
IRPP Working Group
ABOUT THE REPORT

As Canada heads toward what is likely to be another recession, the country’s Employment Insurance (EI) program seems no more ready to deal with the expected increase in demand for benefits than it was when the pandemic hit in early 2020. The federal government has indicated that it will announce changes to EI following a two-year consultation process that concluded in the summer of 2022. The IRPP has hosted a series of workshops and undertaken its own analysis to inform these choices. Our first report, *How to Modernize Employment Insurance: Toward a Simpler, More Generous and Responsive Program*, focused on EI modernization. This follow-up report looks at how to finance modernization costs. The analysis highlights the difficult trade-off between the coverage and generosity of the program, and the premiums paid by workers and businesses. It also highlights a range of options to finance modernization, improve stability in premiums and preserve the long-term sustainability of the EI account.

The report was written by Ricardo Chejfec, Rosanna Tamburri, and Rachel Samson from the IRPP, as well as Colin Busby from HEC Montréal. The manuscript was proofread by Zofia Laubitiz, editorial coordination was by Étienne Tremblay, and production was by Chantal Létourneau.

To cite this document:

ACKNOWLEDGEMENTS

The authors and the IRPP would like to thank the EI financing workshop participants (listed in the appendix) for their contributions to the development of this report, and Employment and Social Development Canada for its financial support of the workshop. A special thank you to our expert presenters and advisers, Armine Yalnizyan (Atkinson Fellow on the Future of Workers), Miles Corak (City University of New York) and Rhys Kesselman (Simon Fraser University). We are also grateful for the advice and guidance provided by Jennifer Robson (Carleton University).

Cover: Shutterstock.com

If you have questions about our publications, please contact irpp@irpp.org. If you would like to subscribe to our newsletter, IRPP News, please go to our website, at irpp.org.
CONTENTS

Key findings .................................................................................................................................................. 2
Faits saillants.................................................................................................................................................. 4
1. Introduction ............................................................................................................................................... 6
2. The current approach to EI financing ...................................................................................................... 8
   2.1 EI expenditures .................................................................................................................................. 10
   2.2 EI account balance .............................................................................................................................. 11
   2.3 Challenges with the current financing model .................................................................................. 13
3. Adjusting maximum insurable earnings ................................................................................................. 16
   3.1 Considerations relating to seasonal and frequent claimants ............................................................ 20
4. Adjusting the EI financing mechanism ................................................................................................... 21
   4.1 Adjusting limits on annual premium-rate changes ........................................................................... 22
   4.2 Modifying the seven-year break-even rate ....................................................................................... 23
   4.3 Adjusting the target for the account’s return to balance .................................................................. 24
5. Rethinking the role of the federal government ......................................................................................... 26
   5.1 Temporary government support ......................................................................................................... 27
   5.2 Conditional government support during recessions ........................................................................ 27
   5.3 A return to permanent tripartite funding .......................................................................................... 28
6. Incentives to reduce long-term demands on EI ....................................................................................... 30
   6.1 Experience-rated premiums ................................................................................................................ 30
   6.2 Premium Reduction Program .......................................................................................................... 32
   6.3 Training benefits ............................................................................................................................... 33
   6.4 EI Work-Sharing Program ................................................................................................................. 34
7. Conclusion ................................................................................................................................................. 37
Appendix: List of participants ...................................................................................................................... 38
References ..................................................................................................................................................... 39
Key Findings

As Canada heads toward what is likely to be another recession, the country’s Employment Insurance (EI) program seems no more ready to deal with the expected increase in demand for benefits than it was when the pandemic hit in early 2020. The proportion of unemployed Canadians able to collect EI has fallen from 80 percent in the 1980s to 40 percent, and many of those who do receive EI benefits struggle to make ends meet.

During the pandemic, the federal government introduced temporary measures, including the Canada Emergency Response Benefit, to cover self-employed and other Canadians who lost their jobs and didn’t qualify for EI benefits, and to mitigate the effects of the downturn on the Canadian economy.

Signs of a renewed slowdown have started to emerge, and there is a growing consensus among economists that economic growth in Canada and around the world will slow in 2023. It remains unclear how severe the downturn will be. However, there are concerns that the EI program may once again not be up to the task of covering an increase in the number of unemployed Canadians, and political leaders and others have urged the government to implement reforms. The government has indicated that it will announce changes to EI following its two-year consultation process that concluded in the summer of 2022.

At the same time, the federal government is facing pressures to avoid increasing EI premiums as many businesses are still recovering from the pandemic and are likely to face another economic downturn. And while some have called for the federal government to contribute financially to the program to limit premium increases, others have expressed concern about burdening taxpayers and adding to the federal debt.

The government will have some difficult choices to make. The IRPP has hosted a series of workshops and undertaken its own analysis to inform these choices. Our first report, *How to Modernize Employment Insurance: Toward a Simpler, More Generous and Responsive Program*, focused on EI modernization (IRPP Working Group 2022). This report looks at how to finance modernization costs.

Report highlights:

- According to IRPP estimates, the costs of implementing proposals put forward at an earlier workshop held in 2021 on EI modernization range between $5 billion and $15 billion a year.
- Such an expansion, on top of the existing deficit in the EI account following the pandemic, will require either a substantial increase in EI premiums or significantly greater financial contributions by the federal government.
- With the current approach to premium setting, the EI Operating Account is not projected to return to balance until after 2040. Adding modernization costs,
or another recession, would make a return to balance increasingly unlikely, calling into question the self-sustaining aspect of the program.

- The report considers adjustments to three financing levers to cover the near-term costs of program reform and to stabilize the EI account: raising the level of maximum insurable earnings; adjusting the premium rate-setting mechanism; and expanding the role of the federal government in EI financing.

- The analysis highlights the difficult trade-off between the coverage and generosity of the program and premiums paid by workers and businesses, but also highlights a range of options to finance modernization, improve stability in premiums and preserve the long-term sustainability of the EI account.

- In response to a workshop discussion on the importance of incentives for employers and employees to reduce reliance on EI and program expenditures, the report also considers experience-rated premiums, adjustments to the Premium Reduction Program and enhanced support for worker training to build workforce resilience.

Many of the choices considered raise important policy questions about the purpose of the EI program, and who should pay for it. Some see the program as an insurance mechanism for employees who pay into it, arguing that taxpayers (many of whom are not eligible to receive EI benefits) should not be on the hook for financing it. Others argue that it fulfills broader policy objectives that benefit all Canadians, such as stabilizing the economy during recessions, and some taxpayer contribution is warranted.

These views were reflected in discussions among our working group participants, who included academic experts and representatives from business groups and unions. There was little consensus among the participants, and their discussions made it clear that there are no easy solutions to addressing the financing challenges that EI faces. All options will involve trade-offs and compromise.

The challenge for the federal government will be to find a compromise package that does not push too far in any one direction, and that is sustainable for the long term under various economic and labour force conditions.

In a separate commentary, IRPP researchers propose a possible package of compromise solutions for the government to consider.
Faits saillants

Alors que le Canada se dirige vraisemblablement vers une nouvelle récession, son régime d’assurance-emploi (AE) semble aussi mal préparé à la hausse probable des demandes de prestations que lorsque la pandémie a frappé au début 2020. La proportion de chômeurs admissibles à l’AE a pourtant chuté de 80 % dans les années 1980 à 40 % aujourd’hui, mais beaucoup de ceux qui touchent des prestations ont du mal à joindre les deux bouts.

Pendant la pandémie, Ottawa a adopté des mesures temporaires, notamment la Prés-tation canadienne d’urgence, pour soutenir les travailleurs autonomes et les salariés qui avaient perdu leur emploi mais n’étaient pas admissibles à l’AE, de même que pour atténuer les effets du ralentissement économique.

Or de plus en plus d’économistes estiment que la croissance canadienne et mondiale perdra de la vitesse en 2023. Certes, l’ampleur de la récession reste à déterminer. Mais d’aucuns craignent que le régime d’AE n’échoue encore à protéger un nombre accru de sans-emploi, certains dirigeants politiques et autres responsables exhortant le gouvernement fédéral à engager des réformes. Celui-ci avait annoncé qu’il apporterait des modifications à l’AE au terme d’un processus de consultation de deux ans qui s’est achevé à l’été 2022.

Parallèlement, Ottawa est pressé d’éviter toute hausse des prestations à l’heure où nombre d’entreprises qui tardent à se remettre de la pandémie risquent de subir un autre repli économique. Et tandis que certains l’incitent à contribuer financièrement au régime d’AE pour limiter l’augmentation des cotisations, d’autres s’inquiètent d’un accroissement du fardeau fiscal des contribuables et de la dette publique.


Faits saillants du rapport :

- S’ajoutant au déficit de la caisse de l’AE occasionné par la pandémie, une telle expansion du régime nécessiterait une hausse considérable des cotisations ou une contribution financière sensiblement plus élevée de la part d’Ottawa.
- Selon l’approche actuelle de fixation des cotisations, le Compte des opérations de l’AE ne retrouverait l’équilibre qu’à partir de 2040. Mais les coûts de
modernisation ou une éventuelle récession compromettraient ce retour à l’équilibre et mettraient en cause l’autosuffisance du régime. 

- Pour couvrir les coûts de l’AE à court terme et stabiliser son Compte des opérations, le rapport envisage ces modifications à trois leviers de financement : hausser le maximum de la rémunération assurable, ajuster le mécanisme de fixation des cotisations, et élargir le rôle d’Ottawa en matière de financement.

- L’analyse souligne le difficile compromis à faire entre la générosité et le champ d’application du régime et les cotisations des travailleurs et entreprises, mais elle dégage aussi une série d’options visant à financer la modernisation, à stabiliser les cotisations et à pérenniser le Compte des opérations.

- Un atelier ayant souligné la nécessité de mesures incitant employeurs et employés à réduire la dépendance à l’AE et les dépenses du régime, le rapport envisage aussi la fixation de taux particuliers de cotisation, des ajustements au Programme de réduction du taux de cotisation et un soutien accru à la formation axé sur la résilience de la main-d’œuvre.

Plusieurs des choix examinés soulèvent d’importantes questions stratégiques sur la finalité du régime d’AE et ceux qui devraient le financer. Certains voient l’AE comme un mécanisme d’assurance pour les employés qui y cotisent et jugent que les contribuables (dont beaucoup n’y sont pas admissibles) n’ont pas à participer à son financement. D’autres estiment que l’AE profite à tous les Canadiens en répondant à de grands objectifs nationaux, comme la stabilisation de l’économie en période de récession, ce qui justifie une certaine participation des contribuables.

Ces différents points de vue ont été pris en compte par les membres de notre groupe de travail, qui était formé de spécialistes universitaires et de représentants de groupements d’entreprises et du monde syndical. Leurs échanges, rarement consensuels, ont clairement montré qu’aucune solution simple ne permettra de résoudre les défis de l’AE. Toutes les options nécessiteront ainsi arbitrages et compromis.

Pour le gouvernement fédéral, le défi consistera à dégager un compromis global qui soit aussi équilibré que possible et viable à long terme, quelles que soient la conjoncture économique et la situation du marché du travail.

Dans un autre document, les chercheurs de l’IRPP proposent au gouvernement un ensemble de solutions basé sur ces compromis.
1. INTRODUCTION

The federal government is considering changes to Canada’s Employment Insurance (EI) program – the first major reforms in more than 25 years. The reforms of the early 1990s caused the proportion of unemployed Canadians who received EI to drop from around 80 percent in the 1980s to roughly 40 percent between 2011 and 2019. The program is therefore ill equipped to fulfill its function as an economic stabilizer, preserving the purchasing power of workers laid off during a recession. It also provides inadequate insurance to many workers, particularly those at lower and above-average income levels.

The need for program modernization is clear, but expanding the coverage and generosity of EI will increase program costs. Without adjustments to the financing approach, program expansion will result in significantly higher EI premiums and a substantial long-term deficit in the EI account.

Based on the IRPP’s workshops and discussions with various stakeholders, we see three broad perspectives that influence views on EI financing:

1. Expand the coverage and generosity of the EI program;
2. Keep premiums paid by employees and employers low and stable; and
3. Maintain EI as a self-financing program, with no direct federal role.

**Figure 1. Tension among three broad perspectives that influence views on EI financing**

An inherent tension exists among these perspectives and achieving all three simultaneously is not possible (figure 1). Individual preferences depend on which of the three they view as most important. Some form of compromise will be needed.

A spring 2022 report from the IRPP, which drew on an expert workshop held in 2021, called for a more generous and responsive EI program. The expert working group
described the program as too complex, inadequate, and suffering from glaring gaps in coverage — weaknesses that were underscored by the outbreak of the COVID-19 pandemic (IRPP Working Group 2022).

IRPP estimates of the costs of program adjustments based on proposals put forward by participants in our expert workshop range between $5 billion and $15 billion per year (IRPP Working Group Report 2022; Chejfec, Busby and Samson 2022).

Adding billions of dollars of expenditures to the program will require either an increase in EI premiums or a greater role for the federal government in financing. Since 1990, the EI program has been financed solely through employer and employee contributions, though the federal government provided financing from general tax revenues in earlier decades.

The EI Operating Account is currently in deficit largely because of pandemic related extended benefits and unemployment. EI premium rates are set based on a goal of returning the fund to balance over a seven-year period, but annual recalculations and limits on premium increases mean that the account can remain in deficit for a longer period. While the account is in deficit, the federal government covers the interim shortfall through its general revenues (i.e., taxpayer funds). If another recession hits before the EI account returns to balance, the federal coverage of the shortfall could become entrenched for decades.

These choices raise important policy questions about the purpose of EI, and who should pay for it. Some see EI as primarily an insurance mechanism for employees who pay into the program, arguing that taxpayers (many of whom are not eligible to receive EI benefits) should not be on the hook for financing it. Others argue that EI fulfills broader policy objectives that benefit all Canadians, such as stabilizing the economy during recessions, enhancing labour force participation and providing greater workforce resilience. These broader policy objectives could justify an expanded role for government financing.

To better understand these challenges and evaluate possible solutions, the IRPP held a workshop in June 2022 focused on EI financing. The workshop had a broad array of participants, including researchers and policy experts as well as representatives from business groups and unions and commissioners from the Canada Employment Insurance Commission, which has a legislated mandate to monitor and assess the EI program. We also consulted other experts, including Jennifer Robson, program director and associate professor of political management at Carleton University, and Don Drummond, Stauffer-Dunning fellow and adjunct professor at the Queen’s University School of Policy Studies.

There was little consensus among working group participants and some obvious points of tension. The discussion highlighted the fact that there are no easy solutions to the program’s financing challenges. All options involve trade-offs. Yet doing nothing

---

1 Employment and Social Development Canada, the federal ministry responsible for administering the EI program, provided financial support to the IRPP to help cover the costs of our expert workshops, but the IRPP’s publications are independently developed.
also has consequences. As some participants noted, the longer we delay modernizing EI, the more people are likely to slip through the cracks, requiring ad hoc programs such as those introduced during the pandemic, or greater reliance on provincial and territorial governments for income assistance.

2. THE CURRENT APPROACH TO EI FINANCING

Since 1990, the EI program has been financed entirely through payroll contributions made by employers and employees. Previously, the federal government paid for a share of EI costs, such as those associated with benefits for self-employed fishers and benefits triggered by high national or regional unemployment, among other things (see table 1 for a brief history of EI financing).

The premiums paid by employees and employers are deposited into the federal government’s Consolidated Revenue Fund (CRF) – the fund into which all federal taxes and revenues are deposited and from which funds are withdrawn – and credited to the EI Operating Account. EI benefits and operating costs are paid out of the CRF and debited from the EI account. As a result, the annual balance of the EI account affects annual federal deficits or surpluses.

Since 2017, the Canada Employment Insurance Commission has been responsible for setting the EI premium rate according to a rolling seven-year break-even mechanism. Under this formula, premium rates are set with the aim of generating enough revenue to cover expected expenditures over the subsequent seven years and eliminate any cumulative surplus or deficit.

EI premiums are paid on individuals’ incomes up to a level known as maximum insurable earnings (MIE), which also places a ceiling on EI benefits. Effective January 1, 2022, the MIE was set at $60,300. This means that workers earning above the MIE have lower total premium costs but also receive lower EI benefits when they lose their jobs. For example, someone earning $80,000 per year would receive 55 percent of $60,300 in benefits, representing only 41 percent of their salary.

The 2023 Actuarial Report calculated the seven-year forecast break-even rate at $1.74 for every $100 of insurable earnings for residents of all provinces and territories except Quebec. This rate aims to balance the EI operating account by the end of 2029. However, as part of its COVID-19 pandemic response, the federal government froze 2021 and 2022 premium rates at the 2020 level: $1.58 for residents of all provinces and territories except Quebec and $1.20 for Quebec residents (Office of the Chief Actuary 2022). Employers pay premiums that are 1.4 times those paid by employees.

Can be overridden by the Governor-in-Council (e.g., premiums were frozen for two years during the pandemic).

Quebec has an independent program for maternity and parental leave benefits for all workers (employees and the self-employed). As a result, federal EI premiums are lower for Quebec residents. In addition, the EI Premium Reduction Program allows employers with qualifying wage-loss plans to pay lower premiums.
### Table 1. EI financing has changed significantly since it was introduced in 1940

<table>
<thead>
<tr>
<th>Revenues</th>
<th>1940 to 1971</th>
<th>1972 to 1990</th>
<th>1990 to 2012</th>
<th>2013 to Present</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer and employee contributions equal. Federal contributions</td>
<td></td>
<td>1.4 times employee contributions. Federal government funded costs of benefits for self-employed fishers, benefit extensions after training, and benefits triggered by high national or regional unemployment.</td>
<td></td>
<td>No change.</td>
</tr>
<tr>
<td>equal to 20% of all premiums plus administration costs.</td>
<td></td>
<td></td>
<td></td>
<td>No change.</td>
</tr>
<tr>
<td>Employers and employees contributions equal. Federal contributions equal</td>
<td></td>
<td></td>
<td></td>
<td>No change.</td>
</tr>
<tr>
<td>to 20% of all premiums plus administration costs.</td>
<td></td>
<td></td>
<td></td>
<td>No change.</td>
</tr>
</tbody>
</table>

### Accounting

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>UI Fund replaced with UI Account. Surpluses collected interest at the rate of 90% of 3-month Treasury Bill yields. Deficits covered by advances comparable with loans to Crown corporations.</td>
<td></td>
<td></td>
<td></td>
<td>No change.</td>
</tr>
<tr>
<td>In 2009, the Employment Insurance (EI) Account was closed and replaced by the EI Operating Account. Interest no longer charged or collected on the account.</td>
<td></td>
<td></td>
<td></td>
<td>No change.</td>
</tr>
</tbody>
</table>

### Governance

<table>
<thead>
<tr>
<th>Fund managed by the Unemployment Insurance Commission, a tripartite body with labour, business and government representation.</th>
<th>1940 to 1971</th>
<th>1972 to 1990</th>
<th>1990 to 2012</th>
<th>2013 to Present</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commission brought under the authority of Department of Manpower and Immigration (1977). UI Account moved to the Consolidated Revenue Fund (CRF) as recommended by the Auditor General (1986).</td>
<td></td>
<td></td>
<td></td>
<td>No change.</td>
</tr>
<tr>
<td>EI Financing Board dissolved in 2013.</td>
<td></td>
<td></td>
<td></td>
<td>No change.</td>
</tr>
</tbody>
</table>

### Rate-setting rules

<table>
<thead>
<tr>
<th>Parliament responsible for changes to premium rates, informed by UI Commission and annual reports by the Department of Insurance.</th>
<th>1940 to 1971</th>
<th>1972 to 1990</th>
<th>1990 to 2012</th>
<th>2013 to Present</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium rates set by the UI Commission such that projected revenue equaled the average program costs of the three previous years with adjustments needed to cover any cumulative surplus or deficit.</td>
<td></td>
<td></td>
<td></td>
<td>No change.</td>
</tr>
<tr>
<td>Formula amended in 2005 to set premiums to generate enough revenue to balance the account (excluding cumulative balance) on a one-year forward-looking basis. Established year-to-year change limit of 15 cents per $100 of insurable earnings. Rates set by the EI Commission according to a seven-year break-even rate, including cumulative balance (2016). Year-to-year changes limited to 5 cents per $100 of insurable earnings.</td>
<td></td>
<td></td>
<td></td>
<td>No change.</td>
</tr>
</tbody>
</table>

### Sources


### Notes

1. Approximately $57 billion in surplus transferred to the CRF. Before 2009, the surplus in the EI Account was used to finance non-EI government expenditures on several occasions (Task Force on the Financing of Employment Insurance 2007).
2. First implemented as a temporary measure in 2011 to support the recovery from the 2008-09 recession. Budget 2012 made it permanent (Canada 2012).
Table 2. Regular benefits account for most EI expenditures

<table>
<thead>
<tr>
<th>EI expenditures</th>
<th>Details</th>
<th>Share of total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Part One</strong></td>
<td></td>
<td>82.1%</td>
</tr>
<tr>
<td>Regular benefits</td>
<td>Benefits for the unemployed with a valid reason for job separation and searching for suitable employment</td>
<td>55.1%</td>
</tr>
<tr>
<td>Fishing benefits</td>
<td>Benefits for self-employed fishers without available work</td>
<td>1.4%</td>
</tr>
<tr>
<td>Work-sharing benefits</td>
<td>Benefits for employees of a firm avoiding layoffs during a slowdown in business activity for reasons beyond the firm’s control</td>
<td>0.1%</td>
</tr>
<tr>
<td>Special benefits</td>
<td></td>
<td>25.5%</td>
</tr>
<tr>
<td>Maternity benefits</td>
<td>Benefits for those unavailable to work because of pregnancy or recent birth</td>
<td>5.4%</td>
</tr>
<tr>
<td>Parental benefits</td>
<td>Benefits for parents caring for a newborn or a newly adopted child</td>
<td>12.7%</td>
</tr>
<tr>
<td>Sickness benefits</td>
<td>Benefits for people unavailable to work because of illness, injury or requirement to quarantine</td>
<td>7.1%</td>
</tr>
<tr>
<td>Family caregiver benefits</td>
<td>Benefits for people providing care or support to a critically ill or injured person</td>
<td>0.3%</td>
</tr>
<tr>
<td>Compassionate care benefits</td>
<td>Benefits for people providing care to a person who requires end-of-life care</td>
<td>&lt;0.1%</td>
</tr>
<tr>
<td>Special benefits for the self-employed</td>
<td>Benefits for self-employed workers who opt into the program</td>
<td>&lt;0.1%</td>
</tr>
<tr>
<td><strong>Part Two</strong></td>
<td>Employment Benefits and Support Measures (EBSMs)</td>
<td>10.3%</td>
</tr>
<tr>
<td>Administration</td>
<td>Salary and operating costs</td>
<td>8.6%</td>
</tr>
</tbody>
</table>

Notes: Share of total based on average program costs between 2012 and 2019. Average total expenditures were estimated at an inflation-adjusted $22.9 billion. Totals may not add up to 100 percent due to rounding.

2.1 EI expenditures

EI program expenditures include the costs of regular and other EI benefits, employment-support services and program administration. EI Part One includes regular benefits, fishing benefits, work-sharing benefits and special benefits such as maternity and sickness leave. Part Two includes employment benefits and support measures, including those offered under the federal-provincial-territorial Labour Market Development Agreements and the Indigenous Skills and Employment Training Program. Between 2012 and 2019, the seven-year period preceding the pandemic, annual program spending averaged an inflation-adjusted $22.9 billion.\(^4\) Table 2 provides a description of the benefits included in the EI program and the proportion of total expenditures for which they account.

\(^4\) 2021 dollars.
Figure 2. The cost of special benefits has grown faster than other segments of EI spending
Inflation-adjusted yearly expenditures and expenditures as a share of total, select parts of EI, 2010-2020

Source: IRPP calculations based on EI Monitoring and Assessment Reports, 2010 to 2020.
Notes: The left axis shows yearly expenditures in 2021 dollars, while the right axis shows yearly expenditures as a share of total.

Figure 2 shows recent trends in EI expenditures. Spending on special benefits, which account for more than 25 percent of program costs, have been the fastest growing segment in recent years.

2.2 EI account balance

As we noted in our previous report, when the COVID-19 pandemic hit, the EI program failed to cover a significant share of individuals without work, and it was not able to process the sudden surge in claims in a timely manner (IRPP Working Group 2022). As a result, the government introduced emergency benefits, including the Canada Emergency Response Benefit (CERB), for self-employed and other unemployed workers who did not qualify for regular EI benefits. In addition, the federal government temporarily eased qualification criteria for receiving benefits.
The unanticipated additional costs of the pandemic measures included $27.3 billion in CERB costs administered through EI and financed by the federal government (CEIC 2022); and additional EI program costs of $32.4 billion between 2020 and 2024 resulting from increased unemployment and changes to the program (currently slated to be financed through increased employer and employee contributions).

Using projections in the 2023 Actuarial Report on the EI Premium Rate, figure 3 shows the increase in the cumulative deficit in the EI account, and the increases in premium rates resulting from calculating the seven-year break-even rate every year while taking into account the 5-cent limit on year-to-year premium rate changes. If premium rates between 2023 and 2029 were set at the 2023 break-even rate ($1.74 per $100 of insurable earnings for employees), the account would be brought to balance around 2029. Since premium rates are recalculated annually based on a seven-year time frame, rates are set to begin decreasing in 2026, extending the account’s return to balance to around 2042 (assuming no recession occurs in the meantime).

The current financing formula requires premium rates to rise following a recession to cover increased spending, raising costs for businesses and workers. The federal government froze premium rates in 2021 and 2022 to allow more time for recovery following the pandemic.

**Figure 3. The COVID-19 pandemic created a large cumulative debt in the EI account, requiring an increase in premium rates to return to balance**

<table>
<thead>
<tr>
<th>Year</th>
<th>Cumulative EI Account Balance</th>
<th>EI Premium Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>-30</td>
<td>1.50</td>
</tr>
<tr>
<td>2022</td>
<td>-25</td>
<td>1.55</td>
</tr>
<tr>
<td>2023</td>
<td>-20</td>
<td>1.60</td>
</tr>
<tr>
<td>2024</td>
<td>-15</td>
<td>1.65</td>
</tr>
<tr>
<td>2025</td>
<td>-10</td>
<td>1.70</td>
</tr>
<tr>
<td>2026</td>
<td>-5</td>
<td>1.75</td>
</tr>
<tr>
<td>2027</td>
<td>0</td>
<td>1.80</td>
</tr>
<tr>
<td>2028</td>
<td>5</td>
<td>1.85</td>
</tr>
<tr>
<td>2029</td>
<td>10</td>
<td>1.90</td>
</tr>
</tbody>
</table>

Notes: 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.

5 Since the 2023 EI Actuarial Report projects unemployment rates and program costs (relative to the earnings base) that are similar or marginally lower than before the pandemic, estimates are based on the difference between the account’s cumulative surplus at the end of 2019 ($5.2 billion according to the 2021 EI Actuarial Report) and the projected cumulative deficit at the end of 2022 ($27.2 billion according to the 2023 EI Actuarial Report).
In practice, there are two aspects of the financing mechanism that increase the time it takes for the account to return to balance beyond seven years.

The first is that the break-even rate is recalculated every year based on the latest economic and employee earnings projections, continuously pushing forward the threshold by which the account must return to balance. Positive economic projections or lower-than-anticipated expenditures from the EI account will lead to a lower break-even rate. Economic projections rarely capture recessions, which increase the deficit in the account and further extend the time frame to return to balance.

The second aspect that slows the account’s return to balance is an annual limit on increases and decreases in the EI premium rate of 5 cents (CEIC 2021). This means that premiums do not always reflect the rate required for the account to break even in seven years.

The projected $27-billion deficit in the EI account in 2022 is the largest the account has incurred in recent times, and projected premium rates are among the lowest in about 50 years (figure 4).

2.3 Challenges with the current financing model

Figure 5 shows how the costs of proposed changes to modernize the EI program would require a substantial increase in premium rates, adding to the costs that employers and employees currently pay. If modernization efforts increase expenditures by 15 percent, for example, it would take seven years for premium rates to rise to the prescribed break-even rate, creating a cumulative deficit of $24 billion by 2029. If costs
were to increase by 50 percent, it would take 20 years and it would create a cumulative deficit of $70 billion by 2042 (figure 5). While the government could bypass the 5-cent annual change limit to bring the account into balance more quickly, this would result in a greater near-term increase in premiums paid by businesses and workers.

Incorporating modernization costs into the current EI financing model presents a significant challenge. While business representatives are concerned about the increase in premiums that would result from program expansion, several Canadian studies have shown that increases in EI premiums generally result in lower wages for workers (Deslauriers et al. 2021; Roy-César and Vaillancourt 2010).

**Figure 5. The costs of EI modernization could extend increases in the premium rate and delay the account’s return to balance**
Projected premium rates and EI account cumulative balance by modernization scenarios, 2022-2033

![Figure 5](image)


Participants in the IRPP’s June workshop discussed the relationship between changes in EI coverage and benefits and the long-term sustainability of the EI account. However, participants did not agree on a definition of sustainability. Sustainability could be defined as a high probability that the EI account would return to balance within a decade, given that recessions generally occur roughly once every 8 to 10 years.⁶

Armine Yalnizyan, the Atkinson Fellow on the Future of Workers, noted that the funding model has hampered the program’s ability to stabilize the economy during economic downturns, which was one of the central purposes for establishing the program in 1940. She said the program is effective at responding to changes in regional

---

⁶ Between 1933 and 2009, Canada experienced a recession every 6.9 years on average; every 8.5 years between 1980 and 2009 (Cross and Bergevin 2012).
unemployment, such as when a paper mill or manufacturing plant shuts down. But its ability to protect consumer purchasing power after big economic shocks that affect the entire country, such as the pandemic, is constrained. “It could deal with the big events too if it were funded properly,” she said. “Right now, our premiums are at historic lows and our coverage is at historic lows. Pick your poison.”

Others agreed with her assessment. Miles Corak, economics professor at City University of New York, said program modernization should apply to the way EI is funded as well as to the benefits it provides. “You might think of a pandemic as a once in a lifetime thing, but there’s going to be some other big shock that you can’t foresee, and they have to be part of what’s covered,” he said. “This is very much what the original purpose of the unemployment insurance program was.”

Some participants took issue with the regional inequities within EI. Rhys Kesselman, professor emeritus at Simon Fraser University’s School of Public Policy, said changes made to the program over the years have turned it into “a dog’s breakfast of politics, regional interests and industry interests,” which has led to program inefficiencies and regional inequities. He warned against repeating the mistakes of the past, namely revisions introduced in the early 1970s that eased eligibility rules and expanded benefits, which subsequently led to behavioural changes among employers and employees that increased program costs and ultimately resulted in sharp program cutbacks in the 1990s. “We have to think about behavioural changes,” he said. He noted that, if proposed changes to EI eligibility and generosity are funded through higher premium rates or by raising the level of maximum insurable earnings, it runs the risk of exacerbating existing regional and sectoral inequities and inefficiencies. And if it’s done by reintroducing federal government contributions, which were phased out in 1990, it would add to the burden of taxpayers, many of whom aren’t eligible to contribute to EI or collect benefits.

Others pointed to challenges with the EI premium rate-setting formula. Pierre Laliberté, the commissioner for workers at the Canada Employment Insurance Commission, noted that the seven-year break-even requirement can result in a rate-setting approach that leads to higher premium rates when the economy is recovering from a recession and to lower premium rates when the economy is thriving. This can have adverse effects on businesses, which would prefer to have rate relief following a period of financial stress. “We have to change the formula because it is not working the way it is now,” Laliberté said.

Representatives from business groups echoed concerns about the burden of increased premiums for employers, who contribute 1.4 times the amount that employees do and who are still recovering from the effects of the pandemic. Jasmin Guénette, vice-president of national affairs at the Canadian Federation of Independent Business, said members of his organization, which represents small and medium-sized firms, want EI to function primarily as an insurance program for those who contribute to it, rather than a social program with broader policy objectives. “We have to ensure that any changes to benefits and coverage don’t endanger the long-term sustainability of the program,” he said.
Others reminded the group that doing nothing also has consequences. Garima Talwar Kapoor, director of policy and research at Maytree, argued that not making changes to EI risks increasing the number of unemployed Canadians who slip through the cracks and end up on provincial and territorial income assistance, which could prove more costly in the long run. “We may abdicate our responsibility at the front end,” she said. “But eventually we have to pay through increased caseloads in the social assistance system. We’re all going to pay at some point.”

As the discussion among workshop participants made clear, there is no easy solution to addressing the financing challenges that EI faces, and all options involve trade-offs. In the next section, we consider the levers available to cover the cost of program modernization and to stabilize the EI account. These include raising the level of maximum insurable earnings, adjusting the premium-rate-setting mechanism and rethinking the role of the federal government. We also look at employer and employee incentives that could reduce long-term reliance on the EI program.

### 3. ADJUSTING MAXIMUM INSURABLE EARNINGS

Table 3 shows the formula used to calculate the level of maximum insurable earnings in 2022. Since 2007, the MIE has been calculated by multiplying the MIE level in that year ($40,000) by the ratio of average weekly earnings in the previous year over average weekly earnings in 2006. In 2022, the MIE was $60,300; employees earning an income of $60,300 or more contributed a maximum of 1.58 percent of insurable earnings, or $952 for the year. Employers pay 1.4 times that amount, which would be a maximum of $1,333 per employee in 2022. Employees with insurable earnings of less than $2,000 have their premiums refunded at tax time, but the $2,000 threshold has not changed since 1997 (CEIC 2021). If the threshold had been adjusted for inflation, the amount would be $3,370 in 2022.

When someone with earnings at the MIE level or more loses their job and is eligible to receive EI, their benefits equal 55 percent of the MIE divided by the number of weeks in a year, or a maximum of $638 dollars a week.

In our first workshop, several participants suggested increasing the MIE as a means of better insuring workers who earn more than the MIE against the effects of job loss. Doing so may also be a means of raising more revenue for the EI program, provided that

<table>
<thead>
<tr>
<th>MIE formula</th>
<th>$MIE_{2022} = MIE_{2007} \times \frac{\text{average weekly earnings}<em>{2021}}{\text{average weekly earnings}</em>{2006}}$</th>
</tr>
</thead>
</table>
| MIE application | MIE in 2022 = $60,300  
Maximum annual employee contribution = $952.70  
Maximum annual employer contribution = $1,333.80  
Maximum benefits at 55% of MIE = $638 per week |

higher-income earners remain less likely to lose their job than lower-income earners. However, participants noted that technological change, an increase in remote work, the transition to a low-carbon economy and other global trends could lead to more job volatility and precarity among higher-income earners.

In 2020, 30 percent of Canadians with employment income earned more than $60,000 per year, and 52 percent of full-time workers who worked year-round earned more than $60,000 per year (Statistics Canada 2022a). Under the current MIE formula, an unemployed worker making $80,000 per year would receive 41 percent of their income through EI regular or special benefits, while a worker making $100,000 per year would receive 33 percent. In the past five years, close to 50 percent of EI regular benefit claimants were at the maximum benefit level (Yalnizyan, Gellatly and Ritchie 2021).

MIE calculations are based on average weekly earnings derived from Statistics Canada’s industrial aggregates, which cover all industrial sectors except agriculture, fishing, private household services, religious associations and military personnel. This metric might not accurately reflect the average earnings of EI claimants, since it includes earnings from part-time, casual and temporary employees. These types of work arrangements tend to have lower earnings and are less likely to qualify for EI than permanent full-time employees. Between 2015 and 2019, roughly 46 percent of part-time workers and 50 percent of other non-standard workers who were unemployed were eligible to receive EI on average, compared to 68 percent and 74 percent of unemployed full-time and seasonal workers, respectively (CEIC 2021).

Raising the MIE would increase EI premium costs for higher-income employees who are currently net contributors to the program (that is, they pay more in contributions than they receive in benefits). Increasing the MIE would also have an impact on employers. Those with a greater proportion of higher-income employees would see more of an increase in contributions than those with predominantly lower-income employees.

Table 4 compares historic MIE levels in the EI program to two possible alternatives. The second column shows the average yearly earnings of full-time employees across all sectors. The last column shows the MIE levels under the Quebec Parental Insurance Plan (QPIP), the province’s program for maternity and parental benefits, which are significantly higher (though parental benefits are also significantly more generous).

Figure 6 illustrates the impact of increasing the MIE on employees and employers. It estimates the effects on premiums of an MIE set at $83,500, the same level as that under the QPIP in 2021. Those earning above the new MIE threshold would face an increase in yearly contributions: about $340 per year for employees and $470 per em-

---

7 A 2010 study found that families with incomes below the median received 34 percent of total benefits and paid 18 percent of premiums (Kapsalis 2010).

8 This includes nonpermanent paid jobs that are either temporary, term, contractual, casual or other nonpermanent employment, excluding seasonal and self-employed workers.

Any proposed increases in the MIE or EI premium rates should be considered along-side scheduled changes to Canada Pension Plan contributions, which are set to rise in 2024. The combined increases in EI premiums and CPP contributions will affect costs for both employees and employers (Canada 2022a).

Several participants in the IRPP’s June 2022 workshop supported increasing the level of the MIE. However, there was no consensus on this point and others strongly objected to the proposed measure.

Several participants noted that the risk of unemployment among middle-income earners has increased in recent years, and that higher-income earners who lose their jobs tend to be unemployed for longer periods. Chris Roberts, director of social and economic policy at the Canadian Labour Congress, said the current EI program is “just not as relevant” to higher-income earners during periods of unemployment. Raising the level of the MIE would be one way of “improving take-up and coverage of the program … but also contributions,” he added. He proposed gradually raising the MIE to bring it in line with that under the QPIP.

### Table 4. An increase in maximum insurable earnings could be based on several formulations

<table>
<thead>
<tr>
<th>Year</th>
<th>MIE</th>
<th>Average full-time wages</th>
<th>QPIP MIE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$45,900</td>
<td>$51,400</td>
<td>$66,000</td>
</tr>
<tr>
<td>2013</td>
<td>$47,400</td>
<td>$52,600</td>
<td>$67,500</td>
</tr>
<tr>
<td>2014</td>
<td>$48,600</td>
<td>$53,600</td>
<td>$69,000</td>
</tr>
<tr>
<td>2015</td>
<td>$49,500</td>
<td>$54,900</td>
<td>$70,000</td>
</tr>
<tr>
<td>2016</td>
<td>$50,800</td>
<td>$56,100</td>
<td>$71,500</td>
</tr>
<tr>
<td>2017</td>
<td>$51,300</td>
<td>$56,900</td>
<td>$72,500</td>
</tr>
<tr>
<td>2018</td>
<td>$51,700</td>
<td>$58,200</td>
<td>$74,000</td>
</tr>
<tr>
<td>2019</td>
<td>$53,100</td>
<td>$60,100</td>
<td>$76,500</td>
</tr>
<tr>
<td>2020</td>
<td>$54,200</td>
<td>$63,600</td>
<td>$78,500</td>
</tr>
<tr>
<td>2021</td>
<td>$56,300</td>
<td>$65,000</td>
<td>$83,500</td>
</tr>
<tr>
<td>2022</td>
<td>$60,300</td>
<td>N/A</td>
<td>$88,000</td>
</tr>
</tbody>
</table>

Sources: IRPP calculations based on Statistics Canada Table 14-10-0064-01, “Employee wages by industry, annual”; (Statistics Canada 2022b) Maximum Insurable Earnings and The Québec Parental Insurance Plan (QPIP) Premium Rate (Revenu Québec n.d.); and “EI Premium Rates and Maximums” (Canada 2021a).

Note: Average full-time wages were calculated based on average weekly earnings of full-time employees across all industries, rounded to the nearest multiple of $100.
On the other hand, Rhys Kesselman argued that increasing the MIE would exacerbate existing inequities in the EI program. He said that higher-income employees would pay much more in contributions than they would receive in benefits, since they have historically been less likely to draw regular benefits (though more likely to draw special benefits). Moreover, the industry enjoying the largest cross-subsidy from the EI program — construction — has many workers earning above the current MIE, he noted. He also argued that those earning above the MIE could put aside some of their earnings to “self-insure against periodic job loss or earnings shortfalls.” Instead, he proposed increasing the EI income replacement rate, a move which would provide better insurance to both lower- and higher-income earners without exacerbating the existing cross-subsidies, he said.

Representatives of business groups noted that increasing the MIE would mean that many businesses would face higher premium costs, which would be very difficult for smaller and medium-sized businesses to absorb as they recover from the effects of the pandemic.

---

**Figure 6. Increasing the MIE reduces costs for lower-income earners, and increases costs and benefits for higher-income earners**

Impacts of increasing the MIE to $83,500 for employees at various income levels and their employers

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Change in Yearly Employee Contributions</th>
<th>Change in Yearly Employer Contributions</th>
<th>Change in Weekly Benefits to Recipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $20,000</td>
<td>$-10</td>
<td>$-14</td>
<td></td>
</tr>
<tr>
<td>$20,001 to $40,000</td>
<td>$-30</td>
<td>$-42</td>
<td></td>
</tr>
<tr>
<td>$40,001 to $60,300</td>
<td>$-50</td>
<td>$-70</td>
<td></td>
</tr>
<tr>
<td>$60,301 to $83,500</td>
<td>$138</td>
<td>$193</td>
<td>$123</td>
</tr>
<tr>
<td>More than $83,500</td>
<td>$336</td>
<td>$471</td>
<td>$245</td>
</tr>
</tbody>
</table>


Notes: The panel shows the change in yearly costs to contributors and weekly benefits to recipients where the 2022 MIE is set at $83,500. Even though premium rates were frozen at $1.58 in 2022 and are normally restrained by yearly change limits, our estimates compare two hypothetical scenarios where the resulting seven-year break-even rate for 2022 is implemented. We estimate that this break-even premium rate would be $1.71, assuming contributors with annual earnings between $60,300 and $83,500 would make up 10 to 20 percent of all regular benefits, with average annual earnings of $71,900.
3.1 Considerations relating to seasonal and frequent claimants

Excluding temporary pandemic changes, weekly benefits are calculated at 55 percent of the average weekly earnings of a claimant’s highest earning weeks during the qualifying period up to the amount of maximum insurable earnings. The number of weeks used in the calculation varies from 14 weeks in regions with the highest unemployment to 22 weeks in regions with the lowest unemployment. As a result, some claimants with sporadic work patterns – such as seasonal workers – receive the maximum weekly benefit rate even though their yearly earnings are lower than the MIE.

In 2019, seasonal claimants made up roughly 30 percent of all regular EI claims (CEIC 2021). While the average employment income of seasonal claimants ($38,236) was comparable to that of non-seasonal claimants ($38,815), their total annual income for 2019 was almost $5,000 higher, on average, due to higher EI benefits (Canada 2022b). Some workshop participants warned that increasing the MIE could exacerbate these differences and increase incentives for employers and employees to organize work schedules to maximize EI benefits. The issue is more pronounced in areas of high unemployment, since only 14 weeks are used to calculate benefits, and among seasonal employers, who may have greater flexibility and incentives to report insurable income in a way that maximizes EI eligibility and benefits.

Consider a hypothetical example that illustrates the difference between full-time and seasonal claimants (table 5). Olivia and Frank, who live in the Western Nova Scotia EI region, lost their jobs and applied for EI regular benefits. Both worked 1,400 hours over 35 weeks and accumulated total employment income of $38,000 before being laid off. Olivia worked full-time at a car dealership, earning roughly $1,086 per week on average, with little variation, which entitles her to a weekly benefit of $597. Frank, on the other hand, worked in the construction sector and his hours per week varied greatly. In some weeks he worked as little as 26 hours, earning $533, while in others, he worked more than 50 hours, with average weekly earnings of $1,500. Since Frank’s weekly earnings over his best 20 weeks (the number of variable best weeks corresponding to the unemployment rate in the Western Nova Scotia EI Region as of October 2022) averaged $1,500, he is entitled to receive the maximum benefit, or $638. If the MIE were increased to $83,500, Olivia’s benefits would stay the same while Frank’s would increase to $825.

There are, however, limits on the annual income of seasonal workers. When filing income tax returns, repeat EI claimants who received regular benefits in the tax year and had a total income greater than 1.25 times the MIE ($75,375 in 2022), are required to repay 30 percent of their total regular benefits or income over the limit, whichever is smaller (CEIC 2021). Increasing the MIE, without adjustments to benefit repayment rules, would raise the benefit repayment threshold to $104,375.

Perspectives on this challenge are linked to the larger debate about whether EI is primarily an insurance program for those who pay into it, or a tool to achieve broader
policy goals. Canada’s EI program is distinct from that of most other countries in its deliberate targeting of seasonal workers (Canada 2022b). Those who believe EI should reflect insurance-like principles see inherent unfairness in the current system, with seasonal workers in regions of high unemployment receiving disproportionate benefits relative to their contributions to the program. On the other hand, some see the support for precarious workers and vulnerable regions as an important aspect of the program.

One solution could be administrative. Adopting more flexible ways to measure income and calculate benefits, lowering the benefit-repayment threshold, and the possible rollout of the federal government’s e-payroll strategy that would move closer to real-time payroll, employment and demographic information sharing, could help limit the ability of employers to distribute or misreport work hours to inflate the benefits of seasonal or frequent claimants.

Another solution could be for the government to acknowledge the broader, noninsurance policy goals associated with the approach to seasonal workers and regions with high unemployment, and contribute funding from general revenues to cover benefits to frequent claimants that exceed their contributions to the program.

4. ADJUSTING THE EI FINANCING MECHANISM

Adjusting the financing mechanism used to set premiums is another lever that can be used to cover the costs of program modernization and improve the stability of premiums. The federal government could adjust annual limits on premium rate changes, modify the seven-year forecast break-even rate or adjust the target for the EI account reaching a balance. The following sections analyze scenarios that include modernization costs of 30 percent, falling in the mid range of our 15 percent to 50 percent estimate.

<table>
<thead>
<tr>
<th></th>
<th>Employment income before layoff</th>
<th>Average weekly earnings during best weeks</th>
<th>Weekly benefits</th>
<th>Total income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olivia (full-time)</td>
<td>$38,000</td>
<td>$1,086</td>
<td>$597</td>
<td>$48,151</td>
</tr>
<tr>
<td>Frank (seasonal)</td>
<td>$38,000</td>
<td>$1,500</td>
<td>$638</td>
<td>$48,846</td>
</tr>
</tbody>
</table>

MIE Increased to $83,500

<table>
<thead>
<tr>
<th></th>
<th>Employment income before layoff</th>
<th>Average weekly earnings during best weeks</th>
<th>Weekly benefits</th>
<th>Total income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olivia (full-time)</td>
<td>$38,000</td>
<td>$1,086</td>
<td>$597</td>
<td>$48,151</td>
</tr>
<tr>
<td>Frank (seasonal)</td>
<td>$38,000</td>
<td>$1,500</td>
<td>$825</td>
<td>$52,025</td>
</tr>
</tbody>
</table>

Table 5. The variable best weeks rule combined with a higher MIE could disproportionately benefit seasonal or frequent claimants with fluctuating income

Source: IRPP calculations based on EI Program Characteristics for the Period of October 9, 2022 to November 5, 2022 (Canada 2022c).
Notes: Assuming both workers worked 1,400 hours over 35 weeks in the Western Nova Scotia EI Region, with an unemployment rate of 7.3 percent. The “Total income” column assumes both will receive benefits for the rest of the year, or 17 weeks.
4.1 Adjusting limits on annual premium-rate changes

EI financing rules limit the annual increase in premiums to 5 cents per $100 of insured earnings. During past economic shocks, including the COVID-19 pandemic, the federal government froze premium rate increases to allow the economy more time to recover. These restrictions are intended to support business recovery and provide stability and certainty in rates, but they also delay the EI account’s return to balance.

Figure 7 illustrates the effects on premiums and the EI account balance, with additional modernization costs of 30 percent, in three alternative scenarios: (1) a 2-cent limit on premium rate changes, (2) a 5-cent limit, and (3) a 10-cent limit. From 2005 to 2013, a 15-cent limit was in place. The greater the increase in the annual limit, the sooner the EI account would return to balance. However, higher annual limits result in more volatile premiums and impose additional near-term costs on employers and employees.

On the other hand, a stricter limit on annual changes such as a 2-cent limit would provide greater premium stability for employees and employers but lengthen the time it takes for the account to return to balance. This could affect the long-term sustainability of the account, resulting in an ongoing role for the federal government in financing shortfalls and with little prospect of account surpluses.

Figure 7. Adjustments to annual premium change limits highlight the trade-off between premiums and the EI account balance

Projected premium rates and EI account cumulative balance under scenarios with mid range modernization costs and alternative year-to-year premium change limits, 2022-2033

Notes: The analysis includes modernization costs in the mid range of 30 percent. 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.
4.2 Modifying the seven-year break-even rate

Premium rates are determined based on a seven-year forecast break-even rate, which is aimed at bringing the EI account to balance over a rolling seven-year period. The time horizon could be shortened to achieve a balance more quickly or lengthened to reduce volatility in premium rates. The rolling aspect of the rate-setting formula, where the break-even rate is recalculated each year based on revised economic projections, could also be limited to improve the account’s return to balance and/or premium rate stability.

Figure 8 illustrates the effects of two rate-setting scenarios with differing time horizons for the break-even premium rate: (1) a three-year horizon and (2) a 10-year horizon. In the first scenario, premiums would reach a peak at $2.28 per $100 of insurable earnings by 2036 but then decline quickly. Extending the time horizon beyond seven years, would have the opposite effect; it would decrease premium changes and delay the return to balance.

A shorter time frame to balance the account could also be achieved by restricting premium rate decreases while the account is in deficit (figure 9). Since the seven-year break-even rate is calculated every year, and economic projections are unlikely to anticipate a recession, limiting the pace of premium decreases could improve the sustainability of the account and the stability of premiums.

Notes: The analysis includes modernization costs in the mid range of 30 percent. 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.
4.3 Adjusting the target for the account’s return to balance

Under current financing rules, premium rates are set to achieve a balance in the EI account. If a surplus is forecast, premium rates decline; if a deficit is forecast, premium rates increase. However, we know that economic forecasts are imperfect and often wrong. Aiming for a precise target for the EI account in this context may increase premium rate volatility unnecessarily. To improve the stability of premiums, the formula could be set to keep the account balance within a narrow target range (for example, plus or minus $5 billion). This change could also improve the sustainability of the account, allowing small surpluses to accumulate before adjusting premium rates downward as well as small deficits before adjusting premium rates upward.

Given the current deficit in the account, the only way a surplus would be reached in the next decade – particularly with additional modernization costs factored in – would be to increase premiums beyond the current annual 5-cent limit. However, adjusting the target to allow for a small surplus would improve the stability of premiums.

This approach is modeled in figure 10, which illustrates the effects of adding two simple rules to the existing rate-setting process: (1) premium rates cannot decrease unless the account balance exceeds a surplus of $5 billion, and (2) premium rates cannot increase unless the account balance falls below a deficit of $5 billion. This change would bring the account into balance in a shorter time frame while also improving the stability in premium rates.

Notes: The series labeled “Restricting decreases in premium rates” assumes the introduction of a rule that limits premium rate decreases while the cumulative balance is in deficit. The analysis includes modernization costs in the mid range of 30 percent. 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.
During the round table discussion at our June workshop, there was a mixed response to the suggestion of allowing surpluses in the EI account. Some participants supported the idea. Pierre Céré, spokesperson for the Conseil national des chômeurs et chômeuses, suggested holding surpluses in the EI account until the fund reaches a set ceiling, at which point the money could be reimbursed to workers and employers. However, others raised concerns about the idea of surpluses. Pierre Laliberté said that, while he did not oppose the idea, it could create governance issues and raise questions about how the surplus funds could be used by the government. “Is it an account that wholly belongs to the EI program?” he asked. “Can the accumulated revenues be used for other purposes? This raises a number of issues.”

Previous governments have drawn on large EI account surpluses at various points to supplement general revenues, leading to (ultimately unsuccessful) court challenges from unions, and substantial pushback from business associations. Allowing a surplus in the EI account could once again raise concerns that the government will use excess revenues for other purposes (CBC 1999, 2014).

Miles Corak noted that, while EI premiums and spending flow through the EI Operating Account, the solvency of the program ultimately rests on the federal Consolidated Revenue Fund, which pays out benefits when there is a shortfall in the EI account. “We hang on to this sort of myth or metaphor of a fund being out there.” But no matter
how big the surplus, “there’s going to be surprises that are going to swamp it,” he said. Instead, he advocated for a funding model that aims to provide greater certainty in premium rates, and for a greater federal role in covering the costs associated with cyclical unemployment.

On the issue of the EI financing mechanism, Rhys Kesselman said the seven-year break-even requirement combined with the 5-cent limit on annual rate changes “impose an unnecessary straitjacket on the program with respect to its macrostabilizing properties.” Faster increases in premium rates during periods of rapid economic recovery would reduce that, he said. He noted that a 20-cent limit would translate to an increase of one-fifth of one percent in employee premium rates and less than one-third of a percent increase in employer premium rates. “The real issue is to avoid large increases in EI premium rates during the early and middle stages of an economic recovery from recession,” he added.

But others objected to such large increases in premium rates. “Let’s not forget that the amount paid by employers and employees is determined by a formula that includes the premium rate and the MIE,” said Nancy Healey, the CEIC commissioner for employers. “Employers cannot sustain any more shocks,” she added. “I wouldn’t want to see some sort of funding formula that would see premiums go up by 15 cents or any big amount. There needs to be a level of certainty.”

The CFIB’s Jasmin Guénette agreed. He said for small and medium-sized businesses it’s important to ensure rate stability and predictability, and avoid large premium rate shocks. Small businesses still haven’t fully recovered from the effects of the pandemic “and it’s not time to put more burden on their shoulders” by increasing program costs and premium rates, he said.

5. RETHINKING THE ROLE OF THE FEDERAL GOVERNMENT

Perspectives on the role of the federal government in EI financing are closely linked to views on the purpose of the EI program. For those who view EI purely as an insurance program for those who pay into it and are concerned with the potential for governments to draw on the EI account to pay for other spending or with the burden on taxpayers who are not eligible for EI, the federal role should be limited. However, those who see EI fulfilling broader policy objectives such as stabilizing the economy during recessions, supporting the labour force participation of parents and caregivers, and enhancing workforce resilience through support for training argue for an expanded federal role.

Government involvement could take one of three forms: one could be temporary, covering the current deficit that largely resulted from pandemic-related costs; a second could be conditional and kick in during periods of recession; and a third could be a permanent return to a tripartite funding model where the federal government covers certain costs (such as special benefits or administrative costs) on an ongoing basis.
5.1 Temporary government support

Several participants supported the idea of having the federal government provide a one-time infusion to cover the current deficit in the EI account, which was largely accrued over the last two years as a result of the pandemic and changes made to the EI program. “The fund as it is currently financed cannot deal with this once-in-100-years event,” said Nancy Healey.

However, others noted that Canada will undoubtedly face other economic shocks in the future that could cause similar challenges for the program and the EI account.

5.2 Conditional government support during recessions

Some participants argued that the federal government has an essential ongoing role to play in EI financing since one of the central purposes of the program is to stabilize the economy in times of recession by protecting consumer purchasing power. Some proposed tying federal government contributions to national or regional unemployment rates, meaning federal contributions would begin automatically when unemployment reaches a set level, typically during recessions. To some extent, this has already happened. In response to economic downturns in 2008-09, following the collapse in global commodity prices in 2014 and in the aftermath of the pandemic, the government financed extended benefits and at times covered part of the deficit in the EI account.

An ongoing government role tied to unemployment rates would enhance the program’s ability to stabilize the economy and make premium rates stable as well, said Miles Corak. “Whatever the premium levels are – some want them higher, some want them lower – I think it’s reasonable to suggest that everybody wants them to be certain and stable,” he said. “The costs and the benefits of fluctuations in the macroeconomy are something that we all share whether we’re covered by EI or not. So, the rationale for an increased federal role should be anchored on that.”

Other participants supported this view. Pierre Laliberté said federal government contributions could help mitigate some of the problems with the current funding formula. “We don’t seem to be able to find the funding formula that would allow us to go through a recession without major fluctuations for funding and contributions,” he said. “One solution would be to make it so that, beyond certain unemployment rates, general revenue would compensate the Employment Insurance fund.”

Kevin Milligan, economics professor at the University of British Columbia, said creating a legislative mechanism mandating that government contributions automatically kick in when the unemployment rate reaches a set level would mitigate the tendency of premium rates to increase after a recession and decline during periods of economic growth (figure 1). “In time of a recession, having a trigger such that there is an automatic contribution from the federal government, rather than relying on this self-financing mechanism, which exacerbates the business cycle is, I think, a fundamental part of any financing reform,” he said.
Since recession-related expenditures are only a concern for regular EI benefits that cover involuntary job loss, and special benefits such as maternity leave have a social function, Jennifer Robson suggested that the two parts of the EI program could be treated differently for the purposes of premium setting and establishing a government role in financing.

5.3 A return to permanent tripartite funding

The federal government could also consider returning to a tripartite funding model (table 6). Armine Yalnizyan suggested that ongoing federal government contributions could be applied in several ways: to cover a fixed share of spending as they did between 1940 and 1971; to cover extended benefits for regions with higher unemployment rates, as they did between 1972 and 1990; to provide supplemental funding for special benefits; or to cover funding of new training benefits (discussed below).

In subsequent discussions, Jennifer Robson suggested the federal government should cover administrative costs of the program. The primary drivers of administrative costs are labour costs and government willingness to invest in technological improvements, which are unrelated to the behaviors or preferences of EI program users and can’t be reduced through competitive pressures, unlike private insurance, she said. There is, therefore, a rationale for government financing of administrative costs, so that the entity in control of those costs bears the associated financial risk, she added.
However, some participants urged caution in increasing the government role in financing. Rhys Kesselman argued that expanding the role of the federal government should be weighed against burdening taxpayers with the costs of benefits that many of them aren’t eligible to receive. “And adding to federal deficits, which are very large, on an ongoing basis seems hard to justify,” he added. He also noted that the economic stabilization properties of the EI program depend much more on the speed of benefit payouts. If premium rates can be raised sharply and quickly during periods of economic boom, that would also serve as a way to achieve economic stabilization, he said.

Representatives from both union and business groups supported the notion of removing special benefits from the EI program and creating a stand alone program, and some proposed that special benefits be funded out of general revenues. However, Kesselman argued that shifting the cost of special benefits to general revenues would undercut the program’s social insurance principles. In such a scenario, maternity and parental benefits would be open to all parents, regardless of their work history, and benefit levels would need to be set at a flat rate or income tested, rather than tied to previous earnings levels, he said. Such a shift could make employed parents worse off than they are currently.

Other participants argued for keeping special benefits in the EI program due to the risk of losing hard-earned progress on parental, caregiver and sickness benefits. “We as a society have a collective interest in making sure that members of the labour force, not only can access parental benefits in order to care for the next generation, but also … to look after sick or dying family members,” said Laurell Ritchie, co-chair of the interprovincial Employment Insurance working group and a member of the Good Jobs for All Coalition. She said it has taken decades for the program to provide the type of broad coverage it provides today and removing special benefits from the EI program could make it easier for future governments to reduce them. She noted that, since the US eliminated unemployment insurance coverage for parental leave, only a few states provide benefits, and to a maximum of just 12 weeks. This would be especially detrimental to women, who are the primary users of special benefits. “It’s been a long

<table>
<thead>
<tr>
<th>Government contribution</th>
<th>Costs 2020-2026</th>
<th>Change in 2022 break-even premium rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Temporary (COVID extended benefits)</td>
<td>$23.6 billion</td>
<td>− 16 cents</td>
</tr>
<tr>
<td>Conditional (during recessions)</td>
<td>$32.4 billion</td>
<td>− 23 cents</td>
</tr>
<tr>
<td>Permanent (special benefits)</td>
<td>$57.1 billion</td>
<td>− 54 cents</td>
</tr>
<tr>
<td>Permanent (administration)</td>
<td>$15.3 billion</td>
<td>− 13 cents</td>
</tr>
</tbody>
</table>

Table 6. The federal government’s role in EI financing could be temporary, conditional on big negative shocks, or a return to permanent tripartite funding

Notes: The analysis does not include modernization costs. Estimates for conditional support during recessions are based on the difference between the account cumulative surplus at the end of 2019 ($5.2 billion according to 2021 EI Actuarial Report) and the projected cumulative deficit at the end of 2022 ($27.2 billion according to 2023 EI Actuarial Report). Premium rate projections apply to employees. Employers generally pay 1.4 times employee premiums.
road,” she said. “If we were to end up with a regressive government at some point, we could easily end up with a program which is income tested.”

Increasing the federal government’s role is not without cost. For example, returning to a funding model where the government is responsible for a share of ongoing program expenditures (such as special benefits) would cost the federal government $8.2 billion per year based on average expenditures between 2020 and 2026. This would lower the 2022 break-even rates by 54 cents to $1.21 for employees. If these additional costs were debt financed, it could mean a 0.7 percent increase in the federal debt.9 This would increase debt servicing costs, shift tax burdens to future generations and reduce the government’s ability to spend in other important areas. In November 2022, the government’s Fall Economic Statement projected a baseline scenario federal budget deficit of $36.4 billion in 2022-23 and a debt-to-GDP ratio of 37.3 percent in 2027-28 (Canada 2022d).

To avoid increased debt, the federal government could fund additional EI costs through tax increases. For example, a 1.2 percentage point increase in the GST (from 5 percent to 6.2 percent) would cover both administrative costs and special benefits. In both scenarios, some of the costs of the EI program would shift to taxpayers (PBO 2022).

6. INCENTIVES TO REDUCE LONG-TERM DEMANDS ON EI

One of the topics discussed during the IRPP’s workshops was the role that incentives for employers and employees could play in reducing demand for the program, and therefore costs. We consider several options that could reduce EI expenditures without decreasing program coverage or generosity, including experience-rated premium rates, changes to the Premium Reduction Program and enhancing support for workers while they access training programs.

6.1 Experience-rated premiums

Over the course of our workshops, we heard from participants that changes to the EI program over the years have resulted in imbalances between EI benefits paid and contributions received across regions of the country, across industries and across firms.

An analysis of administrative data from 1986 to 1996 found that about 6 percent of firms consistently receive a net-positive transfer; these same firms account for 28 percent of EI benefits received while contributing 3.6 percent of premiums paid. Meanwhile, more than 20 percent of firms never receive a net-positive transfer. Net-recipient industries tend to be the same year after year, and include fishing, forestry and construction – largely seasonal industries with larger-than-average layoff rates during certain times of the year. The study

---

9 Based on the 2022-2023 federal debt levels projected in the 2022 Fall Economic Statement (Canada 2022d)
found that the construction industry, the largest net recipient of EI benefits, received an average $1.2 billion a year between 1986 and 1996 (Corak and Chen 2003).

Experience rating – whereby net-recipient firms pay higher premiums than net-contributing firms – could be a way to incentivize stable employment by encouraging employers to retain employees, thus lowering their EI premiums. The notion of experience-rated employer EI premiums has been considered many times but has never been implemented in Canada. The federal government has at times implemented measures that have resulted in experience-rated benefits, effectively providing less generous benefits to frequent claimants. However, these measures were short-lived.

Experience rating has been embedded in Canadian provincial workers’ compensation programs, where firms and industries with more accidents and higher accident costs are required to pay higher premiums; it is also used in US state unemployment insurance programs (de Raaf, Motte and Vincent 2005).

Various studies and commissions of inquiry have supported adopting experience-rated EI premiums for employers, arguing the measure is in line with EI’s insurance principles and would reduce cross-subsidization among industries and firms. Some have concluded that its use in the US and in provincial workers’ compensation programs has shown it can reduce benefit-premium imbalances (Canada 1997).

However, others have rejected the idea, arguing that employment fluctuations are largely outside an employer’s control, and because of its administrative requirements and costs (as summarized in Kesselman 1983; Canada 1986). They have also argued that experience rating would inhibit EI’s broader policy goals.

These arguments, both pro and con, were echoed by participants in our round table discussion. Rhys Kesselman argued that the imbalances in the EI program have led to distortionary effects on employer and employee behaviour and the economy. “Some people will pay EI premiums their entire working lives, but seldom if ever receive benefits, while others will receive benefits far in excess of their premium payments,” he said. He argued that EI benefits subsidize temporary layoffs, particularly in seasonal industries, and raise the economy’s overall rate of unemployment. They encourage workers to seek employment in seasonal and cyclical industries often concentrated in lower-income regions of the country and inhibit worker migration to places and industries with higher productivity. They also discourage young workers in those areas from pursuing training and higher education, and reduce the economy’s overall efficiency, productivity, and long-term growth, he said. He noted that other policies such as the federal Equalization Program can address regional inequities without labour market distortions.

However, the issue was very contentious, and several participants opposed it. Laurell Ritchie noted that the use of experience rating in the US unemployment insurance

---

10 See Kesselman (1983, Chapter 9) for a complete overview of the arguments for and against experience rating and their roles in the earlier development of Canada’s Unemployment Insurance program.
program and provincial workers’ compensation programs has shown that employers are more likely to challenge employee claims to keep premiums low, and that it incentivizes the misclassification of employees. Others noted that experience rating would circumvent the policy goal of reducing regional disparity and inequality among provinces and territories.

6.2 Premium Reduction Program

The EI program provides special benefits to Canadians who are not working due to injury, illness or a requirement to quarantine, as well as those who are caring for a newborn or adopted child and those providing compassionate care. Some employers offer similar types of income-protection coverage to their employees for short-term illness or injury. The Premium Reduction Program (PRP) allows these employers to pay lower premium rates. This is because employer-sponsored, short-term disability plans can reduce the financial and administrative load on the EI program by decreasing the amount that employees would otherwise collect from it.

The premium rate reduction is provided to both employers and their employees. Employers who qualify for this program pay EI premiums that equal seven-twelfths of the total EI premiums payable and their employees pay premiums equal to five-twelfths. The premium reduction reflects the average savings generated in the EI account as a result of the employer-provided, short-term disability plans. A study by Employment and Social Development Canada (ESDC) found that 27,220 employers received premium reductions through the program in 2015, covering about 7.8 million workers (CEIC 2022).

The federal government has noted that some improvements to the PRP will be required because of its plan to extend EI sickness benefits from 15 to 26 weeks.

During ESDC’s consultations with stakeholders, employers said the PRP was complex and called for participation requirements to be eased. Others noted that awareness about the program was low and called for simplifying the application process and increasing financial incentives for employers to participate, especially for small and medium-sized firms. Some called for the program to be expanded to cover long-term disability and other types of leave (Canada 2022e).

The Canadian Federation of Independent Business has called for an EI premium rebate for small and medium-sized companies to offset the cost of training provided to employees, and for firms that hire young people (CFIB 2021). There is already a precedent for targeting premium reductions at small businesses, for employers that hire family members (Canada 2021b).

However, other experts warned against making the PRP any more complicated to administer than it already is. Jennifer Robson suggested expanding the program to

---

11 A detailed description of the operation of the PRP is provided in Kesselman (1983).
encourage employers to provide better sickness, parental and caregiving leaves, and encouraging employee training through other means.

6.3 Training benefits

Provision of training can also potentially help reduce dependence on EI benefits by improving the resilience of workers in the face of economic or labour market disruption. Federal, provincial and territorial governments have introduced numerous initiatives over the years to encourage Canadians to seek training. However, workshop participants noted that the duration of these programs is often too short and the financial support they provide inadequate.

Studies show that Canadians with post-secondary education consistently have higher employment rates and higher earnings than those with a high school or trade education and those who didn’t complete high school (Statistics Canada 2021). With rapidly changing technologies and a global transition to address climate change altering skills needs, many employees will need to upskill or reskill to maintain or gain employment. However, research indicates that Canadian workers receive less training than their international counterparts. About one-third of Canadian workers receive job-related workplace training that lasts on average 49 hours a year, well below the OECD average of 59 hours (Bonen and Oschinski 2021).

What’s more, workplace training is not equally available in Canada. Low-skilled and older workers are less likely to receive training than other groups (Bonen and Oschinski 2021).

Box 1. Federal government training benefits provided through the EI program

The federal Skills Boost program allows EI claimants who are long-tenured workers to pursue full-time training while continuing to receive regular EI benefits. To access the program, the claimants must first request permission from Service Canada. Long-tenured workers are defined as those who have received 35 weeks or less of EI regular or fishing benefits in the previous five years and who have paid at least 30 percent of the maximum annual EI premiums in seven of the previous 10 years. Those who have voluntarily quit their jobs without a valid reason are typically not eligible for the program. In fiscal 2020-21, 612 claimants received permission to continue receiving EI regular benefits to pursue training, down 31 percent from a year earlier. (CEIC 2022)

The EI program also offers temporary income support to those who are unemployed and attending full-time technical training as part of an apprenticeship program.

In 2019, the federal government introduced the Canada Training Benefit, which provides benefits directly to workers while they pursue training. It consists of two provisions: the first, the Canada Training Credit, provides workers between the ages of 25 and 64 whose eligible income falls within predefined brackets with a tax credit of $250 a year up to a lifetime limit of $5,000. For example, a worker who has worked 20 years since the inception of the credit would be eligible to receive the full amount. The funds accumulate in an account administered by the Canada Revenue Agency and can be used to cover up to half the cost of programs offered by colleges, universities and other training institutions. Canadians must pay for the training up front and claim the credit at tax time to receive a refund. Several experts called for changes to the Canada Training Benefit soon after it was introduced, arguing that the level of financial support is too low and that it doesn’t adequately target lower-income workers (Robson 2019).

The second provision, the EI Training Support Benefit, provides workers with paid leave through the EI system while they are enrolled in a training program. Under this provision, which has yet to come into effect, they can receive up to four weeks of benefits at 55 percent of their weekly insurable earnings.
Research also shows that retraining initiatives tend to be taken up by higher-income workers who already have training and education and who are also more likely to work for an employer willing to pay for them (Advisory Council on Economic Growth 2017).

Others have noted that Canadian workers must navigate a complex patchwork of retraining programs delivered by various organizations and institutes and funded through different levels of government (Caranci and Fong 2021).

At the federal level, some programs are funded through Employment and Social Development Canada, while others are funded through the EI program (see box 1). The EI programs are delivered either directly by the federal government or through transfers to provinces and territories through Labour Market Development Agreements (LMDAs) and the Indigenous Skills and Employment Training program. EI also provides funding for employment-support measures, such as job search and career-counselling services, and for employer-sponsored training programs that allow claimants to receive EI benefits while they train. The federal government provides more than $2 billion a year through the LMDAs for Canadians to pursue training and employment supports. In fiscal 2020-21, more than 600,000 Canadians accessed supports (CEIC 2022).

### 6.4 EI Work-Sharing Program

Another provision of EI, the Work-Sharing Program, is intended to help employers and employees avoid layoffs when there is a temporary decline in business activity. The program provides EI benefits to eligible employees who agree to reduce their normal working hours and share available work while the employer recovers. Employees who participate in the program form work-sharing units. A unit must reduce its hours of work by between 10 percent and 60 percent for a minimum of six consecutive weeks and a maximum of 26 weeks; employers can apply to have the maximum duration extended for an additional 12 weeks. During participation in a work-sharing agreement, employer-initiated training activities, whether on-the-job training or off-site courses, may take place.

The federal government put in place temporary measures after the outbreak of the pandemic to make the Work-Sharing Program more generous by extending the maximum duration of agreements to 76 weeks and expanding eligibility to employers and employees in the nonprofit sector. As a result of the measures, which have since expired, the number of agreements rose to 4,200 in fiscal 2020-21 from 370 the previous year. More than 130,000 employees participated, and employers reported avoiding 60,000 layoffs (CEIC 2022).

Depending on the cause of the work shortage that leads to work-sharing, the employer’s recovery plan may include plans to initiate training activities for members of the work-sharing unit. Training costs can be funded by the employer or through other available supports such as provincial or territorial programming. The salary costs of employees taking part in training activities during scheduled working hours cannot be compensated through the work-sharing agreement.
In 2002, the federal government introduced a Work-Sharing While Learning Program (WSWL) and an Increased Referrals to Training (IRT) program intended for industries in regions with high unemployment (greater than 10 percent) that were facing structural changes rather than a temporary downturn in business activity. Employees of firms with a WSWL agreement were able to access EI benefits for a year while attending an employer-funded training program, and these agreements could be extended for an additional year. Workers in the IRT program were able to quit their jobs to take a training course without loss of EI benefits. A subsequent audit found limited uptake for both programs since employers preferred to retain scheduling flexibility in work-sharing and employees faced limited prospects for post-training employment (Canada 2005). The initiatives might have had more success in regions with a greater diversity of alternative employment opportunities.

There was widespread support among workshop participants for the need for improved training, especially given the degree of current and projected worker shortages. Laurell Ritchie said it would make sense to have “a solid, good training benefit within EI that would provide people with income maintenance” as part of regular EI benefits that was paid for by federal government contributions. She noted that there could be lessons learned from the work-sharing program in Germany that could be used to revive and broaden the reach of the WSWL pilot project. Germany’s Kurzarbeit program has been lauded as the “gold standard” of work-sharing programs and credited with keeping employment in the country stable during the 2009 financial crisis, when employment levels plunged in other countries. It was also used during the pandemic, with a temporary increase in the income replacement rate and an extension of the maximum duration from six to 21 months (International Monetary Fund 2020; OECD 2020).

“We could really highlight this program,” Ritchie said. “It saves companies money, it’s good for workers.”

A 2022 report from the IRPP also highlighted an innovative approach to training in sectors dominated by small and medium-sized businesses based on the training mutuals developed in Quebec (box 2). There could be scope to encourage small and medium enterprises — many of which may not have the capacity to provide training on their own – to take part in such sector-wide training initiatives through premium reductions or other incentives.

**Box 2. Quebec’s approach to training**

Quebec takes a unique approach to training. Companies in that province with a payroll of more than $2 million are required to invest a minimum of 1 percent of their revenues in training initiatives or in contributions to the province’s Workforce Skills Development and Recognition Fund. A portion of the fund, which generates about $35 million a year, goes to support training mutuals, which are formed by groups of companies often operating in the same business sector. The companies pool their resources through the training mutual to deliver training to their employees. Research shows that training mutuals can be an effective way to encourage smaller and medium-sized businesses to invest in training and make it available to workers who need it most. They can also reduce the hesitancy of firms to invest in training for fear of having their employees poached by competitors (Blanchet 2022).
Alexandre Gagnon, vice-president of labour and human capital, at the Fédération des chambres de commerce du Québec, called for a better designed and funded training benefit. “In terms of investment in training, we are way behind other countries,” he said. “If our job market is to adapt, we will have to invest better and much more.”

Armine Yalnizyan suggested that federal funds should cover the cost of training and skills upgrading, including for those who aren’t eligible for EI. “If we’re talking about modernizing EI in an era of population aging, where we are going to need to maximize the contributions of a shrinking working-age cohort, we do want to make sure that everybody can get access,” she said.

Yalnizyan also proposed providing access to training benefits to workers who quit their jobs. Of Canada’s total unemployed population in 2019, 14.2 percent were ineligible for benefits because they had quit (Canada 2021c). Claimants generally don’t qualify for EI regular benefits if they voluntarily quit without just cause. Some justified reasons include quitting because of adverse working conditions and obligations to care for a family member, but not to pursue training or education. Between 2013 and 2020, 93 percent of all those who quit their jobs did so to return to school, take another job or retire (CEIC 2022).

Jennifer Robson proposed that spending in Part Two of EI be refocused on improving employment assistance services that include personal counselling, planning and referrals, which she said provide a good return on investment in the form of savings on future benefit claims. She noted that one option could be to introduce individual training accounts that could be partly funded through EI premiums and by consolidating and redirecting government spending that currently goes to other programs, including the Lifelong Learning Plan, which allows individuals to withdraw funds from a Registered Retirement Savings Plan to obtain training and which generally benefits higher-income earners. Training accounts are individual accounts designed to fund participation in training activities. Contributions can come from various sources including the government, employers and account holders. They have been growing in popularity over the past 20 years, with more and more countries introducing them. However, some research has shown that the accounts tend to be used by those who already have high skills and can afford training (Blanchet 2022).

In its 2017 report, the federal Advisory Council on Economic Growth called on the federal government to develop a comprehensive Skills Plan for Working Canadians that would transform the system of skills training. It proposed that the plan should include a new fund that would provide financial incentives to individuals and employers to encourage training and stimulate investment in skills development. The fund would be supported by contributions from the federal government, individuals and employers. It also proposed expanding the mandate of the government’s employment centres, turning them into hubs of career counselling and training guidance. Together, these measures would form what the council called a “third pillar” of training that would fill the existing gap in training options for working Canadians (Advisory Council on Economic Growth 2017).
7. CONCLUSION

The IRPP’s workshops and analyses have made it clear that there is no easy solution to EI modernization, or the financing model used to pay for it. Each choice involves difficult trade-offs and is unlikely to garner unanimous support.

However, there is a tremendous opportunity to improve the EI program for the benefit of Canadians as the federal government contemplates its first major reforms in more than 25 years. The timing of reforms comes as Canada is still recovering from the pandemic and is facing another potential economic slowdown. This underscores the urgent need for EI reform to increase the number of unemployed Canadians who can access the program and the ability of those who do receive EI to make ends meet. However, it also makes it more challenging to increase premium contributions paid by workers and businesses.

There is also a need to lay the groundwork for an EI program that can adapt to a changing workforce and new economic challenges, whether they are driven by technological change, a shift to remote work, an aging population or the transition to a low-carbon economy. These changes may alter who uses the program, and how they use it. They will also increase the importance of a skilled and resilient Canadian workforce that is able to adapt to labour market change.

The IRPP will continue its work to support discussion and debate on EI reform, with more publications, webinars, articles and commentaries. As the government weighs its options for reforming EI, independent research and analysis can support a better understanding of the issues and trade-offs and a greater appreciation of all perspectives. There may be no easy path forward, but a shared understanding can make it easier to identify areas for compromise.

In a separate commentary, IRPP researchers propose a possible package of compromise solutions for the government to consider.
APPENDIX: LIST OF PARTICIPANTS

Pierre Céré, spokesperson, Conseil national des chômeurs et chômeuses

Miles Corak, professor of economics at the Graduate Center of the City University of New York and previous economist in residence at Employment and Social Development Canada.

Ricardo Chejfec, research associate, Institute for Research on Public Policy

Steven Coté, executive director, Strategic Policy, Employment and Social Development Canada

Jennifer Ditchburn, president and CEO, Institute for Research on Public Policy

Pierre Fortin, professor emeritus of economics, Université du Québec à Montréal

Alexandre Gagnon, vice-président de work, Fédération des chambres de commerce du Québec

Jasmin Guénette, vice-president of national affairs, the Canadian Federation of Independent Business

Nancy Healey, commissioner for employers, Canada Employment Insurance Commission

Garima Talwar Kapoor, director of policy and research, Maytree

Rhys Kesselman, professor emeritus, Simon Fraser University School of Public Policy

Norma Kozhaya, vice-president research and economist, Conseil du patronat du Québec

Julien Laflamme, economist and researcher, Confédération des syndicats nationaux

Pierre Laliberté, commissioner for workers, Canada Employment Insurance Commission

Kevin Milligan, economics professor, Vancouver School of Economics, University of British Columbia

Leah Nord, senior director of workforce strategies and inclusive growth, Canadian Chamber of Commerce

Normand Pépin, research advisor, Centrale des Syndicats Démocratiques

Laurell Ritchie, co-chair of the interprovincial Employment Insurance working group and member of the Good Jobs for All Coalition

Chris Roberts, director, social and economic policy, Canadian Labour Congress

Rachel Samson, vice-president, research, Institute for Research on Public Policy

Armine Yalnizyan, Atkinson Fellow on the Future of Workers and previous senior economic policy adviser to the deputy minister of Employment and Social Development Canada.
REFERENCES


CEIC (see Canada Employment Insurance Commission)

CFIB (see Canadian Federation of Independent Business)


BP-e/bp389-e.pdf.


———. 2022a. Table 11-10-0240-01 Distribution of Employment Income of Individuals by Sex and Work Activity, Canada, Provinces and Selected Census Metropolitan Areas. https://doi.org/10.25318/1110024001-eng.

———. 2022b. Table 14-10-0064-01 Employee Wages by Industry, Annual. https://doi.org/10.25318/1410006401-eng


The IRPP seeks to improve public policy in Canada by generating research, providing insight and influencing debate on current and emerging policy issues facing Canadians and their governments.

L’IRPP contribue à l’amélioration des politiques publiques en produisant des recherches et des analyses approfondies qui éclairent le débat sur les grands enjeux auxquels sont confrontés les Canadiens et leurs gouvernements.