Summative Evaluation of EI Part I: A Summary of Evaluation Knowledge to Date

Final Report

EI Evaluation
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Executive Summary

The summative evaluation of Employment Insurance (EI) Part I provides a summary of what is known about the impacts and effects of the EI system as well as the extent to which EI has attained its goals. It draws from roughly 50 studies conducted over the 1992-2002 period and close to 30 new studies. Also, it constitutes the first major assessment of the system as a whole since the early 1990s.

The program was found to be reasonably well delivered, with 78% of the clients either satisfied or very satisfied with the service. Various measures and an international comparison showed that the program seems to have attained its primary objective of providing temporary income support to those experiencing labour market transitions. Analysis from two separate sources showed that roughly 80% of the unemployed have worked enough hours to be eligible for EI. The analysis of various subgroups of workers did not show any to be poorly served by the EI system. Canada was found to offer less support than other countries during the initial weeks of unemployment, however, as Canada was the only country studied to have a two-week waiting period, and only 40% of the unemployed received benefits in the first 5 weeks after job loss.

The EI system was found to have far ranging impacts. Substantial amounts of money are redistributed among various groups, such as income groups, regions and industries, as contributions do not match benefits paid. In 2002, $4.9 billion was transferred from the top half of the income distribution to the bottom half.

Although it is possible that the system may be inadvertently providing a disincentive to work effort or job search, the evidence suggested that this effect is quite modest in size. In addition, the EI reform of 1996 was found to have reduced the disincentive effects of certain aspects of the program.

The characteristics of EI usage vary substantially by community. For example, the repeat use of EI among the recently unemployed ranges from 5.7% in downtown Toronto to 51% in Clarenville, Newfoundland. The variable entrance requirements were found to ensure that roughly the same share of newly unemployed qualifies for benefits across the country. The special arrangements made for the fishing industry were found to have inhibited the industry's ability to adjust to declining fish stocks, however. Relative to the average for all industries, fishers receive 10 times more in benefits for every dollar that they contribute to the EI system.

Given its size, the EI program also has an impact on the economy as a whole. For example, business cycles are likely moderated to some extent as the increased spending on EI during downturns softens the impact of the reduction in economic activity. In addition, the EI system plays a major part in the social safety net and currently is substantially larger than the social assistance system.

1. Introduction

This report summarizes the evaluative research conducted during the last ten years to examine Part I of Canada's Employment Insurance (EI) system. The summary provides a concise synopsis of what is known and not known in an area that is crucial to the larger public policy debates.

1.1 Part of a Ten Year Cycle

As part of Treasury Board policy, there is a commitment to evaluate all government programs on a cyclical basis. In the case of Canada's unemployment/employment insurance system, the last comprehensive evaluation was conducted in the early 1990s as part of an evaluation of Bill C-113. Accordingly, the time has arrived to reassess the system. The departmental commitment to deliver on this evaluation report was made in the recent departmental reports to parliament and documented in a recent report by the Auditor General (PWGSC 2003).

This summative evaluation is the first comprehensive assessment of the EI reforms of 1996, which were introduced by the *EI Act*. The work has been organized around the set of evaluation questions listed in Annex I. These questions were the product of a consultation process conducted during 2003. Over the past two years, a significant amount of evaluative research activity has been directed to answering these questions, either by drawing together evidence from existing studies or by undertaking new studies specifically for the summative evaluation.

1.2 Organization of the Report

This summary report provides a framework from which the evaluative results can be discussed. Over the longer-term, this document is intended to support policy makers and to fulfill accountability purposes. For more detailed analyses, the reader is referred to the specific studies cited in this document.

The structure of this report follows traditional Treasury Board requirements. It starts with a brief description of the program and a discussion of program delivery. The next section deals with the coverage of the EI system and includes an assessment of the extent to which the program attains its primary objective. The last five sections discuss the impacts and effects of the program under each of the following major themes:

- impacts on incentives and job search behaviour;
- impacts on the earnings distribution;
- impacts at the community level;
- EI fishing benefits; and
- impacts on the labour market as a whole.

2. Program Activity

The Employment Insurance (EI) system is vast and complex. The summary presented below begins with a review of the rationale for the program and then describes the program from various perspectives. This is followed by a review of some aspects of program delivery. The basic rules and provisions of the EI system are described in more detail in Annex II. The description of the program presented in this section is kept fairly short because the department already produces much useful and similar material on EI.

2.1 Program Rationale

An evaluation of a smaller program would typically analyze the merits of the rationale of the program. Given the stature of EI, however, a regular evaluation of the merits of its rationale is not appropriate. Still, there is merit in examining the rationale of public unemployment/employment insurance systems on a more theoretical level because fairly simple textbook explanations for the existence of such systems go a long way towards helping to understand the EI program.

Generally, a strong reason for the provision of a service by the government sector stems from the unlikelihood that the private sector would provide the service. There are several reasons to believe that the private sector, by itself, would not provide unemployment insurance. A thorough discussion of these textbook reasons is provided by Schmid, Reissert and Bruche (1992, pp. 59-69). Schmid et al. argue that the most important reason why unemployment insurance is not provided by private markets is that "unemployment can cause chain reactions and can be self-reinforcing." In other words, when one person becomes unemployed, there is an increased risk of others becoming unemployed in a general recession. This ***possibility of mass claims*** makes private insurance all but impossible.

A second reason is that, for a private insurance system to function, it must be possible to assign an individual a probability of becoming unemployed so that the corresponding insurance premiums can be calculated. In the case of unemployment, however, all individuals will have a different probability that is nearly impossible for a provider of the insurance to determine. This means that a private insurance system would have to assign some form of average probability/premium to broad classes of individuals. Those individuals who are certain that they have been grouped with individuals who have a higher probability of becoming unemployed will find themselves paying premiums that are too high. They will then drop out of the system, and the remaining individuals will push up the average costs so that the system becomes unprofitable. This difficulty is referred to in the economics literature as ***adverse selection***.

Another reason why private markets are unlikely to provide unemployment insurance relates to what is called ***moral hazard***. This refers to cases where unemployment insurance has caused some individuals to change their behaviour in the labour market so that they spend more time unemployed than they would have otherwise. This type of

response will increase the costs of providing insurance and discourage its private supply. However, it is not clear that a government-run system would be any less affected by moral hazard.

A fourth issue that can undermine a private insurance scheme is referred to in the economics literature as ***state verification***. This involves identifying whether claimants are truly unemployed or whether they are working and not reporting the work (i.e. fraudulent claims). Governments may be uniquely placed to monitor the labour market behaviour of claimants.

These textbook explanations provide a rationale for an insurance system far simpler than the system in place. At the same time, however, the fact that almost all large-scale employment insurance systems in the world are publicly managed gives credence to these arguments.

2.2 Objective of the Program

As described in the Unemployment Insurance (UI) White Paper of 1970 (CUIC 1970), the traditional objective of UI income benefits was to "provide insurance to cope with the contingency of loss of earnings resulting from unemployment." In addition, the program provided insurance against the temporary loss of earnings due to sickness or maternity. The program was seen primarily as an insurance program in that it was designed for someone who had an attachment to the labour force and had paid contributions.

Goals outside those of a traditional insurance system were also recognized by the White Paper. In particular, the White Paper recognized that income redistribution would take place under the UI system:

> *"Universality of coverage, which will add 1,160,000 members to the plan, in some respects calls upon the good will and responsibility of more fortunate, better-placed Canadians toward those who through lack of education and opportunity are in less secure occupations."*

The purpose of the program has not changed significantly since the 1970s, although the EI reforms of 1996 significantly changed the way in which the program operated. The overall goal of EI, as defined in the 2005/06 Report on Plans and Priorities (HRSDC 2005 J), is to provide "efficient and inclusive labour market transitions through temporary income support and active employment measures." As noted in the 2004 Monitoring and Assessment Report (MAR) (CEIC 2005), a key objective of EI Part I[1] is to provide temporary income support to insured Canadians who involuntarily lose their jobs. The MAR notes that the program has also evolved to cover other employment risks such as those associated with childbirth and adoption, parenting, and injury or illness.

[1] Part I of the *EI Act* describes the passive income support component of the EI system, which is the focus of this evaluation. Part II of the Act describes the active measures of the EI system, such as Employment Benefits and Support Measures (EBSMs).

2.3 Description of the Program

The EI program can be described from many perspectives. The range starts with the more abstract, as represented by the logic model, and moves to the more empirical, as described by various measures of program activity.

2.3.1 Logic Model

A logic model, as depicted in Figure 2.1, is the means of describing a program theoretically from a program evaluation perspective. The flow of the logic starts from the top of the figure and flows downward.

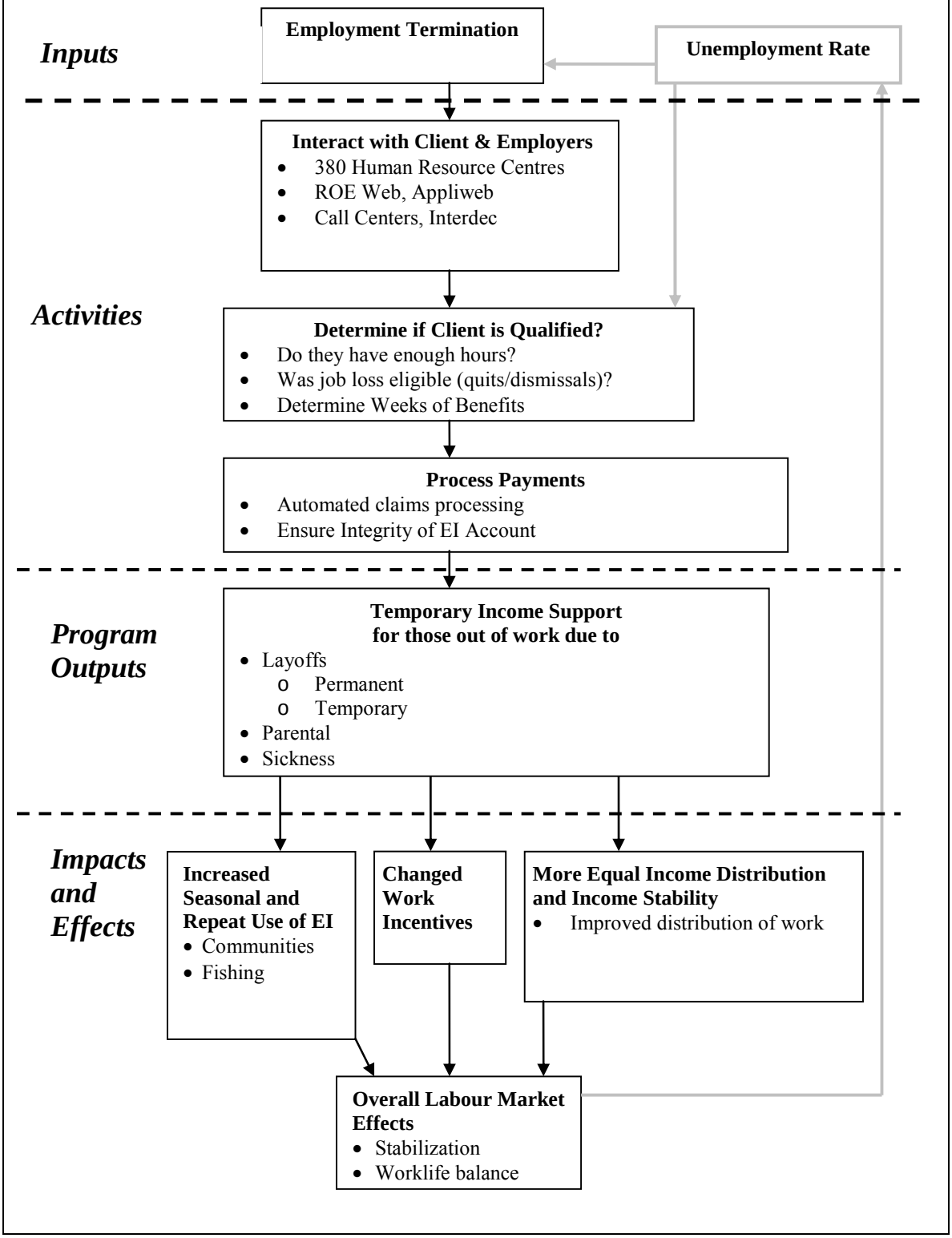
In the case of EI Part I, the operations of the program are depicted as being set in motion by the flow of employment terminations in the economy. The flow of terminations leads to the program activities represented by the three boxes shown in the activities section of Figure 2.1. At the first stage, the program staff interacts with the clients who want to obtain EI benefits. This interaction is to acquire the various pieces of essential data, such as the Record of Employment (ROE) or other evidence of having had insurable employment. The second stage involves determining if those who have experienced an employment termination are eligible to receive EI benefits. This stage also includes determining the benefit duration and benefit rate. At the third stage, the claims themselves have to be processed. Each box in the activities section shows some examples of the activities being described.

The activities section of Figure 2.1 is followed by the box for primary program output, which was described in Section 2.2. The extent to which the primary program output is achieved is the subject of Section 3 of this report, which examines the achievement of program objectives for EI.

The final boxes of the logic model show many of the possible effects of the program on the labour market. Each of these boxes is examined as part of Sections 4 to 8, which discuss the impacts and effects of the program.

In addition, Figure 2.1 shows that the regional unemployment rate plays a key role in the operations of the EI program. Fluctuations in the unemployment rate will have a strong impact on the flow of employment terminations into the program. The unemployment rate will also have an impact on the extent to which clients qualify, as a higher unemployment rate leads to reduced requirements for entry into the system. At the same time, however, some of the impacts of the program may affect the unemployment rate itself, and this type of feedback is represented by the long grey line that runs up the right-hand side of the logic model.

Figure 2.1
Logic Model – EI Part 1



2.3.2 Activity Levels Described in the Monitoring and Assessment Report (MAR)

In the case of smaller programs, the program evaluation often represents the only source of information describing the program. In the case of EI, however, the EI Commission produces an annual report to Parliament describing the EI program. The EI MAR, which was introduced in 1997, has come to serve a dual purpose of informing Parliament and providing a public document of detailed statistics describing the program. Accordingly, the following description of the EI program only provides a brief summary of the program, as much of this information is already available in the MAR.

In 2003/04, as reported in the 2004 MAR (CEIC 2005), there were roughly 1.97 million new EI claims and a total of $13.2 billion paid in benefits. During that year there were 1.49 million new claims for regular benefits, 514,000 new claims for special benefits, 37,000 new claims for fishing benefits and 31,000 new Work Sharing claims.[2]

2.3.3 Program Costs and Expenditure

Another important perspective of the description of a program is its costs. Table 2.1, taken from HRSDC (2004E), shows total costs under EI (including benefits and administration costs) as a percentage of the total revenue in a given year. Total revenue is shown to be fairly stable over the ten-year study period as the premium rate per hundred dollars of earnings trended downward (from $3.07 for employees and $4.30 for employers in 1994 to $2.10 for employees and $2.94 for employers in 2003[3]), the maximum insurable earnings remained fairly stable (at $40,560 in 1994 and then constant at $39,000 since 1996), and the total base of wages increased substantially (as the labour force and wages grew).

[2] The total number of claims is less than the sum of the various types of claims, because an individual claim can consist of more than one type of benefit.

[3] The premium rate has continued to decrease in subsequent years and has been set at $1.87 for employees and $2.62 for employers for 2006.

Table 2.1
Percentage of Total UI/EI Revenue[1] Returned as Benefits, Administration Costs, Other Costs and Surplus

Fiscal Year	EI Part I[2]	EI Part II[3]	Total Administration Costs[4]	Other Costs[5]	Total Costs	Actual Total Revenue ($ Millions)
1993/94	84.3	9.7	7.0	2.4	103.4	18,750
1994/95	66.8	9.5	6.6	2.1	85.0	19,430
1995/96	61.4	9.7	7.1	1.0	79.3	18,940
1996/97	53.3	7.5	6.8	0.3	67.8	20,369
1997/98	52.1	8.2	6.8	0.5	67.6	19,553
1998/99	48.3	9.2	6.6	0.2	64.4	20,571
1999/00	46.6	9.9	7.0	0.3	63.8	19,967
2000/01	44.8	8.7	6.6	0.1	60.3	21,222
2001/02	60.6	10.9	7.7	0.4	79.6	19,152
2002/03	63.6	11.2	7.8	0.4	83.1	19,369
Average	58.2	9.5	7.0	0.8	75.4	19,732

Source: Status of the Employment Insurance Account, Financial Research, March 25, 2004

Note:

1. *Total Revenue includes Premium Revenue, Penalties and Net Interest Earned.*
2. *EI Part I consists of expenditures associated with the following benefit types: Regular, Sickness, Maternity, Parental, Fishing and Work Sharing. EI Part I expenditures include Benefit Repayments.*
3. *Prior to the 1996 EI reform, EI Part II did not formally exist. For the purposes of this table, existing expenditures for activities such as Job Creation, Skill Development and Self-Employment have been included in the years prior to EI reform for continuity over time.*
4. *Total administration costs include federal administration costs, provincial transfers for administration purposes and recoveries.*
5. *Other Costs include net interest costs and other debts. As of 1996/97, the EI Account did not pay interest costs (at this point in time, the account earned interest revenue).*

Table 2.1 also shows that the benefits numbers are generally more volatile. In addition, total benefits and costs usually added up to less than one hundred, indicating that the system has generally been in budget surplus throughout the study period. When all the benefits and costs are summed up, including the costs of EI Part II and the costs of administering the system, total benefits and costs range from 60.3% (in 2000/01) to 103.4% (in 1993/94) of total premiums collected.

It is interesting to note that administration costs were fairly stable over the ten-year study period, ranging from $1.3 to $1.5 billion, or 6.6 to 7.8% of premium revenue. These costs are roughly comparable with the U.S. system, although precise comparisons are difficult to make because of differences in the way the programs are financed.

In many discussions concerning the EI program, there is an interest in the incremental costs or savings arising from various program changes. For example, one might like to know the cost to the system of making a specific change to the program. Initial program proposals are based on representative samples of those affected by the program change. Typically, it is assumed that individuals will not alter their behaviour as a result of the change (i.e. a static approach).

In a study done by Informetrica (2005) as part of this summative evaluation, the changes in program costs due to major pieces of legislation were examined. From a macro-economic perspective, the changes in total program costs were statistically decomposed by the study into changes in costs due to changes in the economic environment, the structure of the labour market (i.e. the demographic composition) and newly introduced pieces of legislation.

The Informetrica study (2005) found that EI reform, under Bill C-12, led to a reduction in expenditures of $1.4 billion per year, which was close to the number initially estimated for EI reform. An interesting aspect of the study is that it also looked at the lesser known Bills and found that the combined savings of Bill C-113 (1993) and Bill C-17 (1994) were over $5.5 billion per year in the 1993/94 period. Given the changes implemented by these two Bills, it is not surprising that they were found to decrease expenditures. Bill C-113 excluded those who voluntarily quit their jobs and those dismissed for just cause from collecting benefits, and Bill C-17 significantly reduced the length of entitlement to EI benefits. By contrast, Bill C-32, which increased the generosity of the maternity and parental benefits in 2001, increased the costs of the EI system by $1.1 billion.

2.4 Program Delivery

For the most part, program evaluation activity has focussed on the outcomes of the EI program for clients. The actual delivery of the program has not been studied in detail. Still, there are some basic findings that contribute to an overall understanding of the program.

In general, the Government of Canada does well in comparison to other countries in terms of delivering programs and making use of technology. For example, a recent study by Accenture (2005) ranked Canada first internationally in terms of its government online programs.

2.4.1 Client Satisfaction Survey

There is reason to believe that clients were happy overall with the quality of the services that they were receiving from the EI program. In a client satisfaction survey, 78% of surveyed EI clients reported being satisfied or very satisfied with the overall quality of service they received. The same study, conducted by Goss Gilroy (2004) found that clients' overall average satisfaction was rated at 4.2 out of 5. Office visits were rated slightly higher at 4.4, whereas the appeal process was rated lower at 3.3. Generally, younger clients had slightly lower satisfaction ratings than older clients.

Certain areas of program delivery could be improved, however. For example, the Auditor General noted (PWGSC 2003) that 65% of all calls to the call centres are greeted by a busy signal. In addition, there are certain areas of the country where HRSDC was found to be "chronically below performance targets" (PWGSC 2003).

2.4.2 Processing of Administrative Data

As indicated by the first box of the logic model in Figure 2.1, the key input into the operations of EI Part I is employment terminations. For each termination of employment, the employer is required to complete the ROE form, which is sent to HRSDC. This form contains all the information necessary to assess the eligibility of an individual claim for insurance benefits.

Not much is known about the degree to which ROE's correctly represent the number of employment terminations. An audit (Kapsalis 1985) was done in 1984 and identified a number of problems. Given the amount of time that has elapsed and the changes in technology that have occurred since 1984, however, the audit's findings are of limited relevance now. Still, it is worth noting that the 1984 audit found that a significant number of employers were not completing their ROE's and that 36.4% of ROE's contained errors. The importance of setting these findings in their proper context is also worth noting because many of the non-completed ROE's are for job terminations that would not lead to the payment of insurance benefits, such as students returning to school, and thus the incentive to ensure the accuracy of the ROE form in these cases is small. As well, many of the errors concerned pieces of information not necessarily crucial to the operation of the EI system, such as the industry of the last job.

A more recent report (HRSDC 2004C) showed that the reason for job loss on the ROE form corresponds with the employee's own assessment of the reason for job loss in roughly three quarters of cases. Agreement was highest for those leaving work due to maternity or parental reasons and lowest in the case of dismissals and returning to school.

Prior to EI reform, the ROE form became more complex over time as more features were added. As part of EI reform, however, the ROE was simplified except for the requirement that employers record the hours of work as well as the weeks of work of employees. As a result, there was no appreciable increase in the time required to submit the form after EI reform despite the need to record hours of work.

Errors in the ROE form by themselves have no effect on the users of the EI system, although they remain an important issue. However, the speed at which the forms are completed can affect the delivery date of the first benefit cheque. In 2003/04, the delivery date of the first cheque was within 28 days of the start of the claim 65.8% of the time. A report by the Auditor General (PWGSC 2003) found that the speed of service was significantly slower in some geographic regions.

2.4.3 Investigation and Control Activity

As described in Section 2.1, the difficulty in determining unemployment status (i.e. state verification) is one of the prime justifications for the government to provide unemployment insurance. The government is uniquely placed to use control techniques to monitor labour market behaviour during periods of unemployment. This behaviour can take various forms including the claimant not reporting earnings, or reporting that they are available for work when they are not.

The investigation and control function employs about 1,300 people in the department, thus representing a major effort. Investigation and Control (I&C) activity includes information sessions with claimants to make sure that they understand all of the EI rules. Evaluative analysis (HRDC 2003 A) demonstrated that I&C activity has significantly reduced EI expenditures, and that the savings of the function exceed the costs by a factor of 6 to 10. It was estimated that 18.9% of the claims had some form of irregularity, of which roughly three quarters were unintentional by the claimants. The analysis was not able to provide a quantitative estimate of what the percentage of irregularities would have been in the absence of any I&C activity.

3. Achievement of Program Objectives

As described in Section 2.2, the primary objective of Employment Insurance (EI) is to provide temporary income support. Two important measures of the extent to which the program meets this objective are the coverage and eligibility of the program. Coverage refers to the number of people who pay premiums into the program and thus can potentially collect benefits. Eligibility refers to those who meet all of the criteria for collecting benefits including having an eligible reason for job loss and meeting the hours requirement. Section 3.1 provides an overview of the eligibility rules of the EI system. Section 3.2 examines coverage from the perspective of the overall labour market. Section 3.3 focuses on the perspective of various groups of interest.

3.1 Summary of Eligibility Rules

To achieve a balance between providing temporary income support and not providing large disincentives to work, benefits are only paid to eligible unemployed individuals and for periods of time up to the maximum duration of benefits. The design and implementation of the rules that determine who is eligible are highly complex. A brief summary of what is necessary to understand issues of eligibility is provided below. A more complete set of rules is presented in Annex II.

In order to collect EI benefits, an unemployed individual must first show that their employment has been covered; that is, that they paid premiums into the EI system. Secondly, the worker must also have lost their job for eligible reasons. Since 1993, workers who voluntarily quit their job and workers who were dismissed for cause are generally ineligible for EI benefits, although some exceptions apply. In addition, assuming the worker's job was covered and was lost for an eligible reason, the worker needs to have met the hours requirement in order to be eligible for benefits. After it is shown that a worker is eligible for EI, the number of weeks of entitlement and the benefit amount are determined.

3.1.1 Hours-Based System Recognizes the Variety of Work Patterns

Prior to EI reform, an employee had to work a given number of weeks in the 52-week qualifying period to be eligible for benefits. The number of weeks varied from 12 to 20 weeks according to the unemployment rate in the economic region and was referred to as the variable entrance requirement (VER). Since EI reform, the system has been based on hours of work. The switch to hours recognized the variety of work patterns of Canadian workers and the changing nature of work. Under EI, multiple job holders and part-time workers have all of their hours insured. As well, workers with longer hours of work have their entire work effort recognized, since a longer workweek adds more hours of insurable employment than a short workweek. Unlike UI, which did not count weeks of less than 15 hours of work, the EI system counts all hours of work starting with the first hour.

Under the VER, in regions with an unemployment rate of 6.0% or lower, a worker has to work 700 hours to become eligible for EI. At the other end of the scale, in regions with unemployment rates of 13.1% or greater, a worker needs only 420 hours of work to become eligible. The VER is designed to reflect the different labour market opportunities in the various regions of the country. The requirements are higher if the worker is a new entrant or a re-entrant (NERE) to the labour market. With the passage of Bill C-12, the NERE entrance requirement was raised from 20 weeks (or the equivalent of 700 hours) to 910 hours of insurable work for all economic regions.

A great deal of evaluation effort was put into determining the impacts of the switch from a system based on weeks to a system based on hours. The impacts on eligibility are examined in Section 3.3

3.1.2 The VER is Unique

In all countries with unemployment/employment insurance systems, a worker must have worked more than a minimum amount of time in order to collect insurance benefits, although there is a high degree of variation among countries in the required work attachment (see Van Audenrode et al. 2005 for details).

Canada appears to be unique, however, in using a variable entrance requirement to reduce the entrance requirement in areas with higher unemployment rates. Although some other countries do have differing entrance requirements, the differences are for other reasons. In Belgium, for example, the entrance requirement depends on the age of the worker. In the Netherlands, seasonal workers have different entrance requirements from non-seasonal workers.

3.1.3 Special Rules for Self-Employed Fishers

The EI system also has a separate set of rules for self-employed fishers. Fishers qualify based on the amount of insured earnings that they earn during the fishing season. They then receive a set 26 weeks of entitlement to EI benefits. Since many fishers fish during both the summer and winter fishing seasons, some fishers have two claims in a given year. The use of EI fishing benefits is examined in Section 7 of this report.

Canada is not the only country to have special rules for certain industries. For example, in some countries the construction industry faces a different set of rules. Norway also insures self-employed fishers, but not other self-employed workers (Grady and Kapsalis 2002). France has a special program for workers in the entertainment industry.

3.2 Measures of Coverage for the Labour Market as a Whole

There is no single best way to measure the extent to which the EI system attains its primary goal of providing temporary income support to those who have lost a job through no fault of their own. In the public debate, several measures of coverage have become current and have their own strengths and weaknesses. This section starts with three simple measures and then considers some measures that are more complex. As a general principle, the simpler measures require more context to understand, whereas the more complex measures require more knowledge of the data. In general, these results show that the EI program is successful in covering and providing access to a significant portion of the labour force.

3.2.1 Benefits Relative to GDP

One possible measure of the degree of coverage offered by the Canadian system is to simply look at the payments of EI benefits relative to the Gross Domestic Product (GDP). This measure indicates that Canada expended roughly 0.8%[4] of GDP on regular EI benefits in 2001, when the unemployment rate was 7.2%. Compared to other countries, Canada appears to be roughly in the lower-middle of the range that has the U.S at the lower end at 0.3% (unemployment rate 4.8% in 2001) and Denmark at the higher end at 3.0% (unemployment rate 4.4% in 2001). Small differences in this measure between countries may be due to definitional problems or due to differences in unemployment rates. The differences in orders of magnitude, however, are due to qualitatively different systems.

3.2.2 Coverage of the Workforce

The coverage of the workforce can also be measured in terms of the percentage of workers who pay into the system. Using tax data from Statistics Canada, Table 3.1 shows that the percentage of taxfilers who pay EI premiums during the year has not changed significantly over the past decade.

[4] This is based on an OECD study. It includes only expenditures related to unemployment (i.e. Part I regular benefits). For more detailed analysis see Van Audenrode et al. (2005).

Table 3.1 EI Coverage of Canadian Labour Force					
	Number of Taxfilers	Size of labour force	Number of taxfilers paying premiums	Percentage of taxfilers	Percentage of labour force
1992	19,290,225	14,328,600	11,834,225	61.3%	82.6%
1993	19,889,475	14,429,500	11,825,075	59.5%	82.0%
1994	20,210,800	14,562,600	11,861,075	58.7%	81.4%
1995	20,593,575	14,673,100	11,954,950	58.1%	81.5%
1996	20,834,225	14,834,500	11,947,100	57.3%	80.5%
1997	21,184,575	15,058,500	12,385,925	58.5%	82.3%
1998	21,508,275	15,296,800	12,606,900	58.6%	82.4%
1999	21,954,550	15,575,000	12,972,450	59.1%	83.3%
2000	22,308,325	15,842,100	13,366,525	59.9%	84.4%
2001	22,861,025	16,110,800	13,819,725	60.5%	85.8%
2002	23,023,725	16,580,100	13,818,600	60.0%	83.3%
Source: Longitudinal Administrative Database (LAD) and Labour Force Survey (LFS)					

The percentage of contributors can also be examined by level of earnings. Under EI reform, the number of contributors in the bottom decile of the earnings distribution went up by 10 percentage points (Finnie and Irvine 2005 A). This is not surprising given that employment of less than 15 hours per week is now covered under EI. However, the premium refund for those earning less than $2,000 a year reduced the number of contributors by over 600,000 people (as discussed in Section 5.2).

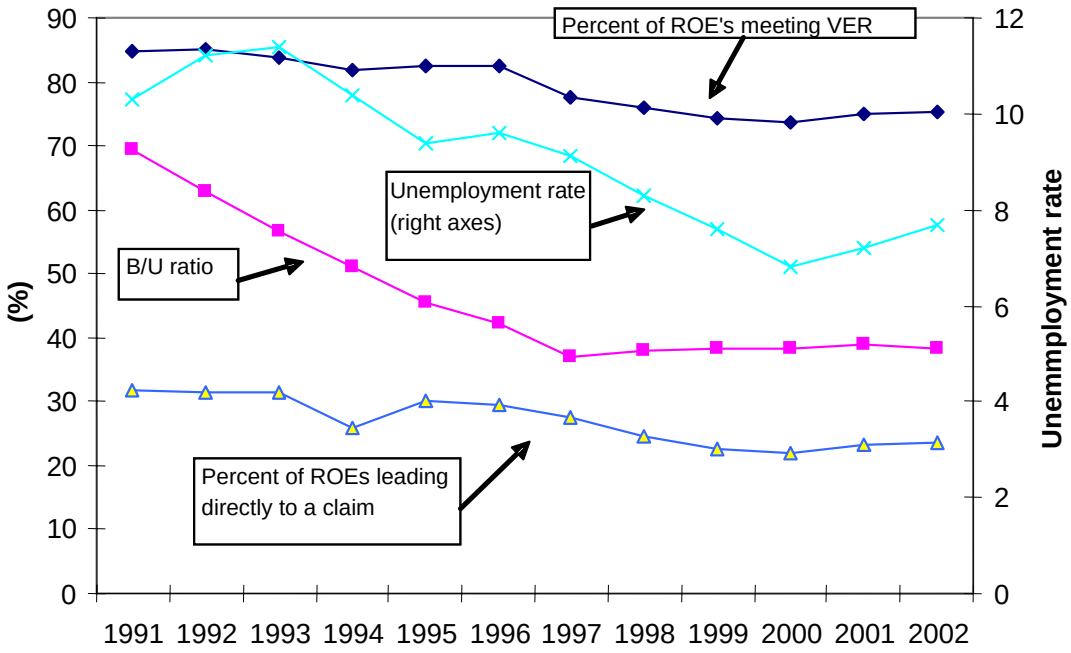
3.2.3 Beneficiaries Relative to the Number of Unemployed

The ratio of the beneficiaries to the average number of unemployed (B/U ratio) has probably enjoyed the greatest currency in public discussion because it is easy to calculate and has the appearance of being easy to understand. It is actually quite difficult to interpret, however. A naïve interpretation of the B/U ratio would assume that a value of 100 indicates complete coverage for the unemployed. However, the B/U ratio can in fact exceed 100, which undermines its obvious intuitive interpretation. In addition, certain differences between the numerator and denominator of the ratio are sufficient to suggest that this ratio should only be used with caution.[5] The reasons for the differences originate from the fact that the beneficiaries include many people who would not count as unemployed, such as those working while on claim. Similarly, there are those who are unemployed who could not possibly be eligible for benefits, such as those who have no recent work experience or who were self-employed. This means that a single value of the B/U ratio is difficult to interpret by itself.

[5] For more background, see the following studies: Gray and Sweetman (2004), Jones (2004), and Shillington (2004).

Figure 3.1 shows the B/U ratio over time, however, and shows that substantial movements in this ratio tend to correspond to changes in the EI system. Kapsalis and Leonard (2004 A) provide some analysis of the B/U ratio over the past decade. For comparison purposes, Figure 3.1 also shows two alternative measures: the percentage of ROE's that meet the variable entrance requirements, and the percentage of ROE's that lead directly to an EI claim. The second measure is much lower than the first because many workers who receive ROE's move on to new employment without needing EI.

Figure 3.1
Comparison of Coverage Measures



3.2.4 Simulations of Coverage and Eligibility

The three indicators of coverage discussed so far have the virtue of ease of calculation because they can be calculated from publicly available data. By comparison, other indicators involve more sophisticated methodologies.

For several years, one of the most commonly used indicators of EI coverage has been based on estimates of the percentage of the working population who would receive EI if they had been laid off. This estimate is typically around 88% and varies little from one year to the next.[6]

[6] See page 58 of the 2004 MAR (CEIC 2005).

3.2.5 Hybrid B/U Measures

Arising from the dissatisfaction with the standard B/U ratio, a serious effort was made to capture the essence of the B/U measure without the technical difficulties. A lot of the problems with the B/U ratio arise from the numerator and denominator coming from different sources, with the number of beneficiaries being based on administrative data and the number of unemployed being based on a survey. Another approach is to use data from the Employment Insurance Coverage Survey (EICS), which is conducted by Statistics Canada as a supplementary survey to the Labour Force Survey. The EICS can be used to draw the numerator and the denominator of the B/U ratio from the same source.

A wide range of indicators are possible with the EICS. For example, the survey data indicate that 83.7% of the unemployed (with a job separation that qualifies under EI) were found to have enough hours to be eligible for EI in 2003. The survey data also indicate that 58.4% of the qualified unemployed received EI at the time of the survey.[7]

Using data from the EICS for the denominator, it is possible to develop an alternate measure of the B/U ratio in which the denominator only consists of the unemployed who were paid employees in the last 12 months. This refinement is highly significant and causes this indicator to be almost 18 percentage points higher than the version of the B/U ratio discussed in Section 3.2.3.[8]

3.2.6 Receipt of EI

Additional insights into the question of access can be obtained from a perspective that concentrates primarily on administrative data. The ROE records all job terminations, whether the termination leads to unemployment and an EI claim or not. Using ROE data to derive the denominator, it is possible to look at the numerator (that is, the EI receipt of the inflows into unemployment) by coupling EI administrative data with a survey that is directly linked to the administrative data system. In the case of EI, the Canadian Out-of-Employment Panel (COEP) survey is linked in this way. If the receipt of EI is defined to be the percent of the unemployed who receive EI within 5 weeks of job loss, this approach and these data indicate that EI is received in roughly 40% of the cases.

Table 3.2, taken from Human Resources and Skills Development Canada (HRSDC) (2005 E), breaks down the reasons for the non-receipt of EI among those who face unemployment. This analysis shows that the lack of insurable hours is the primary reason for the non-receipt of EI, but that the lack of insurable hours explains less than half of the non-receipt of EI. This reason increases in later years due primarily to a decrease in the unemployment rate, which increases entrance requirements in addition to making hours of work easier to obtain.

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[7] Ibid., page 5.11 of the Annex.
[8] Ibid., page 57.

Table 3.2 Distribution of Recently Unemployed by EI Claim Status				
	Pre-Reform (95Q3-96Q2)	**Post-Reform (97Q1-97Q4)**	**2000Q4-2001Q3**	**2001Q4-2002Q3**
Claim Status				
On Claim	45.8	43.5	39.1	38.0
Not on Claim				
Involuntary				
Not enough hours to meet VER	21.0	23.8	26.0	27.5
Not eligible due to NERE rules	3.2	4.4	4.1	4.8
Dismissed or quit	8.8	8.6	10.4	8.9
Disqualified	0.0	0.0	0.1	0.1
Self-employed	0.3	0.2	0.3	0.4
Collecting separation pay	4.2	5.9	5.3	6.2
Voluntary				
Didn't want or need EI or too much trouble	0.7	0.9	1.3	0.9
No Job Search	4.7	3.8	4.1	4.4
Late Claims	6.0	4.8	4.8	4.7
Unknown reason	5.1	4.2	4.6	4.3
Total	100.0	100.0	100.0	100.0
Source: COEP Survey.				

3.2.7 Other Dimensions of Coverage

The simple receipt of EI is only one dimension of coverage. From the perspective of the unemployed, the number of weeks of benefits and the rate of benefits are also important measures of providing temporary income support.

3.2.7.1 Weeks of Benefits

The primary objective of EI is to provide temporary income support. Therefore, longer unemployment spells would be expected to have some weeks that are not covered. This section provides an overview of what is known in this area.

Before claimants collect benefits, they must serve a two-week waiting period. The waiting period was increased from one week to two weeks under the 1971 *Unemployment Insurance (UI Act)*. The waiting period is intended to act as a form of deductible, similar to other types of insurance. Like other insurance deductibles, the two-week waiting period is intended to discourage moral hazard and to avoid the costs of administering claims for very small amounts (i.e. unemployment spells of less than two weeks). It also allows time for the verification of claim facts prior to making payments.

From the perspective of the claimant, the waiting period is important. Focus group participants from a recent evaluation (HRDC 2004) were particularly critical of the two-week waiting period. Claimants felt that the waiting period caused them to have difficulty in making necessary monthly payments such as mortgage or rent payments. International comparisons indicate that many countries have a waiting period, but Canada was found to have the longest.

In terms of benefit duration, the maximum entitlement to benefits is 45 weeks, although it varies depending on the unemployment rate in the economic region and the number of hours used to qualify for benefits. These weeks of entitlement must be used within a 52-week period from the point of the initiation of the claim. The 52-week period is referred to as the maximum claim duration.

An international comparison of weeks of benefits shows that the lowest possible weeks of entitlement available for Canadians (14 in regions with an unemployment rate lower than 6%) is the lowest among the countries included in the study (Van Audenrode et al. 2005). To some extent this is due to the VER, which provides more weeks of benefits in regions of higher unemployment and is a feature unique to Canada. In addition, the international comparison indicated that the Canadian maximum of 45 weeks is below the maximum unemployment insurance duration of almost all the countries in the study, the exceptions being Italy, the U.K. and the U.S. As well, Canada does not have a system of unemployment assistance, which is a second system that acts as a buffer between social assistance and employment insurance.

These limits on the number of weeks of available benefits lead to a certain percentage of claimants exhausting their benefits. On average, roughly 30% of claimants use up all their weeks of entitlement before the end of the 52-week claim period. Another 15% do not use all of their weeks of entitlements before the end of the 52 week claim period, which results in their claims being terminated at the 52-week point (HRSDC 2005 E). This latter situation can arise when claimants work while on claim, because claimants can defer their weeks of entitlement to the end of the claim up to the 52-week maximum period.

Exhaustion of benefits has been given a significant amount of importance in the area of seasonal workers. In 2000, for example, 27% of seasonal workers experienced a period between the time their claim ran out and the start of their next job (Gray et al. 2005). Seasonal workers with this experience are known as “gappers”, and their prevalence is highly sensitive to changes in the policy environment. As shown in Table 3.3, when the benefit duration was increased under Bill C-21, the percentage of seasonal workers experiencing a gap declined 50% in 1991. After Bill C-17 cut entitlement substantially, this percentage increased 55% between 1993 and 1994. Finally, after EI reform increased entitlement for those who worked more hours per week, the percentage of gappers declined from 36% in 1996 to about 27% in 1997. A new pilot project announced in May 2004 provides five additional weeks of benefits to workers in regions of high unemployment in order to diminish the number of workers experiencing gaps, but this project does not form part of this evaluation.

Table 3.3 Percentage of Repeat Users with a Gap in both EI income and Employment Income	
Year	**Percentage**
1984	59.2
1985	56.7
1986	54.1
1987	53.1
1988	51.1
1989	50.1
1990	43.9
1991	21.8
1992	20.5
1993	22.0
1994	34.1
1995	39.9
1996	36.2
1997	26.9
1998	26.6
1999	27.0
2000	27.0
2001	26.4
2002	27.9
2003	30.8
Source: Gray et al. 2005	

3.2.7.2 Benefit Levels

The current replacement rate is 55% of insured earnings, although it was 60% at the start of the evaluation period. Earnings are not insurable above a certain maximum ($39,000 per year since July 1996). In the case of the claimants who are at the maximum (roughly 30% of claimants), this means that the replacement rate is less than 55% of total earnings. It should also be noted that workers only pay premiums on their insurable earnings, and thus stop paying premiums above the $39,000 maximum.

On average, the cheques received by the claimants are equal to 55% of their insurable earnings about 50% of the time (HRDC 2003 E). There are many reasons why a claimant would not receive 55% of insurable earnings in any given week. Working while on claim is the primary reason, because a claimant's benefits are reduced for earnings above the allowable earnings level. Other reasons include receiving a higher rate due to the family income supplement or receiving a lower rate due to the minimum divisor.[9]

An international comparison indicated that the 55% replacement rate was lower than average, with the Italian, the U.K. and the U.S. rates being lower than 55%, and the rate in Denmark being as high as 90% (Van Audenrode et al. 2005). The maximum insurable earnings of

[9] The divisor will be discussed in Section 4.2.1.

$39,000 per year was found to be roughly in the middle, with France having maximum annual insurable earnings close to $100,000 (on which they pay premiums as well).

3.2.7.3 Implications

The level of the replacement rate and weeks of available benefits will impact the incentives faced by the unemployed, as discussed in Section 4.

The weeks and level of benefits will also affect the well-being of the unemployed. This impact is, of course, very difficult to measure. One possible measure that is appealing both on a practical and a theoretical level is to examine the impact of the experience of unemployment on the ability of the unemployed to maintain their level of household consumption. Using the COEP survey it was found that only a small percentage of job separators experience a decrease in consumer spending one year after their job separation (HRDC 2003 I).

3.3 Eligibility of Subgroups

For some commentators, the overall coverage of the EI system is not the primary issue because they are more interested in the extent to which the income support is available for all sectors of the labour force.

3.3.1 By Hours of Work

Under UI, eligibility was based purely on weeks of work that involved more than 15 hours of work on the same job during the week. The move to an hours-based system under EI reform generally benefited those who worked more than 35 hours per week because each of their weeks would count for more insured employment under EI. There were also cases of those who worked less than 15 hours per week, but who had enough insured hours to collect EI. At the same time, however, there were those who worked in the range of 15 to 35 hours per week and had enough weeks to collect UI but not enough insured hours to collect EI. Overall, the move to the hours rule had no significant impact on eligibility, but did have a redistributive impact. It is worth noting that focus group results found that many claimants felt that the move to the hours system made the system fairer (HRDC 2002).

3.3.2 Women

The overall eligibility of women appears to be comparable to men, with women making 43% of the contributions and receiving 49% of the benefits (Finnie and Irvine 2005 A).[10] This did not come about as a result of EI reform, however, because the move to hours-based qualification reduced women's level of eligibility relative to men as women work fewer hours per week than men on average. Comparable eligibility for women is primarily due to maternity and parental benefits, which are used by many more women than men.

In a previous study, Phipps (1998) found that the availability of maternity/parental benefits in Canada did not compare well with the rest of the world. A more recent version of the study (Phipps and Lethbridge 2005) found that Canada had moved to the middle range largely as a result of the increases in parental benefits under Bill C-32 in 2001.

3.3.3 NERE

New entrants and re-entrants to the labour market (roughly one quarter of those leaving jobs) face more stringent entrance requirements than other workers. The more stringent requirements are intended to reduce the likelihood that these workers will start using EI and fall into a cycle of dependence. Although this aspect of the NERE rule has never been evaluated, it is still possible to make some statements about the degree of eligibility for workers in this category.

First, it can be said that the eligibility rate of NEREs is lower than the rest of job separators by about 40 percentage points, based on analysis using ROE data (Kapsalis and Leonard 2004 A). This difference arose to some extent at the time of EI reform, as the entrance requirements for NEREs were increased from 700 hours to 910 hours. While roughly one sixth of the affected NERE population was able to increase their hours to maintain eligibility, the majority of NEREs in the range of 700 to 909 hours were not. Thus, as a result of the changes to the NERE rules, it can be said that EI reform lowered the overall level of eligibility whereas the changes to the hours rule had no overall impact.

It is important to note that the NERE rules have different impacts when considered regionally. Because the NERE entrance requirements are the same in all regions, there is considerably more divergence from the variable entrance requirements in high unemployment rate regions than in low unemployment rate regions. For example, the NERE requirements are 210 hours above the VER in an economic region with a 5.5% unemployment rate, but 490 hours above the VER in a region with a 17% unemployment rate.

[10] These figures are for all types of benefits. The major reason why women collect a greater percentage of benefits than what they make in contributions is that they collect a much higher percentage of maternity and parental benefits than men.

3.3.4 Immigrants

In terms of overall eligibility, the 2004 MAR (CEIC 2005) reports that immigrants are slightly less likely to be eligible for EI benefits (80.3% versus 84.7%, EICS survey 2003). Recent immigrants (those in Canada less than 10 years) are particularly less likely to be eligible (73.7%). Overall, the MAR reports that "immigrants appear to have more difficulty in getting a job with insurable hours, rather than in accessing the EI program once such a job has been found."

3.3.5 Seasonal Workers

Seasonal workers qualify for benefits in exactly the same way as other workers. Since the Canadian EI system has a relatively short qualifying period, seasonal workers meet the hours requirements at rates just slightly lower than non-seasonal workers. On average, seasonal workers collect far more EI than non-seasonal workers because, by definition, they experience frequent periods of unemployment.

In general, EI reform did not affect eligibility rates for seasonal workers (Kapsalis and Leonard 2004 A). Since seasonal workers, on average, work longer hours per week than non-seasonal workers, many qualified for EI in a shorter number of workweeks. Also, the longer weekly hours worked by seasonal workers resulted in an increase in their average length of entitlement after EI reform (Green and Riddell 2000). Overall, the repeat use of EI has been declining in recent years, as discussed in Section 6.2.

3.3.6 Other Groups

Because youths are more likely to be new entrants to the labour market, they are less likely to be eligible for EI benefits than prime-aged or older workers. Among youths who are not NEREs, however, eligibility rates are roughly the same as for the rest of the non-NERE population (Kapsalis and Leonard 2004 A).

Older workers are roughly equal to prime-aged workers in their likelihood of being eligible for EI (Kapsalis and Leonard 2004 A). Upon losing a job, however, older workers are more likely to face long-term unemployment, and are thus more likely to exhaust their benefits.

A report on EI and persons with disabilities (HRSDC 2004 J) showed that the disabled collect EI at similar rates to the general population. Also, EI reform did not affect persons with disabilities any differently than the non-disabled.

4. Employment Insurance (EI) and Work Incentives

Section 3 looked at the extent to which the EI system attained its primary objective of providing temporary income support to those who have lost a job through no fault of their own. The remaining sections of this report review the impacts and effects of this activity on the labour market as a whole. The discussion begins by examining the impact of the EI system on the incentives to work and search for a job while unemployed. Although all of the major Bills of the past decade are examined, there is a particular focus on the reforms contained in Bill C-12 because many of the stated goals of EI reform centred on addressing the perceived disincentives in the pre-reform system.

4.1 Impact on Job Search Intensity

The generosity of an unemployment/employment insurance system can be measured in three main areas. The first is the ease with which workers can qualify for benefits, as discussed in Section 3. Other measures of program generosity are the amount of the weekly benefit paid and the number of weeks that claimants are entitled to collect benefits.

A substantial body of academic theory argues that the existence of an unemployment/ employment insurance system provides incentives for individuals to remain unemployed for longer periods than otherwise would occur. It is also argued that the more generous the system (measured primarily as the amount of weekly benefit) the greater this effect. There is, however, substantial disagreement on the size of these effects.

In a review of the literature on EI and unemployment duration conducted by Human Resources and Skills Development Canada (HRSDC) (2004 B), it was very easy to find proponents who would argue that the effect of employment insurance in Canada is highly significant. In an early study, Ham and Rea (1987) found that receiving Unemployment Insurance (UI) benefits increased unemployment duration. More recently, Jones (2000) argued that decreasing EI generosity through Bill C-12 has increased the probability of ending an unemployment spell. He estimated the effect of EI reform as a whole to be in the range of 10 to 20%. On the other hand, authors such as Osberg, Apostle and Clairmont (1986) have argued that increasing generosity of unemployment insurance has no effect on the probability or duration of unemployment, as unemployment is mostly driven by employers (i.e. is demand-side driven). Other studies that focused directly on job search intensity have argued that EI has either a minimal effect or no effect on job search, other than when benefits are nearly exhausted.

A review of the international literature yields similar results. There are many proponents of the view that there is no impact. For example, Stancanelli (1999) argued that UI in Britain did not affect leaving unemployment. On the other hand, Lalive and Zweimuller (2002) based on Austrian data, and Jurajda and Tannery (2003) based on the U.S. data, have argued that increasing the weeks of entitlement increases unemployment duration.

Lalive and Zweimuller found a very small effect: each additional week of benefit increased unemployment duration by 0.055 weeks. Jurajda and Tannery found a much larger effect and stated that "for a majority of workers… larger entitlement led to increases in unemployment for at least as many weeks as benefits were available."

4.2 Tailoring of Job Spells

The theory indicates that individuals may also alter work patterns in response to the incentives put in place by the system. The comprehensive evaluation conducted during the early 1990s identified instances where a portion of the labour force, typically seasonal workers, would tailor their job spells in response to the parameters of the system. This would have to be done with the implicit collusion of the employers.

4.2.1 Divisor

The comprehensive evaluation conducted in the early 1990s also found that a disproportionate share of claimants had worked the exact minimum number of weeks to qualify. The Divisor rule, implemented with EI reform, was to discourage this practice. Under the Divisor rule, those who do not exceed the Variable Entrance Requirement (VER) for their region will have their benefits reduced. Benefit levels are determined by dividing the total insurable earnings in the past 26 weeks by the number of weeks worked or by the minimum divisor, whichever is greater, in order to determine the average weekly earnings. Usually, the average weekly earnings are then multiplied by 55% to arrive at the weekly benefit rate.

The minimum divisor varies from 14 to 22 depending on the unemployment rate in the economic region, and it is two more than the minimum number of 35-hour weeks required to qualify for EI. It was designed to encourage workers to work longer than the minimum amount of time required to qualify for EI benefits. For example, if a claimant worked only 13 weeks in a region where the minimum divisor was 14, his/her average weekly benefits would be reduced because the divisor will be used to arrive at their average weekly insurable earnings.

The impact of the divisor was immediate in Atlantic Canada. In the second half of 1996, following the first phase of EI reform, the share of claimants working more than 2 weeks above the VER increased by 12 percentage points in Atlantic Canada. This response slowly increased another 2 percentage points afterwards. The same type of response occurred throughout the rest of Canada, but to a much smaller degree. It is important to keep in mind, however, that 2 to 4% of claimants have their benefits reduced as a result of this rule.

4.2.2 Small Weeks

A significant feature of EI reform was the introduction of first dollar coverage. While this ensured that all hours were counted as insurable employment, it also meant that all work

would be included in the calculation of average insurable earnings. In addition, the benefit rate calculation period was extended from 20 to 26 weeks. This had the unexpected implication that short-term jobs with only a few hours of employment, referred to as "small weeks," would reduce the average weekly benefits for some individuals.

Shortly after the implementation of EI reform, there were reports that employers were experiencing difficulty in filling small weeks jobs as a result of first dollar coverage under EI reform. The department reacted rapidly and introduced a pilot project in November 1998 that allowed claimants to reformulate the calculation of their small weeks jobs in such a way as to avoid the reduction of average weekly benefits. Under the pilot project, small weeks were defined as weeks in which less than $150 was earned and were excluded from the calculation of the benefit rate. The evaluation of the pilot project in 2000 found that this worked as expected.[11] Subsequently, another formulation was tested in a second pilot that produced similar results.[12]

4.2.3 Working While on Claim

In 2002, 56% of claims had at least one week in which a claimant earned income (HRSDC 2005 H). Overall, 16.5% of all weeks on claim were weeks of working while on claim. If the amount earned was below the allowable earnings limit, the claimant was allowed to keep the entire sum of money. However, only about 1.5% of claim weeks were weeks in which the claimant worked while on claim and stayed below the allowable earnings limit. If the amount earned was above this limit, the claimant would have their benefits reduced dollar for dollar for any amount of earnings above the allowable earnings limit. In the event that the claims were reduced to zero, the claimant would have the termination date of his/her claim extended by one week. About 10.4% of all claim weeks were reduced to zero as a result of working while on claim.

Currently, the motivations for working while on claim and the factors influencing its incidence are not fully understood. In the literature, working while on claim is sometimes described as a means for claimants to pick up valuable experience or to get their foot in the door. Thus, it would not be surprising to see individuals working while on claim while their benefits are being reduced for every dollar earned. There is also the argument that individuals work while on claim as a means of augmenting their income during the difficult period of unemployment. Statistical analysis by McCall (2005) found at least partial support for these views, although the evidence can be contradictory. Some clear messages do come through, however. For example, practical impediments to working while on claim play a clear role, as the incidence of working while on claim is far less for those with young children. In addition, those who are Canadian-born are more likely to work while on claim, probably reflecting more developed social networks and greater prevalence in rural areas. It is interesting to note that those who expect to return to the same employer are more likely to work while on claim, possibly reflecting less time spent on formal job search.

[11] See Friesen (2000) for more details.
[12] See HRDC (2001 A) for further details.

Analysis of the data over time shows a downward trend in the percentage of claimants working while on claim and the overall percentage of claim weeks in which there was working on claim (HRSDC 2005 H). This downward trend appears to begin around the time of EI reform, but the reasons are not yet understood.

4.2.4 Intensity Rule/Clawback

The comprehensive evaluation conducted in the early 1990s noted what appeared to be a steady upward trend in the number of individuals who were repeat users of EI.[13] The NERE qualification rules were tightened under EI reform to discourage individuals from entering into this pattern of use, and the intensity rule was introduced to create a better balance between premiums paid and benefits received by discouraging the regular use of EI as an income supplement. Some of the repeat users earned high incomes. Therefore, the more severe clawback of EI benefits was introduced to make the system appear fairer.

When the intensity rule was evaluated by Fortin and Van Audenrode (2000), they found that the rule did have some effect on the length of time that individuals were unemployed. Specifically they found that there was a statistically significant increase in the probability of ending a claim just before a duration threshold that would lead to a lower level of benefits in the next claim. This impact was so small, however, that some felt that the intensity rule was not successful from a policy perspective. Recently, the provision was evaluated more thoroughly and with the benefit of 6 more years of data by Audas et al. (2005). The recent study confirmed the earlier work and demonstrated that the overall number of repeaters was unchanged by the intensity rule.

The clawback of EI benefits from claimants who made over $63,570 was reduced to $48,750 under EI reform, and an experience rating feature was added. The potential extent of the clawback was severe, with individuals potentially losing all their benefits if they had 120 weeks or more of benefits over a five-year period. This experience rating feature of the clawback was eliminated at the same time that the intensity rule was cancelled. At its peak, as many as 142,000 individuals were affected by the clawback and $182 million in benefits was clawed back (HRSDC 2005 G). Evidence of any changes in behaviour was weak. It should be noted, however, that very few claimants had collected enough weeks of EI to reach the point where all of their benefits were being clawed back.

4.2.5 Impact on Hours of Work

There is a substantial body of theory that predicts that both employers and employees may respond to changes in wage costs. For both the employers and employees, the contributions to employment insurance will have a small effect on their respective incentives. These incentives would be expected to have their most noticeable impacts at transition points in the program. Under the pre-1997 system, for example, the 15th hour

[13] See studies by Corak and Pyper (1995), Wesa (1995), and Lemieux and MacLeod (1995).

of employment in a given week would result in the week being counted as a week of insurable employment, and thus premiums would have to be paid.

As shown in Table 4.1, the move to EI reform did not result in any noticeable change in the distribution of hours of work for the economy as a whole. Table 4.1 shows the number of hours worked per week in the range of 9 to 21, where changes were expected to be noticed. This simple analysis indicates that there is very little change from just before to just after EI reform.

Table 4.1
Distribution of Actual Hours Worked in July

Hours	1995	1996	1997	1998
9	0.11	0.14	0.15	0.13
10	1.12	1.07	0.97	0.96
11	0.07	0.08	0.07	0.07
12	0.70	0.61	0.63	0.64
13	0.10	0.14	0.11	0.09
14	0.24	0.26	0.25	0.28
15	1.35	1.33	1.28	1.29
16	0.92	0.87	0.88	0.93
17	0.13	0.10	0.12	0.11
18	0.31	0.35	0.46	0.35
19	0.10	0.09	0.12	0.09
20	3.09	3.02	2.57	2.77
21	0.35	0.37	0.35	0.35

Source: LFS

A more detailed statistical analysis indicates that some behavioural impacts have occurred, however. Friesen and Maki (2000) were able to demonstrate that seasonal industries had a tendency to encourage individuals to work more than 35 hours of work after EI reform. For non-seasonal workers, however, an opposite tendency was noted. The Friesen and Maki results only compare 1995 to 1997. Later analysis done internally (HRSDC 2005 I) provided a strong indication that there were no further impacts to the hours distribution and that some of this impact may have diminished over time.

5. Employment Insurance (EI) and the Earnings Distribution

Total EI premium revenues range between 1.5 and 2.0% of Canada's gross domestic product. The EI system therefore has a significant impact on the Canadian economy. One question of interest is the extent to which the system redistributes income among Canadians. While large dollar amounts are transferred by the EI program, when compared to the economy as a whole, the program only makes a small difference to the overall earnings distribution. However, the program may make a more significant difference to the earnings distribution in provinces where it is relied upon more heavily.

5.1 Relevant Design Aspects

The rate of income tax paid by Canadians rises with levels of income. For this reason, the income tax system is considered to have an equalizing effect on Canada's earnings distribution. The contributions to EI, however, are a fixed percentage of earned income up to a limit defined by the maximum insurable earnings. Because EI contributions are not required for income over the maximum insurable earnings, the contributions as a percentage of total income will fall for those in the higher income categories. For these reasons, the contributions by themselves cannot be said to improve the equality of the earnings distribution. In addition, as part of EI reform, the maximum insurable earnings has been set at $39,000 since 1996 and has thus dropped when adjusted for inflation.

Income is redistributed by the EI system as a result of both the contributions and the benefits that are paid. Any particular category of claimant may contribute more or less than what they receive in benefits. This creates a condition where it can be said that money is flowing to and from certain groups and that a process of redistribution is occurring (as discussed in Section 5.4).

It is also well known that EI redistributes earnings among industries and regions. Corak and Chen (2003) provide a thorough discussion of this redistribution.

5.2 Refund for Those Under $2,000

One of the implications of first-dollar coverage under EI was that even those who worked so few hours that they could not qualify would have to contribute to the system. In order to avoid a possible inequity, contributions were refunded for individuals with an employment income of less than $2,000, thus exempting those who were unlikely to qualify. In 2002, 676,000 individuals received a refund for a total of $15 million. This does not represent 100% of the possible take-up of this feature, but does represent a substantial percentage.

The individuals who receive the refund are primarily those with weak attachments to the labour force and whose incomes are not a large percentage of family income. These individuals:

- are likely to be post-secondary students;
- are more likely to be females;
- are more likely to be either younger or older workers; and
- have a family income similar to the norm.

Overall, the refund is primarily targeting individuals in family situations who have very weak attachments to the labour force.

5.3 Supplemental Benefits for Low-Income Claimants

Since 1994, the EI system has paid higher benefits to those with greater needs. Table 5.1, taken from HRSDC (2005 D), shows that the supplementary rate was 5% of insurable earnings before 1997. During that period, the supplementary rate was known as the dependency rate. With EI reform, the rate started to increase in 1997 and the family supplement was phased in over a four-year period. By 2000, the total benefit rate had increased to 80% (that is, 55% plus 25%).

Table 5.1
Receipt of Family Supplement* – 1994 to 2002

Year	Rate	Number of claimants receiving DR/FIS	Total $ Amount	Average Amount ($)	% of claimants receiving DR/FIS
1994	5%	129,350	17,174,500	133	4.4
1995	5%	410,450	100,243,750	244	14.9
1996	5%	454,025	110,486,750	243	17.2
1997	10%	318,400	89,340,000	281	13.4
1998	15%	224,700	107,898,250	480	9.7
1999	20%	217,575	124,851,000	574	9.8
2000	25%	208,600	129,363,000	620	9.8
2001	25%	204,100	140,319,500	688	8.9

Source: LAD

* Prior to 1996, the Family Supplement was referred to as the “dependency rate.

There were significant variations in the implementation of the supplementary rate before 1997 and after EI reform. Eligibility for the dependency rate was determined purely on the basis of the claimant’s personal income. The family supplement, however, was more precisely targeted by family income and the number of children. As a result, the number of claimants receiving supplemental benefits dropped from 454,025 in 1996 to 224,700 in 1998. In spite of the increase in the benefit rate from 5% to 15%, the total cost remained unchanged at roughly $110 million. As shown in Table 5.2, the improved targeting of the program reduced the percentage of high family income claimants receiving supplemental

benefits from 8% to 1.5%. It should be noted, however, that the threshold used to determine family supplement status has not been adjusted for inflation, thus reducing the share of claimants by approximately one percentage point.

Table 5.2
Distribution of EI claimants receiving DR/FIS by Family Income Groups – 1995 to 2002

Year	Low-income (less than $19,760)	Middle-income ($19,760-62,399)	High-Income ($62,400 or above)
1994	15.3	77.0	7.7
1995	15.3	76.6	8.1
1996	15.9	75.9	8.2
1997	19.1	75.4	5.4
1998	23.5	75.0	1.5
1999	23.4	75.1	1.5
2000	25.1	73.4	1.5
2001	30.0	68.7	1.4

Source: LAD

5.4 Between Various Points in the Earnings Distribution

It is possible to say that the EI system transfers substantial amounts of money between various points on the distribution of earnings. This type of impact can be explored by examining the contributions of a given group relative to its receipt of EI. In 2002, for example, $4.9 billion more was paid to the bottom 50% of the earnings distribution than was paid in premiums by this half of the earnings distribution (Finnie and Irvine 2005 A). Thus, it can be said that the distribution of earnings was made more equal by this transfer of money.

In the case of the bottom 10% of the earnings distribution, this effect was more marked. For this group, $2.3 billion more in benefits were paid out than was paid in premiums, in 2002. This group received 22.6% of all benefits, and 27.5% received at least one dollar in benefits.

It is worth noting that, in some respects, EI reform did not contribute to reduced inequality of earnings as the freezing of the maximum insurable earnings at $39,000 reduced the amount of contributions for those in upper ranges of the earnings distribution who experienced continued income growth. Roughly 10 percentage points more individuals had their contributions capped in 2002 than in 1992.

6. Communities

There are substantial variations in the economic character of the communities across Canada. Table 6.1, taken from Kapsalis and Leonard (2004 B), gives a sample of the differences among thirteen selected communities. These communities were monitored in depth in order to assess the effects of Employment Insurance (EI) reform at the community level. Table 6.1 shows that 5.7% of the unemployed in downtown Toronto are repeat users[14] of EI, whereas 51.1% of the unemployed In Clarenville, Newfoundland are repeat users.

Table 6.1 also demonstrates large differences in demographics across communities. For example, 1.6% of the unemployed in Clarenville were born abroad compared to 24.9% in Toronto.

Table 6.1
Comparison of selected communities by other characteristics of unemployed

Communities	UR	Avg hours of work/ week	% born abroad	% with mortgage	Avg amount of mortgage	% with a car loan	% with other debts	Avg amount of other debts	% of unemp'd who are seasonal	% of unemp'd who are EI repeaters
Yellowknife	25.0%	45.4	5.8%	35.5%	$104,457	38.4%	66.4%	$11,289	14.1%	8.7%
Clarenville	22.3%	47.5	1.6%	25.1%	$28,820	50.3%	56.9%	$6,260	43.7%	51.1%
PEI	14.4%	45.2	2.0%	42.6%	$40,598	51.8%	63.2%	$7,488	41.7%	48.6%
Miramichi	13.7%	42.1	1.0%	38.2%	$37,322	53.6%	64.5%	$8,208	39.2%	49.3%
Prince Albert	13.2%	41.7	2.0%	38.1%	$37,296	45.4%	57.9%	$9,668	27.9%	29.5%
Truro	13.1%	41.3	1.5%	41.4%	$40,744	41.9%	68.5%	$7,225	27.7%	34.1%
Repentigny	12.3%	38.8	0.8%	40.7%	$47,263	39.7%	51.3%	$7,736	20.5%	27.4%
Montreal	11.3%	38.3	11.7%	15.6%	$78,554	26.9%	50.2%	$5,944	6.6%	15.0%
Kelowna	10.0%	38.8	12.3%	41.2%	$79,747	32.6%	59.0%	$7,521	18.2%	20.8%
Toronto	8.6%	41.3	24.9%	26.6%	$137,059	23.4%	59.2%	$11,660	4.9%	5.7%
Surrey	8.3%	38.8	28.0%	40.7%	$112,195	32.5%	54.4%	$7,636	9.2%	10.7%
St.Boniface	8.0%	36.9	9.3%	48.4%	$53,409	34.6%	54.9%	$6,698	12.8%	17.1%
Hamilton	7.3%	37.8	18.9%	47.9%	$83,078	35.1%	56.5%	$9,648	12.4%	13.1%
Calgary	7.1%	41.5	19.6%	30.6%	$83,625	23.2%	61.9%	$10,142	14.0%	8.6%
Rest	10.4%	39.7	14.6%	37.8%	$67,898	37.0%	59.3%	$8,111	17.9%	21.5%
Canada	10.4%	39.7	14.4%	37.8%	$68,122	37.0%	59.2%	$8,115	18.0%	21.6%

Note: Communities are sorted by descending order of the unemployment rate (UR)

Source: COEP survey and EI database (1995 Q4-1996 Q2 and 1997 Q1, Q2, & Q4)

As noted in Section 3.1.2, due at least in part to variations in economic conditions, Canada is unique in adjusting its EI entrance requirements in response to changes in local labour market conditions (Van Audenrode et al. 2005). This is examined further below.

[14] Following the definition from the 2004 MAR, repeat users are defined as workers who have three or more claims in the five years prior to their current claim.

6.1 Variable Entrance Requirement (VER) Maintains the Level of Eligibility Among Provinces and Communities

Given the huge range of unemployment rates and variations in local labour markets, the EI system has been designed so that potential claimants have roughly equal access to benefits after allowing for local labour market conditions. This is done by lowering the variable entrance requirements as the unemployment rate for the local labour market rises. In areas where the unemployment rate is 6% or lower, 700 hours are required to qualify for EI. If the unemployment rate is 13.1% or higher, however, the requirement drops to 420 hours. Local labour markets are defined at the level of the EI economic regions, of which there were 58 in 2002.

In order to assess the operations of the VER, it is useful to compare eligibility rates among various communities or over time. This process was first explored in the Monitoring and Assessment Report (MAR).[15] This idea was subsequently explored in more detail in a study done as part of the work for the summative evaluation (HRSDC 2005 A). One key finding is that there appears to be very little difference in the qualification rates between urban and rural regions, despite large variations in economic conditions. This is an indicator that the VER is performing as intended.

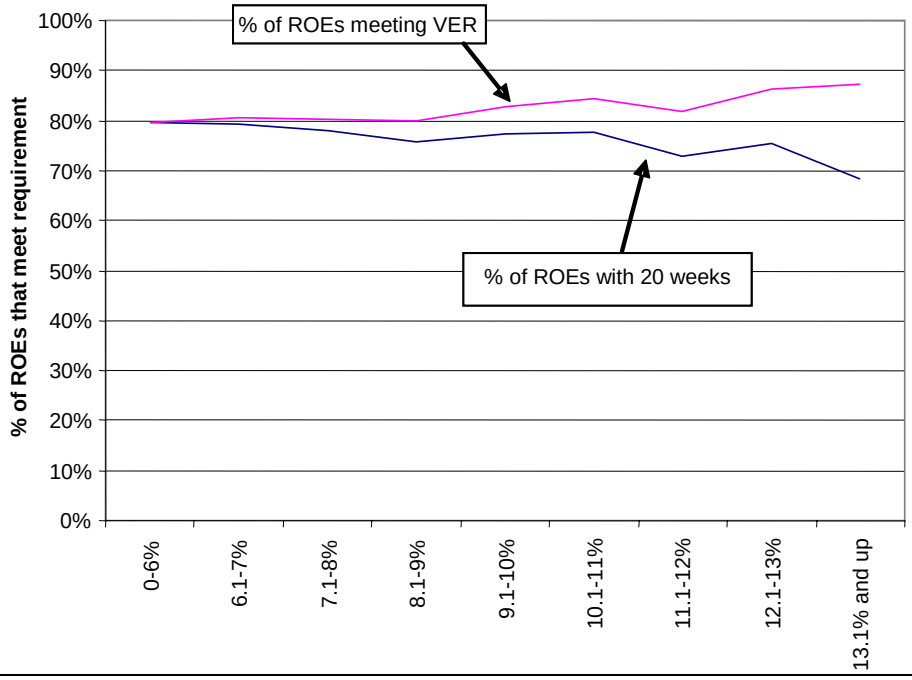
The study (HRSDC 2005 A) first looked at claimants organized by the nine unemployment rates[16] that determine the entrance requirements for EI. Looking at the share of job separators who had enough hours to qualify upon receiving a ROE, roughly 80% meet the VER.[17] This share is roughly stable or, if anything, rises as the unemployment rate goes up, as shown in Figure 6.1.

[15] See MAR 1997, Chapter 6.

[16] There are nine ranges that define the entrance requirements for EI: 0-6%; 6.1-7.0%; 7.1-8.0%; 8.1-9.0%; 9.1-10.0%; 10.1-11.0%; 11.1-12.0%; 12.1-13.0%, and 13.1% or more.

[17] Note that this is the percentage of all job losses that meet the VER, and this does not account for other reasons for not qualifying for EI. Of eligible job losses, it is also roughly 80% that meet the VER.

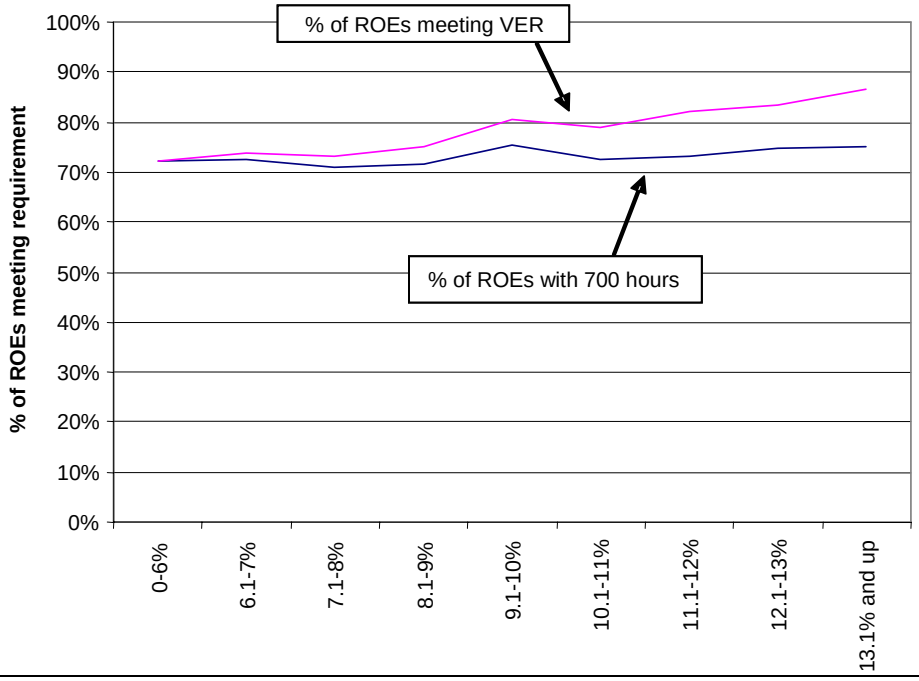
Figure 6.1
Pre-Reform (1995) Comparison of VER versus uniform 20-week entrance requirement



The lower line of Figure 6.1 provides a hypothetical calculation that shows that if all job separators were faced with the same entrance requirements of 20 weeks, the share who would have qualified for benefits would drop by 10 percentage points in the high unemployment regions.

Figure 6.2 paints a different picture after EI reform. Here the rate of qualification is perceptibly higher in the higher unemployment regions than in the low unemployment rate regions. The move to an hours-based system under EI reform actually benefited individuals in high unemployment regions because those who do have jobs tend to work longer hours per week. Even if the entrance requirements are held constant, the higher unemployment regions maintain their level of eligibility as the higher hours worked per week counterbalance the weaker local labour markets.

Figure 6.2
Post-Reform (2001) Comparison of VER versus uniform 700-hour entrance requirement



This analysis was also undertaken for all 58 economic regions. In general, the bulk of the economic regions stayed within the range of 75 to 85%, with all but 6 of the 58 economic regions falling between 75 and 90%. Thus the VER appears to work well at equalizing the eligibility rates, with the few outliers possibly indicating that the measured unemployment rate is not capturing the local labour market conditions in all cases.

In discussions concerning the VER, it is important to note that there is a school of thought that maintains that the VER acts to retard economic adjustment as it provides an incentive for individuals to remain in regions with poor economic conditions. This argument is made more complicated by the fact that EI is only one of the interventions that act to slow adjustment. Although the theoretical arguments are compelling, the statistical evidence is not especially convincing because net migration patterns provide evidence that there is a tendency for individuals to move out of regions with poor economic opportunities.

6.2 Repeat Use Varies by Communities

As noted above, Table 6.1 illustrates the high degree of variation in repeat use by community. Canada is one of the countries that allows seasonal repeaters[18] to collect EI. Seasonal unemployment is always present to some extent in any economy, and a large portion of the variation described in Table 6.1 is due to the differences in the underlying economic structures of the communities. However, the existence of EI may play a role in the sense that it subsidizes the incomes of seasonal workers.

[18] Some countries such as Portugal (18 of the last 24 months) have entrance requirements that exceed a year thus effectively barring seasonal workers from collecting EI. See Van Audenrode et al. (2005).

In the comprehensive evaluation conducted in the early 1990s, a steady upward trend in repeat use was noted by Wesa (1995), Corak and Pyper (1995), and Lemieux and MacLeod (1995). According to Wesa, from 1982 to 1992, repeat use[19] went from less than 40% of claims to over 50%. This provided support for the introduction of the intensity rule, as discussed in Section 4.2.4. This upward trend continued until 1997, and then a downward trend began. It is unlikely that the downward trend was related to EI reform, but was possibly related to the rising trends in education, as the educated are far less likely to become repeat users of EI.

The extent to which the repeat use of EI is a product of features of the system is not known with any degree of precision. It is possible to demonstrate, however, that an individual who becomes a claimant after receiving a job separation in a given year is more likely to become a claimant in the following years. This can be seen in Table 6.2, which is taken from Gray et al. (2005).

Table 6.2
Increased Likelihood of an EI Claim Given a Previous Claim
(Clustered Probit Regression Results)

	Males 18-34	Females 18-34	Males 35-49	Females 35-49	Males 50-64	Females 50-64
Claimed in previous year	0.180	0.116	0.215	0.189	0.153	0.101
Claimed 2 years ago	0.147	0.126	0.163	0.142	0.089	0.069
Claimed 3 years ago	0.089	0.074	0.104	0.081	0.040	0.029
Claimed 4 years ago	0.061	0.041	0.066	0.051	0.024	0.018

These results indicate that there is some degree of persistence in EI usage. The coefficients taper off as time goes by, however, which implies that many people return to steady employment after an EI spell. Thus, if a given community experiences an economic shock, it would be reasonable to expect the EI usage to be higher than otherwise for a period of at least four years. This analysis does not explain the substantial variations in repeat use shown in Table 6.1 above, however. To explain the variations in Table 6.1, a link between the existence of an EI system and job separations would have to be identified, but this is still not well understood.

6.3 EI and Geographical Adjustment

If the industries that support a community suffer a downturn, the local economy can adjust in a number of ways. One form of adjustment comes from changes in the population. This is a process that may take many years even without EI, but economic theory would predict that the process would be slowed by the existence of an employment insurance system. Attempts to estimate this impact empirically have produced a wide range of estimates, although provinces with weaker economic growth generally do tend to have lower population growth.

[19] Definition of repeat use is 3 or more claims in five years. Wesa (1995) also used a number of other potential definitions.

Detailed examination of the adjustment process yields useful insights into the possible impact of the EI system. Using administrative data, it was found that a significant portion of clients, roughly 5%, will move during an EI claim. This geographical movement during the job search period has actually been encouraged at some points in the history of the EI system. Movement also occurs after the claim is complete. For example, as many as one quarter of claimants will move between two claims.

The nature of the movement is also revealing. Adjustment to economic shocks appears to be both composed of movement out of a community as well as changes in the rate that people move into a community (HRSDC 2004 A). Both accomplish the same goal of regularizing the level of the population to a sustainable level. Examining the data on movements into and out of communities provides significant evidence of fluctuations in both movements from one year to another. This indicates that substantial adjustment is occurring. Although it may be true that EI is slowing down this process, the extent to which this is true is not clear. In another study, EI recipients were found to adjust. Specifically, the study found that those who collect EI are more likely to move to another province than those who do not (Finnie 2004). Currently, it is impossible to draw a precise link between EI and reduced economic adjustment, although it is clear that such a link is to some extent present.

7. Fishing

For the most part, self-employed workers are not covered by the Employment Insurance (EI) system. One exception to this is the case of fishers. An individual must be defined as self-employed in order to be eligible for EI fishing benefits, and the rules for EI are different for fishers. The following discussion of fishers and the fishing industry refers to those self-employed fishers who aid in making the catch and not those involved in the processing of the fish. Fish processing plants are considered to be part of the food manufacturing industry, and their workers are covered by regular EI benefits in the same way as other workers.

The fishing industry has undergone significant change over the past decade. In 2002, there were roughly 36,000 people who reported self-employment fishing income. This number has declined from over 47,000 in 1992 (HRSDC 2005 F). It is important to keep in mind the difficulties involved for small economies absorbing this number of workers departing from the industry.

In spite of the declining number of fishers, the total financial value of the catch has increased steadily. This increase in catch value has come about primarily due to an increase in the catch of shellfish, while the catch of groundfish has declined substantially.

The changing composition of the fishing industry has caused significant adjustment difficulties. A series of government initiatives have attempted to deal with these difficulties on an as-needed basis. These initiatives have included the Atlantic Groundfish Strategy in 1994 and, more recently, the Temporary Fisheries Income Program. EI fishing benefits have been heavily used by workers in the fishing industry in all years and play an important role in providing income support within fishing communities.

As mentioned earlier, self-employed fishers face a set of EI rules that are different from the rules for the rest of the labour force. Prior to the 1996 EI reforms, fishers qualified for EI in the same way as other workers in that they qualified on the basis of the number of weeks that they had worked during the fishing season. Since EI reform, eligibility for EI fishing benefits has been based on the amount of income earned during the fishing season. In order to be eligible, fishers need to earn between $2500 and $4200[20] from fishing, depending on the unemployment rate in the economic region.

7.1 Dependency on EI

The fishing industry has traditionally made significant use of the EI system. In any given year, roughly 80% of fishers will report income from EI (fishing, regular or special benefits). This compares to between 10 and 17% for the general population of Canadian taxfilers. As a result, fishers consistently receive more money from EI benefits than they pay in premiums. In fact, a study by HRSDC (2005 F) showed that the return on EI

[20] New entrants and re-entrants to the labour market need to earn $5,500 in order to be eligible.

benefits per premium dollar paid is ten times higher for self-employed fishers than the average for the rest of the Canadian population.

7.1.1 Share of Income

Analysis of income tax data shows that fishers earn roughly 45% of their total income from the fishing industry and another 15% from employment income in industries other than fishing. EI represents around 25% of the average fisher's income (HRSDC 2005 F). This number climbs to over 30% in the case of those for whom fishing is the major source of income (Acton White 2004).

7.1.2 Use Relative to Other Industries

The fishing industry makes significant use of the EI system even when compared to other seasonal industries. Acton White (2004) measured the number of EI claims as a percentage of a given industry's labour force. Using this measure, self-employed fishers (at 86.8%) make far greater use of EI than any of the other seasonal industries including construction (24.7%), logging and forestry (52.4%), accommodation (41.9%) and agriculture (8.7%).

7.1.3 Family Role

It is common for fishing to be a family activity. Roughly 35% of fishers are in a family where at least one other family member reports fishing income, and this percentage has grown slightly in recent years. It has been argued that this increase in family-based fishing may be due to the dollar-based entrance requirements, as it may have become easier for families to split fishing income in order to ensure that more family members qualify for EI fishing benefits. Recently, however, Kapsalis (2005) found that the total increase in the number of fishers due to family fishing was "rather modest" and in the range of 1 to 4 percentage points.

7.2 Adjustment to Declining Stocks is Slowed

It has been suggested that the high reliance on EI by the fishing industry could be inhibiting the exit of fishers from the industry. Acton White (2004) examined this issue by comparing the fishing industry in Canada to the fishing industries in other countries as well as to other seasonal industries in Canada.

Looking at government support, the study found that the Canadian fishing industry received more in direct payments than fishing industries in any other studied country. After including indirect support, such as cost-reducing transfers and general services, Canada was the third highest country behind Finland and Greece in terms of total

government support. In general, countries that spent as much as Canada did so in order to encourage exit from the fishing industry, rather than spending on direct payments.

The Acton White (2004) study also found that the Canadian fishing industry had the highest labour/capital ratio of any country studied. Furthermore, labour productivity was low and has been declining over the years.

A look at the demographics of the fishing industry shows that there are still a significant number of young people entering the industry, even if the percentage of youth is lower than most other industries.

Overall, it appears that economic adjustment is being significantly slowed by the EI system in the case of the fishing industry. Without the EI system, there would likely be a significantly smaller number of fishers.

8. Macroeconomic Impacts

At the end of the logic model describing the Employment Insurance (EI) system in Figure 2.1, all of the impacts and effects of the EI system are shown as having an effect on the overall labour market. This is reasonable given the size of the program. This summary report ends with a discussion of four areas in which this overall impact is well understood.

8.1 Interaction with Social Programs

Finnie and Irvine (2005 A) demonstrated that the EI system by itself can be shown to slightly lower the poverty rate. Although EI is only part of a broader picture in terms of what might be described as the government's safety net, it is the largest program of its kind. For example, spending on EI was 1.75 times the size of Social Assistance (SA) as a whole and 3.5 times the size of Worker's Compensation in 2002. It is important to note, however, that SA is more prominent for the bottom 10% of the income distribution, whereas EI and SA are roughly equal for the second decile, and that EI becomes more prominent at higher earnings deciles.

Although the EI system interacts with the other social programs to some degree, the degree of interaction is sometimes smaller than might be expected. Within two years of exhausting their EI benefits, only fifteen percent of claimants who exhaust their claims were found to receive social assistance (HRDC 2003 D). Subsequent studies found that this did not change substantially even if later years are examined (Finnie and Irvine 2005 B).

A more complex picture emerges when the analysis examines those who exhaust EI sickness benefits. In this case, it was found that 14.4% of the sickness benefit exhaustees went on to receive social assistance. However, it is interesting to note that 7.2% went on to receive Workers Compensation and 8.2% went on to receive Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) disability benefits (HRSDC 2005 D). For many, however, the exhaustion of sickness benefits does not lead to dependency on social programs. For example, 70% were found to be employed two years after exhaustion.

8.2 EI and the Experience of Unemployment

Substantial evidence exists to show that a period of unemployment can be a stressful period. This was explored for the purposes of the summative evaluation by Lethbridge, MacDonald, and Phipps (2004) using the COEP survey. Measured stress was self-reported by respondents, and the analysis assessed the likelihood of describing one's life as "very stressful." Lethbridge et al. showed that stress levels are influenced by many factors such as employment status and income of other family members. Single parents were found to be the most stressed. The EI system was shown to be associated with lower levels of stress. A comparison showed that the unemployed who receive EI

were less stressed than those who did not, although it is difficult to say with certainty that EI is the cause.

8.3 EI Contributions as a Payroll Tax

A recurring question in the public debate concerns the extent to which payroll taxes diminish the overall level of employment. This argument stems from the idea that the payroll taxes will raise the cost of labour to employers who will in turn reduce their demand for labour. If this is true, then the contributions to EI may actually reduce the level of employment.

It is impossible in the Canadian case to develop reliable numerical estimates of the impact of payroll taxes on employment because there is not enough variation in the tax levels to capture the impact. A survey of the international literature by Nakamura (2005) showed that the long-run impacts of payroll taxes on employment levels were modest at most.

There are at least two major arguments why payroll taxes may not have a strong impact on employment. First, there are substantial variations in the levels of payroll taxes among countries that appear to have no apparent effect on their levels of relative employment. Secondly, all governments must impose some form of taxes to raise revenues. Many of these taxes will reduce the after tax return to labour for employees, thus forcing employers to adjust their wage levels.

8.4 Stabilization

The rate of growth of economic activity for the economy as a whole is volatile from one year to the next. At times, it has been an objective of macro-economic policy to moderate this volatility by raising government expenditures when the economy was depressed and lowering government expenditures when economic activity is overheated. This is known as stabilization policy in the broader discussions. In this context, the EI system is referred to as an automatic stabilizer because it would automatically raise and lower expenditures in synchrony with the number of unemployed. Historically, this was thought of as one of the primary objectives of the system. Although the importance of the stabilization properties of the EI system has diminished in recent times, it is still part of the discussion of the system as evidenced in the logic model (Figure 2.1) which shows the stabilization effect as linking back to the overall level of unemployment.

The actual extent of the stabilization effect is difficult to quantify statistically because there are no data on the behaviour of the economy without the presence of an unemployment/employment insurance system (i.e. the counterfactual for analytical purposes). Most available estimates are based on the results of simulation models of the Canadian economy. The validity of this type of analysis has been criticized in some quarters, but a significant number of researchers believe in the validity of this approach.

Simulations were run to estimate the size of the stabilization effect for Canada. It was found that the existence of the stabilizers reduced the decline in employment of the last economic turndown in 2001-2002 by 10 to 13% (Dungan and Murphy 2003). This result was smaller than those obtained in 1995 when similar simulations were run for the previous comprehensive evaluation. This result was felt to be reasonable given the reductions in the size of the overall program and the increase in globalization, which diminishes the impact of an individual government's spending on its economy. Alternative simulations were run for quite large hypothetical shocks and were generally found to be even smaller in nature (2004 MAR, CEIC 2004, p. 49).

9. Annex I – Evaluation Questions

The following table lists the questions that resulted from a consultation process conducted over the 2003 period. The section where the question is dealt with in the summary report is listed in the second column. In most cases there will be a reference in this report, but some questions are only dealt with in the supporting technical reports, which are also available.

Evaluation Questions			
Evaluation Question		**Section in this Report or Available in Technical Report (TR)**	**Source Documents**
1.1	How much was saved by EI reform?	2.3.3	HRSDC 2004E Informetrica 2005
1.1.1	How does this compare to other major changes to EI, such as Bill C17?	2.3.3	Informetrica 2005
1.2	How do EI benefits compare to the costs?	2.3.3	HRSDC 2004E
1.3	At what level of quality is the service provided to the clients?	2.4	Goss Gilroy 2002 PWGSC 2003
1.3.1	How useful is the GOL service for clients?	2.4	Accenture 2005
1.4	How accurate is the employer information on insurable earnings as recorded on the Record of Employment form?	2.4.2	Kapsalis 1985 HRSDC 2004C
1.4.1	Is there reason to believe that the ROE's are under-reporting employment terminations?	N/A	N/A
1.5	What are the costs of administering the EI benefits?	2.3.3	HRSDC 2004E
1.5.1	How does this compare with other similar organizations?	2.3.3	Van Audenrode et al. 2005
1.6	What are the costs and savings related to I&C?	2.4.3	HRDC 2003A
2.1	What is the share of working Canadians covered by EI?	3.2	Kapsalis and Leonard 2004A HRSDC 2005E
2.2	What percentage of the unemployed is eligible for EI?	3.2	Kapsalis and Leonard 2004A HRSDC 2005E HRSDC 2005A
2.3	What percentage of contributors to EI receives EI upon unemployment?	3.2	Kapsalis and Leonard 2004A HRSDC 2005E HRSDC 2005A

Evaluation Questions (continued)			
Evaluation Question		**Section in this Report or Available in Technical Report (TR)**	**Source Documents**
2.4	Did EI reform have a disproportionate impact on any particular group?	3.3	Kapsalis and Leonard 2004A HRSDC 2005E
2.5	Are there unemployed individuals who are experiencing significant hardship?	3.2.7.3	HRDC 2003I
2.6	Have there been changes in the EI exhaustion rate as a result of the three major reforms, C-12, C-17 and C-113?	3.2.7.1	HRDC 2003H Gray et al. 2005 Informetrica 2005
2.7	Is there a gap between the exhaustion of sickness benefits and other forms of income support such as SA, CPP, and Workers Compensation?	8.1	HRSDC 2005D HRDC 2003H
2.8	What is the impact of the Maximum Insurable Earnings on the replacement rate?	3.2.7.2	HRDC 2003E
2.9	Did changes in the composition of the labour force have any impact on EI expenditures?	TR	Informetrica 2005
2.10	Are Canadians receiving a level of protection comparable to those abroad?	3.2, 3.3.2	Van Audenrode et al. 2005 Phipps and Lethbridge 2005
2.11	Has the ratio of contributors to the overall labour force changed?	3.2.2	Kapsalis and Leonard 2004A HRSDC 2005E
3.1	What is the impact of the EI system on the overall distribution of income?	5.4	Finnie and Irvine 2005 A
3.2	What is the distribution of income for fishers compared to other primary industries?	TR	HRSDC 2005F
3.3	What was the impact of the special provisions of EI reform such as the Family Supplement?	5.2, 5.3	HRSDC 2005D HRDC 2003D
3.4	To what extent are individuals at lower income levels prone to periods of unemployment?	TR	Reilly and Phalen 2004
3.5	To what extent do the lower income levels have less non-employment income from investments or other family members?	TR	HRSDC 2005D
3.5.1	How does the share of family income from EI vary with income levels?	TR	HRSDC 2005D
3.6	To what extent does EI stabilize the incomes of individuals over the course of their working lives?	N/A	N/A

Evaluation Questions (continued)			
Evaluation Question		**Section in this Report or Available in Technical Report (TR)**	**Source Documents**
3.7	To what extent do unemployed individuals with lower income draw on loans or assets, such as savings?	TR	HRSDC 2005D
4.1	Did EI reform impact communities differently?	6	Kapsalis and Leonard 2004B HRSDC 2005A HRDC 2003F HRSDC 2004H HRSDC 2004 A
4.2	Does the EI system allow sufficiently for variation for different conditions at the community level?	6.1	Kapsalis and Leonard 2004B HRSDC 2005A
4.3	Does the reduction in the maximum weeks of entitlement from 50 to 45 weeks have a differential impact on urban versus rural Canada?	TR	HRDC 2003 F
4.4	Is seasonal work determined purely by the industry or is it to some extent intrinsic to the community?	6	Kapsalis and Leonard 2004B
4.5	What are the long-term trends in the repeat use of EI?	6.2	Gray et al. 2005 Wesa 1995
4.6	Are repeat users more likely to be from low income groups?	TR	HRSDC 2005D
4.6.1	What are the socio-demographic characteristics of the repeat users?	TR	Gray et al. 2005
4.7	Is the repeat use of EI more common in certain types of firms or industries?	TR	Gray et al. 2005 Corak and Pyper 1995
5.1	Does EI impact the rate at which job seekers find employment?	4.1, 4.2	HRSDC 2004B
5.2	What was the impact of the extension of NERE entrance requirements on EI coverage for this group?	3.3.3	Kapsalis and Leonard 2004A HRDC 2003G
5.3	What were the impacts of the Divisor rule on work effort?	4.2.1	HRDC 2003B
5.4	What was the impact of EI reform and its subsequent modifications on Small Weeks?	4.2.2	Friesen 2000 HRDC 2001A
5.5	What are the factors influencing working while on claim?	4.2.3	McCall 2005 HRSDC 2005H
5.5.1	What explains the trends through time?	4.2.3	HRSDC 2005H
5.6	Did the rise in the Family Supplement raise claim durations for regular beneficiaries?	TR	HRDC 2003D

Evaluation Questions (continued)			
Evaluation Question		**Section in this Report or Available in Technical Report (TR)**	**Source Documents**
5.7	What were the outcomes of the employee's experience rated feature of the EI program?	4.2.4	Audas et al. 2005 HRSDC 2005G Fortin and Van Audenrode 2000
5.7.1	Did the Intensity rule affect the repeat use of EI?	4.2.4	Audas et al. 2005
5.7.2	Did the Clawback rule affect the repeat use of EI?	4.2.4	HRSDC 2005G
5.7.3	What were the savings from the experience rating?	4.2.4	Audas et al. 2005 HRSDC 2005G
5.8	Does the Clawback reduce the length of unemployment for non-repeat users of EI?	4.2.4	HRSDC 2005G
6.1	Is the degree of repeat use of EI higher in the fishing industry?	7.1	Acton White 2004 HRSDC 2005F Kapsalis 2005
6.2	What is the profile of EI usage for families involved in fishing?	7.1.3	HRSDC 2005F Kapsalis 2005
6.3	Is there evidence that fishing benefits are more easily obtained relative to benefits in other industries?	7.1	Acton White 2004 HRSDC 2005F Kapsalis 2005
6.4	Does EI have some degree of influence on the number of fishers?	7.2	Acton White 2004 HRSDC 2005F Kapsalis 2005
6.4.1	If there is an impact, is it that EI affects the rate at which Fishers enter or leave the industry?	7.2	Acton White 2004 HRSDC 2005F Kapsalis 2005
6.5	*Does the EI system impact fishing resource management?* Question dropped at Nov 2, 2004 Steering Committee	N/A	N/A
6.6	How does fishing coverage compare to other primary industries such as agriculture?	7.1.2	Acton White 2004
7.1	To what extent is the number of hours worked by individuals influenced by the EI system?	4.2.5	Friesen and Maki 2000 HRSDC 2005I
7.2	How did the move to the hours rule impact multiple job holding?	TR	HRDC 2001B
7.3	Does EI allow displaced workers to conduct a more productive job search?	TR	HRSDC 2005B Jones 1995 Crémieux et al 1995
7.3.1	If so, did EI enable those who voluntarily quit find a better quality job?	TR	Jones 1995
7.3.2	Did the change in voluntary quits and dismissals in 1993 affect the quality of job matches?	TR	Jones 1995
7.4	Do the contributions to EI discourage employers from hiring?	8.3	Nakamura 2005

Evaluation Questions (continued)			
Evaluation Question		**Section in this Report or Available in Technical Report (TR)**	**Source Documents**
7.5	Are there firms who use the EI system in non-standard ways?	N/A	N/A
7.6	To what extent do parental and maternity benefits provide support to parents?	3.3.2	Phipps and Lethbridge 2005
7.7	To what extent is the duration of parental leave a function of EI policy?	TR	HRSDC 2005C
7.7.1	What other factors affect parental leave, such as family income, supplementary benefit packages, and demographic factors?	TR	HRSDC 2005C
7.7.2	To what extent are parental benefits shared within couples?	TR	HRSDC 2005C
7.8	How are employers affected by the extension to the parental benefits?	TR	HRSDC 2005C
7.9	How do the parental benefits compare to other countries?	3.3.2	Phipps and Lethbridge 2005
7.10	Do workers with family responsibilities have significantly more difficulty in becoming eligible for special benefits?	TR	HRSDC 2005C
7.11	Have trends in sickness benefits followed trends in the labour force?	TR	HRDC 2003C
7.11.1	What are the factors affecting the usage of sickness benefits?	TR	HRDC 2003C
8.1	What are the redistributive impacts of the EI program?	5.4	Finnie and Irvine 2005 A Corak and Pyper 1995 Corak and Chen 2003
8.2	Does the EI system impede the labour market adjustment process?	6.3	Finnie 2004
8.2.1	Is internal migration reduced as a result of the existence of the EI system?	6.3	Finnie 2004
8.2.2	Are wages less downward flexible as a result of the EI system?	TR	HRSDC 2005B
8.3	What is the stabilization impact of EI?	8.4	Global Insight 2003 Dungan and Murphy 2003
8.3.1	What is the stabilization effect when the impact of EI contributions on employer demand for labour is taken into account?	8.4	Global Insight 2003 Dungan and Murphy 2003 Nakamura 2005
8.3.2	What are the stabilization effects on a regional basis?	N/A	N/A
8.4	To what extent does Work Sharing ameliorate the impact of economic downturns?	TR	HRDC 2004

Evaluation Questions (continued)			
Evaluation Question		**Section in this Report or Available in Technical Report (TR)**	**Source Documents**
8.5	Are there aspects of EI that may affect Canada's international competitiveness?	TR	Van Audenrode et al. 2005 Nakamura 2005
8.5.1	How is employers' competitiveness affected because of EI?	TR	Van Audenrode et al. 2005 Nakamura 2005
8.6	To what extent is employer behaviour affected by the EI system?	8.3	Nakamura 2005

10. Annex II – Employment Insurance (EI) Program Description

This annex describes the following basics of the EI system as of the end of the 2001/02 fiscal year:

- the purpose of EI benefits, how the EI system is funded and the different types of available benefits;
- a description of regular benefits, including eligibility, the length of the benefit period, and the level of benefits; and
- a description of some of the other types of EI benefits.

10.1 General Description

10.1.1 Purpose of EI Benefits

Employment Insurance (EI) provides temporary financial assistance for unemployed Canadians while they look for work or upgrade their skills. Canadians who are sick, pregnant or caring for a newborn or adopted child may also be assisted by EI.

10.1.2 Funding of the EI System

The EI system is funded by premiums collected from both employers and employees, who must each pay EI premiums on every dollar of insurable earnings up to the yearly maximum.[21] For employers, the EI premium is 1.4 times the EI premium withheld for each employee. When the yearly maximum contribution is reached, EI premiums are no longer deducted.[22]

[21] Insurable employment includes most employment in Canada under a contract of service (employer-employee relationship). There is no age limit for deductions of EI premiums. Some employment outside Canada is also insurable. Certain workers who are not employees might be considered to be in insurable employment. Examples of such workers are taxi and other passenger vehicle drivers, barbers and hairdressers, and fishers.

[22] For 2005, the maximum employee contribution is $760.50 and the maximum employer contribution is $1,064.70. These amounts declined slightly from 2004, where the maximum amounts were $772.20 and $1,081.08 respectively.

10.1.3 Types of EI Benefits

Clearly, EI benefits are intended to provide compensation to a person available for work. This type of benefit is called regular benefits, as opposed to other types of special benefits that have been introduced over the years to compensate for other kinds of unemployment. In addition to regular benefits, the main types of benefits are sickness benefits, maternity benefits, parental benefits, fishing benefits, and developmental program benefits (i.e. work sharing, job creation, and occupational training). Sickness, maternity and parental benefits are referred to as special benefits, as opposed to regular benefits paid to claimants while they are looking for work.

Benefits paid to persons engaged in fishing are subject to specific entitlement conditions. The same is true for benefits payable for developmental programs. Human Resources and Skills Development Canada (HRSDC) also has the authority to make regulations to establish schemes that are to provide assistance in the development of the labour force.

10.2 Regular Benefits

This section refers to the payment of EI regular benefits only. Benefits other than regular benefits, such as sickness, maternity or parental benefits, are subject to their own specific legislative provisions. Fishing benefits and those related to developmental programs also have their own specific provisions.

10.2.1 Eligibility

In order to be eligible for EI benefits, paying premiums is only the first step. An individual who has paid EI premiums must have also had an 'acceptable' job separation. In general, this implies that the individual lost employment through no fault of their own. Examples of this include losing employment due to a shortage of work, seasonal layoffs or mass layoffs. However, there are other reasons for job loss (e.g. quitting due to sexual harassment) that will not hamper eligibility for EI benefits.

As well as paying premiums and having an acceptable job separation, to be eligible for EI benefits a person must show that they have been without work and without pay for at least seven consecutive days. Also, in the last 52 weeks or since the last claim (the qualifying period), a person must have worked for the required number of insurable hours. The number of required hours is based on where the person lives and the unemployment rate in the economic region at the time of filing a claim for EI benefits. In some instances (e.g. if an individual is in the work force for the first time or is re-entering the work force after an absence of two or more years), a minimum of 910 hours in the qualifying period may be needed to qualify for EI benefits.

10.2.2 Length of the Benefit Period

Generally, a benefit period will have a duration of 52 weeks. This duration could vary, however. In a benefit period, benefits may be payable for every week of unemployment that follows the two-week waiting period in which no benefits are paid. The maximum number of weeks for which benefits may be paid in a benefit period is determined at the beginning of this period and is dependent on two factors. They are: the number of hours of insurable employment held by the claimant in his or her qualifying period, and the regional rate of unemployment that is applicable to the claimant in the week when the benefit period commences. As of 2002, weeks of entitlement range from 14 to 45, although it has varied in the recent past.

For example, when the applicable regional rate of unemployment is 6%, and a claimant has accumulated 700 hours of insurable employment in the qualifying period, then a maximum of 14 weeks of benefits may be payable. In another case where a claimant has accumulated 1,330 hours of insurable employment and the applicable rate of unemployment is greater than 16%, the claimant could receive up to 45 weeks of benefits. It is not necessary that the weeks of benefit are consecutive; as long as benefits have not been exhausted, they may be paid at any time during the 52-week benefit period. The amount of benefits paid in a given week is irrelevant. Any week for which $1 or more has been paid or is deemed to have been paid counts as a week of benefits paid.[23]

Unless the benefit period could be extended, it is during this 52-week period that a claimant could receive the maximum number of weeks of benefits to which he or she is entitled. No entitlement exists once these 52 weeks have elapsed, even if the claimant has not received the maximum number of weeks payable.

A benefit period would normally terminate immediately after the claimant has received the number of weeks of regular benefits to which he or she is entitled or the 52-week benefit period has elapsed. However, where the claimant has received all the regular benefits to which he or she is entitled before the 52 weeks have elapsed, for example after 19 weeks, the benefit period will not be terminated immediately, because special benefits (to be discussed shortly) may become payable to the claimant. In a case where special benefits are claimed after payment of all regular benefits, the benefit period will terminate when the 52 weeks of the benefit period have elapsed or when both regular and special benefits have been paid to a maximum of 50 weeks, whichever occurs first.

10.2.3 Level of Benefits

The *EI Act* has a provision to calculate the benefit rate by using all insurable earnings within a fixed period called the Rate Calculation Period (RCP). The RCP is the period of not more than 26 consecutive weeks in the claimant's qualifying period.

[23] There are a few factors that could contribute to a reduction in the amount of benefits received in a given week. The most notable factor is 'working while on claim'. If an individual is receiving EI benefits, that individual can earn 25% of their weekly benefit amount or $50, whichever is higher, without changing the amount of benefits received for that week. All earnings above that limit are deducted dollar-for-dollar from the weekly benefits.

The weekly rate of benefits is the maximum amount a claimant may receive for each week in the benefit period. The basic benefit rate is 55% of the average insured earnings up to a maximum of $413 per week. Depending on personal circumstances, a benefit rate could be higher or lower than 55%. However, the maximum payment of $413 per week will not change.

The claimant's average weekly insurable earnings amount is determined by using all insurable earnings in his or her Rate Calculation Period (RCP) and dividing this amount by a divisor. This divisor is the larger of:

- the number of weeks during the RCP in which the claimant had insurable employment; or
- a number equivalent to the number of required 35-hour weeks of work (based on the unemployment rate in each economic region), plus 2, up to a maximum of 22.

Average weekly insurable earnings cannot exceed $750. The benefit rate is generally 55% of that calculated average weekly insurable earnings amount. However, the benefit rate can exceed 55% if the claimant qualifies for the family supplement.

10.3 Other Types of EI Benefits

Other than regular benefits, the two main types of EI benefits that are available to individuals are special benefits (i.e. maternity, parental and sickness benefits) and fishing benefits. The main rules for these two benefit types are discussed below.

10.3.1 Special Benefits

Maternity benefits are payable to the birth or surrogate mother, for a maximum of 15 weeks, in the case of individuals who have worked for at least 600 hours in the last 52 weeks or since the last claim. The mother can start collecting maternity benefits either up to eight weeks before she is expected to give birth, or at the week she gives birth, and may be collected within 17 weeks of the actual or expected week of birth, whichever is later. The weekly EI payment and the number of weeks to be paid remain the same even if the mother gives birth to more than one child at the same time.

At the same time that a claim for maternity benefits is made, the mother or partner of the mother can ask for parental benefits, which are payable either to the biological or adoptive parents while they are caring for a new-born or an adopted child, up to a maximum of 35 weeks. To receive parental benefits, an individual is required to have worked for 600 hours in the last 52 weeks or since the last claim.

Parental benefits can be claimed by one parent or shared between the two partners, but will not exceed a combined maximum of 35 weeks. Parental benefits for biological parents and their partners are payable from the child's date of birth, and for adoptive parents and their partners from the date the child is placed with them. Parental benefits are only available

within the 52 weeks following the child's birth, unless the child is hospitalized. For adoptive parents, parental benefits are only available within the 52 weeks from the date the child is placed with them, unless the child is hospitalized. As in the case of maternity benefits, the weekly EI payment and the number of weeks to be paid remain the same even if more than one child is born or adopted at the same time.

In the case of sickness benefits, benefits may be paid up to 15 weeks to a person who is unable to work because of sickness, injury or quarantine. To receive sickness benefits, an individual is required to have worked for 600 hours in the last 52 weeks or since the last claim. A medical certificate describing how long the illness is expected to last must be provided to HRSDC. A person who makes a claim for sickness benefits must prove to be unable to work and that he or she would be otherwise available for work.

10.3.2 Fishing Benefits

To qualify for fishing benefits, fishers need sufficient earnings from self-employment in fishing in a maximum 31-week qualifying period before the start of the claim. Fishers need to earn between $2,500 and $4,200 to qualify for fishing benefits, depending on the regional unemployment rate. However, if an individual just started working as a self-employed fisher, or has returned to fishing after an absence of a year or more preceding the qualifying period, the fisher may need to earn a minimum of $5,500 of fishing earnings to qualify.[24] If an individual qualifies for fishing benefits, he/she may receive 26 weeks of benefits within a period of 37-38 weeks.

It is worth noting that many fishers fish during both the summer and winter fishing seasons. As a result, fishers can often have more than one fishing claim in a given calendar year.

[24] Fishing earnings are calculated in accordance with the sharing arrangement of the crew and reported in block 6C on the Record of Employment by the buyer or agent.

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