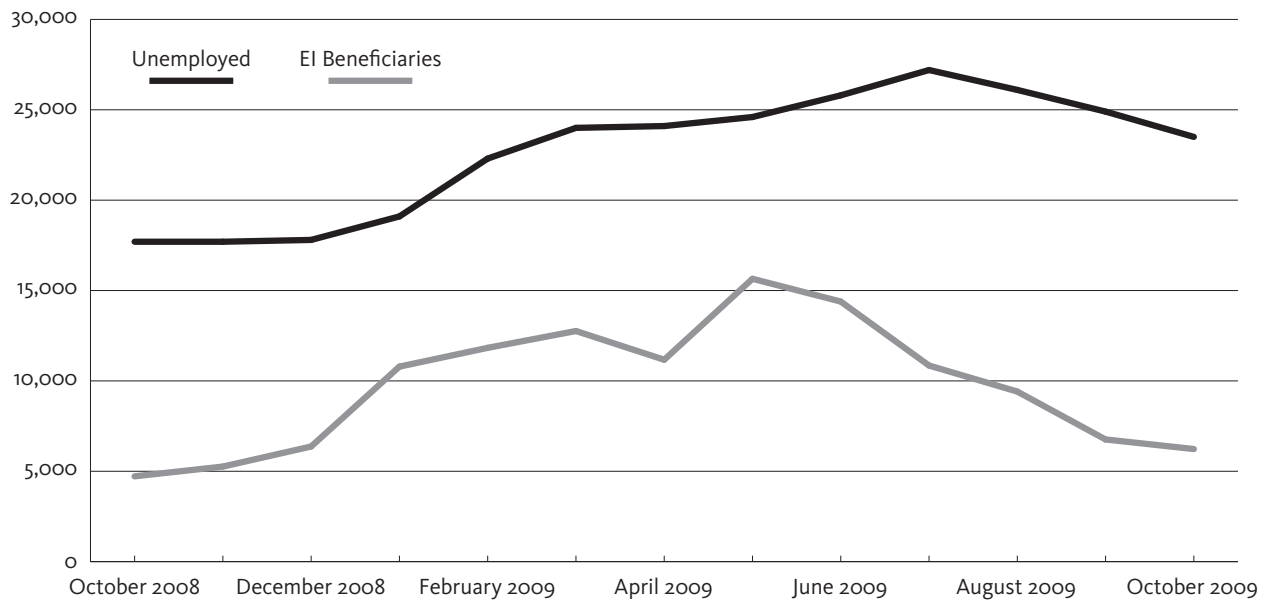
On top of unemployed workers who never qualify for benefits, some unemployed workers collect benefits and subsequently exhaust a claim before finding a new job. As the recession continues, more and more workers can be expected to exhaust their EI benefits. In fact, this is clearly happening in many hard-hit communities, as documented in the Canadian Labour Congress “Communities in Crisis” project. Workers who entered the EI system in the early stages of the crisis in late 2008 were starting to run out of benefits in significant numbers by the fall of 2009.

Unfortunately, trends in the number of benefit exhaustees have to be inferred from other sources of data. Typically, the exhaustion rate will rise in a recession for the simple reason that new jobs are much harder to find.

The average regular EI claimant qualified for 31 weeks of benefits in 2006–07, the most recent year for which HRSDC provides data. However, the average claim in that year was for just 18.7 weeks. Most unemployed workers managed to find a new job before exhausting a claim. Nonetheless, even before the recession, more than one in four (27.9%) of claimants exhausted their benefits (29.9% of women and 26.5% of men). More than one in three (34.3%) older workers on EI exhausted their benefits.¹

Currently, claimants are eligible for between 19 weeks and 50 weeks of benefits depending upon how many hours of work they put in in the 52-week qualifying period before a claim and the regional rate of unemployment. This range of eligibility periods includes the temporary five weeks of benefits added to the system in all regions in the last Budget. In an “average” region with an unemployment rate of 8% to 9% — the same as the average national rate — eligibility ranges from 23 to 47 weeks depending upon the number of hours worked in the previous year. More than 1,820 hours or essentially a history of working in a full-time, permanent job are required to get the

CHART 2 Windsor: Number of Unemployed and EI Beneficiaries (Regular Benefits)



maximum 47 weeks of benefits. The current 50-week maximum in all of Canada only applies in regions with an unemployment rate above 12%.

It can be estimated that a new EI claimant today will, on average, qualify for about 38 weeks or nine months of benefits. That is the average of 31 weeks for 2006–07, plus the extra five weeks added in the last Budget, plus the extra two weeks generated on average by a two percentage point rise in the national unemployment rate.

We can expect that the total number of new regular claims in 2009 will hit about two million. If the exhaustion rate were to remain the same as in 2006–07, we could eventually see some 500,000 plus exhausted claims in late 2009 and into 2010. It is open to question if the exhaustion rate will remain the same as before the recession. On the one hand, as noted, a higher unemployment rate automatically triggers somewhat longer benefit periods, and five weeks have been temporarily added for two years. About 400,000 workers were expected by HRSDC to qualify for the extra five weeks in 2009–10. On the other hand, it will be far harder than in 2006–07 for those on claim to find a new job before their eligibility period comes to an end.

At this point in the recession, jobs are still very hard to find. Before the recession in 2008, the average duration of a spell of unemployment had fallen to very low levels — just 13.6 weeks in September 2008.² Average duration (unfortunately

the data are not seasonally adjusted) fell in the early stages of the downturn as unemployment rose rapidly, but has recently been increasing and stood at 17.0 weeks in September 2009. As of that month, 275,000 workers, or about one in five of all unemployed workers, had been unemployed for 27 weeks or more, clearly placing those on EI at risk of running out in the very near future if, in fact, they have not already exhausted.

The number of EI regular beneficiaries appears to have peaked in June 2009. Strikingly, however, the number of EI beneficiaries has begun to fall in some communities at a much faster pace than can be explained by a falling unemployment rate. As shown in Chart 2, the number of EI beneficiaries in the Windsor Census Metropolitan Area has fallen very sharply since mid-2009, even though the number of unemployed workers has fallen only very modestly. This is almost certainly because many unemployed workers in Windsor — which entered the recession with a high unemployment rate — have exhausted their benefits.

Responding to the Crisis? Bill C-50

Bill C-50, introduced by the Conservative government in October, further extended EI benefits by 5 to 20 extra weeks of benefits on a temporary basis, but only for a small subgroup of claimants. The government estimates that 190,000 work-

The following is an extract from the report on Welland in Ontario, studied in July, 2009 as part of the Canadian Labour Congress "Communities in Crisis" Project.

"Interviewees said that benefits will begin to run out for large numbers of laid-off Lakeside Steel and Henniges workers in the fall, likely promoting a major local crisis since most laid-off workers are not finding replacement jobs.

One key problem reported by Malcolm Allen, MP, and Frank Arcuri of the USW Adjustment Centre is that many industrial workers laid off in 2008 before the full brunt of the current crisis hit home, took then-available "in and out" part-time and temporary jobs, as they were urged to do. In doing so, many found they had insufficient hours to qualify for EI when they lost these replacement jobs as the crisis deepened, or qualified only for very low benefits. They also lost access to retraining opportunities under EI.

"That was one of the issues that came up time and again. I took a job, now I'm stuck (and can't get into training)," says Malcolm Allen. Arcuri reports that some workers served by the Adjustment Centre are now getting benefits of as low as just \$200 per week because they took temporary and part-time jobs after an early 2008 layoff, and now can find no work at all.

The real problem is...you went from a \$25-an-hour job, so you were receiving your max, and then, after EI runs out, you end up taking whatever, so all of a sudden, sure you can get another claim started, but at \$10 an hour, your claim is not going to be max. You're now only taking home half of what you were taking when you were on unemployment last time, and that wasn't even half your wages at that time. So you're bringing in \$200 a week, and you can't live on that even if you supplement your income by taking a part-time job... You're still only getting \$300 a week, and how can you pay a mortgage or rent or raise a family on that? You can't.

Frank Arcuri, June 7, 2009

ers, so-called long tenure workers, will qualify over the life of the program at a cost of just under \$1 billion. The payments will be made over the final months of 2009, 2010, and until the fall of 2011. A "guesstimate" is that only about one in five potential exhaustees over the life of the program will qualify for this additional extension. (If there are three million claims in 2009 and the first half of 2010, and the exhaustion rate is 30%, close to one million claims will be exhausted.)

To be eligible for the second round of extended benefits, a worker must have initiated a claim after January 4, 2009, thus excluding many of those now running out of benefits who initiated a claim in late 2008. Eligibility for the extended benefit will be rapidly phased out between June and September of 2010. To qualify, a worker must also have been paying into the system (defined as paying at least 30% of the maximum premium) for at least seven of the past ten years. The maximum additional 20 weeks goes to those who have been paying in even longer, for at least 12 of the past 15 years. Finally, to qualify, a worker must have claimed no more than 35 weeks of regular EI benefits over the last five years. This temporarily re-introduces an element of experience-rating into the EI system.

The target group is very explicitly older workers who have made very limited use of the EI system in the past — meaning younger workers, many women, workers in high unemployment regions, workers in seasonal industries, and many industrial workers will not qualify. The 35-week cutoff will exclude many industrial workers who have been temporarily laid off to reduce inventories, to allow for retooling of plants, and other normal workforce fluctuations in operations. It will also exclude many of the earlier victims of the manufacturing and forestry jobs crisis, and many claimants in provinces which experienced relatively high unemployment rates over the past five years — notably Atlantic Canada, Quebec, and rural and northern regions in other provinces.

The 35-week cutoff makes an invidious and unsupported distinction between the deserving and the undeserving unemployed based on previous use of the system, ignoring the fact that any EI claim has to be based on an employer layoff as opposed to any choice exercised by a worker. Workers who quit or are fired from a job are ineligible under the rules which have been in place for the past decade.

TABLE 4 EI Finances and the Recession (\$Billions)

	2008–09	2009–10	2010–11
EI Revenues	16.9	16.4	17.2
EI Expenditures	16.3	22.1	22.0
Balance	0.6	-5.7	-4.8

SOURCE Department of Finance. Update of Economic and Fiscal Projections. September 2009.

TABLE 5 EI Finances and the Recession (\$Billions)

	1990	1991	1992
EI Expenditures (in 2009 dollars)	21.2	26.2	28.1
Unemployment Rate	8.1%	10.3%	11.2%

SOURCE Canadian Institute of Actuaries. "A Look Back and a Way Forward." 2007.

EI Work Sharing

The government deserves credit for greatly expanding work sharing under EI. If a plan is approved, workers who agree to work shorter hours to save jobs receive EI benefits for days not worked. As of August 2009, 160,000 workers were on work sharing plans, through almost 6,000 agreements. These have likely saved at least 30,000 to 50,000 jobs through fewer layoffs and, in some cases, by avoiding permanent business closures. Plans can now last for a maximum of 52 weeks, but many will likely come to an end next spring and summer before there is a significant business recovery.

EI Program Finances — Passing on the Bill

As shown in Table 4, the latest government forecasts show that the EI Account will move into a large deficit position in both 2009–10 and 2010–11. EI premium revenues are forecast to decline slightly in 2009–10, and to increase only slightly in 2010–11. This flows from the government's decision to freeze EI premiums in 2009 and 2010, at \$1.73 per \$100 of insured earnings for employees. The Chief Actuary for EI recently calculated that EI premiums would have to rise by 41% in 2010 to cover the cost of the program had it not been for the premium freeze.

Meanwhile, EI expenditures will jump by almost \$6 billion or by 36% this fiscal year to over \$22 billion, and will stabilize at that much higher level next year.

It is notable that, as shown in Table 5, the percentage increase in EI expenditures this fiscal year is about the same as that between 1990 and 1991, when the unemployment rate

rose by about the same amount (from 8.1% to 10.4%). However, the level of spending is much lower. In today's (2009) dollars, EI expenditures rose to \$26.2 billion in 1991, the first year of recession, compared to \$22.1 billion today (2009–10), even though there were fewer unemployed workers in absolute numbers in 1991 (1.5 million compared to 1.6 million).

The premium freeze will end in 2011, by which time the EI Fund will have incurred a large deficit compared to its position going into the recession. The Fund — which is integrated with the Public Accounts of Canada but exists on paper as a separate government account — had a cumulative surplus of about \$55 billion in 2008–09. However, under current legislation, this is ignored for premium-setting purposes. Starting in 2011, premiums will have to be raised to cover the approximate \$10 billion "recession deficit" in the EI Fund, minus the \$2.9 billion the government will pay into the Fund next year to cover the cost of some EI measures. (The government is paying for the temporary five-week extension of benefits, expected to cost \$1.1 billion, and increased EI spending on various training programs, but not for the cost of the premium freeze, higher EI expenditures resulting from higher unemployment, and extended benefits for long tenure workers.)

While the government is to be commended for not raising EI premiums inappropriately in a time of recession, the stage is set for at least several years of premium increases from 2011 in order to bring the EI account back into balance. Premiums are likely to rise by the 15% maximum amount allowed over several years of what may prove to be times of continuing high unemployment and slow growth. (It remains open to the government to impose any premium rate it chooses, notwithstanding any decision of the EI Financing Board. The latter is

mandated to set a rate to match premiums and spending, and to pay the government back any funds owing.)

Challenges for the 2011 Budget

The Alternative Federal Budget has long called for an EI program with a single national entrance requirement of 360 hours, and up to 50 weeks of benefits (based on 60% of the best 12 weeks of earnings in the qualifying period). As detailed in a recent CCPA report by Lars Osberg, "Canada's Declining Social Safety Net: The Case for EI Reform," Canada's EI program is one of the least generous in the OECD high income countries, and excludes many unemployed workers from benefits completely.

The "stress testing" of the current system has shown that current entrance requirements continue to exclude many workers, even though access, as measured by the ratio of beneficiaries to unemployed, has become somewhat easier as unemployment has risen. The entrance requirement should be lowered to 360 hours in all regions, including for new entrants to the workforce. Average benefits have risen very slightly in the recession, but remain far too low.

One of the major immediate challenges facing Canadians is the prospect of very large numbers of unemployed workers exhausting their EI benefits. Many exhausters will, after using up their financial assets, be forced to turn to provincial social assistance programs.

In the United States, the federal government has — as is usually the case in periods of very high unemployment — temporarily extended benefits by up to 33 weeks in states with very high unemployment rates. In addition to extending benefits to up to 50 weeks in all regions on a permanent basis, Canadians should consider adding an additional benefit period so long as the national unemployment rate remains well above normal levels.

Extending benefits would result in higher EI benefit costs until such time as high unemployment rates begin to decline. However, these benefits are a highly effective form of temporary economic stimulus, flowing directly to the principal victims of the recession and to especially hard-hit communities. The huge surplus accumulated in the EI Account before the recession can and should be drawn upon if it is needed.

The 2011 federal Budget should introduce a special 26-week extension of benefits, applicable to all claims filed since October 2008 through October 2010. Eligible unemployed workers who have already exhausted a claim should be allowed to resume the claim if they remain unemployed. The 26-week special extension would incorporate the five-week extension already committed to by the government, as well as the additional extension for so-called "long tenure" workers. Based on the government forecast that the five-week extension would cost \$1.15 billion over two years, a 26-week extension could cost as much as \$4 billion (\$6 billion, less the \$1.15 billion of the extra five weeks already in place, and less the \$935-million cost of the long-tenured worker program.) However, the cost would likely be significantly lower since only a minority of potential exhausters will need the full extra benefit of 26 weeks if and as the national unemployment rate begins to fall.

The Alternative Federal Budget will contain employment creation measures which will significantly lower the cost of improvements to the EI program.

Andrew Jackson is Chief Economist and **Sylvain Schetagne** is a Senior Economist at the Canadian Labour Congress.

Notes

- 1 HRSDC, *EI Monitoring and Assessment Report*, 2008: 74-75.
- 2 Data from Statistics Canada, CANSIM Table 282-0047.



CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
CENTRE CANADIEN
de POLITIQUES ALTERNATIVES

410-75 Albert Street, Ottawa, ON K1P 5E7
TEL 613-563-1341 FAX 613-233-1458
EMAIL ccpa@policyalternatives.ca

This report is available free of charge from the CCPA website at www.policyalternatives.ca. Printed copies may be ordered through the National Office for a \$10 fee.