

***1998 Employment Insurance  
Monitoring and Assessment Report***

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*By: The Canada Employment Insurance Commission*

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## ***Executive Summary***

This is the second in a series of five annual reports presented by the Canada Employment Insurance Commission on the impacts of the Employment Insurance (EI) reforms introduced in July 1996 and January 1997. The reforms continued a trend that began in the late 1980s to address disincentives to work and reduce program costs while better targeting support to the unemployed. Because the new legislation represented a fundamental restructuring of the system, the Government of Canada made a commitment to study community, individual, and the economy's adjustment to the changes over five years (1997 to 2001).

The monitoring and assessment reports focus on two key parts of the legislation: Part I, Income Benefits, which provides for temporary income support to Canadians between jobs; and Part II, Employment Benefits and Support Measures, which provides measures to help the unemployed return to work.

In our first report, tabled in February 1998, we could present only preliminary data. The current document is more detailed as it covers the first full fiscal year that the new system has been in place. However, our findings are still not complete, since some information will only be available for analysis after a time lag of months or years and some measures have not yet been fully implemented. With each subsequent report we expect to have a clearer picture of the impacts of reform, as the new system becomes more firmly established and as patterns of EI usage become more apparent.

The introduction of the reforms coincided with a period of considerable improvement

in Canada's economy and labour market. Between 1995/96 and 1997/98, the Canadian economy created 500,000 new jobs, many of them full-time. The employment growth drew more people into the labour market, where they found the opportunities to be greatest in high-skill occupations. The stronger economy and consequent increase in the number of people coming into the job market led to a change in the composition of the unemployed, a development that is common during an upward trend in the business cycle. More of today's jobless are people who have never been employed, have been out of work a long time, or are self-employed. Members of these groups are unlikely to be eligible for EI benefits. Both factors – job growth and the drop in eligible EI claimants – have contributed to a drop in the number of EI claims and in total benefits paid.

### **FINDING HIGHLIGHTS**

#### **Income Benefits**

In the period under review (1995/96 to 1997/98), new EI claims fell by 14%, while the amount of benefits paid out dropped from approximately \$12 billion to \$10 billion.

The average weekly benefit level for all claims remained virtually the same, while the duration of benefit entitlement (weeks of benefits allowed) increased slightly.

The drop in new claims was mainly due to the decrease in laid-off workers, those clients most likely to be eligible for regular benefits (the largest benefit category). Claims and total payments remained far more stable in the other two benefit categories – fishing benefits and special benefits (maternity, parental, and sickness).

The breakdown is as follows:

- regular claims fell by 18%, while total benefits in this category declined by 19%;
- fishing claims increased by 8%, and fishing benefits declined only slightly (-1.7%);
- special benefit claims dropped by 2.5%, while total special benefits declined 1%.

Among regular claimants, two groups – young people and women – were particularly affected. Claims by women dropped by 20% compared to a 16% decline among men. Young people below the age of 25 filed 27% fewer claims than they had before reform.

The drop in claims by both women and young people can be explained by the work patterns of the two groups. Among youth and women are many new entrants and re-entrants to the workforce – people less likely to be eligible for EI. In addition, young people tend to find part-time jobs of short duration and women tend to work fewer hours than men – factors that affect eligibility.

Women, however, did make significant gains through the new EI system as a result of certain features of the reform such as the Family Supplement and the Small Weeks Adjustment Projects. For example:

- two-thirds of claimants receiving the new Family Supplement are women;
- 15% of women claimants received the Family Supplement compared to 8% of men who made claims;
- over half of all claims involving small weeks were made by women;
- average weekly benefits for women receiving regular benefits increased by 2% while those for men fell slightly; and
- total income benefits paid to women dropped by 13.5% compared to 18% for men.

Claims patterns varied from province to province, generally reflecting regional job growth. The claims decline was greatest in Alberta where the labour market was strong and least in the Atlantic where unemployment remained high. The drop in claims and benefit payments also reflects employment patterns in different sectors of the economy. Benefits to manufacturing employees declined by 19%, and to construction workers by 21%, reflecting improvements in the labour market; benefits to government workers declined by 47%, as structural reform in this sector slowed.

Self-employed fishers saw only a slight drop in benefits because of more flexible rules that made it easier for them to establish claims and to file for more than one claim per year.

Again, there was little decline in the payment amounts of special benefits. As expected, maternity and parental benefits – which go primarily to women who make almost all claims in this category – remained relatively stable.

Claims by people who have a history of past claims dropped 13% in the two years since reform, but their benefit entitlement period increased from 31 to 34 weeks.

Our findings on some specific reform provisions are as follows:

The intensity rule, which reduces the benefit rate upon successive claims, has begun to take effect. The objective of the rule is to discourage the use of EI as a regular income supplement, but not to excessively penalize those who make long or frequent claims. The provision affected 21% of all regular and fishing claims. This did not translate into a significant drop in benefit levels among affected claimants. Their average weekly benefits were only about \$6 lower as a result of the intensity rule.

The extra support provided by the Family Supplement has provided greater benefits to a smaller but better targeted group of claimants in low-income families. Under EI, only one spouse can receive the Family Supplement, and this has reduced the number of claimants receiving the top-up. However, the average top-up has more than doubled to \$29 per week. Two-thirds of the claimants receiving the Family Supplement are women.

Preliminary results on the benefit repayment (clawback) provision show that repayments rose from \$20 million in 1995 to \$70 million in 1996. This provision affects higher income earners.

Promising data are emerging from the Small Weeks Adjustment Projects – pilot projects designed to encourage claimants to accept weeks of work that pay less than \$150. Preliminary findings show that the projects have enabled significant numbers of workers to collect higher benefits – an average of \$19 more per week – and to maintain a greater attachment to the workforce. On average, those who participated in the projects increased their total number of hours worked by about 7%. More than half the clients who filed small weeks claims were women. The projects expired in November 1998 and were replaced by a new project expected to run for three years.

### **Employment Benefits and Support Measures**

The new EI system placed a greater emphasis on getting people back to work through provisions called Employment Benefits and Support Measures (EBSMs). The EBSMs address structural unemployment and emphasize effectiveness, results, accountability, and local decision-making. Through partnerships – called Labour Market Development Agreements (LMDAs) – with the provinces and territories, the EBSMs

can be adjusted to meet the needs of local labour markets. The federal government has concluded LMDAs with all provinces and territories except for Ontario; negotiations for an Ontario agreement began in April 1998. Implementation of the agreements is well underway in some jurisdictions but has not yet begun in others. The federal government continues to deliver EBSMs in some jurisdictions.

The new measures call for phasing out Training Purchases by the federal government by June 30, 1999. Instead, the provinces/territories will provide comparable assistance for individuals through loans and grants for skills training. Implementation of the new client-centred approach is proceeding at different rates in different jurisdictions. Pilot projects using this approach have been implemented, are underway, or are being planned in a number of provinces and territories. The phase-out of training purchases should speed up once the pilot projects are complete.

Overall, the evidence shows that the EBSMs are effective, with more clients being served at a lower cost per client. During 1997/98, there were nearly 500,000 EBSM interventions, a 9% increase compared with similar measures under the pre-reform system. Each region offered a different mix of programs and services, responding to individual client needs and local labour market conditions. Total spending on EBSMs was \$2 billion, and 78% of this amount went to long-term interventions (i.e., those, such as training, that are normally more than a few weeks in duration and involve financial assistance). Another 12% went to short-term measures (i.e., those, such as counselling, that normally last from half a day to a few weeks). The cost for long-term interventions went down by \$1,300 per participant between 1995/96 and 1997/98, largely due to increased flexibility in tailoring interventions to local needs.

The LMDAs call for services and programs to be delivered in both official languages where there is sufficient demand. Evaluation of official language services has just begun; therefore very limited information on this issue was available for this report.

Significant progress has been made in implementing a framework to make EBSM programs more accountable and focused on results. The framework identified clear objectives – number of EI claimants returning to work, cost savings realized, and number of claimants served – and targets for each objective. Reporting data showed that the target was exceeded for claimants returning to work and close to the mark for cost savings. The targets for clients served were not fully in place for 1997/98, so we do not report results for this objective.

To facilitate adjustment to the new EI system in high unemployment areas of the country, the government set up a program called the Transitional Jobs Fund. A preliminary evaluation shows that this three-year, \$300 million program is meeting its goals. The Fund is expected to create 29,500 new jobs by the end of March 1999 – 89% of these jobs will be sustained for 1.5 years and most jobs (66%) are for semi-skilled labourers.

### **Community Adjustment**

To evaluate how communities are adjusting to EI reform, we have been tracking the impact of reform in 14 selected communities across Canada. Our analysis included interviews with community leaders and focus group sessions. Four rounds of assessments have occurred so far, with the first three reported on in the 1997 Monitoring and Assessment Report. Round IV, which occurred during July and August 1998, is the focus of the current report.

This latest phase of the assessment found that knowledge and understanding of the EI

system is improving, particularly among seasonal workers and employers. Community members found the hours-based system fairer and supported the provision of employment services and other support measures. Our analysis also found evidence that workers have been adjusting to the EI system through such behavioural changes as working more hours (to qualify for EI) and using new technologies to access EI and job information. In addition, workers, employers, and HRDC staff all believed that fewer people are attempting to defraud the system.

Although some behavioural change is evident, the analysis identified a number of reasons why more changes were not occurring. These include: lack of a solid understanding among many workers of the complex features of EI Part I; and lack of awareness on the part of workers about the government and non-government resources they can access in their community to assist in their re-employment.

### **Program Administration**

EI reform introduced measures to standardize and simplify program administration. Changes were made in the areas of the financing structure and administrative procedures for employers. In addition, an existing program called Group Information Sessions (GIS) became more widely used and emphasized. The program coaches claimants in job search skills and helps them understand their rights and responsibilities under EI.

### **Savings**

One of the objectives of the new EI system was to reduce program costs. It was expected that EI reform would achieve its savings through changes to income benefit payments, increased investigation and control, and measures to help the unemployed return to work. These measures have indeed had an impact, but

so have the marked improvements in the labour market and the economy.

We looked at three factors contributing to the \$2 billion decline in overall benefit payments in the two years since EI was implemented: a decrease in the number of EI beneficiaries, a reduction in the average length of claims, and a drop in the average weekly benefit. Of these factors, the first had the most significant impact.

About two-thirds of the drop in the number of beneficiaries was due to a stronger economy. The remaining one-third drop in beneficiaries is due, in part, to program changes that reduced the number of individuals who qualified for EI.

When all factors are considered, we conclude that about half the decline in benefit payments is due to EI reforms, and the other half to labour market developments such as fewer laid off workers and a new mix of unemployed.

Detection and increased prevention of fraud and abuse, as well as more use of Group Information Sessions, resulted in total savings of over \$577 million in 1997/98.

## **Conclusion**

The new system is providing temporary income support to Canadians between jobs, while giving them the tools they need to get back to work and discouraging over-dependency on EI. Significant savings are being achieved in the process. About half of the decline in total claims and benefit payments can be attributed to a stronger economy that has enabled many Canadians to find jobs and reduce their need for EI. The other half of the decline is due to reform measures that encouraged greater labour force attachment and provided programs to help people get back to work. Certain support measures such as the Family Supplement are better targeted to those in need, while measures aimed at preventing abuse of the system are also achieving results.

All in all, most results from reform were anticipated, though for some we require more data to understand them fully. These data will become available for subsequent reports, enabling us to provide a more complete picture of the impacts of EI reform over the next three years.

## ***Introduction***

The Employment Insurance system introduced in July 1996 and January 1997 was the most fundamental restructuring of the Unemployment Insurance program in 25 years. That is why the government of Canada made a legislative commitment to monitor and assess the impacts of the reform for five years.

Specifically, subsection 3(1) of the *Employment Insurance Act* states that:

“The Commission shall monitor and assess

- (a) how individuals, communities and the economy are adjusting to the changes made by this Act to the insurance and employment assistance programs under the *Unemployment Insurance Act*,
- (b) whether the savings expected as a result of the changes made by this Act are being realized; and
- (c) the effectiveness of the benefits and other assistance provided under this Act, including
  - (i) how the benefits and assistance are utilized by employees and employers, and
  - (ii) the effect of the benefits and assistance on the obligation of claimants to be available for and to seek employment and on the efforts of employers to maintain a stable workforce.”

This is the second in a series of five annual reports by the Canada Employment Insurance Commission to be tabled in Parliament for the years 1997 to 2001 by the Minister of Human Resources Development. The Commission could only conduct a preliminary analysis for the first report, since the new system had just been introduced. This second report focuses on the period April 1, 1997 to March 31, 1998 - the first full fiscal year the Employment Insurance system was in place. It compares data for this period with 1995/96, the last full fiscal year preceding Employment Insurance reforms. The report presents a detailed analysis of what is known so far about the impact of EI reform on income benefits, including a discussion of key reform elements such as the hours-based system and the Family Supplement.

However, although we have much more detailed data for this year's report than last year's, our findings are not complete. We can only have a complete picture of a claimant's benefits some time after the claim is complete. It takes several months following the end of a claim before administrative information is available for analysis. In addition, information on measures such as the benefit repayment (clawback) provisions, comes via the tax system. This information will only be available after a time lag of two years (i.e., 1997 data covering the first year of the changes will be available in 1999).



We also have only a limited amount of data on measures to help the unemployed return to work, because this area is covered by the Labour Market Development Agreements, which are still being implemented.

Regarding the reform overall, some elements, such as the intensity rule and the new benefit repayment (clawback)

measures, only gradually take effect as individuals establish a history of benefits collected since July 1996.

As well, the full impact of the new Family Supplement is not yet apparent, as the maximum benefit rate for recipients of this top-up, which started at 65% in 1997, will reach 80% by 2000.

## **Chapter 1 - Context**

### **I. THE LABOUR MARKET**

The Canadian labour market went through significant changes during the 1995/96 to 1997/98 period. The average monthly unemployment rate at the beginning of the period was 9.5%, rose to 9.7% in 1996/97, and in 1997/98 decreased to 9.0%. The reduction in unemployment is even more substantial when monthly figures are taken into consideration. In April 1997, the unemployment rate stood at 9.5% and by March 1998, it had decreased by a full percentage point to 8.5%. In April of 1997, 1.46 million people were unemployed. By March 1998, this number had gone down to 1.31 million.

The reduction in unemployment did not apply evenly across all age groups. Overall, young workers in the 15 to 24 age bracket did not benefit from the expanding job opportunities and, in fact, they experienced a slight increase in unemployment. While those with higher education did better, young employees of both genders with education levels of high school or less suffered most from this decline in jobs for youth. The net gainers, on the other hand, were workers in the 25 to 44 age bracket, with men benefiting more than women.

The composition of unemployment has also changed since 1995/96. Laid-off workers accounted for 54% of all unemployed in 1995/96. As the employment situation improved, fewer people were being laid off. In 1996/97, laid-off workers constituted 48% of the unemployed and in 1997/98, this share had gone down to 38%.

The improving employment situation was also attracting more people into the labour market. In 1995/96, new entrants

and re-entrants to the labour market accounted for 31% of all unemployed. During 1997/98 they accounted for 52%. This may in fact explain the higher unemployment rates faced by young workers.

In 1995/96, 13.5 million Canadians were employed, rising to 14 million by 1997/98. Males accounted for 280,000 new jobs and females for 220,000. However, employment growth was strongest among people with more than a high school diploma, and this applies to both men and women. In 1995/96, the share of employed workers with up to a high school diploma was 41.6% and in 1997/98 it had gone down to 38.6%.

The improving job market resulted not just in the creation of new jobs but also improvements in job tenure. In 1995/96, 85.4% of the workers had been in their jobs for more than 6 months and in 1997/98, 86.1%. This improvement is related to the decline in the turnover rate and in the decrease in the share of laid-off workers mentioned above.

The expansion of job opportunities took place in both full- and part-time employment. Full-time workers accounted for 81.3% of employment in both 1995/96 and 1997/98.

The strong employment growth seen in 1997/98 has been part of a continuing trend since the last recession. If the trend noted in the first half of the 1990s continued the engine of the growth may have been small business (firms with fewer than 50 employees). Between 1992 and 1994 – the most recent period for which data are available – small firms accounted for more than 40% of all

full- and part-time jobs in the country. They also provided 42% of job opportunities for people entering the labour market for the first time.

Over the last decades, the Canadian economy and labour market have shifted from goods production to the service sector where the ability to adapt and change in a fast-moving global economy demands and receives higher wages. As old occupations disappear, new ones are emerging at an unprecedented pace. The new occupations require the ability to adjust and continuously update education and training to meet the challenges of a fast paced-global economy. Employment opportunities for those with lower education levels are diminishing and their unemployment rate is higher relative to those with high levels of education. The labour market has sent a strong signal to all its participants that education is the key to a high-paying job.

The EI program changes were implemented while the labour market was creating more jobs and the unemployment rate was declining. An employment insurance program that is truly tuned and tied to the needs of the labour market and facilitates transitions must be very responsive to the changes of the labour market. Labour market improvements imply lower reliance on EI income support, but greater need to help people get the skills required to take advantage of employment growth. To the extent that this is happening, it would indicate EI's responsiveness to the needs of the labour market.

## **II. HISTORICAL PROGRAM PERSPECTIVE**

Unemployment Insurance (UI) as introduced in the *1940 Unemployment Insurance Act* reflected strong insurance

principles. The definitions of the risks to be insured against, along with the conditions under which benefits would be paid, were clearly outlined. In the early years, the Act covered 42% of Canadian workers – those who faced an unpredictable risk of job loss. People who faced little risk of unemployment (e.g., public servants) and those for whom job loss was almost certain (e.g., seasonal workers) were not covered. However, the “social” aspect of this insurance was demonstrated by such features as a higher benefit rate for claimants with dependants.

Evolving during a period of steady economic growth and improved fiscal conditions, the UI program gradually developed more along social insurance lines. It increased benefit rates and extended coverage not only to seasonal workers but also to self-employed fishers. These shifts peaked in the *Unemployment Insurance Act, 1971*, which reflected the healthy state of federal finances and perceived shifts in the Canadian labour market. The Act covered about 90% of the employed workforce, reduced eligibility requirements, increased benefits, and introduced maternity and sickness benefits. It also introduced extended benefits for regions of high unemployment, a measure that was reinforced later in the decade by lowering eligibility requirements for high unemployment areas.

In the 1980s, the state of public finances changed as Canada faced year after year of budget deficits. This, as well as growing concerns that the program was undermining the incentive to work, led to three packages of reforms in 1990, 1993, and 1994. The first of these three reforms foreshadowed Employment Insurance by allocating an additional \$1.3 billion towards special benefits and active measures designed to help people get back to work. The new

initiatives were financed by reducing total benefit payments through the following measures: raising entrance requirements up to six weeks in low-unemployment regions; reducing benefit entitlement by up to 15 weeks; and increasing the disqualification period for workers who voluntarily quit their jobs without just cause. Three years later, the benefit rate was reduced from 60% to 57% and voluntary quitters without just cause were completely disqualified.

The 1994 reforms further reduced entitlement, increased the minimum entrance requirement in high-unemployment regions, and established a two-level benefit rate: 60% for claimants with low earnings and dependants and 55% for all other claimants. Evaluations, however, found that the 60% rate was ill-targeted and not successful in helping those in need. Other elements of the 1994 reforms proved more effective. The reform achieved most of its \$2.4 billion in savings by reducing the average period of entitlement to benefits. However, it did not have a severe impact on workers in high unemployment regions; they were generally able to get extra work to meet the increased entrance requirements, despite a major reduction in seasonal work.

The reforms in the early 1990s cut UI costs by tightening entrance requirements, reducing the duration of benefits, and lowering the benefit rate. This period also saw the beginning of structural reform by placing greater emphasis on active measures to help people get back to work.

### **III. EMPLOYMENT INSURANCE REFORM**

Building on reforms of the early 1990s, the new *Employment Insurance Act* of

1996 introduced fundamental changes to the program.

#### **1. Part I - Income Benefits**

Employment Insurance (EI) reform maintained the income support role, but moved the program more towards insurance principles by establishing a new benefit structure and new rules for frequent claimants. Other changes included:

- a family supplement for claimants in low-income families with children;
- tighter eligibility requirements for new entrants and re-entrants to the labour market; and
- a reduction in the maximum number of weeks of entitlement (it was lowered from 50 to 45 weeks).

At the same time, the program became more responsive to the changing nature of work. It established an hours-based eligibility system, resulting in all part-time work being insured, and instituted a new premium structure so that people pay premiums on all earnings up to an annual maximum. There are now no more weekly minimums or maximums for determining insurable earnings.

Under the new hours-based system, every hour of work is insurable. This makes it easier for some people to become eligible for EI. Benefit levels, however, are based on average earnings over a fixed period. As a result, "small week" (weeks with earnings of less than \$150) that were not insurable under the old system can lower some people's benefits and act as a disincentive to accept small weeks of work.

To deal with this issue, the government introduced adjustment projects in May and August 1997 in 29 high-

unemployment regions. Under these projects, small weeks in excess of a certain minimum number of weeks worked could be bundled (in Quebec and Atlantic Canada) or excluded (in Ontario and the western provinces) when determining a claimant's weekly benefit level. These projects expired on November 14, 1998 and a new project was put in place at that time. We provide more details in Chapter 2.

Annex 1.1 provides an overview of the Part I reforms and their rationale. As well, Chapter 2 gives more details about the impact of these reforms.

## **2. Part II - Employment Benefits and Support Measures**

Again in recognition of the changing nature of work, EI places a greater emphasis on getting people back to work through active measures called Employment Benefits and Support Measures (EBSMs). By 2000/01, an additional \$800 million per year is to be invested in such measures, bringing the total annual budget to \$2.2 billion. In addition, some \$500 million in Part I income benefits will go to support EBSM clients. Eligibility for EBSMs extends to people who have received regular benefits in the past three years or maternity or parental benefits in the past five years, as well as those currently eligible for Part I benefits.

Active measures have been improved through five new employment benefits and three support measures that combine innovative approaches with successful elements of previous programs.

In addition to addressing structural unemployment, the new EBSMs emphasize effectiveness, results, accountability, and local decision-making. New partnerships with the provinces and territories mean that

EBSMs can be adjusted to meet the needs of local labour markets. At the same time, eligibility requirements and a results-based accountability framework ensure the program's integrity. This accountability framework shifts the focus to results rather than process. The aim is to measure the degree to which these Part II benefits and measures are helping people return to work rather than focusing solely on the number of interventions and expenditures. More detail on EBSMs is in Chapter 3, which gives an update on the partnerships with the provinces and territories and analyzes the impact of the EBSMs. Annex 1.2 describes the five new employment benefits and three support measures.

## **IV. BENEFICIARY TO UNEMPLOYED RATIO**

In the first Monitoring and Assessment report, HRDC made a commitment to study the beneficiary to unemployed (B/U) ratio, which is the number of regular EI beneficiaries divided by the number of unemployed workers. The study was completed and the results were released in October 1998 in a paper called "Analysis of Employment Insurance Benefit Coverage".

The B/U ratio had been declining steadily throughout the 1990s. In examining the reasons for this decline, the study found that less than 50% of the decline between 1990 and 1997 could be attributed to changes to the EI program. Over 50% of the decline was a result of other factors, such as changes in the composition of the workforce and unemployment (e.g., more long-term unemployed).

The study concluded that the B/U ratio is not a good indicator of how effectively the EI program meets its key objective of providing temporary income support

to Canadians between jobs. Alternative indicators examined in the study show that the B/U ratio masks the extent to which the program is successful in meeting its objective. For example, 78% of those who were laid off from their job or quit with just cause in 1997 were eligible for EI benefits. Moreover, the findings indicated that a significant number of unemployed not collecting EI benefits in 1997 would also not have received benefits prior to 1990. The full report is available on the Internet at: <http://www.hrdc-drhc.gc.ca/arb/>.

## V. CONCLUSION

EI changes were introduced in 1996 and 1997 in a relatively strong labour market as recovery from the recession of the early 1990s continued. Despite overall employment growth and declining unemployment rates, not everyone was able to benefit to the same extent. In particular, people with low education or skills continue to have the highest unemployment rates.

In the past two years, first time job seekers and people with no recent paid employment have slowed the decline in unemployment. The needs of people who have never paid premiums have to be met outside of the EI program. Those with previous claims, however, are now eligible for re-employment help (EBSMs) even if they are not currently eligible for income benefits.

The change to EI involved a shift in focus toward re-employment as well as

providing income support during periods of unemployment. In this way, EI continues the trend in program reforms since the late 1980s.

EI reform, however, focuses on limiting the growth of average benefit levels rather than reducing access to the program. Benefits for low-income workers have been enhanced – especially for those with low total family income and dependent children. The change to an hours-based system tries to treat work effort equally regardless of weekly patterns.

EI also enhanced active employment measures. Part of the savings from the reform was re-directed to provide additional resources to help people get back to work – a reinvestment of \$800 million per year by 2001/02. Then, to use resources more effectively, provinces and territories were offered the opportunity to participate in the delivery of these measures funded from EI, through Labour Market Development Agreements.

EI reform must be assessed in the context of a changing labour market as well as previous program reforms. Labour market changes have necessitated measures to help Canadians acquire new skills, adjust to the growth in non-standard work, and help those who are unemployed to enter or return to the workforce. Building on previous reforms, EI redesigned income benefits and active measures to respond to these challenges.

## Chapter 2 – Income Benefits

This chapter looks at the changes in the number of new claims and the amount paid out in benefits since the implementation of EI reform. We compare data for 1995/96, the last full fiscal year preceding EI reform, to data for 1997/98, the first full fiscal year following EI reform. Generally, we do not report on 1996/97, as this was a year of transition between the old system and the new one.

We discuss to what extent the impacts observed are due to program versus labour market changes. After looking at total income benefits, we report on regular and fishing benefits, including a discussion of frequent claimants for those two benefit types. This is followed by the changes observed for special benefits (maternity, parental, and sickness). For each type of benefit, we examine eligibility requirements (the amount of work required to qualify for benefits), length of entitlement (how long claimants can receive benefits), and weekly benefits (how much they receive).

We then look at some of the key elements of reform relating to income benefits and assess the degree to which they are having the intended effect. Specifically, we examine:

- the hours-based system;
- the Family Supplement;
- working while on claim;
- the benefit repayment (clawback) provisions; and
- the intensity rule.

Finally, the chapter describes the results of the small weeks adjustment projects introduced to encourage people to accept small amounts of work.

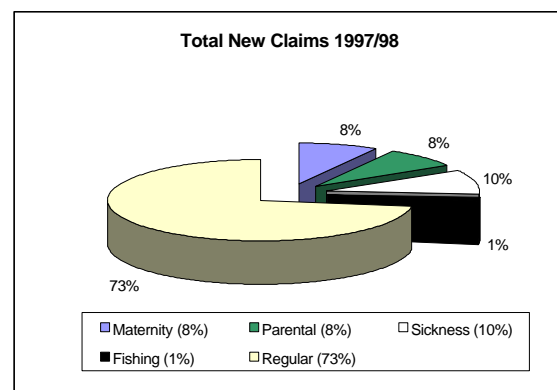
Throughout this chapter, we refer to annexes provided at the end of the report. Annex 2.1 provides the unemployment rates by EI region. The rest of Annex 2 provides data tables for regular, fishing, and special benefits.

### I. TOTAL INCOME BENEFITS

Between 1995/96 and 1997/98, there was an overall decline in claims and benefits paid. However, the average weekly benefit to which claimants were entitled remained unchanged at \$278.

The number of new claims for all types of benefits dropped by 14% from 2.1 million to 1.8 million. (See Annex 2.2.) The breakdown by benefit type is as follows:

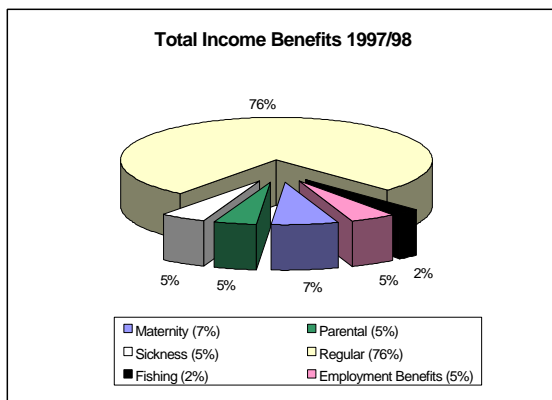
- regular claims dropped to 1.5 million (-18%);
- fishing claims increased to 26,970 (+ 8%); and
- special benefits claims dropped to 371,450 (-2.5%).



During the same two-year period, total income benefits dropped by 16% from approximately \$12 billion to \$10 billion.

The breakdown by type of benefit is as follows:

- regular benefits dropped to \$7.7 billion (-19%);
- employment benefits dropped to \$465 million (-19%);
- fishing benefits dropped to \$215 million (-1.7%); and
- special benefits dropped to \$1.6 billion (-1%).



Regular benefits, which provide temporary income support to workers who become involuntarily unemployed, account for the most significant portion of benefits paid – amounting to 76% of total income benefits paid in 1997/98. Many components of EI reform were designed to reduce regular benefits. The reduction in the maximum insurable earnings, the new way of calculating the weekly benefit levels, the minimum divisor, and the reduced benefit rate under the intensity rule for repeat claimants, all played a role. We estimate that, together, these elements of EI reform account for about half of the decline in benefits in 1997/98. The other half is due to changes in the labour market and the economy. We explain this in more detail in Chapter 6.

As shown in the pie chart, another 5% of total income benefits represents regular

benefits paid to claimants participating in EBSMs. For more details, refer to Chapter 3.

Benefits paid to self-employed fishers accounted for 2% of all EI income benefits paid in 1997/98. Total benefits paid to fishers declined in 1996/97 followed by an increase in 1997/98 – resulting in very little overall change. Between 1995/96 and 1996/97, total payments to fishing beneficiaries declined by 15% to \$184.5 million before increasing again by 16% to reach \$215 million in 1997/98.

Frequent claimants received about 41% of all regular and fishing benefits paid in both 1995/96 and 1997/98. These payments dropped from \$4.2 billion to \$3.5 billion over the two-year period.

Special benefits (maternity, parental, and sickness) accounted for 17% of all benefits paid to EI claimants in 1997/98. These benefits amounted to \$1.60 billion, down very slightly from \$1.62 billion in 1995/96.

As shown in Annex 2.3, from 1995/96 to 1997/98, seasonal industries (e.g., parts of construction, retail trade, agriculture) experienced high total income benefit reductions relative to other industries. Only two seasonal industries experienced relatively small declines in benefits. Total EI benefits for the Logging and Forestry sector declined by 6%, while benefits for the Fishing and Trapping sector (not including self-employed fishers) declined by 13%. In contrast, self-employed fishers experienced a small increase of 1% in total EI income benefits.

One of the largest declines (47%) was experienced by the government sector, where employment has been more stable recently, following major downsizing by all levels of government in the 1993 to 1995 period.



A major source of information on how individuals are adjusting to EI reform is the Canada Out-Of-Employment Panel (COEP) Survey. Based upon large quarterly samples of individuals who have job separations (Records of Employment), the present COEP survey is specifically designed to provide timely information, before and after EI implementation, for the monitoring and evaluation of EI impacts. The survey is conducted on behalf of HRDC by Statistics Canada and provides detailed information on individuals' employment history, job search activities and outcomes, training, receipt of UI/EI benefits, and household incomes, financial assets, and debts.

From COEP survey data available to date, we can draw two preliminary conclusions about the effect of EI reform. First, there does not appear to be any evidence that households experienced a drop in their consumption spending levels following the loss of a job (and the resulting drop in household income) before or after the change to EI. Secondly, the few statistically significant changes in the proportion of COEP survey respondents who reported receiving social assistance following the loss of a job have all been decreases.

## **II. REGULAR BENEFITS**

At the time of the reform, we expected that regular benefits paid would decline but that the number of claims established would remain about the same. However, both the number of new claims and total amounts paid for regular benefits fell during the post-reform period. (See Annex 2.4.) The declines reflect, in part, improvements in the labour market since the reform was implemented. Employment growth, accompanied by a drop in the number of unemployed, contributed substantially to the decline in claims established. The

change in the mix of the jobless over the period was also a factor. The proportion of the jobless with low probability of qualifying for EI (e.g., the long-term unemployed, people who have never worked, those who had not worked for over a year, and those who were self-employed) increased, while those with high probability of qualifying for EI (laid-off workers) decreased. Changes made under the reform have also contributed to the decline, especially for claimants with short employment spells.

To understand how the reform affected regular claimants, we examine the data related to three aspects of the program – eligibility requirements, length of entitlement, and weekly benefits.

### **1. Eligibility**

Starting in July 1996, people who entered the labour force for the first time (new entrants) and those who had minimal work experience in the last two years (re-entrants) needed 26 weeks of work to qualify instead of the 20 weeks needed prior to the reform. With the change to the hours-based system in January 1997, the 26 weeks was converted to 910 hours.

All other regular claimants need between 420 and 700 hours (the equivalent in hours of the previous 12- to 20-week entrance requirement). In making the transition from a weeks-based system to an hours-based system, a week of work was defined as consisting of 35 hours – the actual average weekly hours for all workers since 1976, according to Statistics Canada's Labour Force Survey.

We did not expect the hours-based system to reduce the number of claims established. Once the transition to the hours-based system was completed, we expected to see an increase in claims from those who were not insured under

UI, roughly offset by a decrease in the number of new entrants and re-entrants who could qualify.

Between 1995/96 and 1997/98, the number of regular claims established dropped by 18% to 1.5 million. Reflecting different labour market conditions, the decline varied across the provinces with Alberta and Ontario showing the largest drops (30% and 24% respectively). The drops were much lower in Newfoundland, Prince Edward Island, and New Brunswick (10%, 2%, and 11% respectively).

Claims made by women declined 20% compared to 16% for men. Women work fewer hours per week on average and as a result take longer to qualify for EI. Differences in work patterns would also explain the 27% decline for claimants under age 25 compared with the 8% decline for those 45 to 54 years old. Young workers tend to change jobs more frequently than older workers and rely more on part-time employment. Low hours of work in these types of employment would cause declines in claims established. As well, given their work patterns, women and young people have likely been more affected by the higher eligibility requirements for new entrants and re-entrants.

The decline in claims was 24% for occasional claimants compared to a 13% drop for frequent claimants. Both women and young people are more likely to be occasional claimants, indicating that, despite their work patterns, they are less reliant on the EI program, except in recessions.

To help explain the drop in claims, we examined changes in the duration of

insured employment. (See Annexes 2.5 and 2.6.) We found that in 1996/97 there was an increase in claims with two weeks of work above the minimum required to qualify, while all other claims declined. This suggests that the new minimum divisor rule has been having the intended effect of encouraging some claimants to work longer to avoid reductions in their weekly benefits. However, the decline in claims with long durations of employment suggests that the strong labour market conditions over the period reduced the need for EI benefits. Longer employment spells also explain some of the decline in claims at close to the minimum entrance requirement.

Between 1996/97 and 1997/98, the proportion of claims with short employment spells declined more than the proportion with longer spells. Two program changes likely contributed to this drop. The minimum divisor rule encouraged longer durations of employment. As well, with the change in the measurement of work from weeks to hours:

- people with long hours of work but short employment spells (such as seasonal claimants) may now appear to be working longer; and
- people whose weekly hours of work are below the average have to work longer to qualify.

Over the two-year period, claims with short employment spells declined substantially. As a result, claims at or near the minimum entrance requirement declined from 9% of all regular claims established in 1995/96 to 5% in 1997/98, while those with longer durations of employment (over

6 months) increased from 69% to 79% of all claims.

Overall, we found that the decline in regular claims is due to a combination of factors:

- the changes under EI reform;
- the improving labour market conditions; and
- the change in the mix of the jobless.

## 2. Length of Entitlement

EI reform reduced the maximum period of time that a person may receive benefits from 50 to 45 weeks. This change only affects claimants in higher unemployment regions with long periods of employment who were entitled to more than 45 weeks of benefits under UI.

On the other hand, the new hours system was expected to increase entitlement duration for claimants who work more than 35 hours a week. The more hours worked, the longer the benefit entitlement.

Since claimants in some regions can collect up to 45 weeks of benefits, claims established in 1997/98 could still be active long after the end of that fiscal year. For this reason, we examined the number of weeks of entitlement, which is determined at the start of a claim, rather than the actual duration of claims established in 1997/98.

We found that, over the two-year period, average entitlement for regular claims increased from 33 to 34 weeks and that this was due in part to the new hours-based system. The COEP survey indicates that where there is a separation from employment (Record of Employment issued) weekly hours average 37 to 38, slightly higher than the 35-hour average for all workers. The increase is also due to the higher

proportion of claims with longer employment spells and thus longer periods of entitlement.

## 3. Weekly Benefits

One of the main changes affecting weekly payments is the minimum divisor rule. Weekly benefits are calculated by dividing all insured earnings in the last 26 weeks by the minimum divisor (ranging from 14 to 22) in the particular region, or the actual number of weeks worked in this period, whichever is higher, and multiplying the result by 55% or the applicable benefit rate. Claimants receive lower benefits if the minimum divisor is higher than the number of weeks they worked. This encourages people to find at least enough work to meet the minimum divisor in their region.

Another change affecting weekly benefits is the reduction in the maximum insurable earnings (MIE), which reduced the maximum weekly EI benefit from \$465 to \$413.

Despite these program changes and the substantial decline in total payments, the average weekly regular benefit to which claimants were entitled increased slightly from \$276 in 1995/96 to \$277 in 1997/98. There was a decline of 1% in 1996/97 followed by a 2% increase in 1997/98.

The indication is that the increases in wages and salaries over the period under review have offset to some extent the impact of these reform elements on weekly payments. However, despite the slight increase observed, the \$413 cap on weekly benefits has kept the average weekly payment lower than it would otherwise have been.

We concluded that these two program changes (the minimum divisor rule and

the reduced MIE) caused weekly benefits to decline in 1996/97, as expected, while increases in wages and salaries helped to offset the decline in 1997/98.

#### **4. Summary**

Between 1995/96 and 1997/98, total payments to regular beneficiaries declined by 19% while regular claims established dropped by 18%. The drop in claims is due in part to a strong labour market over the period and thus less reliance on the EI program. The change in the mix of the jobless – higher proportions of long-term unemployed, new entrants and re-entrants who had not worked for more than a year – contributed substantially to the drop in regular claims. As well, program changes intended to encourage longer periods of work, such as the minimum divisor rule, may have caused the flow of new claims to slow down.

Weekly payments increased slightly despite the effects of the minimum divisor rule and the reduced MIE because of offsetting increases in wages and salaries over the period.

Overall, these findings are in line with EI's objectives to encourage stronger labour market attachment and less reliance on passive income support.

### **III. FISHING BENEFITS**

Most of the reform elements affecting regular claimants also apply to self-employed fishers. These include:

- the minimum divisor;
- the reduction in the maximum weekly benefit;
- the clawback; and
- the intensity rule.

However, effective January 1997, the eligibility requirements and weekly benefits for fishers are based on earnings over fishing seasons rather than the time worked. The adoption of an earnings-based system for fishers was recommended by the November 1993 report of the Task Force on Incomes and Adjustment in the Atlantic Fishery. Because fishers do not have an actual employer, it is difficult to verify their weeks or hours of work. However, the payments (earnings) they receive from buyers for their catch can be readily verified.

The reform was expected to reduce fishing benefits significantly, but there has been little change over the two-year period. This is partly because the reform may have made it easier for fishers to make consecutive claims in both the summer and winter benefit periods (multiple claims).

#### **1. Eligibility**

The reforms made the eligibility rules for fishers more flexible by expanding the fixed seasonal qualifying and benefit periods. The qualifying periods for both summer and winter fishing seasons increased from 27 to 31 weeks; the period over which benefits may be collected was increased by 8 weeks – 4 weeks each at the beginning and end of the period. This allows someone who fished in the winter season (from September 1 to March 31) to start a benefit period earlier, fish again late in the extended summer fishing season (which falls between March 1 and November 1), and qualify again for benefits within the same fiscal year.

Under the UI system, fishers needed between 12 and 20 weeks of insured employment to qualify for benefits, depending on the regional rate of

unemployment. Effective January 1997, they need a minimum of \$2,500 to \$4,199 in insured earnings from fishing. (For new-entrants and re-entrants to the labour force the amount is \$5,500.)

Between 1995/96 and 1997/98, the number of claims for fishing benefits increased by 8% from 25,022 to 26,970, although the number of people receiving benefits remained virtually unchanged. (See Annex 2.7.) This is because some fishers have been establishing claims in consecutive winter and summer benefit periods. The number of beneficiaries with multiple claims was 175 in 1995/96 and increased to 2,194 (8% of all fishing claims) in 1997/98.

Following the introduction of the minimum divisor rule, the number of fishing claims with two extra weeks of insured employment increased by 40% in 1996/97 over the previous year, while those just meeting the minimum weeks required to qualify declined by 20%. The trend was especially evident in the October to December period when most fishing claims are established. In that quarter, claims with two weeks more than the minimum jumped 58% over the same quarter in the previous year. This suggests that many fishers found the extra weeks of work needed to avoid a reduction in their average weekly benefit.

We cannot make direct comparisons between 1996/97 and 1997/98 because of the change from a system based on weeks of work to one based on earnings. Therefore, we examined the changes by looking at the percentage of claims established based on just meeting the minimum entrance requirements.

In 1997/98, with eligibility based on dollars of insured earnings, only about 5% of claims qualified with the minimum

earnings required to establish a claim – \$2,500 to \$4,199. The vast majority (85%) qualified in the top insured earnings range of \$6,650 or over. In contrast, under the old system in 1995/1996, 83% of fishing claims qualified with the minimum number of insured weeks (between 12 and 20).

This shift suggests that the minimum entrance requirement was substantially lowered with the move from a weeks-based to an earnings-based system. The relatively low dollar amount of earnings required to enter the program, combined with the greater flexibility in the qualifying and benefit periods, contributed to the increase in multiple claims since the reform.

## **2. Length of Entitlement**

The maximum benefit entitlement per fishing claim is now fixed at 26 weeks. Prior to the reform, the entitlement ranged from 14 to 27 weeks depending on the regional unemployment rate.

Because the entitlement duration is set at 26 weeks, we were able to look at data on payments for the full duration. We found that fishers tend to use most of the period of entitlement. Between 1995/96 and 1997/98, the portion of entitlement used increased from about 81% to 89%, indicating longer periods of benefits.

## **3. Weekly Benefits**

The decline in total benefits paid to fishers in 1996/97 is due to lower weekly payments to some fishers caused by the divisor rule and the reduction in the MIE. This latter change had a significant effect on fishing claimants because they tend to qualify for benefits at, or near, the maximum weekly benefit level. For example, their weekly benefits averaged \$393 in 1995/96 compared to \$276 for regular claimants. The

reduced MIE seems to have contributed to the drop in weekly benefits to \$351 in 1996/97. Lower fishing revenues in the Atlantic provinces and Quebec in 1996 would have also resulted in lower levels of insured earnings, causing weekly benefit levels to be lower.

In 1997/98, average weekly benefits rose to \$356, partly as a result of higher fishing revenues in 1997. These higher weekly benefits contributed to the overall increase in fishing benefits in 1997/98. Other factors that contributed to the increase were:

- longer duration of claims;
- longer entitlement for some claimants with the change to the fixed duration of 26 weeks;
- the increase in multiple claims; and
- top-ups to the benefit rate under the Family Supplement.

On the other hand, about 52% of fishing claimants in 1997/98 had their weekly benefits reduced because of the intensity rule.

#### **4. Summary**

Total benefits paid to fishers declined in 1996/97 followed by an increase in 1997/98 – resulting in very little overall change. The reduction in the MIE, which caused weekly benefit payments to decline, and lower fishing revenues in 1996 seem to have caused most of the reduction in the first year. The divisor rule had only limited impact on fishers in the first year of EI as many who tended to qualify with the minimum number of insured weeks were able to work longer and thus avoided a reduction in weekly benefit payments.

The increase in the number of claims established in 1997/98 is explained by the increase in multiple claims. The increase in the number of weeks over

which benefits were paid, and higher weekly benefits, also contributed to the increase in total payments to fishers in 1997/98. However, weekly payments and thus total benefits paid would have been much higher without the lower MIE and the intensity provision. As well, increases in the value of fish harvested between 1996/97 and 1997/98 may also have contributed to the increase in weekly payments and total benefits paid.

#### **IV. FREQUENT CLAIMANTS**

We considered individuals who had three or more claims for regular or fishing benefits within the previous five years to be frequent claimants. People who had started previous claims at about the same time of year as their current one were considered seasonal claimants. The great majority of frequent claimants have had a seasonal pattern of previous claims. From 1995/96 to 1997/98, the overlap between frequent and seasonal claimants increased from about 75% to 80%. The results observed for seasonal and frequent claimants are, therefore, very similar.

##### **1. Eligibility**

Between 1995/96 and 1997/98, the overall number of new regular and fishing claims declined by 18%. The decline for frequent and seasonal claimants, however, was only 12%. (See Annex 2.8.)

The decline in overall claims established is the result both of improving economic conditions and the EI reform itself. Frequent claimants, however, are less affected by the business cycle than by seasonal work patterns. They are also likely to have benefited from the new hours-based system because many

seasonal jobs involve longer than average hours per week.

The rate of decline in frequent claims varied by region. The greatest declines occurred in Alberta at 29%, Saskatchewan and Manitoba both at 21%, and Ontario at 17%. In the Atlantic region, declines ranged from 12% in Newfoundland to 3.5% in Prince Edward Island. British Columbia and Quebec experienced declines of 7.7% and 7.4% respectively.

The number of frequent claims established by men fell relatively more than the corresponding claims by women (13% versus 9%). The rate of decline also varied by age. The 33% decline among claimants under 25 was likely because young claimants tend to be new entrants to the labour force and as such have no past claim history.

Because they tend to work longer hours, frequent and seasonal claimants seem to be benefiting more from the hours-based system than claimants in general. We found that, in 1997/98, frequent and seasonal claimants qualified for benefits with, on average, 60 hours more work than claimants in general. As well, a larger percentage of frequent claimants were able to shift away from the minimum and near-minimum entrance requirement categories than was true for other claimants, again because they tend to work more than 35 hours per week.

## **2. Length of Entitlement**

Frequent and seasonal claimants saw their entitlement increase from 31 to 34 weeks, compared to an increase from 33 to 34 weeks for the general claimant population. The increase reflects both the stronger labour market and the switch to the hours-based system, as seasonal jobs are more hours-intensive.

## **3. Weekly Benefits**

While weekly benefit levels of all regular and fishing claimants increased slightly from 1995/96 to 1997/98, frequent claimants saw their average weekly benefit drop by 2.3% from \$310 to \$303. The drop is due to the combined effect of two program changes. The reduced MIE affected these claimants because they tend to have above-average benefit levels, reflecting highly-paid seasonal work.

As well, the new intensity rule, which lowers the benefit rate for claimants who have collected more than 20 weeks of benefits in previous claims (starting in July 1996), reduced benefits to frequent claimants. During 1997/98, about 38% of frequent claimants were affected by the intensity rule, compared to 21% of all regular and fishing claimants.

## **4. Summary**

Frequent claimants tended to benefit from many of the new provisions, particularly the hours-based system. Because seasonal jobs often involve long hours over short periods, many frequent claimants were not only in a better position to meet entrance requirements than other claimants, but also could collect benefits over longer periods. At the same time, they are less affected by the business cycle and continue to experience work interruptions even at times when other workers are able to retain their jobs. Consequently, we saw a smaller decline in the number of claims made by frequent claimants over the two years than we saw for the claimant population as a whole.

The one way in which frequent claimants were adversely affected more than others was in average weekly benefits. Since a large proportion of

these claimants have earnings above the annual limit of \$39,000, and have a history of past claims, frequent claimants were affected by both the lower maximum weekly benefit and the intensity rule.

## V. SPECIAL BENEFITS

EI provides three types of special benefits:

- maternity benefits, payable to biological mothers for work lost because of pregnancy and childbirth;
- parental benefits, payable to both biological and adoptive mothers and fathers for the purpose of remaining home to care for a newborn or adopted child; and
- sickness benefits, payable to claimants too ill to work.

The hours-based system and the Family Supplement are two elements of EI reform that affect special benefits.

We expected the hours-based system to enable more people who work part-time, and particularly multiple-job holders, to qualify for special benefits. Given that those applying for these benefits tend to have a relatively strong work attachment, we estimated that very few claimants would need to work longer to qualify for special benefits.

The Family Supplement assists claimants in low-income families with children by providing a benefit rate of up to 70% in 1998, rising to as high as 80% by January 2000.

Other elements of EI reform, such as the intensity rule and the higher entrance requirements for new-entrants and re-entrants, do not apply to special benefits. In addition, the minimum

divisor was not expected to have much impact on special benefits, given the previous 20-week entrance requirement (now 700 hours) for such benefits.

### 1. Eligibility

Effective January 5, 1997, claimants need 700 hours of insurable employment to qualify for special benefits. Under the old system, claimants could, in principle, qualify with as few as 300 hours of work (20 weeks of 15 hours each). In reality, however, in 1995/96, two-thirds of claimants for special benefits actually had more than 46 weeks of work, giving them almost 700 hours even if every week had been only 15 hours. Over 98% of those who claimed maternity benefits had more than the minimum 20 weeks of insurable employment in 1995/96 or 700 hours in 1997/98. The fact that there was no “bunching” of claims at the 700-hour minimum suggests that few maternity claimants were affected adversely by the hours-based system.

Between 1995/96 and 1997/98, the total number of claims for which any special benefits were paid declined by 2.5%. (See Annex 2.9.) The decline in claims with some sickness benefits was 1.8%. For maternity benefits, there was an increase of less than 1%, while the number of claims with parental benefits declined by about 2%. The number of claims for which both maternity and parental benefits were paid dropped by 1.6%. An increase in claims with more than one type of benefit meant that none of the components (maternity, parental, or sickness) declined as much as special benefits in total. (See Annexes 2.10 to 2.13.)

A key reason for changes in the number of claims for maternity and parental benefits is the birth rate of women in the paid labour force. While we do not have



information on this particular group for the period under review, Statistics Canada data do show that the total number of births has dropped in recent years. Between July 1995 and June 1998, the number of births dropped by 4.6%, from 372,444 to 355,290.

The vast majority of claimants collecting parental benefits are women. For claims established in 1997/98, of those collecting parental benefits to care for a newborn child, 95% were biological mothers. Of those caring for an adoptive child, 88% were adoptive mothers.

## **2. Length of Entitlement**

EI provides 15 weeks of maternity benefits to biological mothers and 10 weeks of parental benefits to either biological or adoptive parents; an additional 5 weeks of parental benefits for special care may be paid if the child suffers from a physical, psychological, or emotional condition. EI also provides 15 weeks of sickness benefits. A total of 30 weeks of special benefits can be paid to a claimant in a single benefit period.

We found that, to date, the average number of weeks for which special benefits were paid remained approximately the same from 1995/96 to 1997/98. The duration of maternity benefits was relatively stable, averaging 14.4 weeks in 1997/98 compared to 14.5 weeks in 1995/96. Similarly, the duration of parental benefits paid to biological parents dropped very slightly from 9.4 to 9.1 weeks. Parental benefits paid to adoptive parents increased from 10.8 to 11.4 weeks. The average duration of sickness benefits remained the same at 8.9 weeks.

## **3. Weekly Benefits**

Although claimants for special benefits are not affected by the intensity rule, they may qualify for the Family Supplement. About 20% of maternity and parental benefit claimants and 12% of sickness benefit claimants received the Family Supplement in 1997/98. The average top-up for these claimants increased from \$14 in 1995/96 (under the UI dependency rate) to \$27 in 1997/98.

Over the last two fiscal years, the average weekly benefit level for maternity claims decreased by 4% from \$287 in 1995/96 to \$275 in 1997/98; for parental benefits to biological parents, it decreased by 3% from \$292 to \$284; and for parental benefits to adoptive parents, it decreased by 3% from \$344 to \$333. For sickness benefits, the average weekly benefit remained the same at \$253.

These decreases appear to be the result of the reduction in the MIE. A large proportion of these claimants have earnings above the annual limit of \$39,000 and are therefore affected by the \$413 cap on weekly benefits.

## **4. Summary**

As expected, we did not see significant changes in special benefits during the two-year period. The number of claims, the weeks of entitlement, and weekly benefits all remained relatively stable throughout the period.

As well, because we do not yet have complete data for all special benefit claims established towards the end of 1997/98, the number of claimants receiving both maternity and parental

benefits and the average duration of all the special benefit types may be understated.

## **VI. KEY ELEMENTS**

### **1. Hours-Based System**

Effective January 1997, eligibility for benefits and length of entitlement are based on hours of work instead of weeks. This system better reflects changing labour market realities and ensures more equitable treatment of claimants with different work patterns. The following section provides a brief overview of the impact of this change.

Under UI, individuals had to work at least 15 hours or have earnings over a stated minimum in any particular week to be covered in that week. Those whose jobs consistently provided low weekly hours and earnings were not covered under the program. EI extended coverage to all individuals with at least one dollar of insurable earnings. This has made the system more flexible, providing coverage to a broader group of workers.

Among those not previously covered were multiple-job holders whose jobs did not meet the minimum weekly earnings or hours of work criteria. Regardless of their total weekly hours in all jobs (e.g., 3 jobs of 13 hours each or 39 hours in total), these workers had no insurable earnings and thus were not eligible for benefits if they lost any or all of their jobs. Under EI, multiple job-holders can add all hours of work from their jobs to meet the eligibility requirements and to determine benefit entitlement.

Under UI, a week of 15 hours had the same value as a week of 35 hours or 50 hours. Each was considered one week of insurable work. In making the

transition from a weeks-based system to an hours-based system, we used a conversion factor of 35 – the average work week in Canada. Variations from this average affect how long employees have to work to accumulate the hours needed to establish a claim and the number of weeks of benefits that they may be entitled to. Those who work more than 35 hours a week can accumulate the minimum number of hours required to establish a claim in a shorter period than under the previous program. The opposite is true for those who work fewer than 35 hours.

We found that the move to the hours-based system caused claims with short employment spells to decline. (See Annexes 2.5 and 2.6.) This includes those with fewer than 35 hours per week. Since these people have to work longer to qualify, the flow of new claims has declined.

The decline in the number of claimants with fewer than 35 hours per week should be offset to some extent by an increase in those working more than 35 hours per week, and by newly covered claimants such as multiple job-holders. It is not yet possible to say to what extent this has occurred. However, it does appear that the program now encourages increased work effort through more hours of work or longer durations of employment.

Because the hours-based system affects both eligibility and benefit duration, it could have an effect on the employment pattern of claimants. To date, we have found that the proportion of regular claims established with close to the minimum qualifying requirements declined from 9% in 1995/96 to 5% in 1997/98. This may mean that the hours-based system has started to encourage stronger labour force attachment, as intended.

On the other hand, at least part of this drop may be because the hours-based system recognizes the more intensive work patterns of some claimants. The minimum divisor rule is also likely a factor, since it encourages people to find enough work to avoid a reduction in their weekly benefits.

## 2. Family Supplement

The Family Supplement replaces the UI dependency provision and better targets claimants in need – those in low-income families with dependent children. Under UI, claimants with low weekly wages could qualify for the 60% benefit rate instead of the standard 55% if they had dependants as defined under the *Income Tax Act*. Eligibility was based on the income of the claimant only (regardless of the earnings of the spouse) with low-income defined as average weekly earnings of less than \$408 in 1996. Both spouses in a family meeting the criteria were eligible for the 60% rate and both could receive this rate simultaneously.

In contrast, qualification for the EI Family Supplement is based on family income. To qualify, claimants must receive the Child Tax Benefit, which indicates that they have at least one dependent child, and have net family income of \$25,921 or less. Only one spouse in a family can receive the top-up at a given time. Recipients of the Family Supplement received up to 65% of their average insurable earnings in 1997 and up to 70% in 1998. The rate increases to a maximum of 75% in 1999 and 80% in 2000. However, the maximum weekly benefit these claimants may receive is \$413, the same maximum as for all other claimants.

In 1997/98, 204,640 new claims qualified for the Family Supplement, and 201,180 (11% of all claims) received higher weekly benefits as a

result of the top-up – about 42% lower than the number that received assistance under the UI dependency provision in 1995/96. (See Annex 2.14.) The 3,460 claimants who qualified but did not receive the top-up had weekly benefits at the maximum (\$413).

The total top-up paid to recipients of the Family Supplement in 1997/98 amounted to \$104.8 million, about 3% lower than that paid in 1995/96 under the old 60% rate. The decline is due to the change in the target group – claimants in families with low annual incomes rather than individuals with low weekly earnings. The added restriction that only one spouse can receive the top-up at any given time may also have contributed to the decline. However, the Family Supplement is more generous in that it provides higher levels of top-up to eligible claimants.

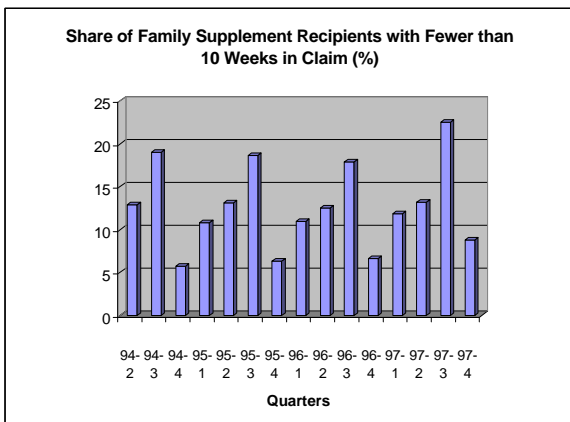
The vast majority (77%) of these claimants are between the ages of 25 and 44. The proportion of men qualifying for Family Supplement has increased. However, close to two-thirds of new claimants receiving this top-up in 1997/98 were women. Overall, about 15% of all women with EI claims received the top-up compared to 8% of men. As well, about 20% of maternity and parental claimants and 12% of sickness claimants received the top-up.

With the new Family Supplement, claimants with high weekly earnings but low family income (e.g. seasonal workers) can qualify for the higher benefit rate for the first time. As a result, claimants qualifying for the Family Supplement are receiving higher weekly benefit levels. Weekly benefits averaged \$238 in 1997/98, 29% higher than the average of \$185 in 1995/96. The increase may also be partly due to the higher maximum benefit rate (65%

from April to December 1997 and 70% from January to March 1998). Because men tend to earn higher wages than women, the average weekly benefit level for men with the Family Supplement was \$283 in 1997/98 compared to \$211 for women.

The removal of the cap on weekly earnings and the higher benefit rates provided under Family Supplement resulted in an increase in the average weekly top-up from \$14 in 1995/96 to \$29 in 1997/98. The removal of the cap on weekly earnings also seems to have benefited fishers who tend to qualify for high weekly benefits levels. In 1997/98, about 9% of these claimants received the Family Supplement compared to less than 4% in 1995/96.

The higher benefits provided as a result of the Family Supplement might have reduced the incentive to find a new job quickly, but we have found no evidence that this happened. The figure below shows the share of Family Supplement recipients who had a claim lasting fewer than 10 weeks.



It shows that, on a national basis, the percentage of such claimants was higher in every quarter of 1997 compared to 1996. This increase in short duration claims indicates that recipients of the Family Supplement are

not returning to work more slowly than under the old system.

Overall, the Family Supplement has provided higher levels of benefits to a smaller but better targeted claimant population. The higher level of assistance reflects higher average top-ups to claimants with the change from eligibility based on weekly earnings for individuals to annual earnings at the family level. The decline in the number of claims qualifying for the top-up is due mainly to the change in focus to claimants in low-income families with dependent children.

### 3. Working While on Claim

EI beneficiaries are now allowed to earn up to \$50 a week or 25% of weekly benefits, whichever is higher, while collecting EI benefits. Any earnings beyond this are deducted dollar-for-dollar from benefits. The new \$50 per week floor affects only claimants with a benefit level under \$200 per week, since above this amount the 25% of benefits that can be earned without deduction becomes the effective floor. The aim is to encourage low-income claimants to maintain their labour force attachment and to increase their earnings from work. We expected this aspect of the reform to increase the number of claimants reporting work while on claim. We studied data on claimants who reported earnings while receiving benefits. It is important to distinguish this from simply reporting earnings, possibly reducing benefits to zero, which is more common. Since the \$50 floor only took effect in January 1997 and the most recent period with complete claim information is 1996/97, we have not yet seen a significant impact. Among the regular claimants with a benefit level of \$200 or less in 1996/97 about 203,000 or 43.6% reported earnings while receiving benefits, up from 42.5% in 1995/96. Among all regular claims in

1996/97, the 651,000, or 40.3%, with earnings while on benefits represent a very small change in proportion, up slightly from 39.9% in 1995/96. (See Annex 2.15.)

We were able to look at more recent data using another approach to measuring work while on benefits. From EI administrative data, we know the proportion of regular beneficiaries who report earnings in a particular week, the week of the Statistics Canada Labour Force Survey (LFS). Since this “snapshot” view of beneficiaries does not consider work in other weeks, the proportion reporting earnings is naturally lower. The proportion reporting earnings in the LFS week increased from 13.9% in 1995/96 to 14.2% in 1996/97, then declined to 13.6% in 1997/98. We do not yet have sufficient data to explain these results.

The complete claims data provide some evidence that the \$50 floor on deduction of earnings from benefits provided an incentive to accept work for those with a benefit level less than \$200 in 1996/97. Nevertheless, data on beneficiaries in the LFS week indicate that there has been some decline in the overall proportion reporting work in 1997/98, indicating that other factors may have outweighed the impact of the \$50 floor. A fuller explanation would require more study. However, one of these factors may be a lack of awareness about the \$50 floor. In Chapter 4 of the report, we note that some workers who participated in focus groups did not accept work while on claim because they were not aware that the first \$50 of earnings would not reduce their EI benefits for that week.

#### **4. Benefit Repayments (Clawback)**

New repayment provisions were introduced to reduce the amount of benefits paid to individuals with high

annual incomes. Changes included lowering the net income threshold for benefit repayment from \$63,570 to \$48,750 (from 1.5 times the annual MIE in 1995 to 1.25 times the MIE in 1996). This applies to occasional claimants (those with 20 or fewer weeks of benefits in the past five years) and to all special benefit claimants. These people pay back \$0.30 for every \$1.00 of income above the threshold, up to a maximum of 30% of their benefits.

People with more than 20 weeks of benefits in the last five years are now treated differently. Although they also pay back \$0.30 for every \$1.00 of income above the threshold, they start making repayments at a net income of \$39,000 (the MIE), and they pay back up to a maximum of 50% to 100% of their benefits, depending on the number of weeks of benefits that they have collected in the past 5 years.

The recording of claim histories started on June 30, 1996 for people affected by the clawback, regardless of the net income threshold that applies to them.

Because this measure is administered through the tax system, we report results on a tax (i.e. calendar) year rather than a fiscal year basis. The most recent data available is for 1996. As expected, benefit repayments rose substantially – from about \$20 million for tax year 1995 to about \$70 million for 1996. The number of people having to repay some benefits increased from 19,000 (about 0.7% of people with UI income) in 1995 to 82,000 (about 3% of people with UI/EI income) in 1996. The largest increases occurred in Ontario and the western provinces and the smallest in Quebec and the Atlantic provinces. (See Annex 2.16.)

As intended, the new provisions have led to a very significant increase in repayments by higher income claimants.

## 5. Intensity Rule

The intensity rule reduces the benefit rate by one percentage point for every 20 weeks of regular or fishing benefits collected in the past 5 years. The maximum reduction is five percentage points. For example, for someone who has drawn between 21 and 40 weeks of benefits within the last five years, the benefit rate will drop from 55% to 54%. As the claim history started in July 1996, the intensity rule did not effectively start to apply until early 1997.

The objective of this rule is to discourage the use of EI as a regular income supplement but not to excessively penalize those who make long or frequent claims. Claimants who are receiving the Family Supplement are exempt from the intensity rule. It also does not apply to special benefits (maternity, parental, and sickness). As well, working while on claim reduces the impact of this provision.

In 1997/98, 318,390 claims (21% of all regular and fishing claims) were affected by the intensity rule, reducing total benefit payments by about \$38 million. (See Annex 2.17.) Of these, 93% had their benefit rate reduced by one percentage point, 7% by two percentage points, and less than one percent by three percentage points. About 71% of affected claimants are men, suggesting that they are more likely to rely on seasonal and short-term employment that results in frequent EI claims. Only about 10% of these claimants are under age 25 whereas about 54% are between 25 and 44 years old.

Because many of these individuals have seasonal jobs, the impact is higher in the eastern provinces compared to the west – with Prince Edward Island, Newfoundland, and New Brunswick recording the highest proportions of affected claims at 51%, 48%, and 43%

respectively. This compares with between 7% and 13% for provinces west of Quebec. The 25% of fishing and regular claims affected in Quebec translates into a large number of claims because of Quebec's high population compared to the Atlantic provinces.

Close to 14,000 fishing claims were affected by this provision. This represents just over half of all fishing claims established in 1997/98 and reflects the general pattern of reliance on EI for income support in the off-season periods.

Despite the reduction in their benefit rates, claimants affected by the intensity rule still received relatively high weekly benefits in 1997/98. Their average weekly benefit level was \$284 (about \$5.70 less than they would have received without the intensity rule) compared to \$277 for all claimants who received regular benefits. This suggests that, though these claimants make repeated claims because of seasonal or short-term unemployment, they tend to be employed at higher than average wages.

## VII. SMALL WEEKS ADJUSTMENT PROJECTS

In May and August of 1997, small weeks adjustment projects were introduced in 29 high-unemployment EI regions (see Annex 2.1) to address the disincentive to accept small weeks of work. These projects allowed claimants to either bundle or exclude small weeks (earnings under \$150) in the calculation of the weekly benefit.

Preliminary data indicate that between May/August 1997 and the end of March 1998, nearly 12% of all claims established in qualifying regions involved small weeks. That's 95,650 claims made by almost an equal number of individuals.

However, there were wide regional variations. At the low end of the spectrum, small weeks claims represented only 1.5% of all claims in Northern Manitoba, 3.9% in Yukon-Northwest Territories, and 4% in Eastern Ontario. We observed the highest proportions in the regions in the eastern provinces. The highest proportions were in Trois-Rivières, (Quebec) at 20.8%, Yarmouth (Nova Scotia) at 19.8%, and Chicoutimi-Jonquière (Quebec) at 18.5%. This reflects, among other factors, unemployment rates averaging close to 15% over the period in Quebec and the Atlantic provinces compared to about 11% in the other participating EI regions.

Women filed more than half (58%) of small weeks claims. The participation rate was much higher for women than for men. Small weeks claims filed by women accounted for 19% of all claims established in regions covered by the projects; those filed by men accounted for 9%.

About 20% of the claims made were by people aged 25 and under; however, if we include individuals aged 25 to 30 we see the percentage of claims increase to 30%.

The vast majority (87%) of small weeks claims came from Quebec and the Atlantic provinces. We expected this outcome since small weeks projects are directed at high unemployment regions. Quebec alone accounted for half of the claims, likely because populous regions such as Montreal and Quebec City participated in the projects.

Between May 1997 and March 1998, the average benefit level that people with small weeks claims were entitled to was \$201 – \$19 more on average than they would have received without the projects. The extra \$19 corresponds to

an increase of 11% in the average benefit level. By province, the increase in the benefit levels due to the adjustment projects was the highest in Newfoundland, Manitoba, and Nova Scotia (13%), and the lowest in British Columbia (7%), and Ontario and Northwest Territories (8%). In addition, 12% of small week claimants qualified for the Family Supplement and almost 70% of them were women.

About 43% (40,880) of small weeks claimants were subject to the intensity rule, demonstrating that they have a history of frequent claims. However, only 38% of small weeks claimants actually had their benefit rate reduced; the others were not affected because they qualified for the Family Supplement and were therefore exempted from the intensity rule.

The small weeks adjustment projects enabled a significant number of workers to collect higher benefits and to maintain a greater attachment to the workforce. Preliminary results show that the total number of hours worked by the average participant increased by about 7%. Complete information about the small weeks projects was not available for this report; however, a full evaluation of the projects is underway.

The adjustment projects expired on November 14, 1998. Because more data and time are required to assess the disincentive to accept small weeks of work, a new pilot project has been put in place. The new project is in effect in the 29 regions that participated in the original projects, as well as in two more EI regions, Hull (Quebec) and Sudbury (Ontario). The project, expected to be in place for three years, uses only the method of excluding small weeks in the calculation of the weekly benefit. The preliminary analysis of the original projects indicated that this method is easier to explain and understand, less costly to administer, and produces exactly the same benefit as the bundling method.

## VIII. CONCLUSION

Total payments to EI beneficiaries declined by 16% to \$10 billion in 1997/98 from about \$12 billion in 1995/96. Changes in benefit payments reflect the number of individuals making claims, the number of weeks over which they collect benefits, and the weekly amount of benefits that they receive. We found that the decline in payments is due mainly to the 14% drop in the number of new EI claims established over the period. The average weekly benefit level for all claims remained virtually unchanged, while the duration of benefit entitlement increased very slightly. This general pattern is reflected across most of the benefit types.

Regular claims declined by 18% contributing substantially to the decline in payments to regular beneficiaries. The drop in claims and benefit payments is due to a combination of program changes and labour market factors.

Improvements in the labour market over the period, including increases in the tenure of jobs, have resulted in less reliance on EI for income support. It also appears that the hours-based system and the minimum divisor are encouraging stronger labour market attachment, as intended. As well, the composition of the jobless has changed considerably, resulting in a higher proportion of those who are not likely to qualify for EI benefits. Individuals who are likely to qualify for benefits (those with recent work experience) may be relying less on the EI program because they are working longer.

Young people, many of whom tend to work in part-time employment of short duration, have experienced higher than average declines in claims and benefits. Similarly, the larger decline in claims for women compared to men seems to be related to differences in work patterns.

Total benefits paid to self-employed fishers declined in 1996/97 followed by an

increase in 1997/98 – resulting in very little overall change. However, changes under the reform seem to have made it easier for fishers to qualify for benefits, and some are establishing consecutive claims in both the summer and winter benefit periods. As a result, the number of new fishing claims increased in 1997/98 and there was very little change in benefit payments overall.

We did not see significant changes to special benefits (maternity, parental, and sickness). Total benefits for these claimants declined slightly reflecting the drop in parental and sickness claims as well as lower weekly benefit levels for some claim types.

Some elements of the reform are having the intended effect. The intensity rule has started to reduce benefits for repeat claimants. The top-up provided by the Family Supplement is providing higher levels of benefits to a smaller but better targeted group of claimants. Fewer claimants are receiving the supplement, but the average top-up more than doubled to \$29 per week.

It is too early to report fully on the impact of some of the reform elements, as complete data are not yet available. This includes the benefit repayment (clawback) provisions and the \$50 floor for earnings while on claim.

The findings from the original small weeks adjustment projects have been quite positive. We found that the projects have enabled a significant number of workers to collect higher benefits and maintain a greater attachment to the workforce.



## **Chapter 3 – Employment Benefits and Support Measures**

This chapter provides an update on the new partnerships with the provinces and territories under the Labour Market Development Agreements (LMDAs). As well, it reports on the impacts of Part II Employment Benefits and Support Measures (EBSMs) during the second year of operations as compared to similar employment interventions called Unemployment Insurance Developmental Uses (UIDU) under the previous *Unemployment Insurance Act*. We will compare EBSM information for 1997/98 to UIDU information for 1995/96. We will look at:

- the progress made towards implementing the LMDAs;
- the phase-out of training purchases;
- the number of clients being served and the associated costs; and
- the implementation of the results-based accountability framework.

In addition, we will provide information on the effectiveness of the Transitional Jobs Fund (TJF) introduced in July 1996 to help people in high unemployment areas adjust to the new EI program.

### **I. PARTNERSHIPS WITH PROVINCES AND TERRITORIES**

In May 1996, the Government of Canada made an offer to all provinces and territories to develop federal-provincial/territorial partnerships capable of responding to the specific needs of unemployed Canadians in each province/territory and to the specific nature of individual labour markets. The new *Employment Insurance Act* committed the Government of Canada

to work in co-operation with provinces and territories to put in place active labour market measures that would better help unemployed Canadians integrate into the labour market.

The Act also establishes a framework to ensure that a number of key guidelines are respected in the administration of the EBSMs. These include:

- a focus on results;
- evaluation of outcomes;
- promotion of co-operation and labour market partnership;
- local decision-making;
- elimination of unnecessary overlap and duplication;
- encouraging personal responsibility for getting back to work; and
- ensuring service to the public in both official languages where there is significant demand.

The Government of Canada has now concluded eleven Labour Market Development Agreements (LMDAs). As provided for in the May 1996 federal proposal, Alberta, New Brunswick, Manitoba, Quebec, Saskatchewan, and the Northwest Territories decided to assume responsibility for the design and delivery of active employment measures funded through the EI program. The agreements also cover certain functions of the National Employment Service. However, only the Alberta, New Brunswick, and Manitoba agreements were implemented during the 1997/98 reporting period; HRDC continued to deliver programs in the other jurisdictions during the year. Full implementation of these transfer agreements will be gradual, respecting

the capacity of each province/territory to assume the responsibilities involved.

Newfoundland, Nova Scotia, British Columbia, Prince Edward Island, and Yukon opted for a co-management approach. This means the Government of Canada and each provincial/territorial government jointly assume responsibility for the planning, design, and evaluation of active employment measures, while HRDC continues to deliver programs and services through its service delivery network. In Nova Scotia, the arrangement is known as a framework for strategic partnership. Since co-management agreements were implemented upon signature, most were in place over the reporting period 1997/98. Co-management structures have been established and co-operation in the full range of labour market issues has been developed.

The Canada-British Columbia LMDA included a commitment to work towards an agreement that would enable the province to assume greater responsibility for active employment measures. British Columbia initiated negotiations for a full transfer agreement in June 1998 and discussions are now underway. Negotiations with Ontario towards an agreement formally began in April 1998.

For an overview of the LMDAs, refer to Annex 3.1.

In this report, we deal mainly with programs and services provided by HRDC. Information is available for Alberta and New Brunswick; however, because 1997/98 is the first year of implementation for these provinces, in some instances complete data are not available. Manitoba continues to use HRDC systems, so data capture is more immediate for that province. It should be noted that Alberta, Manitoba, and New Brunswick were responsible for

only part of the EBSM activity in 1997/98 given that their agreements were implemented at different points during the fiscal year.

For 1997/98, \$2.28 billion was budgeted for the EBSMs. Of this amount, \$2.03 billion was for active measures under transferred and co-managed agreements and for Ontario. This included about \$500 million in Part I income support for EI claimants participating in employment benefits. The remaining \$250 million is dedicated to pan-Canadian labour market activities administered by the Government of Canada. This includes some activities administered through the Regional Bilateral Agreements (RBAs) for Aboriginals and activities in support of Youth Employment.

Refer to Annex 1.2 for a description of the specific employment benefits and support measures.

## **II. PHASE-OUT OF TRAINING PURCHASES**

### **1. The Phase-Out**

In keeping with the federal withdrawal from labour market training announced by the Prime Minister in November 1995, and reiterated in the Throne Speech of February 1996, the *Employment Insurance Act* requires that Training Purchases be phased out by June 30, 1999. The aim is to ensure a more client-centred and efficient labour market adjustment system for Canada and to build more effective relations with provinces and territories respecting their responsibility for education.

The new approach is to provide assistance for individuals to access training opportunities through a system of skills loans and grants. This move from purchasing blocks of seats from provincial institutions to a client-driven

approach to skills development is strongly supported by both Canadian and international experience. HRDC has an agreement with each provincial/territorial government detailing how the phase-out of training purchases will be achieved and reflecting the particular provincial/territorial circumstances and priorities. Some phase-out agreements relate to specific commitments for government-to-government purchases, whereby HRDC purchases training directly from the province/territory. Other agreements have a specific focus, for example, addressing apprentices only. Furthermore, the agreements differ in the pace of the phase-out. (Refer to Annex 3.2 for a summary of the agreements.) Nonetheless, all provinces/territories have been advised that federal Training Purchases are to end by June 30, 1999.

## **2. The Move toward Skills Loans and Grants**

The Skills Loans and Grants (SLG) employment benefit directly helps insured participants access training courses providing skills for employment and is intended to replace block purchases of training.

In provinces where HRDC has maintained responsibility for delivery of EI-funded programs, the department has been providing an interim option while SLG is under development. This interim measure is the Enhanced Feepayers, whereby financial assistance for tuition and other incremental training expenses is provided directly to individuals. In 1997/98, SLG was piloted and implemented in Alberta and New Brunswick, two provinces with transfer-type LMDAs, and piloted in Nova Scotia by HRDC.

During 1998/99, HRDC in Nova Scotia is completing an initial evaluation of the

pilots and planning for fuller implementation in early 1999. HRDC is conducting limited pilots in Prince Edward Island. In Newfoundland and Ontario, HRDC is working with the provinces to finalize designs and, with provincial consent, intends to either expand the pilots or fully implement SLG in early 1999.

In conclusion, HRDC regional and field staff report that, even where training purchases are still in place, there has been a fundamental shift from block purchases to support for individual client return-to-work action plans in many areas of the country.

Progress has been gradual in reducing the level of purchases with provinces, and has been advancing at different rates in the various jurisdictions. The full implementation of a client-driven system should advance more rapidly as pilots mature and SLG models are fully implemented. Refer to Annex 3.3 for detailed information by province.

## **III. INTERVENTIONS**

### **1. General**

During 1997/98, there were 482,000 EBSM interventions provided to individuals. To be eligible for these interventions, individuals must be either receiving EI benefits or have received benefits within the last three years (five years in the case of maternity or parental claimants).

The benefits and measures themselves can be divided into three main groups with significantly different characteristics. The Employment Benefits, which are long-term interventions, include Enhanced Feepayers and Skills Loans and Grants, Self-Employment, Targeted Wage Subsidies, and Job Creation Partnerships. As well, Training

Purchases continued in 1997/98 as they are being phased out over a three-year period. These long term interventions are normally more than a few weeks in duration and involve financial assistance either to employers, third parties, or individuals to prepare clients for employment. Together, these long-term interventions accounted for 45% of the total. The shorter-term interventions, which include Employment Assistance Services, Counselling, and Group Services, accounted for 53% of interventions. These interventions are generally limited in duration from a half day to a few weeks and provide counselling and information to help individuals get back to work. Other EBSM interventions make up the remaining 2%.

Compared to 1995/96, interventions are up by 9% overall.

The remaining Part II activities, such as Research and Innovations and Labour Market Partnerships, were not geared towards participants, but towards testing of new ideas and building capacity at the national, provincial, and local levels.

<b>EBSM and UIDU Interventions 1995/96 and 1997/98</b>		
<b>Interventions</b>	<b>UIDU 1995/96</b>	<b>EBSM 1997/98</b>
	<b># and %</b>	<b># and %</b>
Total Long-Term Interventions	200,613 (45.4%)	217,759 (45.2%)
Total Short-Term Interventions	238,923 (54.0%)	257,732 (53.4%)
Other ESBM	2,567 (0.6%)	6,568 (1.4%)
<b>Total</b>	<b>442,103 (100%)</b>	<b>482,059 (100%)</b>

**Source: Client Data Set**  
(For further details, see Annexes 3.4 and 3.5.)

Although declining as a percentage of long-term interventions from 51% in 1995/96 to 40% in 1997/98, Training Purchases (87,000) remains the most

frequently used followed by Enhanced Feepayers (57,000). Among the short-term interventions, the highest was Group Services (131,000). HRDC in Ontario used Group Services most heavily. The largest number of interventions was in Ontario at 187,000 followed by Quebec at 116,000. (Refer to Annexes 3.4 and 3.5.)

Differing labour market needs are reflected in different mixes of long- and short-term interventions across provinces and territories. In overall terms, HRDC in Ontario showed a tendency to favour short-term over long-term interventions. The mix in most other provinces favoured long-term interventions, while in Nova Scotia, Manitoba, and British Columbia the two types were about equal.

Training Purchases were not always the most frequently used long-term intervention. In Newfoundland, New Brunswick, Prince Edward Island, Manitoba, and Quebec, Enhanced Feepayers were more frequently used. While Targeted Wage Subsidies were used in 7% of the cases across Canada, in Nova Scotia, New Brunswick, Prince Edward Island, and Ontario rates were higher than the national average. In the case of Job Creation Partnerships, only Newfoundland and Quebec showed a significantly higher than average use. Self-Employment showed the least variation across provinces of all the long-term interventions.

Among the short-term interventions, about half were Group Services (131,000). Some provinces showed a clear preference for one type of intervention over the others. For example, in Alberta and Prince Edward Island, Employment Assistance Services was preferred, while in Ontario and Nova Scotia, Group Services was favoured, and Newfoundland, New Brunswick, Manitoba, and

Saskatchewan placed more emphasis on Counselling.

Despite the significant improvement in client documentation and follow-up in the past year, there are some indications that not all clients are being tracked. This may be more significant in the provinces that have signed transfer LMDAs. It also appears that there is an issue with the tracking of former claimants, as they make up only 20% of total participants in 1997/98. Unlike current EI claimants, these clients are not tracked automatically through their use of EI Part I Benefits.

#### IV. TOTAL EXPENDITURES

During 1997/98, some \$2 billion was spent on EBSMs, including some \$465 million in Part I income support benefits for EI claimants participating in the EBSMs. About 78% of the total was spent on long-term interventions, 12% was spent on short-term interventions, and the remaining 10% went to other EBSMs. In 1995/96, expenditures on long-term interventions made up 92% of the total.

<b>EBSM and UIDU Expenditures by Intervention (\$000) 1995/96 and 1997/98</b>		
<b>Interventions</b>	<b>UIDU 1995/96</b>	<b>EBSM 1997/98</b>
	Income Support/UI Chargeback	Part I and Part II
Total Long-Term Interventions	1,704,574 (92.5%)	1,564,805 (78.2%)
Total Short-Term Interventions	80,669 (4.4%)	237,932 (11.9%)
Other ESBM	57,460 (3.1%)	197,573 (9.9%)
<b>Total</b>	<b>1,842,703 (100%)</b>	<b>2,000,310 (100%)</b>
<i>Source: Client Data Set and Corporate Management System</i>		

(For further details, see Annexes 3.6, 3.7, and 3.8.)

The figures for 1997/98 include only funds that appeared in regional budgets,

including the \$85 million portion of the pan-Canadian allocation delivered regionally. An additional \$53 million was spent on capacity-building (Research and Innovations and Sectoral Partnerships) at the national level and an additional \$20 million went to cover the development of delivery capacity in transfer regions. The remaining pan-Canadian allocation was used for a reserve to cover such costs as those associated with the Small Weeks Adjustment Projects. (Refer to Annex 3.9.)

Among the long-term interventions, about \$640 million (41%) was spent on Training Purchases followed by \$305 million on Enhanced Fee-payers (20%). Among the short-term interventions, no expenditures were recorded against either Group Services or Counselling since these largely salary items are recorded under departmental operating budgets. This has the effect of underestimating the costs for short-term interventions as a whole. On the other hand, expenditures under Employment Assistance Services often provide a platform for services available to all the unemployed. The shift towards less costly interventions has continued in 1997/98, which in turn has led to more clients being served. The shift is due to a number of factors. One may be the increase in the use of program funds to support employment services through the Employment Assistance Services. A second may be the removal of one-size-fits-all program design, allowing for, for example, variable length for Self-Employment and individually negotiated assistance for income support to individuals taking training. Finally, there is an increased flexibility to tailor the program mix to local and provincial labour market conditions.

#### V. COST PER INTERVENTION

The average cost for long-term interventions was about \$7,200 in 1997/98 compared to \$8,500 in 1995/96 (refer to Annex 3.10). The decline in cost is due to increased flexibility in

tailoring interventions to local needs. As well, financial support to clients who are participating in a long-term intervention but are not currently receiving EI income benefits is now based on the person's level of need. Average costs per intervention for short-term interventions are not discussed here since some activities are funded out of administrative resources rather than the Part II EBSM budget. As well, the "Other EBSM" category was excluded since these are expenditures that support capacity building and are not suitable for relating costs back to interventions.

Among the long-term interventions, the highest average cost intervention was Self-Employment at \$12,700, due to longer duration of this benefit, while Enhanced Feepayers was the lowest at \$5,400.

Among the long-term interventions, there was wide variation in average costs across provinces. Alberta at \$5,000 per intervention is the lowest, while Newfoundland is the highest at \$8,400. Note that average costs may be overstated because there may not be complete intervention data for all regions.

## **VI. CLIENT PROFILE**

### **1. General**

Under EI, former claimants who had a claim within the last three years (five years for maternity and parental benefits) became eligible for employment benefits. Current EI claimants made up over 80% of the total number of Part II clients in 1997/98, although

there is a possibility that former clients were under-reported.

Workers aged 25 to 44 made up over 60% of clients served in 1997/98. Clients were more likely to be men (59%), reflecting higher labour force participation rates for men. (Refer to Annex 3.11.)

## **2. Designated Groups**

HRDC provides information on the participation in employment programs and services of the four designated groups – women, persons with disabilities, aboriginal peoples, and visible minorities. This practice will continue as part of the reporting on the LMDAs. However, information on designated groups is dependent on self-identification. It is important to note that there have been changes in programming between 1995/96 and 1997/98, and some programs are not strictly comparable. In addition, incomplete data capture in 1997/98 has resulted in apparent under representation in some regions.

Women's participation rate remained in the range of 42% for 1995/96 and 1997/98. Prince Edward Island, Quebec, Ontario, and Manitoba data show higher participation rates for women than the national average in 1997/98. The participation rate for women decreased by 1% for Training Purchases and 6% for Project Based Training. On the other hand, there was a 9% increase in women's participation in Self-Employment and a 2% increase in Targeted Wage Subsidies. (Refer to Annex 3.12 for 1997/98 data.) The participation rate for persons with disabilities increased from 2% in 1995/96 to 3.6% in 1997/98 with significant gains in Nova Scotia and Prince Edward Island. This increase may be attributed, in part, to the development of regional strategies to deliver EBSMs in partnership with the Opportunities Fund (a federal program to assist non-EI eligible disabled individuals to obtain employment). There was a 2% increase in Self-Employment and Training Purchases, a 1% increase in Project Based Training and a 3% increase in the Job Creation Partnership participation. There was a

4% decrease in Targeted Wage Subsidies and a 1% decrease in Employment Assistance Services participation. (Refer to Annex 3.13 for 1997/98 data.)

Aboriginal participation increased from 3% to 4% when comparing UIDU and EI expenditures. At the intervention level, the participation rate for Project Based Training remained in the range of 13% and for Self-Employment in the range of 3%. There was a 9% decrease in Targeted Wage Subsidies and 2% in Employment Assistance Services. The greatest difference, however, was in Job Creation Partnerships where there was a 24% decrease between the two years.

The 1997/98 figures include individuals served through the Regional Bilateral Agreements (RBAs) and, to a much lesser degree, other community-based organizations. The associated costs of \$76 million are part of the pan-Canadian allocation. (Refer to Annex 3.14 for 1997/98 participation data.) Due to significant under reporting, it is difficult to determine the exact number of individuals served through the RBAs and other organizations; however, for the \$76 million, the number of participants is estimated at 5,000. It is also important to note that the RBAs were responsible for the expenditure of \$148.5 million in Consolidated Revenue Funds (CRF) in 1997/98, providing assistance to an additional 9,200 aboriginal clients.

For visible minorities, the participation rate remains at about 4% for both years under review. A very slight decrease, in the range of 2%, was found for Project Based Training and a 2% increase for Employment Assistance Services. There was a 4% decrease in participation in Targeted Wage Subsidies. (Refer to Annex 3.15 for 1997/98 data.)

### 3. Official Languages

In last year's report the use of official languages was examined as part of a formative evaluation of EBSMs to determine access to services and levels of satisfaction concerning official languages. The main findings were that access to services was satisfactory where there was significant demand and often provided even where demand was not significant.

This year's report covers a more complex situation since delivery of EBSMs remained under the responsibility of HRDC in co-management provinces and territories or was assumed by provinces where transfer agreements have been concluded and implemented.

Under co-management agreements, labour market programs and services continue to be offered by HRDC in compliance with the *Official Languages Act*. Transfer agreements all contain clear commitments by provinces and territories to ensure that programs and services will be delivered in both official languages where there is significant demand. These commitments all meet the legislative requirements underlying the LMDA and, in certain instances, even exceed them.

The LMDA generic evaluation frameworks identify core issues and approaches; they include questions about accessibility and satisfaction of services in the official language of choice where there is a significant demand. Questions on these issues are being asked of participants in the surveys of each LMDA evaluation.

The evaluations of the co-management and transfer LMDAs as well as of HRDC activities in Ontario are in the very early stages. To date, only preliminary results of the formative evaluation of the first

year of operation under the Canada-British Columbia agreement and of activities in Ontario are available.

Preliminary findings indicate that service in French is available through a variety of arrangements in most areas of British Columbia. In a survey of 1,200 participants, 5% of participants reported French as their first official language, but only a small minority (less than one percent) requested an employment program or service in French. In a small survey done in Ontario, 78% indicated English as their first official language, 6% stated French, and the rest indicated another mother tongue. Among those indicating French as their mother tongue, 90% stated that they were able to receive information about employment services in the language they prefer.

As evaluations progress in all provinces and territories, we will be in a better position to report on access to services and interventions in both official languages where there is significant demand.

## VII. EBSM RESULTS

In the second year of EBSM implementation, significant progress was made towards implementing a results-based accountability framework. Operational reporting indicators to inform regions, provinces/territories, and partners of results achieved on a monthly or quarterly basis were put in place. Data capture and methods of calculation for the key indicators have improved considerably. Additional work is still underway to determine how well the EBSMs helped current and former claimants find and maintain employment compared to persons in similar circumstances who did not receive the assistance.

The three success indicators found in the LMDAs are:

**EI clients returning to employment:**

the number of insured participants (including current and former Part I claimants) who are working in paid employment and have received support through active programs;

**Unpaid Part I Benefits to EI**

**claimants:** the amount of unpaid benefits, based on the difference between the maximum entitlement to regular income benefits and the actual payout in such benefits; and

**EI Claimants Served:** the number of current Part I claimants accessing EBSMs. In some agreements, this indicator is a minimum number that must be served; in others, it is a minimum percentage (normally 65%) of all claimants served under the agreement.

The first of these indicators assesses the full Part II activity structure for clients receiving documented interventions, from the half-day information sessions to the longer-term training and self-employment benefits. The second indicator reveals potential savings that result from Part I claimants getting back to work before the end of their benefit period.

Targets for these indicators were developed using estimates of past performance under the UIDU program for 1993/94 and 1994/95. There are limits to the data available given the significant changes in program design and delivery; for this reason, targets will be adjusted as information on the new measures becomes available. The target-setting exercise is part of a bilateral process between HRDC and the provinces and territories.

For 1997/98, the number of EI clients who returned to work was 183,000



compared to a target of 174,000. This represents 105% achievement of the target. The unpaid benefits totalled \$674 million compared to a target of \$763.5 million, which represents 88% of the target. Refer to Annex 3.16 for details of 1997/98 targets and results by province and territory.

For EBSMs administered through the RBAs or other organizations, on a national basis 1,500 clients were returned to employment, with unpaid benefits in the range of \$6.4 million.

Achievement of targets between regions and provinces varies considerably and can be attributed to a number of factors. In part, it is a reflection of the wide variety in the mix of programs and services offered to clients at the provincial and regional level. In the case of HRDC in Ontario, the above-target performance is due to local planning strategies that increase initial service to clients through community partners. This includes the expanded use of group services interventions such as the Group Information Sessions (GIS) for EI claimants. New Brunswick and Alberta, both in the first year of implementing their LMDAs, are now dealing with systems and reporting issues that have resulted in some under-reporting. The lower than targeted results in New Brunswick and Alberta are partly due to the fact that the systems for tracking clients for results and exchanging data were not fully operational.

On a national basis, the operational data are converging with other HRDC evaluation data sources. These sources provide verification of the operational data. The evaluation data reported unpaid benefits of \$615 million compared to \$674 million based on operational data, a difference of about 9%. For the returns to work within entitlement, the update reported 123,000 compared to 120,000 in the

operational data, a difference of 2%. These results indicate that the data capture and calculation problems found in 1996/97 have largely been resolved.

While there were some regional variations between the results and the evaluation data, these are due to differences in methodology, client population mix, service delivery options, and access to data.

For the EI claimants served indicator, targets for 1997/98 were not fully in place because it was a year of transition for transfer LMDAs. The target is meant to serve as guarantee of access for current EI claimants to active measures. The administrative data show, however, that 82% of the 418,000 clients served were active claimants and 18% were former claimants. Although some under-reporting of former clients may be involved, there seems to be a clear bias towards serving active claimants.

HRDC has also developed several information products designed to help Canadians in their search for work and commissioned surveys of EI claimants to determine how useful these products are. For the six months prior to January 1997, the survey revealed that 68,000 EI claimants who did not participate in one of the EBSMs stated that one or more of HRDC's information products were of assistance to them in their job search. For the six months prior to January 1998, the comparable figure is 89,000.

## **VIII. TRANSITIONAL JOBS FUND**

The purpose of the three-year, \$300 million Transitional Jobs Fund (TJF) was to facilitate adjustment to the new EI program in areas of the country that had high unemployment. Many of these areas had large numbers of people with seasonal jobs who had come to rely on UI for income support.

TJF, funded out of the Consolidated Revenue Fund, provides financial support to assist communities in generating sustainable economic activity that creates direct and lasting jobs in these high unemployment areas (12% or greater).

TJF achieves its goals through partnerships with the private sector, provincial/territorial and municipal governments, other federal departments, and community partners. With these partners, HRDC has developed strategic plans that identify areas of regional economic priority and sectors that have good prospects for growth to determine which activities TJF and its partners should support.

The partnership approach is key to the development of sound projects and is built into the accountability framework for the program. HRDC's partners must contribute a minimum of 50% of project costs. The average contribution from these sources is six dollars for every TJF dollar, for a total of \$2 billion as of October 27, 1998. HRDC conducted the first phase of an evaluation of the TJF from March to May 1998. The second phase will assess the longer-term impacts and effects of the program. The following are the key findings of the first phase of the evaluation:

- TJF is expected to create 29,500 new jobs by the end of March 1999, about double what was originally projected. It is estimated that, without TJF, 22,000 of these jobs would not have been created; that is, these jobs are incremental. These 22,000 incremental jobs, some of which are seasonal and part-time, are the equivalent of 18,500 full-time jobs.
- Sponsors expect that 89% of TJF jobs will be sustained for a year and a half. The majority (59%) of these sponsors expect the new jobs can be sustained without further funding. (This finding is

based on projects completed at the time of the survey.)

- Most jobs (66%) are for semi-skilled labourers. The average wage is \$13 per hour.
- 93% of the total survey sample, which included sponsors, provincial officials, and representatives from regional economic development agencies, expressed satisfaction with the program.

The TJF ends on March 31, 1999<sup>1</sup>.

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1. A similar program called the Canada Jobs Fund (CJF) will be introduced. The CJF will be a permanent program with an annual budget of \$110 million and will cover regions with an unemployment rate of 10% or higher.

## **IX. CONCLUSION**

Significant progress has been made in concluding and implementing the LMDAs. It appears that more clients are being served and that cost per client intervention has been reduced. From region to region, clients are being offered a different mix of programs and services in response to their individual needs and the local labour market conditions. Systems start-up issues in some areas limit data, but improvements have been made. Progress has been gradual in reducing the level of Training Purchases with provinces/territories and the phase-out has been advancing at different rates.

The full implementation of a client-driven system should move more rapidly as pilots mature and new programs are fully implemented. Significant progress is being made towards the implementation of the results-based accountability framework for EBSMs. Calculation and reporting of results have improved. The evaluation of TJF found that the program has made a considerable impact in the creation of sustainable jobs in areas of high unemployment, thereby easing the adjustment to EI reform.

## **Chapter 4 – Community Adjustment**

### **I. INTRODUCTION**

The monitoring and assessment of community adjustment involves tracking the impact of EI reform in fourteen selected communities across Canada. Both qualitative and quantitative methods are used to collect and analyse data for each community. The qualitative analysis draws from interviews with community leaders<sup>1</sup>, plus focus group sessions with workers who experienced unemployment, employers, and service delivery workers. The quantitative methods include longitudinal analysis of HRDC and Statistics Canada data.

Tracking also involves integrating the qualitative and quantitative results to provide a more comprehensive picture. The qualitative information adds an important human dimension to the dense statistical information generated by quantitative analysis. For example, focus groups can provide an excellent forum for the expression of “real life” perceptions and experiences of groups and individuals. It is worth noting that participants’ comments should not be interpreted as representing an average result. Their comments can, however, shed light on how people in selected groups and communities feel about EI, its delivery, and how it is affecting them. Also, qualitative methods can identify and explore cause-effect relationships at levels of detail that are difficult to achieve using other methods.

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<sup>1</sup> Examples include HRCC managers, and representatives from local economic development agencies, chambers of commerce, social service organizations, community colleges, or training institutions.

### **II. THE FOURTEEN COMMUNITIES – AN OVERVIEW**

The fourteen communities used to track the impact of EI were selected to represent a broad spectrum of communities across Canada. The selection criteria required: at least one community from each province and one territory; and sufficient variation among the communities in terms of geography, type of community (urban/rural), level of unemployment, use of the two official languages, and work patterns (seasonal/non-seasonal) to allow for meaningful comparisons.

The fourteen selected communities are:

- Clarenville, Newfoundland;
- Prince Edward Island;
- Truro, Nova Scotia;
- Miramichi, New Brunswick;
- Repentigny, Quebec;
- Montreal Centre East, Quebec;
- Toronto Centre, Ontario;
- Hamilton Mountain, Ontario;
- St. Boniface, Manitoba;
- Prince Albert, Saskatchewan;
- Calgary, Alberta;
- Kelowna, British Columbia;
- Surrey, British Columbia; and
- Yellowknife, Northwest Territories.

Annex 4.1 provides a summary of the general characteristics of these communities.

The 1997 Monitoring and Assessment Report summarized the results of the first three rounds of tracking community adjustments. The main source of information was the focus groups. Round I focus groups were conducted in September 1996. Round II occurred in February 1997 and Round III occurred

in August/September 1997. By Round III, a number of key themes were emerging:

- knowledge and understanding of EI was increasing, but confusion continued regarding key aspects of EI such as how the changes would affect participants' own claims and benefits;
- some changes in behaviour were observed, but only in the case of some employers, workers, and regions;
- employers and unemployed workers expressed general support for the change to an hours-based system;
- the EI changes to income benefits were generally regarded as providing fewer benefits and making it harder for some categories of claimants to qualify, particularly part-time workers, youth, and women;
- the EI changes to employment services and other support measures were generally regarded as positive but needing improvements in some areas, for example to increase awareness of programs and services, to improve access, and to reduce waiting times at Human Resources Canada Centres (HRCCs); and
- many workers in eastern Canada, especially Atlantic Canada, saw their job opportunities as limited.

### **III. ROUND IV RESULTS**

The Round IV focus groups were conducted from July to August 1998, at least one and a half years after the implementation of the Part I EI reforms. This round placed more emphasis on integrating the qualitative and quantitative results to explore further the themes identified by Round III and to

examine additional issues.

#### **1. Knowledge of EI and Access to EI Information**

Knowledge and understanding of EI continued to improve, particularly among seasonal workers and employers. This was primarily due to added personal and community experience with EI. Workers and employers in Atlantic Canada continued to show a better understanding of EI compared to their counterparts in other regions. This was most likely due to the relatively high proportion of workers engaged in seasonal work, the higher frequency of claims by workers, and greater employer exposure to the EI system in that region. Among employers, those with large numbers of workers demonstrated a better understanding of EI when compared to employers with fewer workers.

Important gaps were still apparent, however. Many workers still lacked a solid understanding of how EI functions, particularly the more complex features of income benefits under Part I. For example many still did not understand how various features (e.g., in the calculation of benefits) could affect their EI eligibility and entitlement. An incomplete understanding of key aspects of EI made it difficult for workers to make beneficial changes in behaviour. For example, some unemployed workers refrained from accepting work while on claim because they were not aware that their first \$50 of earnings in a given week (while on claim) would not reduce their EI benefits for that week. Employers showed a better understanding of the aspects of EI that affected them directly, such as the change to an hours-based system and the new Record of Employment (ROE) form, but they continued to be less familiar with other features of EI.

Workers and employers continued to lack high levels of knowledge regarding reemployment services available in their community. These groups often said the services were not well advertised and were difficult to access. Workers said the available programs and services needed proactive communication. Some HRCC staff indicated that they were not always familiar with the extent to which reemployment services were available to clients, or how clients could access what was available due to the range and complexity of services available. Also, the transfer of services to some provinces resulted in a period of transition and adjustment<sup>2</sup>. In some provinces where training had been transferred from the federal to provincial level, HRCC staff were not certain how to direct workers to these resources. Referring clients was somewhat easier in communities where provincial staff responsible for reemployment services were located in the same building.

In contrast to the previous rounds, unemployed workers were becoming more comfortable with the use of new technology to obtain information about EI. However, workers often felt that they received inconsistent answers when they asked questions about their own situation in face-to-face or telephone conversations. Comparing results across regions indicated that workers in the western communities

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<sup>2</sup> Most communities were located in provinces with Labour Market Development Agreements (LMDAs): Clarendville, PEI, Truro, Miramichi, Repentigny, Montreal Centre East, St. Boniface, Calgary, Kelowna, Surrey, and Yellowknife. Communities where the Employment Benefits and Support Measures (EBSM) had been transferred to the provinces were Miramichi, Repentigny, Montreal Centre East, St. Boniface, and Calgary. In the communities of Clarendville, PEI, Truro, Kelowna, and Surrey there was co-management of EI interventions – with HRDC and provincial staff working together to reduce duplication of services and co-ordinate delivery of employment initiatives. In Ontario, there was no LMDA. In Saskatchewan, preparations were underway to transfer to the province.

reported fewer inconsistencies in information.

All Round IV focus groups with unemployed workers had at least one participant who had attended a Group Information Session (GIS). These sessions provide selected clients with information about their rights and responsibilities under EI, as well as some information on what is available to assist reemployment. Those who had attended information sessions demonstrated a slightly higher level of knowledge of what was available; however, the GIS sessions were not uniform across Canada, and not all emphasized information on community services. A monitoring study of GIS has been completed by HRDC, and the results are summarized in Chapter 5 of this report.

In general, employers said they were able to access required EI information. Many employers attended information sessions when EI reform was being implemented and had since received additional documentation. Some noted a lack of consistency in the information they received, although as a group they were generally positive about the manner in which they were served at HRCCs.

## **2. Entrance Requirements for EI**

Support for the hour-based system continued to increase. Workers felt that an hours-based system was now fairer because all their hours of work counted towards qualifying for EI and because part-time workers with only a few hours per week could qualify for EI. In Round III participants were more likely to feel that EI reform made it more difficult for part-time workers to qualify.

Workers in certain industries (e.g., construction, manufacturing, mining, and agriculture) said they found it easier to qualify. Part-time workers who worked more than 15 hours but fewer than 35 hours per week felt it was harder to qualify. In communities with low unemployment rates, focus group participants and community representatives felt that it was more difficult for some workers (e.g., persons with low literacy, persons with disabilities, immigrants, visible minorities) to qualify for EI because of the number of hours needed when the unemployment rate was low. In communities with a high unemployment rate, it was observed that more workers were leaving to take jobs in low unemployment areas and then returning to their home community to qualify for EI.

In contrast to comments made by some workers, analysis of administrative data showed little change in the likelihood that a UI/EI claim was established following a job separation in the fourteen communities. After controlling for economic and demographic factors, there was a downward trend in the likelihood of establishing a UI/EI claim in each community over the period 1994 to 1997, but no specific change in this trend was observed in the majority of industries and communities with the implementation of EI. The exceptions were: retail trade in Montreal Centre East, Toronto, and St. Boniface; and education services in Montreal Centre East and Kelowna. In the case of these exceptions, larger declines were observed. Round V will explore this issue in greater depth.

Employers' comments on the hours-based system were split: Some expressed positive views on added access to EI for part-time workers, but some saw the hours-based system as an increase in premium payments. In Round IV employers continued to be

satisfied with the simplification of ROEs with respect to full-time employees. However, there was a growing dissatisfaction with the need to supply additional details on the ROEs in the case of part-time and casual employees with gaps in employment. In many of these cases, employers felt that the ROE under EI required the same amount of information regarding earnings as was the case under UI. Some employers with part-time and casual employees objected to the increases in premiums and added administrative burden that were caused by the extension of coverage to part-time and casual employees who had not been covered under UI. They explained that the additional burden was due to increases in the numbers of ROEs as well as loss of uniformity in their pay systems (under EI, it is necessary for payroll systems to keep track of employees with gaps in employment and to treat them differently from those with no gaps).

Also, some employers were still confused about some of the items required on the new ROE. This lack of understanding caused discrepancies between information registered on the ROEs and information supplied by workers on the application for EI. Employers said that it was often the case that they had to devote large amounts of resources in order to respond to HRCC inquiries on these issues. A few cases were cited of businesses taking advantage of the New Hires Program, which was designed to give premium relief to small businesses that might be affected by the change to first dollar coverage. However, most employers were not familiar with the program.

Once again, the focus groups found almost no evidence of employers changing employment patterns. The notable exception continued to be seasonal employers in some regions

who sometimes reported trying to give workers additional hours to qualify for EI. Some employers stated that other payroll deductions and administrative considerations deterred them from changing their employment patterns. Only a few employers stated that they were reducing their paper work by hiring fewer part-time workers or more contract workers due to EI reform.

### **3. EI Benefit Levels**

The majority of workers continued to be confused about how their EI benefit was calculated, and said that their weekly benefits were lower under EI. Quantitative analysis indicated some higher benefit levels, however. Administrative data showed that, after accounting for economic and demographic characteristics, the average weekly benefit level in the majority of communities and industries tended to increase rather than decrease with the introduction of EI. However, communities with high levels of seasonal employment were more likely to have industries that showed declining benefits levels (e.g., manufacturing in Miramichi and Prince Albert).

The new minimum divisor introduced in July 1996 means that claimants have an incentive to work beyond the minimum time required to qualify for benefits so as to avoid a reduction in their weekly benefits. Administrative data were used to examine whether claimants were in fact working more weeks than under UI. The analysis found a continuing rise in the proportion of claimants who worked more weeks in almost all of the fourteen communities. In Clarendville, for example, Annex 4.2 shows that the proportion of claimants who worked two or more weeks above the minimum increased from 53% in the third quarter of 1995 to almost 92% by the third quarter of 1997. However, none of the communities showed a continuing

increase in the proportion of claimants who worked the minimum plus exactly two additional insured weeks. For Clarendville, Annex 4.3 shows that the proportion of claimants with the minimum plus two insured weeks increased from 6% in the third quarter of 1995 to 27% in the third quarter of 1996 (i.e., Round III)<sup>3</sup>, but dropped to about 5% by the third quarter of 1997.

By Round IV, frequent claimants and seasonal workers were more aware of the Intensity Rule (which reduces a claimant's benefits due to previous use of EI). In all communities, workers said that this rule would not affect their work patterns. Seasonal workers said they had few employment opportunities, and that they would remain with their existing employment and continue to apply for EI despite the Intensity Rule.

The introduction of the Small Weeks Adjustment Projects seemed to have resolved the disincentive to accept small weeks of work in some regions. For example, employers in the Atlantic region indicated that they were having less difficulty finding workers willing to work small weeks. Similarly, workers indicated more willingness to work a small number of hours in a week now that they could bundle or exclude their small weeks when their EI benefits were calculated.

### **4. Length of Claim and EI Entitlement**

Workers in the western and northern communities indicated that the duration of their EI benefits was adequate, while workers in the Atlantic communities

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<sup>3</sup> Round III reported that the proportion of claimants who worked the minimum plus two additional insured weeks had increased in certain communities. Round IV showed, however, that the pattern was reversed in 1997. The difference between the results observed in Round III and Round IV could be because the switch from a weeks-based system to an hours-based system was implemented in January 1997, and would not have been captured in Round III.



continued to say that EI claims did not bridge the gaps in their seasonal employment. Contrary to the views of some workers in seasonal economies, however, quantitative analysis showed an increase in the average number of entitlement weeks for workers in construction, agriculture, transportation, manufacturing, and business services in the majority of communities after EI was implemented.

## **5. Misuse and Abuse of EI**

Workers and employers believed that misuse and abuse was decreasing. Few of these groups were familiar with the extent or level of penalties for fraudulent use of EI; however, they were aware that the federal government was taking steps to discourage fraud. Workers and employers believed that blatant abuses of EI, such as selling of ROEs, had been virtually eliminated. They said that “working under the table” probably continued; however, many workers felt that this practice was acceptable, especially if the added income was necessary to cope financially with a period of unemployment. Similarly, employers did not always view working under the table as fraudulent use of EI.

HRCC staff said that they felt fewer workers were trying to defraud the EI system and that workers were providing truthful information on their employment status. Also, more workers were reporting on when they were unavailable for work.

## **6. Adequacy of Community Resources and Access**

Overall, focus group participants and community representatives said that there were sufficient government and non-government community-based resources to assist workers in finding employment, but there were fewer

resources to assist employers with their labour market requirements. Participants also reiterated that workers were often not aware of the resources they could access in their community. At least half of the HRCC staff participants attributed the current adequacy of community resources to an increase in third-party delivery under EI plus improvements in the economy.

The HRCC staff and community representatives continued to say there were some gaps in services, particularly for youth and persons with disabilities who did not qualify for EI. A gap in the area of day care services was also identified. HRCC staff noted a high demand for assistance to individuals to start their own business. The majority of workers supported this type of assistance, but expressed concern about access to start-up capital and the risk of business failure. Employers continued to say there was an overabundance (and duplication) of services in this area. Focus group participants also wondered whether the spending on this type of assistance was effective.

The majority of workers were most familiar with training assistance sponsored by HRDC, but workers continued to have mixed views on the value of training. Workers in communities with limited employment opportunities said that job creation, rather than training, was needed to help them find jobs. At least half of the workers in the focus groups, however, said they needed skills upgrading to compete in the labour market. This view was echoed by HRCC staff and employers who said that workers, particularly in the primary and manufacturing sectors, needed literacy and academic upgrading to find employment and to pursue training in more specialized and technical fields. In communities where French was the

primary language, workers said they needed English language training because English was widely used in the work place.

Many HRCC staff said they had difficulties meeting workers' demand for training. In some communities, they attributed this to funding cuts and uncertainties about the level of government responsible for training. Focus group participants continued to support the idea of workers contributing to their own training, as a way of increasing workers' sense of ownership and responsibility for training. There were concerns, however, about workers' capacity to continue contributing because of the rising cost of courses. Only a few workers interviewed participated in the wage subsidy programs available in their community. The majority of these were youth. In general, workers continued to be uncertain about the value of such programs, and many felt that subsidized job placements provided, at best, short-term jobs. At least one-third of the employers participating in the focus groups were involved in wage subsidy programs. While they said this type of assistance provided valuable work experience, they could not commit to providing a permanent job once the subsidy ended.

Employers in at least one-third of the communities said that apprenticeship programs were needed to train workers for long-term employment. In previous rounds, employers in the west were the main supporters of these programs. By Round IV, employers in Atlantic Canada had become supporters too.

Many workers continued to be dissatisfied with the quality of job information available in the job banks. More workers said they were using the Internet to look for jobs; however they

tended to go to company web sites rather than HRDC's Electronic Labour Exchange (ELE). In contrast with Round III, only a few employers said they wanted more assistance from HRCCs to find workers. By Round IV, most employers said they preferred to recruit through personal references, word of mouth, or direct solicitation.

In at least half of the communities, focus group participants said that EI and social assistance were "pushing people back and forth". They said workers who could not qualify for EI had to apply for social assistance. Once on social assistance, these workers were placed in job initiatives so they could qualify for EI.

Several of the focus groups were conducted in French in francophone communities in Quebec (Montreal Centre East and Repentigny) and outside Quebec (Miramichi in New Brunswick and St. Boniface in Manitoba). There appeared to be no significant differences between francophone and non-francophone communities in terms of EI benefits and services. In some communities, however, participants felt that they could benefit from courses in English as a second language but indicated that such courses were not readily available to them.

In Atlantic and northern Canada, EI changes may have had some influence on workers' decision to relocate. Focus group participants said that the primary factor affecting worker mobility was the condition of the local economy. Workers in the Atlantic and northern communities tended to relocate more often compared to workers in the other communities.

#### **IV. CONCLUSION**

Round IV placed more emphasis on integrating qualitative and quantitative results to provide multiple lines of evidence and to cross-validate results. In further exploring the themes identified by Round III, Round IV found that knowledge and understanding of EI had continued to increase, particularly among seasonal workers and employers. Also, there was continued support for the change to an hours-based system, and for employment services and other support measures.

Round IV also found additional evidence of behavioural changes (e.g., evidence that workers were working longer, a reduction in misuse and abuse,

increased use of new technologies to access EI and job information).

At the same time Round IV identified a number of reasons why more behavioural changes were not occurring. For example, many workers still lacked a solid understanding of the complex features of EI Part I, and this situation was impeding their ability to make behavioural changes. Also, workers were often not aware of the government and non-government resources they could access in their community to assist their reemployment. In the cases of employers, other factors (e.g., payroll deductions and administrative considerations other than EI) deterred them from changing employment patterns.

## **Chapter 5 – Program Administration**

This chapter reports on measures introduced with EI reform to standardize and ease program administration. We examine changes made in the areas of financing structure, administrative simplicity for employers, and Group Information Sessions (GIS).

### **I. FINANCING STRUCTURE**

#### **1. First Dollar Coverage**

EI reform brought in a new method for calculating premiums. Under the new structure, employers and employees pay premiums on all earnings from the first dollar onward, up to an annual maximum of \$39,000. This system was considered more equitable and also easier to administer than the previous one which used weekly minimums and maximums for calculating insurable earnings.

We do not yet have the data required to produce a thorough analysis of the impacts of the changes to the premium structure. The primary source of data on premium revenues is the T-4 Supplementary tax file, which contains information on individuals' insured earnings and EI premium contributions. This information will only be available after a time lag of two years (i.e., 1997 data covering the first year of the changes will be available in 1999).

#### **2. Premium Refunds**

Under EI, premiums are being refunded to workers who earn \$2,000 or less per year, since these people must pay premiums but will not have enough hours of work to qualify for benefits. Preliminary data indicate that for 1997

about \$25 million will be refunded to approximately 1 million qualifying individuals.

#### **3. New Hires Program**

This two-year program provides transitional relief to small firms facing an increase in EI premiums in 1997 and 1998. Eligible firms include those who hired new employees and those with part-time employees who paid EI premiums for the first time as a result of moving to first dollar coverage.

Under the program, small businesses with employer premiums up to \$60,000 in 1996 could be eligible to receive up to \$10,000 of assistance in each of the two years. Firms could receive a 100% refund in 1997 and a 25% refund in 1998 on any increase in premiums above \$250 compared to what they paid in 1996.

Preliminary data from the processing of the 1997 tax files suggest that nearly \$220 million of EI premiums were refunded to 135,000 small businesses in the first year of the program. This is somewhat below the budgeted \$350 million for 1997. However, the amount refunded to date is not final, as employers have up to three years to claim their refunds. Revenue Canada estimates that approximately 336,000 employers are eligible for a premium refund and that the number of applications could rise ultimately to 168,000 – a take-up rate of 50%.

The low take-up rate could be due in part to a relatively low degree of awareness of the program among business leaders. A survey conducted at the end of 1997 revealed that three of

every five businesses had not heard of the program almost one year after it came into effect. Moreover, of those who had heard of the program, only one in four knew it was intended for small businesses. The smallest companies were the most confused, with one-third believing the program was aimed at large organizations.

As well, the Canadian Federation of Independent Business reported that many small firms will not claim their premium rebates because they feel the rebate is not worth the paper burden involved. A thorough analysis of tax file data (when available in 1999) will allow us to determine the reasons for the lower than expected cost in the first year of the program.

For a summary of the New Hires Program, refer to Annex 5.1.

A new program providing EI premium relief for employers who hire more young workers is now in effect for 1999 and 2000. Under this program, employers are not required to pay premiums for new jobs they create for young Canadians between the ages of 18 and 24.

## **II. ADMINISTRATIVE SIMPLICITY FOR EMPLOYERS**

### **1. Irritants prior to reform**

Over the years, a number of studies have been conducted to determine the best way to reduce the paper burden for employers, who have to complete a Record of Employment (ROE) each time a worker's employment ends. Two major committees have helped identify the irritants and propose avenues for action. These are:

- the Joint Forum on Paper Burden Reduction led by Treasury Board and

the Canadian Federation of Independent Business (CFIB); and

- an EI Implementation Committee, operated jointly by HRDC and the Canadian Payroll Association with participation from Revenue Canada and three members of the CFIB. The committee looked at the proposed new ROE and its contents.

The paper burden on businesses was found to be considerable, with the ROE being a primary problem. Employers had to keep a separate register just for unemployment insurance purposes, costing the business community an estimated \$100 million. In addition, completing ROEs was very time-consuming, especially for small firms, and took an average of 20 to 25 minutes to complete each form. Moreover, 70% of the records were the subject of a call to the employer by HRDC to obtain clarification. Of this number, 75% required follow-up calls. The HRDC post-audit program alone generated more than one million contacts annually for purposes of investigation.

The burden and the problems were caused by the overly complex insurability rules that dictated what the ROE must contain. The form was designed to cover all situations, including the most complex, but typically the situations that arise are quite simple. In addition, 50% of the completed records are never used, for a variety of reasons, including the fact that many individuals immediately find another job and therefore do not apply or qualify for EI.

Employers made many errors in completing ROEs despite the availability of a detailed guide to help them. The concept of an insurable week, along with the minimum and maximum earnings levels and the rules governing

all the different kinds of pay periods, added to the complexity and resulted in inequity problems for claimants.

## 2. Objectives of reform

The federal government set three objectives to ease the administrative burden for employers:

- simplify the insurability rules to cut the paperwork involved in processing information from payroll records;
- eliminate the need for employers to keep special registers just to meet HRDC's needs. HRDC would have to adapt to how employers manage their pay system, which is on a per-pay-period basis rather than a per-week basis; and
- reduce the need for additional information from employers in connection with measures to protect the EI fund from fraud.

To achieve these goals, HRDC needed to:

- modify its rules to work with per-pay-period information;
- eliminate the weekly minimum and maximum concepts; and
- more closely reflect the reality of the systems used by employers.

## 3. Accomplishments

Entrance requirements to qualify for EI were changed from weeks to hours of work. Although administrative simplicity was not the reason for this change, it has lightened the workload connected with managing payroll registers for employers. For example, it is no longer necessary to keep a second register, since HRDC uses the per-pay-period information rather than per-week information.

Eliminating the weekly minimums and maximums simplified payroll processing, since employers now report all earnings. However, there is still a maximum annual earnings limit on which premiums are based.

HRDC is now able to accept per-pay-period information, rather than per-week information. This reduces the need for additional information from employers related to investigations of fraud.

The ROE form itself was simplified so that it now requires only a four-page guide instead of the previous 35-page guide. Employers now have only to provide cumulative insurable hours and earnings information. In only 20% of cases do details have to be provided on the basis of the employer's pay period, rather than on a per-week basis.

This new system is more in line with how employers manage pay. It focuses on the majority of situations, rather than on exceptional cases. In so doing, it eases employers' paper burden.

## 4. Reaction of Employers

In the spring of 1997, HRDC conducted a cross-Canada tour with the help of the Canadian Payroll Association to determine employers' reactions to the revised ROE. Comments on the changes were also gathered at the Association's annual conference and through focus groups of employers held during the summer.

This process pinpointed some concerns, namely: employers would have liked more time to prepare for the changes; only limited stocks of the new ROE forms were available upon implementation; and the full benefit of the simplification will only be realized after a transition period. Nevertheless, employers were very positive about the

changes and identified the following improvements:

- considerably simplified new rules;
- easy-to-understand information brochure;
- simpler, less time-consuming ROE (can be completed twice as fast as the old one);
- easier and less time-consuming process required for training new pay services employees; and
- fewer follow-up questions from HRDC.

Employers asked that consultation be continued and even increased for future reforms, given the success achieved thus far.

### **5. What remains to be done**

HRDC is currently conducting a survey of all employers to measure their level of satisfaction with the new ROE and to estimate how much money has been saved through this reform.

Other measures aimed at administrative simplification for employers will be implemented gradually, as they are developed. These measures include:

- enabling employers to order ROEs over the Internet (a service currently available in two provinces);
- nation-wide implementation of a system for the printing of ROEs using laser printers; and, eventually,
- making possible the electronic transmission of the data entered on the ROE.

## **III. GROUP INFORMATION SESSIONS**

Group Information Sessions (GIS) form an integral part of *Shaping the Future*, an initiative introduced in support of EI reform. The purpose of the GIS is to assist individuals to return to work more quickly, reduce workers' and claimants' dependency on EI, and to protect the integrity of the EI program. The sessions provide claimants with key information about their EI claim, the job search process, employment services, and their rights and responsibilities concerning EI.

The GIS is not a new concept. It was first introduced in 1990 in the Quebec-Charlesbourg and the Medicine Hat HRCCs. A formal pilot was conducted in 1991 at the London HRCC. From these modest beginnings, GIS has grown and evolved such that there is now considerable variation between and among HRCCs with respect to the emphasis presented in the GIS sessions. Some focus more directly on claimants' rights and responsibilities, while in other locations the GIS can take the form of a "booster session" to energize job search behaviour.

Implementation of the GIS is optional and it is the officials at the local level who decide whether to include it in their activities and choose the approaches most in line with their local circumstances (economic conditions, resources, characteristics of claimants, etc.).

The following table shows the provincial distribution of offices that are currently using the GIS.

Province	Human Resources Canada Centres		
	# With GIS	# Without GIS	Total
Nfld	3	7	10
PEI	1	3	4
N.S.	0	11	11
N.B.	2	11	13
Que.	29	22	51
Ont.	28	9	37
Mb.	1	4	5
Sask.	2	0	2
Alta.	11	3	14
B.C.	15	0	15
Canada	92	70	162

Although the implementation of the GIS is at the discretion of HRCCs, claimants must attend whenever they are instructed to do so. Disregarding the invitation to a GIS session may trigger an investigation which could result in a disqualification and/or disentitlement to EI benefits. The GIS is not exclusively an investigation and control technique; it is also a vehicle for imparting information that could help claimants get back to work more quickly.

A recent monitoring of the GIS focused on three locations that provide examples of different orientations and applications of GIS. The study found that the GIS helped these HRCC sites meet their EI-related objectives. As a result, other sites are being encouraged to consider the best practices and lessons learned during the study and to adopt and adapt the GIS to help them achieve their own goals. The three GIS sites studied are described below.

- *Lethbridge, Alberta:* The “Investigation & Control Group Information Sessions” are delivered by Investigation & Control (I&C) staff to regular EI claimants in the fifth to eighth week of their claim. The sessions focus on the rights and responsibilities of claimants under EI and provide information on the existing employment services. There is rigorous

follow-up of claimants who do not show up, those who cannot provide evidence of job search, and those whose EI applications contain incorrect or missing information. The sessions last approximately 45 minutes with little interaction between session deliverers and participants. One-on-one discussions may take place after the session should participants require them.

- *York, Ontario:* The HRCC Employment staff deliver “Rights and Obligations Sessions” to claimants approximately two weeks after they apply for EI benefits. The focus is on the rights and responsibilities of claimants under EI and provides information on services designed to help them find work. The sessions are tightly scripted and last about 45 minutes. Interaction between clients and HRCC staff and post-GIS follow-up are limited.
- *Mississauga, Ontario:* “Booster Sessions” are delivered by a third-party contractor to claimants in about the eighth to tenth week of the claim. The focus and the structure differ considerably from those in the other two locations. The Mississauga sessions are highly interactive and last about six hours each. They devote little time to information on EI rights and obligations. The emphasis is on reaching claimants at a low point in their job search to help them reassess their job search strategies, to motivate them, and to give them information and tools that can be used in their job search. The sessions are delivered at a community employment resource centre and participants are given a tour of facilities and services available to them and are encouraged to sign up for courses such as resumé writing and interview skills. Approximately one month after the session each participant is contacted by



a counselor who reviews the claimant's job search activities since the Booster Session and assists the claimant to resolve any problems encountered.

The GIS Monitoring Study gathered information on the design process, implementation and delivery, impact on clients, satisfaction with the GIS, client monitoring and follow-up, and savings to the EI program. In addition, it attempted to identify "lessons learned" from the implementation of the GIS in the three sites and to report on "best practices". This study was based on interviews with key staff, observations of GIS sessions, administration of participant questionnaires, implementation of focus groups with GIS participants and non-participants, and analysis of administrative data. Although the study's conclusions are partial and qualitative in nature, the following observations can be made:

- *GIS had positive impacts on clients.* While the GIS in York and Lethbridge were successful in informing claimants about their rights and obligations regarding EI, Mississauga was most successful in changing claimants' perceptions about finding and keeping employment. Mississauga participants were most likely to indicate that the Booster Session was useful and informative, and that the session had enhanced their capacity to access job search services. These results are consistent with the site's stated objectives for the GIS.
- *Staff and participants were satisfied with GIS.* In all three locations, HRCC management and staff were very satisfied with the results of the GIS. Claimants were more informed about EI, there were fewer errors on EI report cards, detection of EI abuse and misuse had improved, clients were more motivated to look for work, and there was greater opportunity to realize

savings to the EI program. Clients were generally satisfied with all aspects of their GIS session.

- *All three models (sites) realized their objectives and achieved net savings since implementation.* The savings resulting from the GIS are described in Chapter 6.
- *The GIS is a good way to provide clients with information on EI and the labour market.*
- *The GIS can promote good client service and develop an effective relationship with community partners.*
- *The GIS can be used by HRCCs to promote cooperation among their units and to harmonize their activities.* Participation in GIS design and delivery by various areas within the HRCCs not only improved information sessions, but also provided an opportunity for staff to discuss other issues of common concern.
- *Efficiency and effectiveness of the GIS can be maintained and improved by involving experienced HRCCs in the development of GIS in new sites.*
- *The GIS demonstrated to clients that support is readily available and brought them in direct contact with HRCC staff.*

The costs and savings associated with these programs are summarized in the following table.

	HRCC (site)		
	Lethbridge	York	Mississauga
Number of Scheduled Clients	1,218	9,380	5,919
Cost per Scheduled Client	\$50	\$9	\$47
Gross Savings per Scheduled Client	\$1,045	\$79	\$266
Net Savings per Scheduled Client	\$995	\$71	\$219

*Note: Data from April 1 to December 31, 1997*

Of the three sites, Lethbridge apparently realized the highest per-client savings. This may be due to the focus on post-GIS follow-up and verification. Another factor that may account for some of the differences with the other locations is the highly-developed system in place to capture GIS-related data. While that system may have improved operational

efficiency, and hence increased savings, some of the differences in savings may be due to corresponding differences in the regions' capacity to claim full credit for their accomplishments. It is worth noting that this study did not take into account long-term savings, a factor that could affect the relative positions of the sites vis-à-vis savings to the EI program.

#### **IV. CONCLUSION**

This chapter has outlined measures introduced to streamline program administration. We do not yet have sufficient data to fully assess the impact of the new financing structure, premium refunds to those earning \$2,000 or less, and the New Hires program. However, there is evidence that employers are finding the program easier to administer and that the GIS program can provide a positive relationship with community partners and promote effective client service.

Future reports will provide updates on HRDC's progress in improving overall program administration.

## Chapter 6 – Savings

In 1995, the federal budget announced a 10% reduction of EI program costs as part of the government's fiscal restraint measures. When the new EI system was designed, measures were introduced to achieve the necessary savings.

The *Employment Insurance Act* requires us to monitor and assess whether the savings expected as a result of the reforms are being realized. Savings were expected to result from:

- reduced income benefits;
- enhanced claimant assistance services; and
- reductions in fraud and abuse.

This chapter describes the savings that have been realized since the reform as a result of these measures.

### I. THE DECLINE IN BENEFITS PAID

The redesign of Part I income benefits included several major changes to the eligibility and benefit calculation systems. These changes were intended to:

- strengthen insurance principles and work incentives;
- maintain adequate income support for the temporarily unemployed; and
- reduce the overall cost of the program.

In Chapter 2, we discussed the decline in benefits paid between 1995/96 and 1997/98. We reported a 16% drop in benefit payments over the two-year period. Here, we discuss this decline and explain, as far as possible, how much of it is attributable to EI reform as opposed to changes in the labour market or economy.

In April 1996, HRDC presented a report on the estimated impact of EI reform to the Standing Committee on Human Resources Development. The estimate was based on a micro-simulation model that calculated benefits for a sample of claimants based on both the UI and the EI rules.

The estimated impact for 1997/98 was a 6% decline in total income benefits under the EI rules compared to the total income benefits that would have been paid in 1997/98 had the UI rules been left in place. This estimate did not take into account structural changes in the labour market, changes in the economy, or behavioural changes on the part of individuals and employers.

The 6% decline included the expected impact of the new repayment (clawback) provisions for higher income beneficiaries. While this provision did contribute to savings, we cannot measure exactly how much was saved for 1997/98 because the required tax data are not yet available for analysis. Therefore, the focus of this section is on savings to income benefit payments stemming from elements of EI reform other than the new clawback provisions.

Over the period 1995/96 to 1997/98, we observed little change in the average weekly benefits. Rather, most of the decline appears as a drop in the number of EI beneficiaries and a small, half-week decline in the average the number of weeks of benefits received. We attribute most of the decline in the number of beneficiaries and in the average weeks of benefits paid to changes in regular benefits, since we saw little decline in the number of claimants and the average number of weeks of benefits paid for other types of benefits.

The declines observed are due to both program and labour market changes. The following two sections focus on how these changes may have affected regular EI benefit payments.

### **1. Number of EI Beneficiaries and Weeks of Benefits Used**

To separate the labour market and EI reform impacts on the number of regular EI beneficiaries and the decline in the average number of weeks of benefits received, we must use monthly data from the Canadian Labour Force Survey and the EI Coverage Survey. Data from these sources allow us to analyze changes in the composition of the labour force and to identify which types of individuals are qualifying for EI benefits.

Monthly beneficiary data reflect changes in both the average length of a claim and the number of beneficiaries. However, because we have only limited data on the work history of the employed, we looked only at unemployed regular EI beneficiaries who did not work while on claim. Nevertheless, we are able to apply our analysis to all regular EI claimants because only 15% of them work while on claim and, as reported in Chapter 2, there has been little change in the number of claimants working while on claim.

The data show a 130,000 (20.5%) drop in the average monthly number of unemployed regular EI beneficiaries from 1995/96 to 1997/98. We traced most of this decline to a drop in the number of individuals who were recently laid-off over the same period – people who are most likely to be eligible for EI benefits. In addition, we noted an increase in the number of unemployed people who are not likely to be eligible for EI because they have voluntarily quit their job without just cause, did not have a previous job, or have been

unemployed for more than 12 months and have probably used up their entitlement to EI Part I benefits. The change in the composition of the unemployed alone explains roughly two-thirds of the decline in the average monthly number of unemployed regular EI beneficiaries over the last two years. The remaining one-third decline is attributable mostly to EI reform, and could stem from either the decline in the average number of weeks of EI benefits received or in the number of people who receive benefits.

To determine to what extent each of these changes contributed to the one-third decline, we looked at what caused the half-week decrease in the number of weeks of benefits used. We found that the average entitlement for EI claims that started in 1997/98 increased by half a week over 1995/96 because of an increase of 15 to 20 hours worked prior to the start of the claim. This strongly suggests that the small decline in the average length of a claim is due solely to labour market changes. That is, EI beneficiaries are on average returning to work faster. Therefore, we concluded that the impact of EI reform on the monthly number of beneficiaries is caused primarily by a decline in the number of people qualifying for EI and not in the number of weeks for which they qualified.

We conclude that roughly two-thirds of the decline in monthly regular EI beneficiaries is due to labour market changes. The remaining one-third, which we attribute to EI reform, is due to the change in the number of individuals who qualified for benefits and not to a change in the average number of weeks of EI to which they were entitled.

### **2. Average Weekly Benefits**

The maximum weekly benefit was \$448 in 1995 and \$465 in the first half of

1996. It was reduced to \$413 in July 1996 and is frozen at that level until 2000. Elements of reform such as the intensity rule, the 26-week earnings averaging period, and the divisor rule were also expected to reduce average weekly benefits. However, average weekly benefits declined by only \$0.50 over the two years, having a negligible effect on total EI benefits.

This does not mean, however, that these elements of EI reform did not have a significant impact on average weekly benefits. Because average weekly earnings for all workers grew by 4.6% from 1995/96 to 1997/98, we believe that the impact of reform on average benefits is being offset by growth in average weekly earnings for EI clients. To fully understand the impact of EI reform, we need data on the change in average weekly earnings of EI beneficiaries – data that are not yet available.

In summary, our analysis indicates that the income benefit savings from EI reform stem from both a reduction in the number of EI beneficiaries and a reduction in the average weekly benefits received. While we cannot measure the impact on average weekly benefits precisely, indications are that EI reform is responsible for, at most, one-third of the decline in the number of EI beneficiaries between 1995/96 and 1997/98. As for the impact of EI reform on total EI benefit payments, including the impact on average weekly benefits, indications are that the impact is a decline of more than 5, but likely less than 10, percentage points of the 16% decline in benefits. We conclude that EI is probably responsible for about half of the decline in total benefits paid and that labour market changes are responsible for the other half of the decline.

## **II. ENHANCED CLAIMANT ASSISTANCE SERVICES**

Additional savings were expected to result from providing improved services to claimants. In particular, the Group Information Sessions (GIS) described in Chapter 5 were expected to reduce income benefits paid by helping EI claimants return to work more quickly, thereby reducing their time on benefits, and by preventing and/or recovering overpayments of benefits.

Nationally, HRDC tracks the GIS savings that result from preventing and/or recovering overpayments of benefits. Savings are realized when, during an interview to review their continuing eligibility for benefits, claimants voluntarily disclose information about earnings or availability for work while on claim that means they have already been overpaid or are no longer eligible to receive benefits. In 1997/98, almost \$3.5 million in savings resulted from these continuing eligibility reviews.

## **III. INVESTIGATION AND CONTROL SAVINGS**

### **1. Increased Penalties for Fraud**

Even though the vast majority of employers and claimants who participate in the EI program are honest, HRDC must take steps to detect and prevent fraud. The 1996 changes introduced more severe fines for both claimants and employers, as well as penalties for employer and employee collusion and increased entrance requirements in cases of claimant fraud. These stricter sanctions reinforce the message that fraud and abuse of the EI program will not be tolerated.

It is very difficult to assess the effects of legislative changes on claimants, mainly because the overall level of fraud is unknown. The average number of claimant penalties, for example, has fallen slightly since the introduction of EI reform. However, this may be less a reflection of claimants' awareness of the increased sanctions and more a result of temporary administrative issues.

For employers, the average penalty has nearly doubled in value to \$5,520 from the average penalty amount of \$2,818 administered prior to EI reform. The most significant factor has been the new provision for fines of up to \$12,000 for issuing or selling false ROEs. Penalties for these offences have been imposed in 73 cases since July 1996, generating over \$1.1 million of the \$3.9 million in employer penalties assessed.

## **2. Increased Entrance Requirements**

Another change that EI reform introduced in January 1997 was increased entrance requirements for claimants who have previously been penalized for an offence. Such claimants who re-apply for benefits without having met the additional entrance requirements create savings in terms of benefits that are not paid out. These cases were beginning to appear in the last quarter of 1997/98, representing savings of \$403,265. At that rate, this new legislative provision could result in additional savings of over one million dollars annually.

## **3. Group Information Sessions**

Investigation & Control (I&C) staff also achieve savings by investigating individuals who fail to report to a Group Information Sessions (GIS). These may be cases in which, for example, claimants are not actually available for

work or have become employed and have not reported their earnings from employment. Savings result from preventing and/or recovering overpayments of benefits. In addition, penalties are imposed where warranted. For 1997/98, the total I&C savings associated with GIS was almost \$37.6 million.

## **4. Total Investigation and Control Savings**

Overall, in 1997/98, HRDC's Investigation and Control (I&C) units across the country identified suspected cases of fraud and abuse that resulted in total savings of over \$574 million. These savings reflect overpayments and administrative penalties, as well as the value of benefits that have been prevented from being paid out as a result of an I&C intervention. Preventative interventions account for 46.6% of total I&C savings, up from 44% in 1996/97. The increase in preventions continues a trend that began in 1993/94.

The \$574 million represents a saving of over ten dollars for every dollar spent on I&C activity. The high returns on investment from I&C activity are not unique to the post-reform period. The returns have been consistently high since the early 1990s. This is why additional resources were allocated for expanded I&C activity in 1992/93 and again, prior to EI reform, in 1995/96.

## **IV. CONCLUSION**

At the time of the reform, savings were expected to result from:

- reduced income benefits;
- enhanced claimant assistance services; and
- reductions in fraud and abuse.

In the two-year period since the implementation of EI reform, income benefits declined by 16%, but it appears that only one-half of this drop was attributable to program changes and the other half to labour market changes.

In 1997/98, HRDC achieved total savings of over \$577 million through identifying suspected cases of fraud and abuse and through Group Information Sessions.

## Chapter 7 - Conclusion

In this second of five annual EI monitoring and assessment reports, we have examined how individuals, communities, and the economy are adjusting to the reforms introduced under the *Employment Insurance Act* beginning in July 1996. We compared data for 1995/96, the last full fiscal year preceding the EI changes, to data for 1997/98, the first full fiscal year following implementation of the reforms. The following summarizes and, to the extent possible, draws conclusions about the overall results observed for:

- how the economy is adjusting;
- income benefits provided under Part I of the new Act;
- employment benefits and support measures delivered under Part II;
- community adjustment;
- program administration; and
- savings achieved.

### I. HOW THE ECONOMY IS ADJUSTING

Although we cannot yet separate the effects of EI from more general labour market trends and fully assess the economy's adjustment, we can make certain observations based on the major macroeconomic indicators. In the 21 months after EI was implemented (i.e., from July 1996 to March 1998), GDP grew at an annual rate of 3.17% compared to 2.07% in the 21 months preceding the reforms. Employment growth also accelerated, from 1.70% a year in the pre-reform period to 1.86% afterwards, as did weekly wages (up from 2.01% a year to 3.16%). During the same period, inflation declined (from

1.64% annually to 1.56%), and unemployment – though relatively high – dropped from 9.56% before reform to 9.30% afterwards.

### II. INCOME BENEFITS

For income benefits, we have looked at changes in benefits paid, the number of new claims established, the length of entitlement, and weekly benefits. In addition, we examined individual elements of EI reform to see whether they are having the intended effect. To the extent possible, we have commented on the changes observed by gender, age, region, and industry.

Over the two-year period, total income benefits paid dropped by 16% from \$12 billion to \$10 billion. The breakdown by type of benefit is as follows:

- regular benefits dropped to \$7.7 billion (-19%)
- employment benefits dropped to \$465 million (-19%);
- fishing benefits decreased to \$215 million (-1.7%); and
- special benefits dropped to \$1.6 billion (-1%).

The number of new claims for all types of benefits dropped by 14% from 2.1 million to 1.8 million. The breakdown by benefit type is as follows:

- regular claims dropped to 1.5 million (-18%)
- fishing claims increased to 26,970 (+ 8%); and
- special benefits claims dropped to 371,450 (-2.5%).



As expected, recipients of special benefits did not experience significant declines in benefit payments or the number of claims established. Self-employed fishers experienced a very small decline in benefit payments, and an increase in the number of claims of established. Most of the overall drop in benefits and claims relates to regular benefits, which account for about 80% of all benefits paid. We attribute these declines to a combination of factors, including increases in employment, the change in the composition of the unemployed (larger proportions of new entrants, re-entrants, and long-term unemployed), and program changes designed to encourage longer periods of work. However, those who do qualify for regular benefits are entitled to, on average, one additional week of benefits, and the average weekly benefits to which they are entitled have remained stable.

Although it is not possible to isolate the impacts of individual elements of EI reform, there are indications that the changes are having the intended effects. For example, we found that:

- the hours-based system and the minimum divisor rule seem to be encouraging people to stay in the labour force longer;
- the Family Supplement provided an average weekly top-up of \$29 to a smaller, but better targeted group of claimants;
- the lower income threshold for benefit repayments (clawback) has led to a significant increase in repayments by higher income claimants;
- the intensity rule lowered the benefit rate for a significant number of claimants; their average weekly benefit

was about \$6 less than what they would have received without the intensity rule;

- about a million low-income earners had their EI premiums refunded; and
- about 135,000 small businesses received EI premium refunds totalling \$220 million under the New Hires program.

In addition, we found that the small weeks adjustment projects increased average weekly benefits by \$19 for claimants in participating EI regions.

Although EI reform was expected to reduce both benefits and claims, it is clear that the declines observed between 1995/96 and 1997/98 are not attributable to program changes alone. While it is impossible to definitively separate the effects of program and labour market changes, improving labour market conditions appear to have been responsible for about half of the declines, with EI reform responsible for the other half.

### **III. EMPLOYMENT BENEFITS AND SUPPORT MEASURES**

For employment benefits and support measures, we have reported on progress made in implementing the LMDAs and looked at changes in the number of interventions, expenditures, client profiles, and the overall effectiveness of the new EBSMs.

Significant progress has been made in concluding and implementing the LMDAs. It appears that more clients are being served at a lower cost per client. Clients across the country are being offered a different mix of programs and services in response to their individual needs and the local labour market conditions.

Many systems start-up issues have been resolved and more improvements are underway. The phasing-out of training purchases has proceeded gradually and at different rates across the provinces and territories. The full implementation of a client-driven system should move more rapidly as pilots mature and new programs are fully implemented. Significant progress is being made in implementing the results-based accountability framework for EBSMs. Calculation and reporting of results have improved and are being validated.

The evaluation of the Transitional Jobs Fund found that the program made a considerable impact in the creation of sustainable jobs in areas of high unemployment, having created almost double the expected number of jobs.

#### **IV. IMPACTS BY GENDER**

Between 1995/96 and 1997/98, total income benefits paid to men declined by almost 18%. For women, the decline was 13.5%. Part of the reason for the lower decline for women may be the new Family Supplement.

Two-thirds of claimants who received the supplement are women. About 15% of all women with EI claims received the supplement compared to 8% of men. Women also benefited from the small weeks adjustment projects; well over half of all claims involving small weeks were made by women.

Because women who apply for maternity benefits usually have a strong labour market attachment, very few claimants for these benefits were expected to have to work longer as a result of the new hours-based system. As expected, in 1997/98 almost 100% of claimants for maternity benefits had over 700 hours of insurable work,

indicating that they were not adversely affected by the change from weeks to hours.

Average weekly benefits for women receiving regular benefits were lower than those for men in both 1995/96 and 1997/98, but average weekly benefits for women increased by 2% over the two-year period while those for men dropped slightly. However, the most significant result observed for women claimants was the 20% drop in claims for regular benefits compared to a 16% drop for men.

We have examined a number of factors that may have contributed to the larger drop for women, including labour market changes and the new hours-based system. We found that labour market factors may have played a role, but they do not appear to be the reason for the difference between men and women in the drop in claims. The average level of unemployment increased by about 1.3% for women, while the level for men decreased by 5.8%, which does not accord with a greater drop in claims for women.

The hours-based system may have been more of a factor in the decline. Many women work less than the average of 35 hours per week. Under the old UI system, those who worked fewer than 15 hours a week did not have their work insured. They did not pay premiums and could never qualify for EI benefits. Those who worked more than 15 hours a week did have their work insured. However, a week of 15 hours had the same value as a week of 35 hours or 50 hours. Each was considered one week of insurable employment.

Under EI, work is measured in hours rather than weeks, and all hours are insured. Women who work part-time for fewer than 15 hours per week and were

not covered under the old UI program could have benefited from the new hours-based system, since their work is now insured. In both 1995/96 and 1997/98, about 9% of employed women worked fewer than 15 hours per week, compared to about 4% of men.

However, in 1995/96, an average of about 26% of women were working between 15 and 34 hours in a week, increasing to 28% in 1997/98. This compares to only 10% for men in both periods. Under EI, these people need to work longer to qualify for benefits, since their work is measured in hours rather than weeks. This could have slowed the flow of claims by women in this group, as the hours-based system means they now have to work longer to qualify for benefits. However, it also means they are increasing their attachment to the labour force, a key goal of EI reform.

Another reason for the decline in claims by unemployed women is probably the increasing proportion (from 20.5% to 29.9%) who are re-entering the labour force to search for work, and whose last job ended more than a year ago.

The larger proportion of occasional claimants among women may also help to explain the larger drop in their total claims for regular benefits. Women who were frequent claimants saw only a 9% drop in claims, but they accounted for only one-third of women claimants. Male frequent claimants saw a 13% drop in claims, but they accounted for almost half of male claimants, contributing to the overall smaller decline in claims by men.

In addition to reporting on changes in income benefits, we also looked at the participation of women (as well as other designated groups) in EBSMs. This practice will continue as part of the

reporting on the LMDAs. However, since clients must self-identify, and because of incomplete data capture in 1997/98, there appears to be under-representation in some regions.

EBSM clients were more likely to be men (59%), reflecting higher labour force participation rates for men. Women's participation rate remained in the range of 42% for both 1995/96 and 1997/98.

The participation rate for women decreased by 1% for Training Purchases and 6% for Project Based Training. For Self-Employment, however, there has been a 9% increase in women's participation. As well, there was a 2% increase in women's participation in Targeted Wage Subsidies.

## **V. IMPACTS BY AGE**

The decline in the number of claims for regular EI benefits also varied significantly by age category. There was a 27% decline for claimants under age 25, compared to 18% overall. Some of this may be explained by differences in the pattern of hours worked, just as for the differences by gender.

However, the group of claimants who could potentially benefit from the hours system (those who work fewer than 15 hours a week and whose work was not insured under UI) appears to be quite large. About 21% of young people were in this category in 1995/96 and the proportion remained almost the same at 20% in 1997/98. This compares to about 4% in both periods for workers aged 25 and over. To balance this, the difference by age in the proportion working 15 to 34 hours per week (those

needing more job tenure to qualify under the hours-based system) is also striking. In both periods, about 31% of employed young people were in this category. For those aged 25 and over, the corresponding proportions were 15% in 1995/96 and 16% in 1997/98.

Although a substantial proportion of young workers would appear to be potential beneficiaries of the hours-based system, since they work fewer than 15 hours per week, this potential may not be realized because they tend not to have significant job tenure. For example, a young person working 14 hours per week would need at least 30 weeks (or about 7 months) of work to qualify. In both periods, about 65% of unemployed young people with some work in the last year had less than 7 months of tenure in their last job, compared to only 37% for those over age 25.

Examining the key labour market changes by age does not reveal a clear reason for the larger decline in claims for young people. Between the two periods, conditions did not improve for them as they did for workers as a whole. While total employment grew by 3.6% and the number of unemployed people declined by 2.7%, youth employment fell by 1.5% and the number of unemployed youth increased by 3.8%.

Although some young people voluntarily left their jobs to go to school, the proportion of unemployed young people in this category remained stable over the two-year period at about 12%. Part of the explanation for the decline in claims may lie in an increase from 17% to 27% in the proportion of the young unemployed who have never worked, and so are not eligible for EI. Among the unemployed over 25 years of age, the proportion who had never worked was very small in both periods, although it grew from 2% to 4%.

## **VI. IMPACTS BY PROVINCE**

Patterns of employment growth differ across the provinces. Over the 1995/96 to 1997/98 fiscal years, the Prairies had the highest employment growth with Alberta leading at 6.7%. Strong employment growth also took place in Ontario at 4.3%, followed by Saskatchewan at 4.1%. The Atlantic region and Quebec experienced low growth (1.6% and 1.7% respectively), with Newfoundland actually showing no growth.

The decline in regular claims across the provinces is, by and large, in line with improvements in employment. Alberta, the province with the highest growth, shows the greatest decline in claims at 30% followed by Ontario at 24% and Saskatchewan and Manitoba at 23% and 20% respectively. The Atlantic provinces and Quebec exhibit the lowest declines ranging from 2% for Prince Edward Island to about 14% for Nova Scotia and Quebec.

Despite the strong employment performance of British Columbia, the decline in new claims was 13%, far below the Canadian average. The seasonal employment pattern in British Columbia may explain the smaller decline. Seasonal workers have benefited from the hours-based system, and this program change has most likely kept the number of claims at a higher level than might otherwise be expected, given the strong employment growth.

## **VII. IMPACTS BY INDUSTRY**

From 1995/96 to 1997/98, the Manufacturing sector had the highest employment growth at 7.1%, followed by the Services sectors at 3.4%, and Construction at 3.2%. On the other hand, employment in Public Administration decreased by 1.6% and in the Primary sector by 1.3 %.

The breakdown of the reduction by industry in total benefits paid is in line with improvements in employment by sector. Benefits to Government Services workers declined by 47%, to employees in Manufacturing by 19%, in Construction by 21%, and in Retail Trade by 22%.

Seasonal work patterns in the Primary sector have partly offset the decline in benefits that would have taken place because of the reduction of employment in that sector. This is because seasonal claimants generally benefited from the change to the hours-based system. The change to hours of work, however, did not benefit all workers in seasonal industries but only those who work in seasonal industries such as the Primary sector, with a very high incidence of full-time work and long working hours. Retail Trade, a seasonal industry with a high incidence of part-time work and low hours of work, experienced a reduction in benefits likely because in Trade services the average weekly hours worked per person are far less than in the Primary sector. In Trade and Commerce, about 50% of the people work more than 40 hours per week and the corresponding figure for the Primary sector, excluding Agriculture, is over 70%. The large decline in benefits to Government Services workers is consistent with more stable employment in this sector following a period of structural reform.

The hours-based system has most likely increased eligibility and entitlement duration of workers in the Primary sector and at the same time decreased eligibility of workers in Retail Trade.

### **VIII. COMMUNITY ADJUSTMENT**

We have looked at how communities are adjusting by providing qualitative and some quantitative analysis of what is occurring in fourteen selected

communities across Canada. This year, we placed more emphasis on integrating qualitative and quantitative results to provide multiple lines of evidence and to cross-validate results. We found that knowledge and understanding of EI had continued to increase, particularly among seasonal workers and employers. Also, there was continued support for the change to an hours-based system, and for employment services and other support measures. We also found additional evidence of behavioural changes (e.g., evidence that workers were working longer, a reduction in misuse and abuse, increased use of new technologies to access EI and job information).

At the same time we identified a number of reasons why more behavioural changes were not occurring. For example, many workers still lacked a solid understanding of the complex features of EI Part I, and this situation was impeding their ability to make positive behavioural changes. Also, workers were often not aware of the government and non-government resources available in their community to help them get back to work. Employers reported that other factors (e.g., payroll deductions and administrative considerations other than EI) deterred them from changing employment patterns.

### **IX. PROGRAM ADMINISTRATION**

We do not yet have sufficient data to fully assess the impact of the new financing structure, premium refunds to those earning \$2,000 or less per year, and the New Hires program. However, there is evidence that employers are finding the program easier to administer and that the GIS program can provide a positive relationship with community partners and promote effective client service.

The change to an hours-based system has lightened the workload connected with managing payroll registers for employers. Eliminating the weekly minimums and maximums simplified payroll processing and the switch to per-pay-period information rather than per-week information has reduced the need for additional information from employers related to investigations of fraud. The ROE form itself was simplified so that it now requires only a four-page guide instead of the previous 35-page guide. Employers now have only to provide cumulative insurable hours and earnings information, which eases their paper burden. Feedback from employers showed that they were generally pleased with the changes, although those with part-time employees reported some dissatisfaction because they now have to complete ROEs for employees who were not covered under UI. Employers asked that consultation be continued and even increased for future reforms, given the success achieved thus far.

Group Information Sessions (GIS) are designed to assist individuals to return to work more quickly, reduce workers' and claimants' dependency on EI, and to protect the integrity of the EI program. The sessions provide claimants with key information about their EI claim, the job search process, employment services, and their rights and responsibilities concerning EI. A study of the GIS in three HRDC local offices found that the program can provide a positive relationship with community partners and promote effective client service. Among the key observations were:

- Staff and participants were satisfied with GIS.
- All three offices realized their objectives and achieved net savings since implementation.

- The GIS is a good way to provide clients with information on EI and the labour market.
- The GIS demonstrated to clients that support is readily available and brought them in direct contact with HRCC staff.

## **X. SAVINGS**

At the time of the reform, savings were expected to result from :

- reduced income benefits;
- enhanced claimant services; and
- reductions in fraud and abuse.

In the two-year period since the implementation of EI reform, income benefits declined by 16%, or \$2 billion. This decline is, however, the result of both EI reform and changes in the labour market over the two years. To isolate the effect of EI reform, we examined the decline by looking at the change in the number of beneficiaries and weeks of benefits received, as well as the change in the average weekly benefit paid.

We estimated that about two-thirds of the decline in beneficiaries is due to labour market changes; the other third is due, in part, to program changes that reduced the number of individuals who qualified for EI and not due to a change in the average number of weeks of entitlement. The impact of the elements of EI reform that were expected to reduce average weekly benefits (e.g., the intensity and the divisor rules) appears to have been offset by growth in average weekly earnings for EI clients. In summary, this analysis indicates that EI reform accounts for about one-half of the decline in benefits between 1995/96 and 1997/98, the rest being the result of changes in the labour market.

In addition to the drop in total income benefits paid in 1997/98, savings of over \$577 million resulted from the detection of cases of fraud and abuse and enhanced claimant services that helped claimants get back to work more quickly.

## **XI. SUMMING UP**

The implementation of EI reform has taken place in a period of positive labour market change with increasing employment, lower unemployment, and changes in the composition of the unemployed. These changing conditions are reflected in EI program activity, with lower total claims and benefits. About half of the decline in

benefits between 1995/96 and 1997/98 is due to these labour market changes.

Elements of reform have also been at play, accounting for the other half of the decline in benefits. The program now requires greater labour force attachment, which has likely slowed the flow of claims. EI reform has also affected benefits through the reduced maximum insurable earnings, the intensity rule, and the clawback. At the same time, it provided a better targeted and enhanced Family Supplement.

All in all, most results from reform were anticipated, though some require more data to understand fully. We will continue to monitor and assess the impacts of EI reform.