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Unequal Access: Making Sense of EI Eligibility Rules and How to Improve Them

With growing ranks of unemployed Canadians in 2015 and 2016, particularly in resource-based regions, many analysts question whether the EI regime is functioning as it should. Reliable measures show that eligibility rates are quite high, generally above 90 percent for most laid-off full-time workers, but significantly lower for part-time workers, new entrants, and for workers in low-unemployment regions. Policy reforms could help improve equity across groups and regions.

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The Study In Brief

The topic of Employment Insurance (EI) eligibility is a source of great confusion, complicating discussions regarding where eligibility is poor and how it can be fixed. In the 1990s, EI transformed from a social program providing broad income support towards a regime based more on insurance principles. At the same time, the appropriate indicator of EI coverage changed as well. However, the eligibility measure for the pre-1990s EI regime – the beneficiaries to unemployed ratio – remains in common use today.

As reforms in the 1990s saw the federal government move towards payments based more closely on insurance principles, workers who quit their jobs or who left to return to school no longer qualified for benefits, minimum entrance requirements were raised in some regions, and the program moved from weeks-worked qualification to an hours-worked system. As these reforms took place, the beneficiaries-to-unemployed ratio fell. However, this decline was not strictly the result of policy reforms but was also due to important changes in the composition of unemployed workers.

With growing ranks of unemployed Canadians in 2015 and 2016, particularly in resource-based regions, many analysts question whether the EI regime is functioning as it should. Appropriate eligibility measures show that eligibility rates are quite high, generally above 90 percent, for most laid-off full-time workers, but significantly lower for part-time workers, new entrants, and for workers in low-unemployment regions. We endorse the federal government's announced revisions to eligibility requirements for new entrants and re-entrants to the labour force, which will boost eligibility for these workers. We further outline other policy changes that should be considered to help improve eligibility in the short run.

For a broader and further-reaching eligibility increase, we recommend consideration of a lower, yet geographically more uniform, hours-based requirement, in particular for regions with low unemployment rates that currently require at least 700 insurable hours of work.

The beneficiaries-to-unemployed ratio has become a misleading eligibility indicator because it is not tightly linked to the target population of EI and any underlying program parameters, such as entry requirements and requisite contribution history. Despite its flaws as an indicator of coverage, the beneficiaries-to-unemployed ratio does draw attention to a very pressing policy challenge – a sizable segment of the labour force exhibits a low level of labour market attachment, and these workers will continue to struggle in accessing EI benefits. Although it is unlikely that EI would be the best program to serve these workers in the immediate future, a better understanding of how EI fits into the overall social safety net of Canada, and its role as an insurance program relative to other designs, emerges from better understanding EI eligibility.

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Discontent with the Employment Insurance (EI) program is widespread. Think tanks, interest groups, media outlets and policy research organizations often advocate for reforms to the EI regime.

For example, a *Globe and Mail* editorial prior to the last federal election stated:

> EI was last significantly overhauled in 1996, and nearly 20 years later, it's in need of a serious rethink. This isn't going to happen during a federal election... But after the dust clears in October, whoever forms the government must launch an in-depth review of a deeply flawed, indispensable program. (23 July 2015).

Notwithstanding the apparent near-unanimous appetite for major reforms, there is currently little consensus on how to proceed.

Regularly debated features of EI include the amount of benefits and their duration, premium charges, and geographically-based entrance requirements, but perhaps the most controversial, and widely misunderstood, feature of EI is eligibility – i.e., who qualifies for benefits. Multiple eligibility criteria across different regions have so far spurred proposals for fragmented solutions. In this *Commentary*, we explain the strengths and weaknesses of different measures of EI eligibility and take aim at the most frequently used, or misused, yardstick.

We find that the alleged deterioration of the EI program as a social safety net over time is greatly misunderstood and exaggerated. Claims that EI eligibility restrictions and benefit cutbacks are eroding the safety net for workers who pay into the program are mostly untrue. Although we demonstrate that there is a significant number of unemployed Canadians that do not contribute to EI, eligibility is quite high for targeted recipients. Nevertheless, important improvements can still be made. Eliminating the onerous requirement that new labour market entrants and re-entrants (NEREs) must have worked 910 hours to become EI eligible, which mainly hurts youth and recently-arrived immigrants, is an easy fix and one that the federal government promised to carry out in the 2016 budget.

A careful analysis of other EI eligibility measures demonstrates the complex issues involved in designing Canadian social safety nets. At no time was the EI program ever intended to cover unemployed workers who do not contribute financially to the regime, but this group currently comprises a sizable share of the population of unemployed workers. Meanwhile, the share of unemployed workers receiving EI payments has fallen from more than 80 percent in the late 1980s to just over 40 percent today. While half of the drop was due to restrictive changes to the EI system – mainly no longer allowing workers who quit or are dismissed to qualify for benefits – the other major reason for the decline was on-going structural changes in the labour market (i.e., long spells of unemployment, more part-time, temporary, self-employed workers, etc.). From 2004 to 2014, between 78 percent to 86 percent of all workers with a valid job separation, and who contributed to EI, qualified for EI benefits.

The implication is that the current EI eligibility criteria do not need a major overhaul to expand

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eligibility, though addressing regional variations in eligibility should be a priority. That said, in the medium-term, the broader design of the social safety net needs a thorough rethink, given the evolution of the labour market. It is imperative that policymakers address the pressing need to better support unemployed individuals who do not have access to EI benefits with programs outside of the EI framework. As such, policymakers should revisit the "social" side of social insurance programs by reforming existing measures and developing new ones to target a diverse and not-well-understood group that constitutes more than half of all unemployed workers.

Measures of EI Eligibility

In public discussions on EI eligibility, it is common to hear comments such as "…the problem is that the program eligibility criteria have become so tight that only four in 10 unemployed Canadians now qualify" (Torjman 2015). This is often linked to claims that "fewer than 40 percent of unemployed workers can access EI" (MacEwen 2015) or that, "…Ottawa wants to address the fact that the percentage of Canadians who qualify for EI when they lose their jobs has slipped below 40 per cent." (*Globe and Mail*, 22 Jan 2016, p. 1). Furthermore, one eligibility measure – the beneficiaries-to-unemployed ratio – is often held up to assert that EI access should be expanded (Yalnizyan 2009). However, a more nuanced and broader investigation into EI eligibility is required to properly understand the above comments.

We examine three eligibility measures: i) the oft-cited beneficiaries-to-unemployed (B/U) ratio; ii) the EI coverage survey measure; and iii) a less-known measure derived from employment records of workers who separate from their jobs.

The B/U Ratio

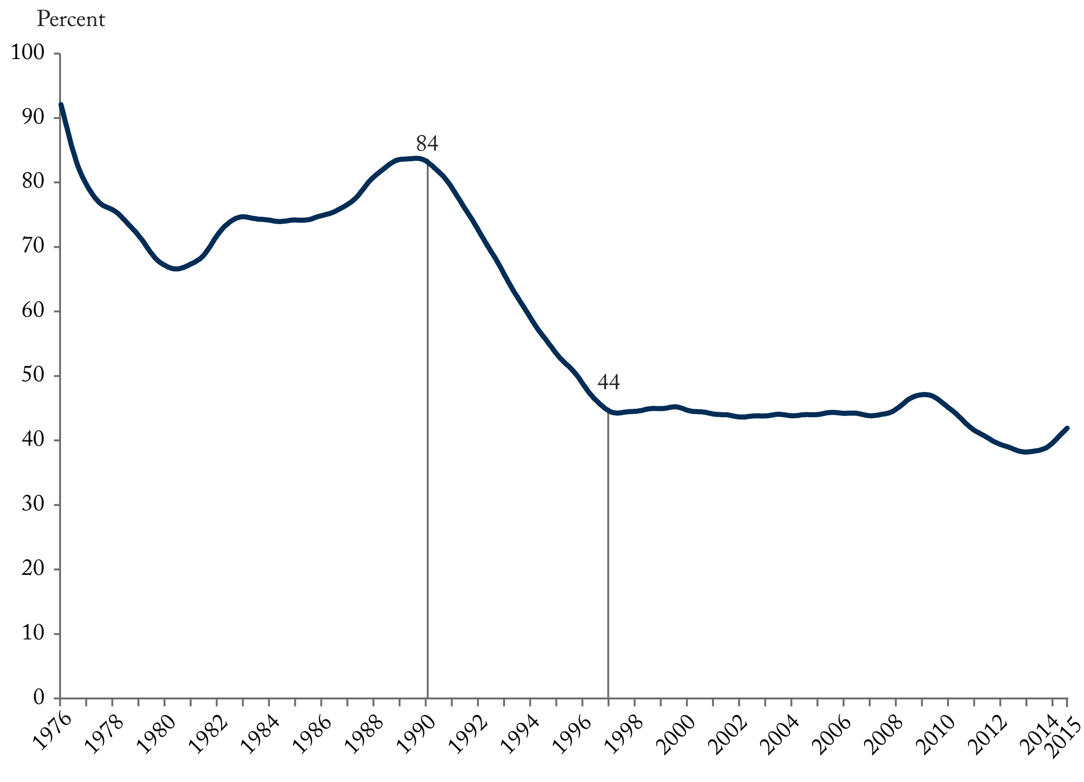
Among these three measures, the B/U ratio is the subject of the most public discussion, as reflected in the quotes above. It gives a point-in-time snapshot of the number of workers receiving EI benefits divided by the number of individuals who are officially unemployed, making it a global indicator that is easy to understand. Data availability over a long interval generates a historical time series, which is also an appealing feature of the B/U ratio. This retrospection tells a story of a dramatic change – the ratio has fallen by about half since the early 1990s, and commentators often assert that the EI eligibility cutbacks are to blame.

The B/U ratio reached a peak of 84 percent in early 1990, after which it declined sharply to a trough of 44 percent in late 1997 (Figure 1). Despite this drastic decline over a seven-year interval, it has been remarkably stable since then: in the neighbourhood of 44 percent. It also appears to have returned to a cyclical pattern, as was the case prior to the 1990s; it rose to 47 percent during the 2009 recession, then dipped to 38 percent in early 2014, and subsequently recovered to 42 percent in 2015.

The observed huge decrease is often attributed to cutbacks in the generosity of the UI/EI regime, which occurred entirely during the 1990s – the vertical bars in Figure 1 highlight when notable policy changes took effect. In 1990, for example, when the program was called Unemployment Insurance (UI), the entitlement period for workers who quit or were fired from their former jobs was shortened.[1] At the same time, the employment requirements for potential EI recipients were raised from 10-14 weeks of insurable work to 10-20 weeks, with a higher number of weeks required in low-unemployment rate regions. Arguably, the most

1 The system was labelled Unemployment Insurance (UI) until the last package of major reforms, i.e., the 1996 *Employment Insurance Act* (Bill C-12).

Figure 1: The Beneficiaries-to-Unemployment Ratio, 1976-2015



Note: The data have a monthly frequency and are seasonally adjusted.
Sources: Statistics Canada and authors' calculations.

consequential change took place in 1993, when workers who either left their former jobs voluntarily or were dismissed for cause were disqualified from receiving any benefits. As well, in the following year, the minimum entrance requirement in high-unemployment regions was increased, and entitlements (i.e., the number of benefit weeks) for most workers with less than a full year of work in the previous 12 months were reduced. All of those changes led to a lowering of the B/U ratio.

Bill C-12, which created a new *Employment Insurance Act*, passed in 1996, marked the transition from a qualification system based on insurable weeks to one based on insurable hours. This change was estimated to have had a small overall effect on UI/EI coverage (Sweetman 2000, Friesen 2002).[2] On one hand, the transition to hours-worked coverage had the impact of extending coverage by requiring more workers (along with their employers) to pay premiums on a higher base for

2 Before this change was made, one had to work at least 15 hours in order for the week to be counted toward qualification. If fewer hours were worked, the week did not count as insurable, and no premiums were paid.

insurable earnings. On the other hand, the hours-based measure worked against the interests of part-time workers with short workweeks (Bédard and Fortin 2015).[3] Individuals working long hours for part of the year and who were inactive for the rest of the year tended to see eligibility improve, while those working short hours for most of the year tended to see eligibility erode. Workers in the latter group who were not able to obtain a sufficient number of hours to qualify still had to pay premiums.

The net effect of the *EI Act*'s new provisions on access to benefits was slightly expansive. "Overall, those who became eligible outnumber those who became ineligible, and overall, the hours portion of the UI-EI transition is associated with a small increase in entitlement" (Sweetman 2000, 5). Furthermore, the nationally uniform entrance requirement for new entrants and re-entrants (NEREs) into the workforce was raised in 1996 from 700 hours to 910 hours of insurable employment. This change served to reduce coverage, affecting mainly youth and immigrants.

Collapse of the B/U Ratio

The timing of the cuts to UI/EI benefits, which occurred during the economic downturn of the 1990s, coincided with the precipitous drop and subsequent levelling-off of the B/U ratio. Roughly half of the drop can be attributed to the legislated program changes enumerated above, while around 40 percent of the drop can be attributed to major structural changes in the labour market that generated a change in the composition of the unemployed (HRDC 1998). There was a significant increase in the share of the "unemployed population without employment activity in the past 12 months," increasing from 20.8 percent in 1989 to 38.4 percent in 1997.[4] Over 65 percent of unemployed Canadians not covered by EI benefits in 1997 had no work in the past 12 months, were self-employed, or had left their job to return to school – a very large figure. Individuals in these groups would not have qualified for benefits either before or after the changes.

The same federal working paper (HRDC 1998) was extremely influential in shaping future policy discussions surrounding the question of how to measure EI coverage. However, many of the paper's valuable lessons appear to have been forgotten. In particular, the paper explained why the B/U ratio fails to indicate how effectively the EI program serves contributors. Put simply, the numerator of the B/U ratio is incompatible with the denominator, since the number of EI recipients in the numerator includes some individuals who are neither unemployed nor in the labour force – i.e., workers in seasonal industries who are collecting EI but not looking for employment and waiting for seasonal work to restart – or those working while receiving EI.[5] Perhaps most importantly, the B/U measure does not include the target population for the payment of EI benefits: workers who are

3 In fact, those authors recommend returning to the weeks-based system of qualification. The rationale for the hours-based measure had to do with the incentive structure. Under the former system, employers had a strong incentive not to employ a worker for more than 14 hours in any week, since both parties were obligated to pay into the system once that threshold was past (from the very first hour that was worked).

4 The status of not working in the last 12 months is different from being long-term unemployed. We know much less about the traits and characteristics of those not working and out of the labour force than we do about the latter group, who are deemed to be seeking work.

5 This explains the seemingly bizarre phenomenon observed in the provincial B/U ratios in which some Atlantic provinces have ratios exceeding 100 percent. The many seasonal workers in these regions collect benefits during the off-season and are not looking for work during that time, meaning they would not be considered to be unemployed.

contributing to the program and experience an unexpected job loss. It is not the objective of the program to cover the unemployed who have little or no previous attachment to the labour market, who are not contributing to EI, or who quit their jobs without just cause.

The Employment Insurance Coverage Survey Eligibility Measure

Employment and Social Development Canada (ESDC), previously known as Human Resources and Skills Development Canada, administers EI and prefers coverage measures other than the B/U ratio. The Employment Insurance Coverage Survey (EICS) measure of EI eligibility first became available in 1997.[6] The key EICS innovation is that it includes only the EI target populations' potential beneficiaries, which excludes Canadians who do not pay into the program. As such, EICS is a good measure of the program's delivery effectiveness relative to its target population. The reported value is the number of workers who are deemed to be "eligible unemployed" as a share of the "potentially eligible unemployed." Both of these terms are explained below.

Following a somewhat complicated formula, the B/U measure of EI coverage can be reconciled with the EICS, as demonstrated in ESDC's annual *Employment Insurance Monitoring and Assessment Report* (EIMAR).[7] Starting with the stock of unemployed workers, there are 13 steps that break down the B/U ratio in order to account for the discrepancy between these two measures. The first step omits those workers who were not covered by the EI regime in the sense that they paid no premiums over the previous 12 months (see Box 1). As such, they are not potentially eligible EI recipients. Out of the 1.31 million unemployed workers in 2013, some 820,000 (62.5 percent) paid into the program (labelled 'UC' in Box 1), while more than 490,000 (37.5 percent) had not.[8] This latter group included some 59,000 self-employed and unpaid family workers and a huge group of 433,700 individuals who did not work at all in the past 12 months. Amongst that last group there were 115,000 individuals with no employment history at all.

The next step concerns the reason people leave their jobs: about one-quarter (24 percent) of contributors to the EI regime quit in order to return to school or resigned without just cause, meaning they would not qualify for benefits. This type of job separation is non-insurable for reasons of moral hazard, as some workers who could access benefits through quitting would be more likely to leave a job.

The residual group of unemployed workers after these three triages (the self-employed, those with no insurable hours, and those with an invalid reason for separation) is a cohort of potential beneficiaries, called EI-eligible workers that numbered 624,100 in 2013. Of these workers, 535,600 qualified for benefits because they had the requisite number of insurable hours, while 88,500 (14 percent of all contributors with a valid reason for separation, or 6.7 percent of all unemployed) lacked sufficient hours. While their numbers are not large, this group is highly significant because it can be targeted directly by tweaking a parameter within the existing EI program, namely the number of insurable hours required to qualify for EI benefits.

6 The EICS Survey is administered to a Labour Force Survey (LFS) sub-sample on a quarterly basis. The relevant cohort is composed of unemployed individuals (as defined by the LFS) and others who, given their recent status in the labour market, were potentially eligible for EI. In 2013, the sample size was 10,844, including respondents for all four quarters.

7 The most recent report was released in 2015. The data, drawn from Statistics Canada's 2013 Employment Insurance Coverage Survey, are reported on p. 60 of the 2015 EIMAR.

8 The figures in the box are rounded to the nearest 1,000.

Box 1: Breaking Down the B/U Ratio (with the Program's Nomenclature)

- U: the stock of unemployed workers: 1,312,000
  - Of the 493,000 who do not contribute premiums:
    - 59,000 self-employed or unpaid family workers (4.5 percent of U)
    - 434,000 who had not worked in previous 12 months (33.1 percent of U)
- UC: the stock of unemployed workers who did contribute: 820,000 (62.5 percent of U)
- S: valid reason for separation: 624,000 (40.8 percent of U; 76.1 percent of UC)
  - Of the 196,000 without a valid reason (14.9 percent of U; 23.9 percent of UC):
    - 93,000 returned to school (7.1 percent of U; 11.4 percent of UC)
    - 102,000 deemed invalid for other reasons (7.8 percent of U; 12.5 percent of UC)
- E: eligible as they had the requisite number of insurable hours: 536,000 (40.8 percent of U; 65.4 percent of UC)
  - 88,000 did not qualify for this reason (6.7 percent of U; 10.8 percent of UC)

The EICS eligibility measure is calculated as the ratio of those who are deemed to qualify for EI benefits (535,600) to the number of eligible separators (624,100), which corresponds to 'E' over 'S' in Box 1. The 2013 value of 85.8 percent is up from the 81.9 percent value reported for 2012.[9]

An Eligibility Measure Based on Job Separators

In addition to the EICS eligibility measure, ESDC has developed another indicator, labelled the ROE measure, because it is derived from Record of Employment (ROE) files.[10] The ROE is a form that an employer is legally obligated to issue to everyone leaving a job, irrespective of the reason for the job

9 To account for all beneficiaries in the B/U ratio, a few further triages are required. A small group of those deemed to be eligible did not claim benefits. Also, a small group did claim benefits, but did not receive them for unknown reasons. Some unemployed workers received benefits but exhausted them during the survey week. Once subtracting these workers from the totals, this leaves the group of workers that had the right to receive EI benefits during the survey week. The remaining steps of the accounting process consist of "reverse triages" in the sense that workers who are not included in the original stock of unemployed workers (i.e., in the Box 1 "U" group) are added, expanding the EI beneficiary total (counted in the numerator).

10 EI eligibility is determined from two fields on the ROE form – the number of insurable hours as well as the geographical administrative region of residence. The latter is inferred from the employer's postal code. However, at least one of these values is missing from anywhere between 5.3 percent to 8.5 percent of the ROE records, depending on the year. The other data deficiency is even more serious. Between 30.2 percent and 36 percent of worker-firm separations, a figure that is derived from another administrative data set, are not matched to an ROE, depending on the year between 2001 and 2013. To the extent that the processes generating these two deficiencies – missing values on observed ROEs in the first case and entirely missing ROEs (for which no information is observed) in the second case – are not totally random in nature, the results for this measure of EI eligibility will be biased.

separation.[11] These data can be used to investigate the frequency at which laid-off workers meet the number of insurable hours in order to qualify for EI benefits, but issues related to under-reporting imply that the data should be interpreted with caution.

The ROE measure, a flow-based measure, is based on the job loss that triggers the unemployment spell, as opposed to an individual who is observed at a calendar-determined survey date (Gray and Sweetman 2004). In contrast, the EICS eligibility rate is a snapshot of unemployed workers on a certain date once a quarter. The EICS figure, therefore, contains many more long-term unemployed individuals than the flow-based ROE measure. As well, the EICS measure might miss some workers with short unemployment durations. In theory, the ROE measure should capture workers with non-standard employment patterns, who face the greatest challenges for EI eligibility.[12, 13]

The EICS and ROE Results

The EICS eligibility measure has remained somewhere between 78 and 86 percent from 1997 through to 2014 (Figure 2). The drop in the EICS measure from 2009 to 2011 occurred because many laid-off workers suffered long unemployment durations and had not yet had the chance to accumulate a sufficient number of insurable hours to requalify for EI benefits (EIMAR 2013). By 2013, however, the EICS series recovered to near its average level.

In contrast, the ROE measure, for which data are available only for the 12-year period, 2001-2013, has trended slightly downward. The mean values are 84.3 percent (EICS) and 77.8 percent (ROE). The EICS measure exhibited a counter-cyclical pattern during the recession of 2009 and the subsequent recovery period. It rose four percentage points by 2009, when the greatest waves of layoffs occurred, but fell almost eight percentage points by 2013. It is not yet clear what is causing the divergence between these two measures in 2013.[14]

Explaining the Changes to EI Eligibility Over Time

We now compare the proportion of four EICS groups that were ineligible for EI between 1997 and 2014 (Table 1) to the stock of all unemployed workers during that period. Their overall EI eligibility rate was slightly higher in 2014 than in 1997 (top row). The most noticeable developments over the 17-year period are a significant increase in the share of unemployed workers without a valid reason for separation, as well as a significant decrease among those who did not meet the variable entry requirements.

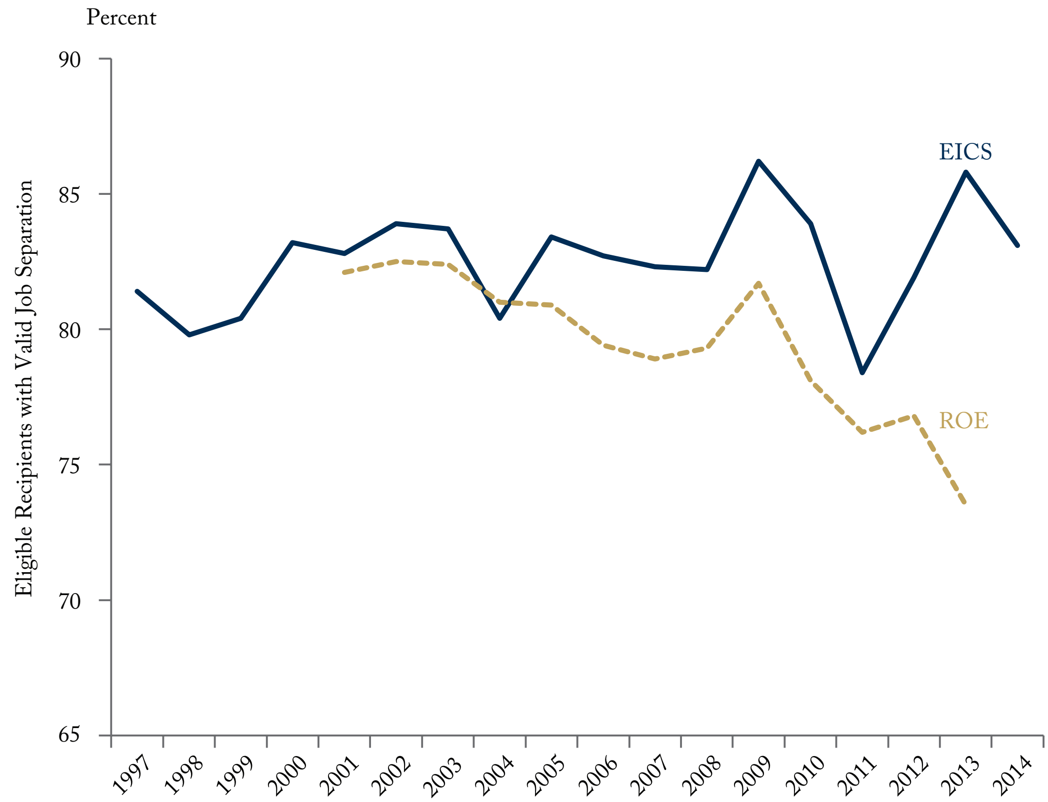
11 The form does specify the firm-reported reason for separation, for which the categories are layoff, quit and other.

12 Neither of these measures, however, sheds light on the question of why some workers appear to qualify for EI benefits but either do not apply for them or do not end up receiving them.

13 The data series that is most comparable to the EICS EI eligibility measure is the percentage of job separators for the “shortage of work” reason who meet the variable entry requirement after combining hours from their ROEs during the previous 52 weeks. ESDC (2015) contains estimates for the “ROE measure” of EI eligibility between 2001 and 2013. The ROE data file is a random 10 percent sub-sample of all covered workers who separate from a job. The parent file is huge, as 7 million to 8 million ROE records are filed annually. The analysis is based on samples containing 700,000 to 800,000 workers. Table 10 in the ESDC 2015 report lists the values by year from 2001 to 2013. Readers of that table are warned to treat the last value with caution because it is subject to updating. It is the lower curve in Figure 2.

14 Omitting the suspect 2013 ROE-based measure (at 73.5 percent, it is 4.3 percentage points below the mean), which is subject to revision, the two series are fairly highly correlated at + 0.59. The estimated downward trend noted above is highly influenced by that particular observation. The trend decline is 0.62 percentage points per year. That noticeable downward trend is statistically significant at the 1 percent level.

Figure 2: EI Coverage Measures – Employment Insurance Coverage Survey (EICS) and Record of Employment (ROE)-Based, 1997-2014



Sources: Statistics Canada and ESDC (2015).

The fluctuations in the EICS measure are explained in part by changes in the composition of employment among groups of workers with different eligibility rates. The variables that are highlighted in a 2015 ESDC study are: a) the share of full-time, permanent workers, and b) the share of temporary seasonal workers, both relative to the group of unemployed contributors with a valid job separation (labeled "UC" in Box 1). Based on annual data from 2008-2013, between 91 percent and 95 percent of those who lost permanent full-time positions were EI-eligible. In contrast, the eligibility rate for permanent part-time workers was much lower, fluctuating between 48 percent in 2008 and 75 percent in 2010. Over the same interval, 76 percent to 81 percent of temporary seasonal workers were eligible, in contrast to only 60 percent to 70 percent of temporary non-seasonal workers.[15] The former group can typically qualify more easily due to variable EI entrance requirements. Shifts in the composition of potentially eligible workers in those two groups tend to raise the value of the EICS measure or vice versa.

There are also eligibility differences for youth and immigrants. This is mainly due to the strict eligibility requirements that apply to new entrants

15 See Table 9, EIMAR 2015, p.65.

Table 1: Share of Unemployed Workers Deemed EI Ineligible, 1997 vs. 2014			
	1997	2014	Change
	Percent		
Overall EICS EI Eligibility Rate	81.4	83.1	1.7
Not a Valid Reason for Separation	11.0	14.8	3.8
Not Enough Qualifying Hours	10.4	7.7	-2.7
Self-employed	4.8	4.4	-0.4
No Work at All in Past 12 Months	36.0	34.7	-1.3

Sources: Statistics Canada and authors' calculations.

and re-entrants (NEREs) into the labour force, which require that workers work 910 hours in the last 52 weeks – well above the hourly requirements for other workers, which range from 420 to 700 hours worked depending on the EI administrative region. Prior EIMAR reports show that youth and immigrants are more likely to be NEREs than the rest of the population. For youth and immigrants who are NEREs, roughly only 40 percent to 60 percent have sufficient hours to qualify for benefits (EIMAR 2008, EIMAR 2004).

The share of non-contributors (UC) relative to the stock of unemployed workers (U) from 1989 rose sharply from 25 percent in 1989 (when the B/U ratio was high) to 40 percent in 1997, but subsequently fell to around 29 percent by the early 2000s (Figure 3). It remained quite stable at around 30 percent up to 2009, but since then it has exhibited a sharp upward trend, spiking to 40.4 percent in 2012.[16]

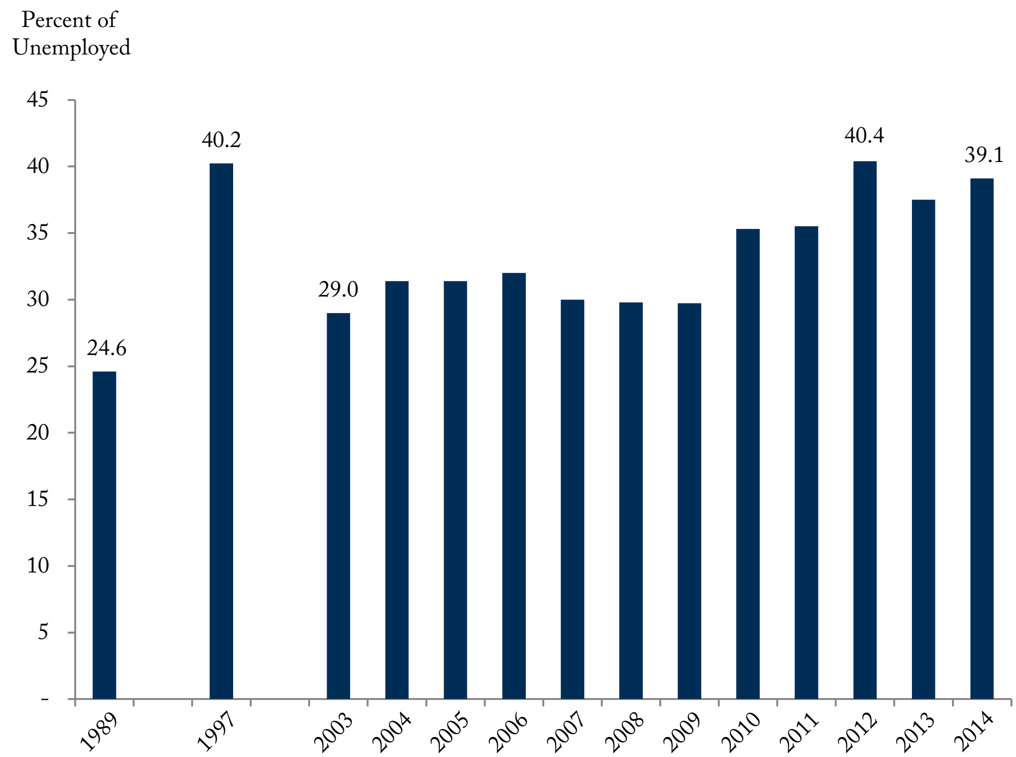
Figure 4 illustrates the breakdown of the major categories of ineligible unemployed workers over time.[17] These ineligible groups include those who did not work in the past year, had an invalid reason for separating, were self-employed or did not have enough insurable hours to qualify. The share of the stock of unemployed workers who either quit or were fired shows no obvious trend, nor does the share of the unemployed workers who were self-employed.[18] Far and away the largest group is those with no work in the past 12 months, whose share increased from 24 percent to 35 percent from 2003 to 2014, a period that also coincided with an increase in the number of long-term unemployed. Many individuals in the latter group were permanently laid off during the 2008-2009

16 This development was also highlighted in Table 6 of the 2015 EIMAR issue for 2013/14.

17 The values for 1998-2002 are not shown in the interest of focusing more sharply on recent trends and patterns, while 1997 serves as a baseline year.

18 In 2011, self-employed Canadians gained access to EI special benefits.

Figure 3: Proportion of Non-Contributors, 1989, 1997 and 2003-2014



Sources: Statistics Canada, HRDC (1998), and authors' calculations.

recession. This increasing share of workers with apparently marginal labour force attachment accounts for a good part of the misinterpretation of the B/U ratio.

We include the group without sufficient EI qualifying hours because that is the group that can be targeted most directly by a change in EI policy – specifically, a lowering of the entry requirements, which would probably be politically popular (Figure 5). Between 2003 and 2014, the share of this group was constant before spiking and falling near the end of the period. This pattern is indicative of movements with the downturn and recovery of the business cycle, but also is evidence that casts doubt on assertions that stringent eligibility criteria drove the B/U ratio's decline.[19]

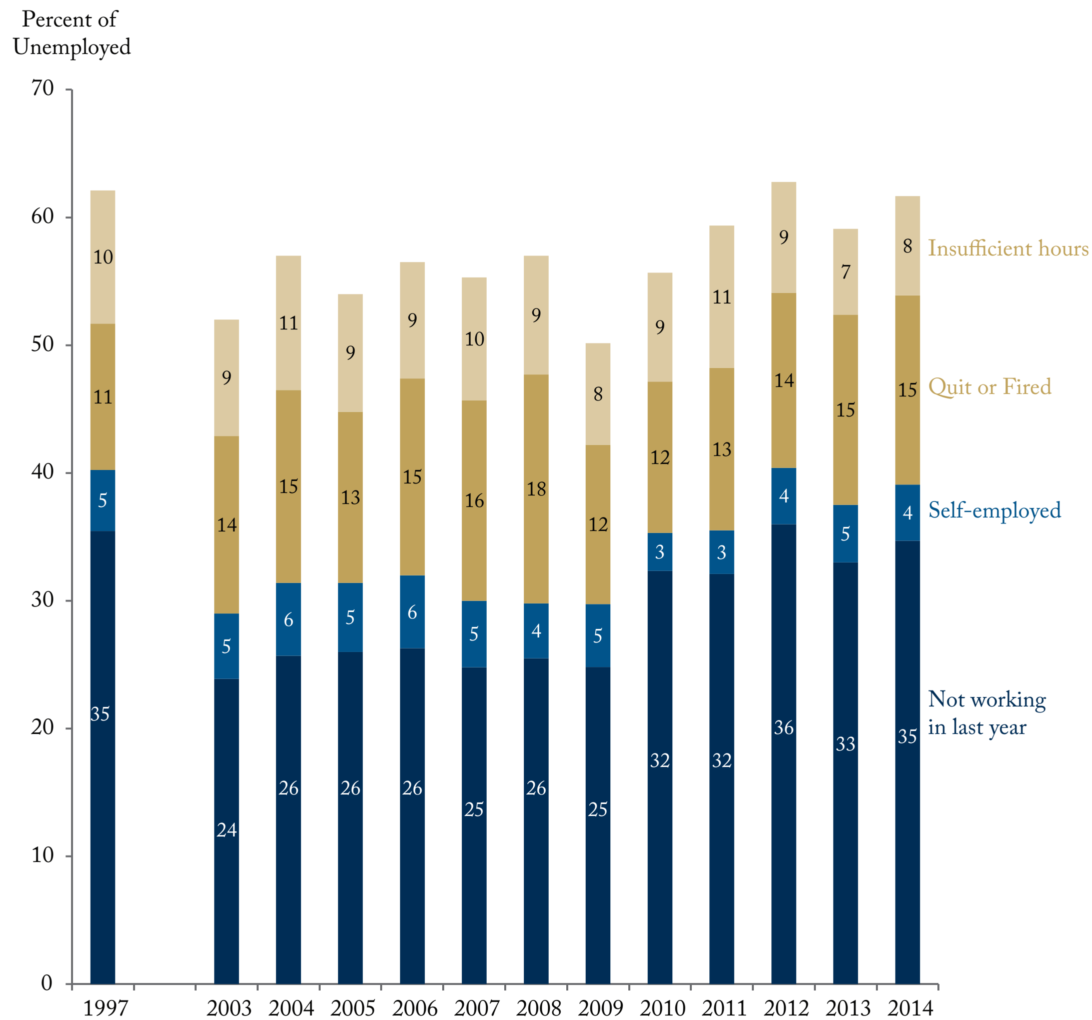
Discussion: Policies to Boost Eligibility

Move to More Harmonized Entrance Requirements

A reform to harmonize EI eligibility, which would include addressing the variable entrance requirements that are based on regional unemployment rates, has been suggested frequently in the past (Bishop and Burleton 2009; Gray and

19 These values exhibit a negative time trend over the 12-year interval, 2003 to 2014, declining at an annual rate of 0.16 percentage points. The P-value of the coefficient of the linear time trend variable is 0.1.

Figure 4: Those Who Do Not Qualify for EI, As a Share of the Unemployed, 1997-2014

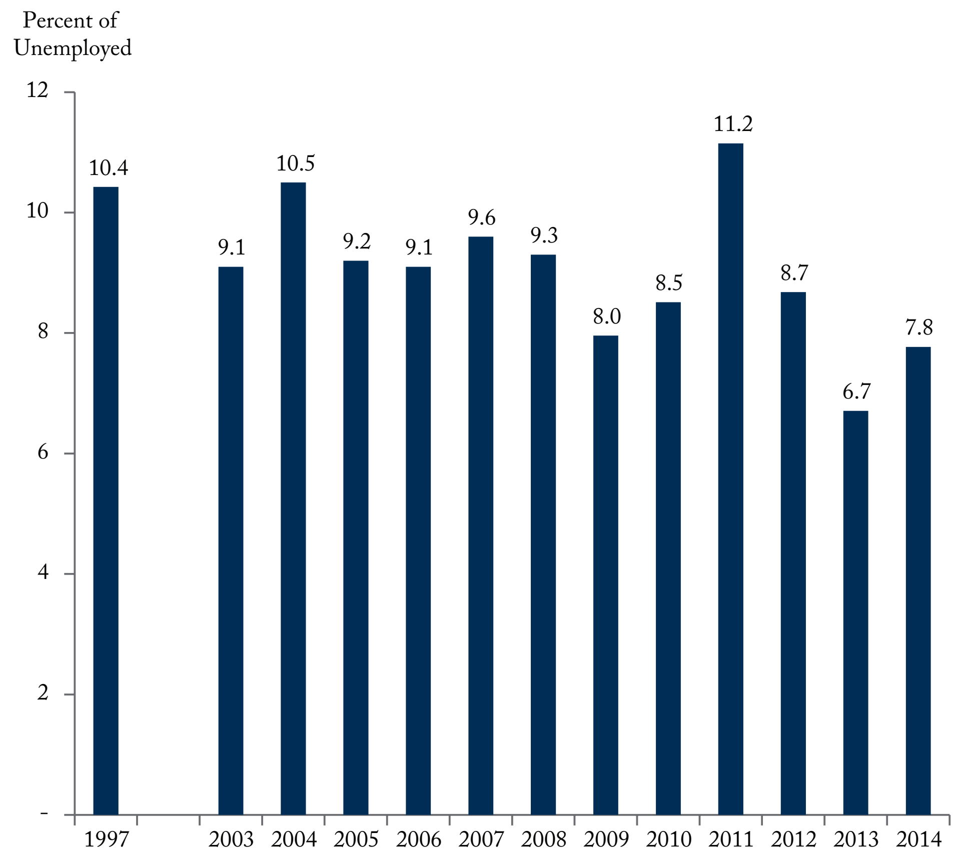


Sources: Statistics Canada (EICS) and authors' calculations.

Busby 2011). There are laid-off workers situated in relatively low-unemployment-rate regions for whom the EI regime is not particularly generous. Lowering the entry requirements will only go so far, however, in expanding access to benefits. If they are lowered too far, unintended yet predictable side effects will emerge in the form of an increased incidence of seasonal and part-year employment patterns. This highlights the inherent difficulties in using employment insurance as the preferred policy tool for all unemployed workers. Consequently, there is a strong argument to utilize programs outside of EI to better target and meet the needs of some types of unemployed workers.

If a policy objective stemming from the above analysis is to raise the EI eligibility rate, the most effective instrument is to lower the existing hours-worked requirements, which vary by geographical region. We applied simple regression analysis in order to obtain a rough estimate of the impact of

Figure 5: Share of Unemployed Not Qualifying Due to Insufficient Hours, 1997 – 2014



Sources: Statistics Canada (EICS) and authors' calculations.

variable entrance requirements on the EI eligibility rate.[20] The results indicate that if the eligibility cut-off declines by 100 hours, the EI eligibility rate will increase by 5.1 percentage points from the

20 The data are drawn from Table 10 of ESDC (2015, p. 18). The dependent variable for our equation is the percentage of the unemployed who contributed and had a valid reason for separation (i.e., a layoff) and met the entry requirements that applied in their geographic administrative region, and hence were deemed to be EI-eligible. The data set is a balanced panel having 13 time periods (2001 through 2013) and nine cross-sectional units, yielding a total of 117 observations. The cross-sectional units correspond to the bracket of the local unemployment rate that prevailed in the EI administrative region. The brackets are then mapped to the variable entry requirement for the number of insurable hours according to the well-known (at least in EI program jargon) "EI entitlement matrix" that also determines the maximum benefit entitlement, according to the region's unemployment rate. An unemployment rate of 6 percent or lower corresponds to 700 hours worked; 6.1 percent to 7 percent corresponds to 665 hours worked; 7.1 percent to 8 percent corresponds to 630 hours worked; 8.1 percent to 9 percent corresponds to 595 hours worked; 9.1 percent to 10 percent corresponds to 560 hours worked; 10.1 percent to 11 percent corresponds to 525 hours worked; 11.1 percent to 12 percent corresponds to 490 hours worked; 12.1 percent to 13 percent corresponds to 455 hours worked; and above 13.1 percent corresponds to 420 hours worked. The variable entry requirement is the regressor for our equation. The estimation technique is pooled linear least squares, allowing for a separate first-order auto-regressive coefficient and for a separate estimate of the variance for each of the nine cross-section units.

82-percent average value over time. Such a 100-hour decrease constitutes almost three weeks of full-time employment.[21] Therefore, the immediate impact of the change, before any employers and employees have a chance to adjust their behaviour, is that an additional 5.1 percentage points of workers would qualify, and the total eligibility rate would increase to some 87-89 percent nationwide, on average, according to the EICS measure. We note that this is a first-pass, static estimate of only the initial impact; as such, it must be interpreted as the lower-bound value.

How would the B/U ratio be affected by lowering the hours worked requirement? As noted above, some 8 percent of all unemployed individuals do not qualify for benefits due to an insufficient number of insurable hours worked. If, in the extreme case, the minimum-hours-worked qualification were to be reduced to just one hour, the B/U ratio would increase from 42 percent to 50 percent (in the short run) and, therefore, still fall well short of the historical peak of 84 percent and the pre-1990s average of just below 80 percent. Hence, boosting eligibility by reducing entry requirements would have only a limited effect on the B/U indicator of eligibility. This should not, however, preclude an important discussion on what the precise values of the hours-worked cut-offs should be, but that is not our goal here.

Hours or Weeks Worked Entrance Requirements?

An examination of other EI entrance requirements would no doubt re-visit the mid-1990s shift from a weeks-worked to hours-worked set of criteria. Given its much lower threshold at which an individual can start accumulating insurable hours, the 1996 *EI Act* boosted incentives to enter the labour force and potentially eventually qualify for benefits in the event of layoff. EI coverage along the hours-based dimension could have contributed to the observed increase in the population of the non-employed (or the jobless) who declared themselves unemployed. Under the former UI regime, many part-time workers were not covered, and consequently had a lower probability of reporting that they were searching for employment when not employed than is the case under the current EI regime.

It is also true that seasonal workers fare better than permanent part-time workers in the framework of an hours-worked cut-off; the latter group exhibits much lower qualification rates than the national average. The eligibility rate for permanent part-time workers over the past decade is around 20-40 percentage points lower than for permanent full-time workers, according to *Employment Insurance Monitoring and Assessment Reports*. The size of this gap indicates that the composition of the labour force is a critical component in determining eligibility.

As well, there are some groups that will probably face significant access barriers as a result of universal entrance requirements – even if the lowest level were to be adopted. These types of workers can be categorized as self-employed, permanent part-time (but not part-year), and non-seasonal temporary workers.

Scrapping the NEREs

Another group of workers with lower eligibility rates than the national average are NEREs, among whom youth and immigrants figure heavily. Only between 40-60 percent of NERE

21 This potential change of 100 hours is somewhat higher than the standard deviation of 90.8 hours worked. The estimated coefficient = -0.051, t-stat = -12.71, P-value = 0; Buse R-squared = 0.58. The estimated coefficient is very robust to the inclusion of year-specific effects.

EI benefit applicants qualified (EIMAR 2004, 2008).[22] We view the NERE rules as recognition by public officials that entrance requirements and benefits have an incentive structure that can give rise to a pattern of EI dependence. Indeed, the NERE requirements were established in order to discourage this particular group of workers from becoming frequent EI benefit recipients. The objective was to force them to establish greater attachment to the labour force, and earlier studies have shown that these criteria induced an increase in hours worked among the targeted groups (EIMAR 2004).

If long-term dependency is deemed to be a problem, however, the rules applying to all workers should change. As Mowat (2011) points out, NERE rules might be superfluous, given that they overlap with the movement toward insurance-based principles, such as preventing workers who voluntarily quit from accessing benefits.

Furthermore, young and newly arrived immigrants often exhibit higher levels of turnover (and hence shorter job durations) than other workers, and it is not clear that they are at a greater risk of becoming frequent claimants. We, therefore, recommend that the higher entry requirements that apply to workers in the NERE categories be eliminated. Such a move would result in an important boost in overall eligibility rates because these workers constitute a sizable share of all paid workers. The 2016 Federal Budget estimates this change would make another 50,000 claimants eligible for benefits, boosting the average number of beneficiaries by slightly less than 10 percent annually.

Conclusion and Policy Recommendations

Prior to the 1990s, the B/U ratio was a reasonably good indicator of EI eligibility. However, EI program reforms in the 1990s, coupled with significant structural changes in the Canadian labour market, have rendered the B/U ratio a much poorer eligibility indicator than its alternatives. The B/U ratio is, therefore, an outdated legacy measure of EI coverage, but it retains an important use to gauge which, and how many, workers fall outside of EI's scope. The B/U ratio has become a misleading eligibility indicator because it is not tightly linked to the target population of EI and any underlying EI program parameters, such as the entry requirements and the requisite contribution history. Nevertheless, the prevalence of the B/U ratio in public commentary persists. Even the EI program's chief actuary uses the B/U ratio in calculating the appropriate "break-even" EI premium rates. We encourage the chief actuary to revise the methodology to utilize the EICS eligibility rate, from which more accurate projections should result.

The EICS, as the indicator for EI eligibility relative to the "potentially eligible," focuses policymakers' attention on immediate responses. To increase EICS eligibility, we recommend dropping the long-standing penalty applying to new entrants and re-entrants (NEREs) into the labour force. This is the position of the Canadian Labour Congress (MacEwen 2015), and it figures in the most recent federal budget. This reform should result in a modest increase in the EICS eligibility measure. For a broader and further-reaching eligibility increase, we recommend consideration of a lower, yet geographically more uniform, hours-based requirement, in particular for regions with low unemployment rates that currently require at least 700 insurable hours of work.

Bédard and Fortin (2015) recommend that the insurable weeks-based criterion for qualification that prevailed before 1997 be restored, and that

22 This wide range is attributable to data-availability constraints and compositional shifts in the NERE population among youths and immigrants.

the current hours-based system be jettisoned. In this *Commentary*, we do not take a position, but we find the suggestion both interesting and pertinent. For unemployed part-time workers, the current qualification criterion depends on the distribution of hours worked over the calendar year. Was the work activity distributed fairly evenly over the calendar year, which is the pattern that we typically associate with part-time jobs? Or was the work activity concentrated during only one season of the year, which is the pattern that we typically associate with part-year jobs? The current regime favours the latter group. For example, a seasonal worker working for 15 weeks per year at 47 hours per week will qualify in any EI administrative region with 700 insurable hours. By contrast, a part-time worker working 15 hours per week would have to work for at least 47 weeks out of the last 52 in order to qualify for EI benefits. We recommend that this issue be investigated on equity grounds.

Despite its flaws as an indicator of EI coverage, the B/U ratio does draw attention to a very pressing policy challenge, especially when it exhibits a precipitous decline. There exists a very sizable segment of the labour force that appears to exhibit a low level of labour market attachment, and these workers have great difficulty accessing EI benefits. The B/U ratio raises questions regarding potential policy interventions, such as the Employment Benefit and Support Measures that are part of the EI Part II regime,[23] for groups that do not currently qualify for EI. Jones (2004) claims:

> A broad measure of coverage such as the B/U ratio may play a role in the ongoing consideration of the appropriate target group for the EI program…there is no doubt that good EI policy has to be sensitive to the changing nature of the labour markets in which it operates (p. 26).

Indeed, the broad, amorphous and highly debatable policy issue of the optimal degree of EI coverage should be addressed as a series of distinct policy questions – ideally linked to program regulations and provisions – as opposed to being merged into one imprecise global measure (Jones 2004, Gray and Sweetman 2004).

In reference to the entire network of social insurance programs, the former chief statistician for Statistics Canada, Munir Sheikh, wrote recently that:

> The good news is that decision makers are approaching an ideal opportunity to address these deficiencies head on. With major changes underway in Canadian labour markets…the federal governments and the provinces could fix the major gaps between EI and social assistance. Rather than tinker with the complex system we have, we should design these programs from the ground up (Sheikh 2015, page 3).

Indeed, now is a good time to evaluate EI as it fits into the overall social safety net and in its role as an insurance program relative to alternative designs. However, such a discussion of the pros and cons of such alternative designs cannot take place without clarity about EI eligibility.

23 EI Part II refers to employment support and training delivered by the provinces and territories with funding from the federal government.

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