



## **Employment Insurance: Small Bang for Big Bucks\***

Never has such a large fund delivered so few benefits. The Employment Insurance (EI) Fund posted a \$26 billion surplus in 1999. This means that it spent \$26 billion less than collected – at least on EI, the supposed purpose for which premiums are levied on employers and employees.

The money is not sitting idle. Even though it is accounted for as a separate fund, it is included as general revenues within the federal budget.

There are two problems here. First, the funds are not being used entirely for the purposes for which they were collected. This practice hardly inspires public confidence. Second and perhaps more important, the majority of unemployed Canadians are not getting access to the income support and retraining programs for which they already have paid.

EI's predecessor, Unemployment Insurance (UI), was one of Canada's oldest social programs. It was introduced in 1940 on the heels of the Depression. Its purpose was to provide income from work absences arising from temporary spells of unemployment. UI enabled the country to say 'never again' to the hunger and despair arising from widespread joblessness.

Over the years, UI expanded to cover virtually the entire paid workforce and allowed benefits for special purposes, such as sickness and parental leave. It extended extra benefits to workers in regions of very high unemployment. After the last expansion, in 1971, Ottawa began to take steps to rein in its scope. The next 25 years would see various changes which whittled away at the program.

But the real turning point came in 1996 when the federal government introduced Employment Insurance to replace UI. The name change was intended to signal a philosophical shift – from 'passive' dependence to active training. The twin objectives of the overhaul were to keep the unemployed off the program and to encourage greater workforce participation through skills training and upgrading.

Employment Insurance consists of income benefits and employment benefits. *Income benefits* provide temporary support for income claimants while they look for work. *Employment benefits* consist of a package of measures – including wage subsidies, self-employment assistance, and skills loans and grants – to help workers prepare for and find a job.

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The new Act tightened up three key levers on the income side of the program: eligibility criteria, benefit levels and duration of benefits. These changes will save about \$2 billion from the annual cost of EI by 2001. Only an estimated \$800 million from the reductions to income benefits will be directed toward employment benefits.

In theory, the new program seeks to shift funds from income benefits to employment supports in order to strengthen incentives to work. In practice, the program has helped far too few unemployed. Here's the problem.

The Employment Insurance Act calculates eligibility on the basis of number of hours rather than number of weeks worked. The purported purpose of this change was to 'allow more flexibility' in the program and to enable more of the growing group of part-time workers to qualify for EI.

At the same time, however, the Act restricted eligibility by substantially increasing the number of required hours of work. To qualify for EI regular benefits, workers now must put in from 420 to 700 hours (the equivalent of 12 to 20 weeks), depending on the unemployment rate in the region. This measure represents an increase of between 180 and 300 hours over the former entrance requirement.

Claimants applying for sickness, maternity or parental benefits need 700 hours of work. New entrants to the labour market and those who have been out of work for some time must establish a reasonable attachment to the workforce – a minimum 910 hours – to be eligible for EI.

As a result, insurance coverage for unemployed workers has dropped dramatically. The Canadian Labour Congress reports that the percentage of unemployed workers covered by the program in 1997 was less than half its level in

1989 – falling from 74 percent to 36 percent of the unemployed. Coverage for unemployed women was even lower with only 32 percent receiving EI in 1997. Two-thirds of major urban areas have coverage rates well below 30 percent.

It is of interest that three women in Manitoba are challenging the Employment Insurance law, arguing that its tougher eligibility rules discriminate against women and part-time workers. But drastically reduced coverage is not the only problem. The Catch-22 is that far fewer jobless Canadians have access to the employment measures that are the centrepiece of the new legislation.

The majority of these employees are not qualifying for EI and hence are not eligible for the work-related measures associated with the program. The long-term unemployed, the underemployed, new workers and part-time workers are finding it especially difficult to gain access to labour market measures that would help them improve their job prospects.

In contrast to its grand philosophical objectives, EI is far from providing stronger supports for the unemployed. There is something very wrong with a program that delivers such small bang for such big bucks.

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