Fiscal Pulse

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Canada's Post-Recession Employment Insurance Adjustments

- **Significant changes to a complicated program.**

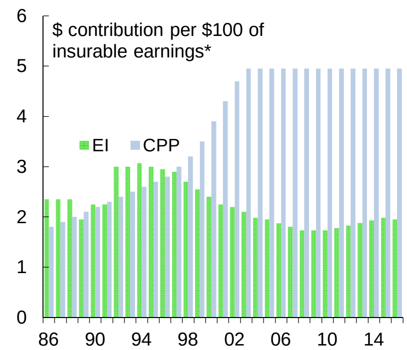
The opportunity to reform Canada's Employment Insurance (EI) program for its stakeholders is longstanding, accentuated by the recession and the subsequent uneven economic recovery. This spring, federal *Budget* measures and regulatory changes outlined sizeable adjustments to EI, potentially first steps to be carefully monitored for further reforms. Given Ottawa's ongoing fiscal repair, a near-term federal priority is eliminating the cumulative deficit in the EI Operating Account, estimated at $8.5 billion for 2011. However, Canada has long struggled to restrain its federal payroll tax burden, that also includes Canada/Quebec Pension Plan premiums *(top graph).* So to limit the negative impact of premium hikes on hiring and working, a 5¢ ceiling is set on annual increases for employee EI premiums, halving the previously proposed 10¢ maximum. Ottawa projects that employee EI premiums, after climbing from $1.73 per $100 of insurable earnings in 2010 to $1.83 for 2012[1], will climb 5¢ each year to $1.98 in 2015, falling back to $1.95 in 2016 when the Account's black ink is restored. Thereafter, EI premium rates will be set annually at the seven-year break-even rate, with annual adjustments constrained to 5¢.

A number of the other EI changes focus on accelerating the process of claimants regaining permanent employment. Often cited are the lay-offs in some industries as other areas report a lack of skilled labour and the intensifying skilled labour shortages projected over the next decade. Potentially promising are enhancements to the *Job Alerts* program to provide EI claimants with more frequent and comprehensive information on local job openings. Employers will be expected to consider unemployed permanent residents before proceeding with the Temporary Foreign Worker program. The "reasonable job search" required of EI claimants is clarified and broadened to include workshops and other efforts to raise employability. As of April 2013, EI benefits will be based on the highest earning 14-22 weeks within the past year, the most expensive EI change in the *2012 Budget* costing close to $390 million over two years. To increase claimants' income and help them to remain connected to the labour market, a current pilot project allowing EI recipients to retain occasional earnings up to 40% of their weekly EI benefit will be simplified to a 50% clawback on all earnings while on claim and rolled out nationally.

Receiving substantial attention are the clarifications of suitable employment and the introduction of experience rating (*see text box on next page). *Criteria defining suitable employment include the length of time EI benefits have been received, commuting time,

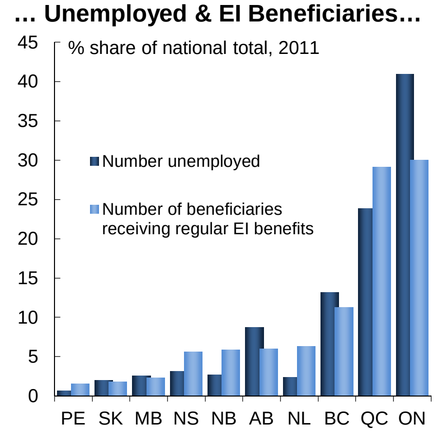
[1] The employer EI premium rate for 2012 is $2.562 per $100 of insurable earnings. For CPP premiums, the employee rate is 50% of the $9.99 total rate per $100 of insurable earnings.

Canadian Federal Payroll Premium Rates...



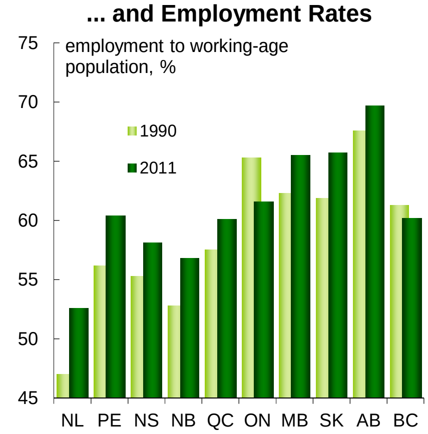
* Employee rate. Source: Human Resources and Skills Development Canada, Service Canada.

... Unemployed & EI Beneficiaries...



Source: Statistics Canada.

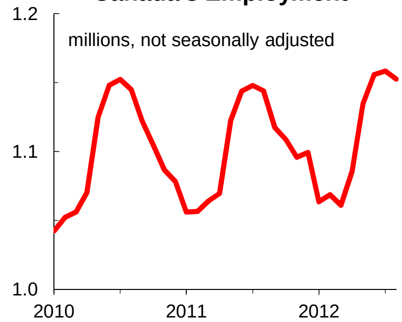
... and Employment Rates



Source: Statistics Canada.

working conditions and personal circumstances. The rating and suitable employment provisions would appear to add complexity to an already complicated system, and their eventual impact will be highly dependent on how they are implemented. Also critical will be EI claimants' response to these changes. For example, the requirement to eventually accept suitable employment could spur EI recipients to initially undertake a more far-reaching job search, potentially hastening a more effective adjustment that possibly includes retraining. The Atlantic Premiers have requested an ongoing assessment of the EI changes for seasonal workers. In fact, as several commentators have pointed out, the EI changes also may have a considerable impact on young, casual, or immigrant workers in the larger urban centres where alternative equivalent employment openings are far more numerous than in more remote rural centres.

Seasonal Variation in Atlantic Canada's Employment



Source: Statistics Canada

The consequences of these changes are likely to be far-ranging, and a significant number of issues with the EI program remain outstanding after these reforms. For instance, the regional distribution of unemployment benefits will remain unequal *(middle chart, previous page).* While dispersion in the ratio of employed to the working-age population has lessened across Canada's regions, Ontario stands out for the significant fall in this ratio *(bottom chart, previous page)* though the share of Ontario's unemployed receiving EI benefits is still low. As well, EI remains far broader than a core insurance program for workers facing unexpected unemployment, and the shift to general revenue funding for add-ons, such as parental leaves, would help to lower EI premium rates. Also remaining in the wings is the need for further co-ordination of re-training resources for all Canadians seeking employment, with Ottawa's proposal of making skills training available earlier in the EI claim period a welcome initial commitment.

Summary of the Major Details on "Suitable Employment"

EI claimants will be placed in one of the three categories below.

Long-tenured workers would include claimants who paid into EI for seven of the past ten years, and over the last five years received EI regular or fishing benefits for 35 or fewer weeks. These workers would be given a longer time to search for a job within their usual occupation and at a similar wage (starting at 90% of their previous wage). After 18 weeks of EI benefits, they would be required to expand their search to jobs similar to their prior job and to accept wages starting at 80% of their previous wage.

Frequent claimants would include individuals with three or more regular and/or fishing EI claims and over 60 weeks of EI benefits over the past five years. They would be required to expand their job search to "similar" jobs over the initial 1-6 weeks of receiving EI benefits and accept wages starting at 80% of their previous hourly wage. After seven weeks of EI benefits they would be required to accept any work for which they are qualified (assuming on-the-job training if necessary) with wages starting at 70% of their previous wage (still a higher percentage of their average weekly wage than EI benefits to the applicable maximum).

Occasional claimants would include all those individuals not falling into either of the first two categories, who typically have limited experience of being unemployed and looking for work. For the first six weeks of their EI claim, they could limit their job search to their usual occupation, starting at 90% of their prior wage. After seven weeks of receiving EI benefits they would have to consider similar jobs starting at 80% of their former wage; and after 18 weeks, any job for which they are qualified, starting at 70% of their prior wage.

Source: Government of Canada, Human Resources and Skills Development, 2012.

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