

07. Employment Insurance (EI) Reform

Issue

In fiscal 2014-15, employers of all sizes paid an estimated \$13.2 billion in EI premiums, based on projections. For this reason, all businesses have a stake in the EI program and deserve a voice in how it is financed and structured.

Because the EI program has been used to support government spending in a variety of areas completely unrelated to the original purpose of the EI program, EI premium rates have been kept at unnecessary high levels.

Reducing EI premiums for both employers and employees would reduce real wage costs to employers making it more attractive to hire more workers, and would increase real wages received by employees.

Background

The desired long-term goals of EI reform are to improve fairness of the system, reduce work disincentives, promote labour force mobility, and ensure program costs do not create a drag on economic activity and job creation.

As the Mowat Centre Employment Insurance Task Force noted, "Canada's economy and its labour market are fundamentally different than when the EI system was designed and when it was last significantly reformed." The original objective of the EI program was to provide insurance against temporary and unintended periods of unemployment. However, EI funds have been used to support government spending in a variety of areas (such as employment training; sickness benefits; compassionate care benefits; maternity, parental and adoption benefits; and fishing benefits) completely unrelated to the program's original purpose. Special benefits are expensive. Regular EI benefits now account for less than two-thirds of total EI benefits.

As a core principle of reform, the EI program should be operated as a true insurance program – one that provides temporary income support to qualified individuals who involuntarily lose their jobs. The social-program aspects of EI (like training-related benefits) should be funded through general revenues, not EI premiums. Employers and employees would continue to fund the workers' insurance system through EI premiums collected.

Enhancements to EI may also discourage labour force participation. The 2012 legislative changes to EI did not go far enough – in terms of changes to the definitions of suitable employment and acceptable wage -- to reduce any disincentive to work.

To promote fairness and efficiency in the tax system, other structural issues must be addressed. Employers pay 1.4 times the employee premium rate, or 58.3 per cent of EI premiums. This is a significant cost for businesses, particularly small- and medium-sized businesses. The rationale behind this is that employers have greater control over layoff decisions and, therefore, should bear a higher overall share of program costs. In recent years, however, EI benefits totally unrelated to layoffs (for example, parental leave benefits) have contributed to higher program costs. There is no reason for employers to pay more for these benefits than employees do. The federal government should gradually (i.e. over a five-year period) reduce the employer EI premium rate to equal that paid by employees.

Canada's EI system, with its variable entrance requirements, allocates benefits based on local unemployment rates across 58 regions. The criteria to qualify for EI benefits ranges from 420 to 700 hours of insured work in the previous 52 weeks, and benefits can last from 14 to 45 weeks. Where benefits are less accessible, Canadians who lose their jobs are unfairly treated. Where they are more accessible, they discourage labour mobility both within and among provinces and dissuade some workers from pursuing skills development or education. This undermines overall economic output and hampers productivity.

In terms of unfair treatment, consider that even as Alberta's unemployment rate spiked in 2016, its rate was only then reaching the Ontario's prevailing rate. Unemployed workers in Alberta were offered more generous EI benefits than their Ontario counterparts, who were experiencing similar unemployment rates.

The government should also move toward a national eligibility standard (560 hours) and standardize duration of benefits (22 to 45 weeks). The cost of this proposal is roughly \$500 million.

Regarding EI-funded training programs, the government has indicated its intention to provide the province and territories an extra \$500 million annually in EI funds for training programs, in addition to the average annual transfer of approximately \$2 billion annually. Before increasing the transfer of EI funds for training, the government should thoroughly evaluate the effectiveness of the programs currently funded. In addition, it should provide the rationale for the estimated 25% increase in EI funds toward training, reporting on how these funds will be directed relative to labour market needs. In light of the changing nature of work (including more precarious work) and skills required for work (including more digital skills and few routine manual skills), this evaluation should allow for EI-funded programs to address new challenges facing unemployed workers and prospective employers.

Recommendations

That the federal government:

1. Reduce the EI premium as much as possible, operate the EI program as a true insurance program.
2. Standardize the eligibility requirements and benefits duration across Canada to ensure equal access and to address the current inequity and unfairness to workers based on their location. Without equal access, the government will be discouraging labour mobility.
3. Be cautious about EI enhancements, by recognizing that EI is in direct competition with employers offering positions in low-wage occupations.
4. Increase the accountability regarding how EI-funded training programs are spent and seek increased input from employers on the effectiveness and relevance of the programs to ensure governments are spending in the right areas relevant to labour market needs.
5. Given the shifting nature of work and demand for skills, explore how EI-funded training programs can take into account Canadians with precarious employment and/or facing skills transitions.