IRPP COMMENTARY
December 2022

Building a Package of Compromise Solutions for EI Reform

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ABOUT THE COMMENTARY

In this commentary, IRPP researchers propose a possible compromise policy package for the federal government to consider as part of its promised EI reform. The proposals bring together insights from the IRPP's spring report on EI modernization, *How to Modernize Employment Insurance: Toward a Simpler, More Generous and Responsive Program*, our follow-up report on EI financing, *Financing Employment Insurance Reform: Finding the Right Balance*, as well as previous IRPP research on EI and skills and adult learning.

The report was written by Ricardo Chejfec and Rachel Samson. The manuscript was edited by Rosanna Tamburri and proofread by Zofia Laubitz; editorial coordination was by Étienne Tremblay, and production was by Chantal Létourneau.

To cite this document:
Chejfec, R., and R. Samson. 2022. *Building a Package of Compromise Solutions for EI Reform*. IRPP Commentary (December). Montreal: Institute for Research on Public Policy.

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There is no one set of solutions to address the challenges of EI modernization and financing reform that will satisfy everyone. Those who want to avoid increasing premiums will need to accept compromise solutions that limit increases and provide greater premium stability. Those who want to return to the generous EI system that was in place before 1990 will need to accept a more modest set of reforms that limit growth in EI expenditures. And those who believe taxpayers should not contribute to the program will need to accept the introduction of a targeted role for government funding to support key policy objectives.

To facilitate an informed discussion around possible compromise policy packages, we selected a set of illustrative policy changes based on our fall 2022 report on EI financing and our spring 2022 report on EI modernization (table 1). We divide the policy changes into three phases. Phase 1 could be implemented in 2023. Phase 2 will require some additional work to refine the policies but could reasonably be implemented in 2024. Phase 3 changes require more extensive discussion and analysis and would therefore be more appropriate for 2025 or later.

Our choices were guided by a desire to improve near-term readiness for the expected economic downturn without overburdening small and medium-sized enterprises with additional costs as they continue to recover from the pandemic. They were also guided by the clear need to adapt the program to the changing longer-term needs of Canada's workforce, particularly as Canada faces risks and opportunities associated with an aging population, the transition to a low-carbon economy, a growing number of gig workers and changing skills needs of employers.

1. PHASE 1: NEAR-TERM CHANGES IN 2023

1.1 EI modernization

In preparation for a possible recession in 2023, the federal government could make some relatively simple near-term changes to improve EI coverage and generosity. These changes will help soften the blow of the recession, with greater support for lower-income and part-time workers who lose their jobs.

1.1.1 Coverage

One of the simplest ways to increase the number of unemployed Canadians covered by EI is to shift to a uniform 420-hour eligibility requirement. Currently, there are nine eligibility requirements based on regional rates of unemployment, ranging from 700 hours in regions with unemployment rates below 6 percent to 420 hours for regions with unemployment rates more than 13 percent. Experts in the IRPP's first workshop felt that the current system disadvantaged low-paid, part-time and on-demand workers living in larger cities where unemployment rates are often lower. During the pandemic, the government adopted a uniform eligibility requirement of 420 hours worked, demonstrating that this can be quickly adjusted. The number of weeks that recipients can collect EI benefits would, however, remain differentiated based on regional

Table 1. A possible compromise package for EI modernization and financing

Phase 1 – 2023	Phase 2 – 2024	Phase 3 – 2025 +
EI modernization		
Coverage: 8% increase (from 41% to 44% of the unemployed) with uniform 420-hour entrance requirement **Generosity:** Increase in income replacement rate from 55% to 60%	**Coverage:** 7% increase, or greater (from 44% to 47%), by allowing people who quit to pursue training or education to qualify for EI	**Coverage:** Program for self-employed workers **Generosity:** Minimum weekly benefit and increased benefit duration
EI financing		
Premium rate setting: Shift to a 10-year break-even rate with tighter limits on annual premium decreases while the account is in deficit **Federal role**: Cover expenses from pandemic-related extended benefits	**Federal role:** Cyclical contributions to the EI account during recessions	**Maximum insurable earnings:** Increase the MIE to better reflect the modern workforce **Federal role:** Implement a strategy for training to support long-term workforce resilience
Incentives		
Employers: Enhanced Premium Reduction Program for training offered by small and medium-sized businesses **Employees:** Expanded Skills Boost program to include low-skilled workers	**Employers:** Implement expanded Work-Sharing While Learning program **Employees:** Allow workers who quit to pursue full-time training or education to collect EI	**Employees:** Enhancements to Employment Benefits and Support Measures to improve uptake and implementation

unemployment rates since it should take less time to find a new job in regions with lower unemployment. We estimate that the change to the 420-hour eligibility requirement will increase coverage by around 8 percent.

1.1.2 Generosity

Another relatively easy adjustment to make in the near term would be to increase the earnings replacement rate from the current 55 percent to a level closer to the median rate used by industrialized countries (65 percent) or the level previously in place in the EI program (67 percent). The current 55 percent rate places low-income individuals receiving EI below the poverty line in many provinces. When combined with the upper limit on insured earnings, it also disadvantages higher-income individuals. For example, someone earning $80,000 a year in 2022 would only receive 41 percent of their income while collecting EI benefits (because of a maximum insurable earnings level of $60,300). We propose a compromise solution consisting of a 60 percent replacement rate to limit the associated increase in program costs and premium rates. Shifting to a 60 percent replacement rate would lead to a 9 percent increase in the generosity of benefits.

1.2 EI financing

To address concerns regarding the increase in premiums associated with the deficit in the EI account and additional costs from modernization, the government could adjust the premium-rate-setting formula and inject federal funding into the EI account to cover COVID-related costs. There is a strong case to be made for limiting premium increases in the near term as Canada faces a potential recession in 2023. There are also benefits to having more stability in premiums over the long term because year-to-year fluctuations in payroll costs can be difficult for small and medium-sized businesses to manage.

Our analysis shows that some relatively small changes to the premium-rate-setting approach could limit the increase in premiums, improve rate stability and improve EI account sustainability. Combining three options considered in the IRPP's report, *Financing Employment Insurance Reform: Finding the Right Balance,* would have a powerful impact. It would: (1) shift the target time frame for the break-even rate from seven to 10 years; (2) limit the decrease in premium rates while the EI account remains in deficit; and (3) inject federal funding into the account to cover the $23.6 billion in pandemic-related extended benefits.

1.3 Incentives

In the IRPP's workshops, there was significant discussion about how different aspects of EI policy influence incentives for employees and employers, which affect expenditures. There was also concern that the changing nature of work – such as a shift to remote work and the low-carbon transition – could result in changes to labour markets that increase reliance on EI (Samson et al. 2021). While there was no consensus around some proposals, such as experience-rated premiums, there was substantial support for a greater emphasis on training to improve the long-term resilience of Canada's workforce. In our view, two near-term proposals could improve incentives for small and medium-sized businesses to provide training, and employees to undertake training.

1.3.1 Employers

The Premium Reduction Program, which provides relief to employers and their employees based on employer-provided short-term disability plans, could be extended to provide incentives for small and medium-sized businesses to provide training. Given the limited capacity of these businesses, the incentive could also allow for contributions to sector-wide training mutuals such as those used in Quebec (Blanchet 2022). Premium relief could help to alleviate concerns from small businesses over premium costs, while also encouraging training, which could help address skills shortages and improve long-term workforce resilience. In considering criteria and implementation, it will be important to minimize the administrative burden for businesses, workers and the government.

1.3.2 Employees

Another near-term option to encourage uptake of training would be to extend the existing Skills Boost program, which allows EI claimants who are long-tenured workers to pursue full-time training while continuing to receive regular EI benefits. Claimants must request permission from Service Canada, however, and only 612 claimants received permission in 2020-21 (CEIC 2022). The government could expand uptake by allowing some workers who are not long tenured to access the program. The focus could be on low-skilled workers willing to upskill or reskill. These workers are more vulnerable to unemployment, particularly as the nature of work changes. An expanded Skills Boost program could address gaps in the Canada Training Benefit, which is not well suited to low-income and low-skilled workers given that it requires individuals to pay for training up front and claim the credit at tax time, and the pending EI Training Support Benefit, which will only provide four weeks of benefits.

2. PHASE 2: MID-TERM CHANGES IN 2024

While Phase 1 policy changes would address many of the shortcomings in the current EI program identified through the IRPP's workshops, more work will be needed to solidify the program's role as an economic stabilizer and the incentives provided for long-term workforce resilience. Phase 2 policies would go a step further, increasing coverage by an additional 7 percent, implementing a clear rule for federal government involvement during recessions, and expanding the provision of EI to all workers who quit to pursue training or education.

2.1 EI modernization

In 2019, around 14 percent of unemployed Canadians were ineligible for EI due to invalid job separation (CEIC 2021). In the IRPP's first workshop, some experts suggested extending EI eligibility to those who quit their jobs. A compromise solution could be to focus on those who quit to pursue full-time training or education. Such a measure would enhance coverage while also improving the long-term resilience of the workforce to economic shocks and structural change. While the number of workers who quit to pursue education or training was estimated to be around 4 percent of the unemployed in 2019, the measure could result in greater coverage by encouraging more unemployed individuals who quit to pursue training (CEIC 2021).

2.2 EI financing

Building on the Phase 1 proposal of having the federal government contribute to the EI account to cover the costs of pandemic-related extended benefits, the federal government could outline a framework for its ongoing role in contributing to the EI account during periods of recession. The government could determine an appropriate threshold rate of unemployment that would trigger financial contributions to the account. For example, during the recessions in 2008-09 and 2020-21 the national unemployment rate exceeded 8 percent. The appropriate threshold may be slightly lower, however, since some recessions have had national unemployment rates lower than 8 percent. Cyclical contributions from the federal government would help to limit increases in premiums as businesses recover from a recession.

2.3 Incentives

2.3.1 Employers

To further encourage employers to provide training opportunities, the government could consider expanding the Work-Sharing Program, which provides EI benefits to eligible employees who agree to reduce their normal working hours and share available work. Currently, employees who are part of a work-sharing unit and working reduced hours may take part in training programs during the time spent not working and while receiving EI benefits. However, this option is limited to workers at firms that have experienced a reduction in business activity. The Work-Sharing While Learning Program, which was in place briefly in the early 2000s, permitted workers in industries in high unemployment regions that were facing structural changes to access EI benefits for a year while attending an employer-funded training program, but had little uptake (Canada 2005).

The federal government could consider reinstating the Work-Sharing While Learning Program and making it available to workers at all firms as a means of encouraging employers to offer training and building workforce resilience. This could be particularly helpful to workers affected by the transition to a low-carbon economy, including those who work in oil and gas production, coal mining and the many companies that provide goods and services to these sectors. Opening the program to all firms makes sense, however, since it will allow workers to proactively prepare for future market risk rather than only supporting workers where businesses can demonstrate a historical reduction in business activity.

2.3.2 Employees

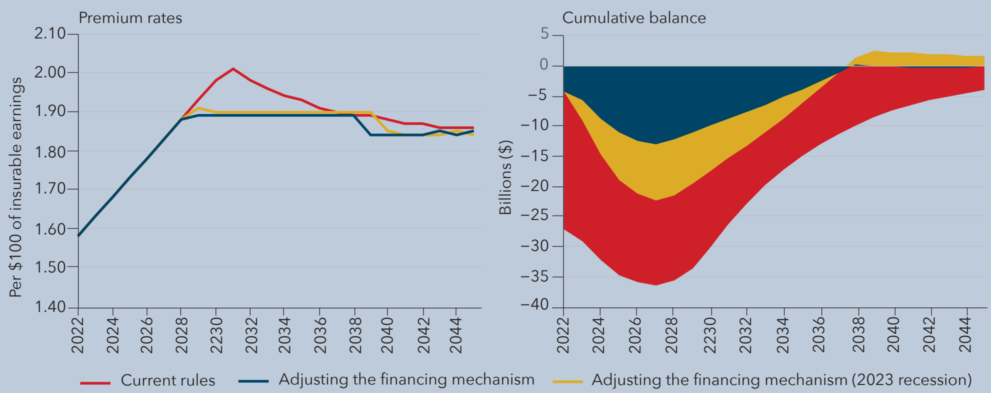
In the IRPP's workshops, participants weighed the benefits of allowing those who voluntarily quit their jobs without just cause to be eligible for EI benefits. These workers haven't been eligible to collect EI since 1993. Between 2013 and 2020, 93 percent of those who quit did so to return to school, take another job or retire (CEIC 2022). To encourage Canadians to pursue education and training, the federal government could consider allowing those who voluntarily quit to return to school or pursue training to collect EI benefits.

The government would need to determine the types of training and education that would be covered and for how long the benefits could be received, but it should not limit the program to regions with high unemployment. Previous initiatives have shown that uptake is likely to be low in areas where post-training opportunities are limited. Instead, program costs could be limited by providing employees in all regions a set number of weeks to use over their working life, allowing them to access EI to pursue shorter training courses over several years or to use them all at once to pursue a longer training program.

Estimating the impacts of Phase 1 and 2 proposals

We estimate that implementing the EI modernization proposals outlined in Phases 1 and 2 would increase program expenditures by 16 percent in 2023 and 20 percent thereafter. Under current financing rules, and with the large cumulative deficit in the EI account, premiums would have to rise significantly, reaching a peak of $2.01 per $100 of insurable earnings by 2032. However, with our proposed adjustments to the financing mechanism, and with federal government coverage of the costs of pandemic-related extended benefits, premiums would only need to increase to $1.89 by 2028 and would remain at that level until the EI account is in balance. Using the unemployment rates projected in the 2022 Fall Economic Statement's downside scenario, premiums would be slightly higher ($1.93) (Canada 2022).

Figure 1. Projected EI premium rates and cumulative balance with modernization costs and alternative financing mechanisms, 2022-2045



Source: IRPP calculations based on the *2023 EI Actuarial Report* (Office of the Chief Actuary 2022) and the *2022 Fall Economic Statement* (Canada 2022).
Notes: The analysis includes modernization costs of 16 percent in 2023 and 20 percent thereafter. Premium rate projections apply to employees. Employers generally pay 1.4 times employee premiums. To estimate premium rates beyond 2023, EI account projections are extended out to 2055, using the average yearly rate of change of EI expenditures and insurable earnings between 2026 and 2029, as projected in the *2023 Actuarial Report*. Long-term projections are, however, highly uncertain and should be interpreted with caution.

At the same time, many workers would see increased access to EI and higher benefits. Table 2 illustrates the impact of the Phase 1 and 2 changes on different types of workers. Increased EI coverage and generosity would also improve the program's ability to stabilize the economy during periods of recession.

Table 2: Illustrative impact of Phase 1 and 2 proposals on EI benefits

	Yearly earnings	Change in annual EI premium contributions (2024)	Change in weekly benefit (2024)
Employee A: (Previously eligible)	$40,000	+$56	+$38
Employee B: (Previously eligible)	$80,000	+$91	+$63
Employee C: (Not previously eligible – quit to go to school)	$50,000	+$70	+$577
Employee D: (Not previously eligible – insufficient hours)	$30,000	+$42	+$346

Source: IRPP calculations based on the *2023 EI Actuarial Report* (Office of the Chief Actuary 2022)
Notes: The analysis includes modernization costs of 16 percent in 2023 and 20 percent thereafter. Even though premium rates are normally restrained by yearly change limits, our estimates compare two hypothetical scenarios where the resulting break-even rate for 2024 is implemented ($1.73 under current rules against $1.87 under Phases 1 and 2).

3. PHASE 3: LONG-TERM CHANGES IN 2025 AND BEYOND

In addition to the near- and mid-term proposed changes in Phases 1 and 2, our Phase 3 proposals take a longer view and require more extensive discussion and analysis. As the economy and labour force continue to evolve, so too will the EI program need to do so. These proposals are meant to kickstart a discussion on a broader reimagining of the program that would be more responsive to the changing nature of work and the transition to a low-carbon economy.

3.1 EI modernization

One of the recurring themes in our workshop discussions was the exclusion of self-employed and gig workers from the EI program. Many spoke passionately about the urgency of addressing the needs of these workers — especially those who are low income and precariously employed. But there was no consensus on how to achieve this, and several participants noted the difficulties involved in trying to craft a program or policy that meets the needs of both high-earning self-employed workers and lower-paid gig workers.

The *2022 Fall Economic Statement* provided funding to Employment and Social Development Canada to take stronger action against companies that misclassify their workers as independent contractors, in contravention of the *Canada Labour Code*. This is an important step, which could go a long way to increasing EI coverage. A pilot project to educate federally regulated transportation employers found that more than 60 percent were in contravention of misclassification rules (Canada 2022).

If coverage concerns remain, the federal government could explore the feasibility of a program — separate from EI — for gig workers. It could be funded through an annual levy on companies based on the number of independent contractors they use. Gig workers could be eligible to receive a minimum benefit per week (e.g., $300) for a maximum number of lifetime weeks. This would limit the incentive for independent contractors to declare themselves unemployed as they would want to save their allotment of benefits for when they need them most. The weeks of EI could be used for periods when they have no work or for lifetime events such as the birth of a child or illness of a family member. The levy would also provide an incentive for app-based companies to shift their independent contractors to employment.

3.2 EI financing

Once the economy is on stable footing, the government could evaluate a potential increase in maximum insurable earnings (MIE). An increase in the MIE would increase both premium costs and benefits, with differential impacts on lower- and higher-income employees. While some IRPP workshop participants suggested substantial increases to the MIE, others expressed concern about the associated cost implications for businesses and exacerbating the existing imbalance between full-time and seasonal workers.

Some workshop participants suggested an MIE similar to Quebec's Parental Insurance Program. However, the associated increase in costs — particularly for small and medium-sized businesses — would likely be too onerous. The government could consider a more modest increase in the MIE. For example, it could be set at 1.1 times the average industrial wage. This would bring the MIE for 2023 to $67,700, increasing the maximum yearly contributions for the year by roughly $100 for employees ($140 for employers) and the maximum weekly benefit rate by $72 (assuming a 60 percent replacement rate).

To address concerns relating to the impact of a higher MIE on benefits for seasonal workers, the government could impose stricter clawback provisions at tax filing time (e.g., maximum annual earnings of 1.1 times the MIE instead of the current 1.25). There could also be a federal financial contribution to the program to cover the difference between contributions paid by seasonal workers and the benefits they receive. Such changes would reduce inequities between the treatment of seasonal and nonseasonal workers while preserving broader policy objectives relating to certain regions and sectors.

3.3 A comprehensive strategy for workforce resilience

A prominent theme among workshop participants was the effects that the predicted labour market shortages, the changing nature of work, the low-carbon transition and the anticipated changes in demand for skills would have on Canada's labour force. Many called for expanded federal government involvement in supporting training programs and policies, and a revamp of existing programs that have had little uptake. The federal government provides funding for Employment Benefits and Support Measures under Part Two of EI. These include skills development, help with job searches and individual counselling, among other things. To improve the use of these services by Canadians, the government could consider enhancing the personal counselling and career-planning services it provides so that Canadians can more easily identify and access them, seek help with career planning, and identify the training and education programs that are best suited to their needs.

As part of a broader training strategy — including programs within and outside EI — the federal government could undertake a comprehensive evaluation of training programs, in collaboration with provinces and territories, to support the long-term resilience of the Canadian workforce. The evaluation could include forward-looking analysis of potential labour market risks and opportunities, and a greater focus on the vulnerabilities of workers to labour market change. The evaluation could also seek to identify opportunities for greater coordination across the various federal, provincial and territorial initiatives. Based on the evaluation, the federal government could provide additional funding to address gaps in the current system.

4. CONCLUSION

Our suggested compromise package is only one possibility among many. It likely goes too far for some, and not far enough for others. Many of our workshop participants would disagree with the measures we propose. However, we recognize that the federal government needs to move forward and that it has spent two years in extensive consultations. We would rather see some progress in the near term than more deliberation.

Sometimes, perfect can be the enemy of good. *Better* may be a more practical goal for EI reform.

APPENDIX

Estimated impacts of Phase 1 and Phase 2 proposals on employee and employer contributions

Year	MIE	Premium rate (% increase)	Maximum annual employee premium (% increase)	Maximum annual employer premium (% increase)	Maximum weekly benefit (% increase)
2023	$61,500	$1.63 (+0%)	$1,002 (+0%)	$1,403 (+0%)	$710 (+9%)
2024	$65,100	$1.68 (+0%)	$1,094 (+0%)	$1,531 (+0%)	$751 (+9%)
2025	$67,400	$1.73 (+1%)	$1,166 (+1%)	$1,632 (+1%)	$778 (+9%)
2026	$69,300	$1.78 (+5%)	$1,234 (+5%)	$1,727 (+5%)	$800 (+9%)
2027	$71,300	$1.83 (+10%)	$1,305 (+10%)	$1,827 (+10%)	$823 (+9%)
2028	$73,400	$1.88 (+14%)	$1,380 (+14%)	$1,932 (+14%)	$847 (+9%)
2029	$75,400	$1.89 (+15%)	$1,425 (+15%)	$1,995 (+15%)	$870 (+9%)

Source: IRPP calculations based on the *2023 EI Actuarial Report* (Office of the Chief Actuary 2022).
Notes: The analysis compares a scenario with modernization costs of 16 percent in 2023 and 20 percent thereafter against extended EI account projections. To estimate premium rates beyond 2023, EI account projections are extended out to 2055, using the average yearly rate of change of EI expenditures and insurable earnings between 2026 and 2029, as projected in the *2023 Actuarial Report.* Long-term projections are, however, highly uncertain and should be interpreted with caution.

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