



The Issues Facing Canada's Employment Insurance Program

by Jake Fuss and Steven Globerman

Is Canada's employment insurance (EI) program designed to ensure fairness, economic efficiency, and financial viability while providing adequate support to all Canadians who involuntarily lose their jobs? The purpose of this paper is to explore this question and to identify some of the primary problems inherent in the design of employment insurance.

Although EI is a federally administered program, eligibility and the duration of benefits differ based on the region in which an individual resides. Canadians in regions of high unemployment receive benefits for longer and have easier access to employment insurance than those living in regions where unemployment is lower. As a result, some Canadians are required to work more hours to qualify for the same benefits as Canadians in other areas of the country. Regionally extended benefits create inequities and distort the national labour market, thereby harming economic prosperity.

Specifically, disincentives to work inherent in the design of EI have sustained high unemployment rates in Atlantic Canada. The current design encourages workers in Atlantic Canada to remain unemployed for an extended period of time because benefits are available for longer than in other regions. The result is longer durations of unemployment and more frequent claims. This reliance on EI has harmed prosperity in the Atlantic provinces.

Changing dynamics in the labour force and the rise of the "gig economy" indicate that more Canadians are pursuing part-time work or self-employment. Although part-timers are eligible to receive EI, their eligibility rate is much lower than that of those working full time, since everyone is required to work a minimum number of hours in the prior 12 months to qualify for benefits. Moreover, self-employed individuals are not eligible to receive regular EI benefits and are left without any temporary income support if, for instance, their business fails. Hence, a significant proportion of the Canadian workforce is not eligible to receive EI regular benefits because they are either self-employed or work part-time. Since this is the case, the EI program is failing to achieve its objective of providing temporary income support to all individuals who face losses as a consequence of involuntary unemployment.

Recent unemployment data and the experience of past recessions suggest that EI is also likely to face financial strain. Higher unemployment means that fewer workers

are making EI contributions and premium revenues will fall. Benefit payouts will rise as a consequence of the increase in unemployed workers, it will be easier to qualify for EI, and workers will be eligible for a longer duration of payments. The resulting deficits in the EI operating account will place additional pressure on federal finances as general taxes may need to cover the EI deficit. This means the federal government will likely need to raise premium rates going forward, but doing so could have serious adverse effects on overall employment and economic growth.

Nearly one third of EI program expenditures are allocated to EI special benefits. Since these benefits are funded through EI premium revenues, this means premium rates are higher than they would be if the program offered only regular benefits. As COVID-19 will place increased financial strain on regular EI benefits, continuing to pay EI special benefits through EI premiums will add to the economic burden of funding the EI system.

Identifying solutions to make the EI system more efficient and less costly to maintain will be the focus of a future study. Nevertheless, this publication points out that employment insurance is a flawed federal program that is in serious need of reform. The current design of EI creates regional disparities, distorts labour markets, provides inadequate coverage for part-time workers and the self-employed, and will impose a financial burden on Canadians for years to come. Federal policymakers should consider the harmful unintended incentives of EI and pursue an overhaul of the program.



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