Intelligence MEMOS

From: David Gray

To: The Hon. Carla Qualtrough, Minister of Employment, Workforce Development and Disability Inclusion of Canada

Date: January 11, 2023

Re: **REFORMING CANADA'S EI SYSTEM**

Recent major economic shocks have exposed shortcomings in Canada's employment insurance system. During the Great Recession of 2008, the oil price collapse in 2014 and the most recent pandemic, Employment Insurance (EI) has proven itself unable to meet the needs of many workers who face job losses.

During the energy price shock for instance, unemployment rates in some Alberta regions rose sharply, but there was no immediate increase in either benefit duration or ease of access to EI. The same happened in low-unemployment regions at the beginning of the COVID-19 pandemic.

Problematic features in our current system include: variable entrance requirements that are slow to adjust to increases in job losses; benefit durations that are also slow to respond to increases in unemployment; and too-finely divided administrative regions with boundaries that reinforce and prolong inequities in both entrance criteria and potential benefit durations.

More flexible, nimble provisions would provide wider access to benefits and longer durations when labour market conditions deteriorate, as I **outlined** in my recent C.D. Howe Institute paper.

Its first recommendation is to establish more uniform entry requirements across regions.

Currently, the 62 EI regions that partition Canada are expressly shaped and demarcated such that their respective labour market conditions are similar within their borders. But as **one analyst and critic** has pointed out that means each one requires a monthly unemployment rate to be calculated, which stretches the limits of Statistics Canada's *Labour Force Survey* beyond statistical credibility. EI eligibility depends on the number of insurable hours a claimant accumulates during the 52-week period preceding the claim – a number that depends on the unemployment rate of the administrative region in which the claimant resides. For example, in high-unemployment regions with rates above 13.1 percent a worker must have worked for only 420 hours in the last 52 weeks. On the other hand, an otherwise similar worker would have required 700 hours in a region with a lower regional unemployment rate (6 percent or below).

In the interests of equity and simplicity, a universal access floor of 420 hours worked would make more sense.

And while that change would raise expenditures, other reforms could more than offset that increase.

Compounding the impact of those entry provisions, claimants in low-unemployment regions also receive shorter-lasting benefits – even in the case of rapidly rising unemployment.

One notable pilot project that overrode that program feature was the "commodities cycle" initiative, which provided benefit extensions to workers in energy-producing regions affected by the steep decline in global commodity prices in 2014-2015. It was unique because in the 15 selected EI regions, changes in unemployment rates – as opposed to their levels – were used as the basis for extending the benefit duration in response to the severe negative labour market shock. The design of that pilot project is the inspiration behind my main reform proposal.

I recommend that variation in the length of the benefit entitlement periods be driven by *changes* in local unemployment rates as opposed to their levels. Sudden and unexpected job loss would trump recurring seasonal or chronic layoffs occurring in regions with persistently high unemployment in determining the length of benefit entitlement periods. Such a scheme would be much more aligned with standard and widely applied insurance principles. Regions with stable labour markets would have constant EI benefit durations.

The length of the benefit entitlement period would have two components, the first of which is the baseline duration, which would vary according to the individual worker's number of insurable hours (with longer contribution periods yielding more weeks) but would otherwise be set nationally. The other component consists of benefit extensions (or reductions during labour market recoveries) that would depend on changes in the regional unemployment rate. Each percentage point increase would trigger a benefit extension of a given number of weeks.

The overall impact on program generosity and the fiscal implications depend on the values of several parameters that could be modified.

It would also make more sense to aggregate the complex web of EI regions into many fewer regions, which could be based on provincial and territorial boundaries or perhaps even condensing down to about 20 regions. This would help find greater regional parity in benefit entitlement periods by pooling high-unemployment regions with low-unemployment ones. The advantages would also include administrative simplification, greater transparency of boundaries, and a higher degree of statistical precision in calculating the real regional unemployment rates. This mechanism still allows for some flexibility to address labour market shocks that are felt only in certain geographical regions.

The federal government has reached the end of its recent and extensive consultations aimed at modernizing EI for the post-pandemic period. In that spirit of reform, these proposals align EI more closely with its original objective: to respond to the needs of Canadian workers during labour market downturns.

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