



IS CANADA'S EI PROGRAM ADEQUATE?



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EI UNDER THE MICROSCOPE

- Job losses highlight EI's role in income stabilization
- Regional disparities emphasized
- Flashpoint in federal politics
- Premiers argue/agree on nation-wide standards

PROBLEMS WITH EMPLOYMENT INSURANCE

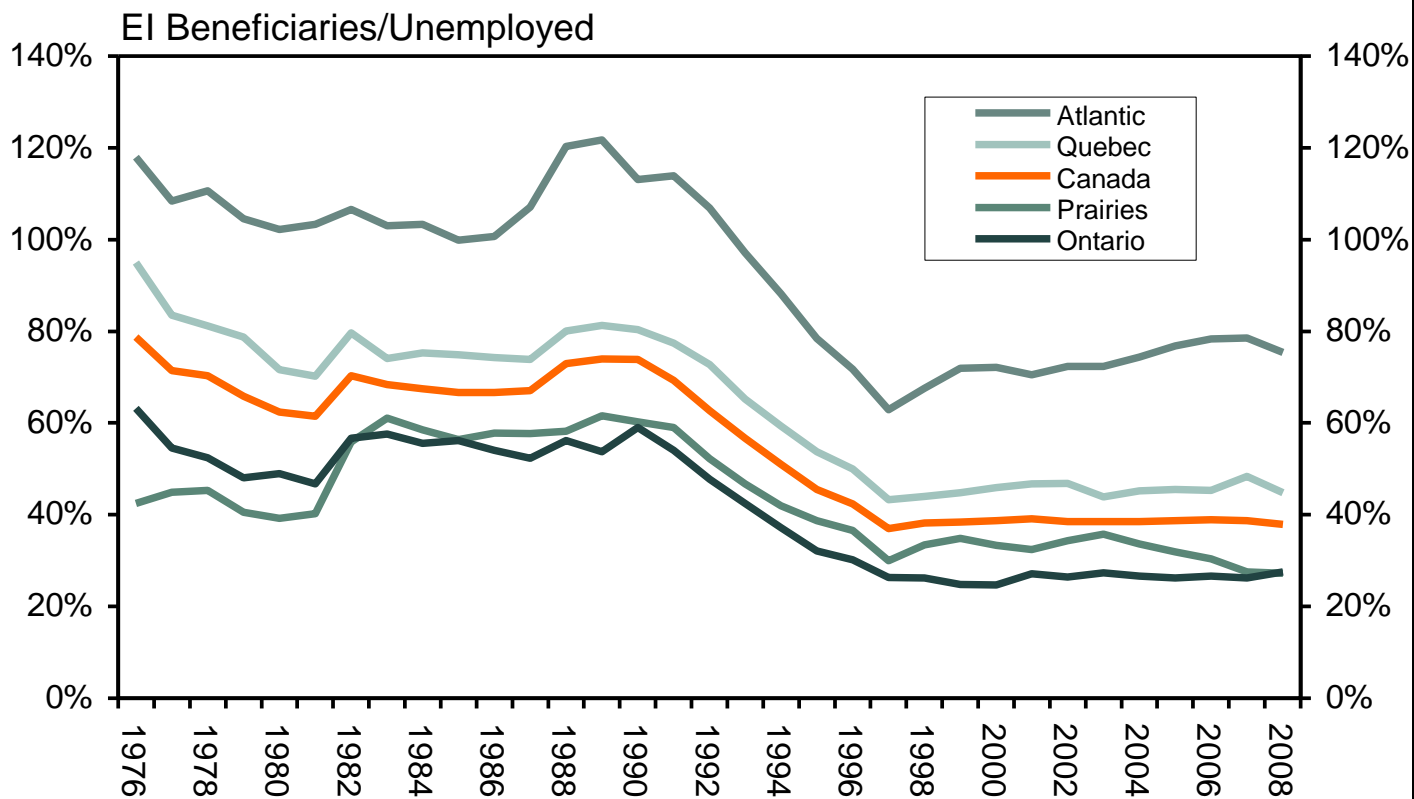
- EI under-coverage is somewhat overstated but still significant
- Persistent disparities between regions
- Unemployment rate as benchmark is flawed
- Rate-setting mechanism means higher premiums when unemployment high

EI REFORM: BACK TO THE FUTURE?

- Established in 1941 on insurance principles
- Early 1970s – program expansion with broader employment support measures
- 1996 – reforms tightening eligibility
 - But “intensity rules” revoked (2000)
- 2005 – reform of rate-setting formula

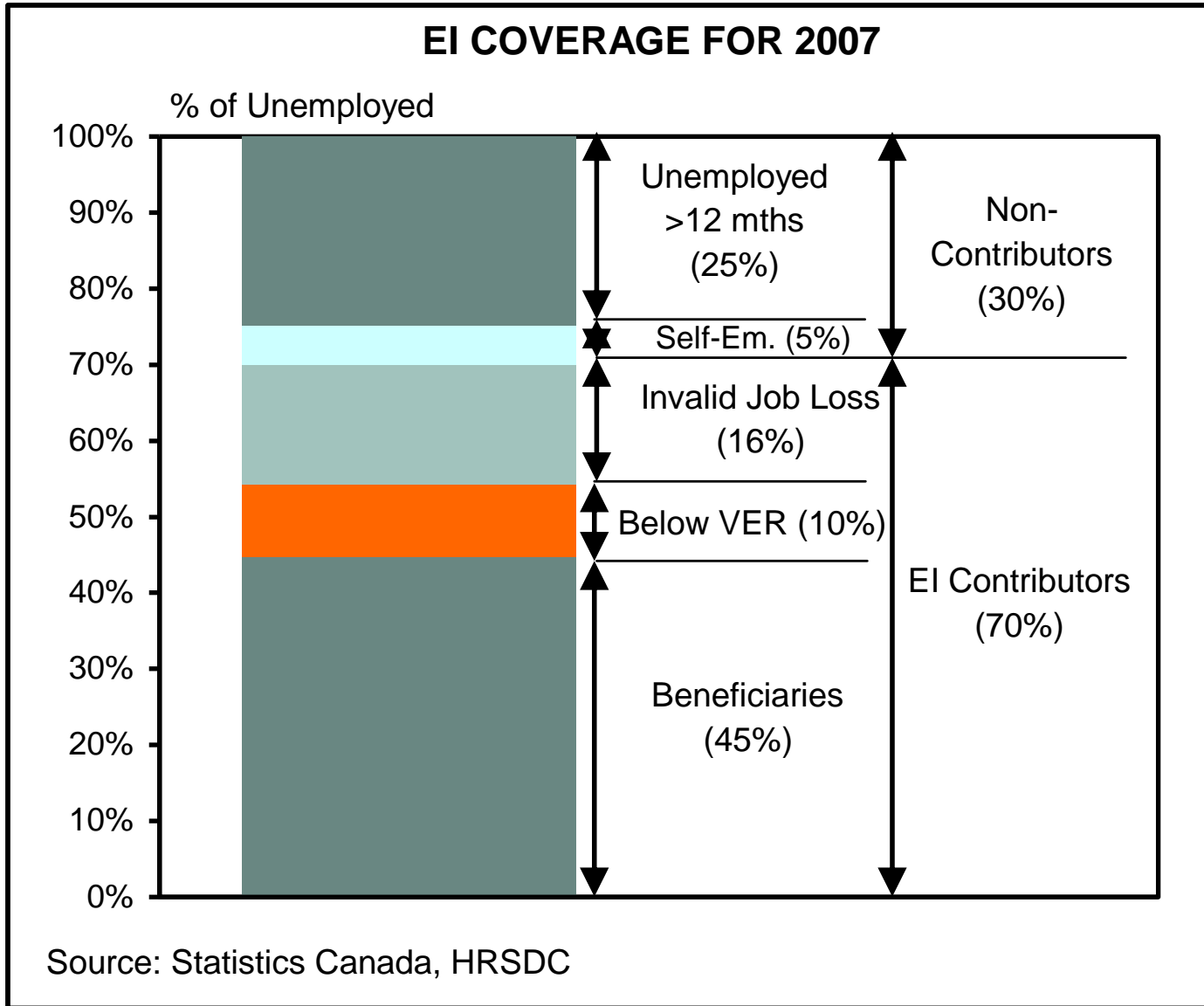
MUCH OF FOCUS ON BROADENING EI ACCESS

EMPLOYMENT INSURANCE BENEFICIARIES-TO-UNEMPLOYED RATIO

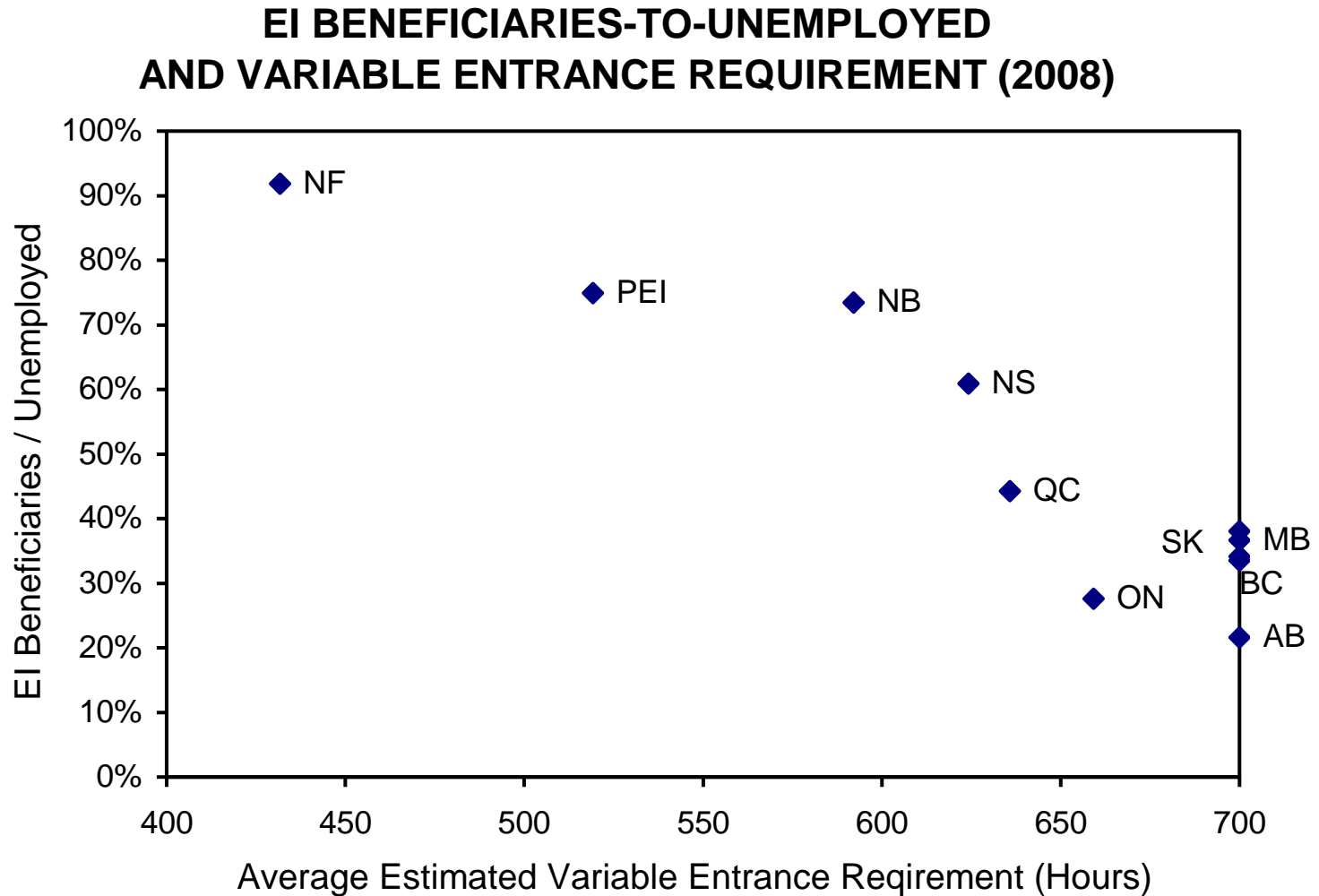


Source: Statistics Canada

B/U OVER-STATES EI'S UNDER-COVERAGE

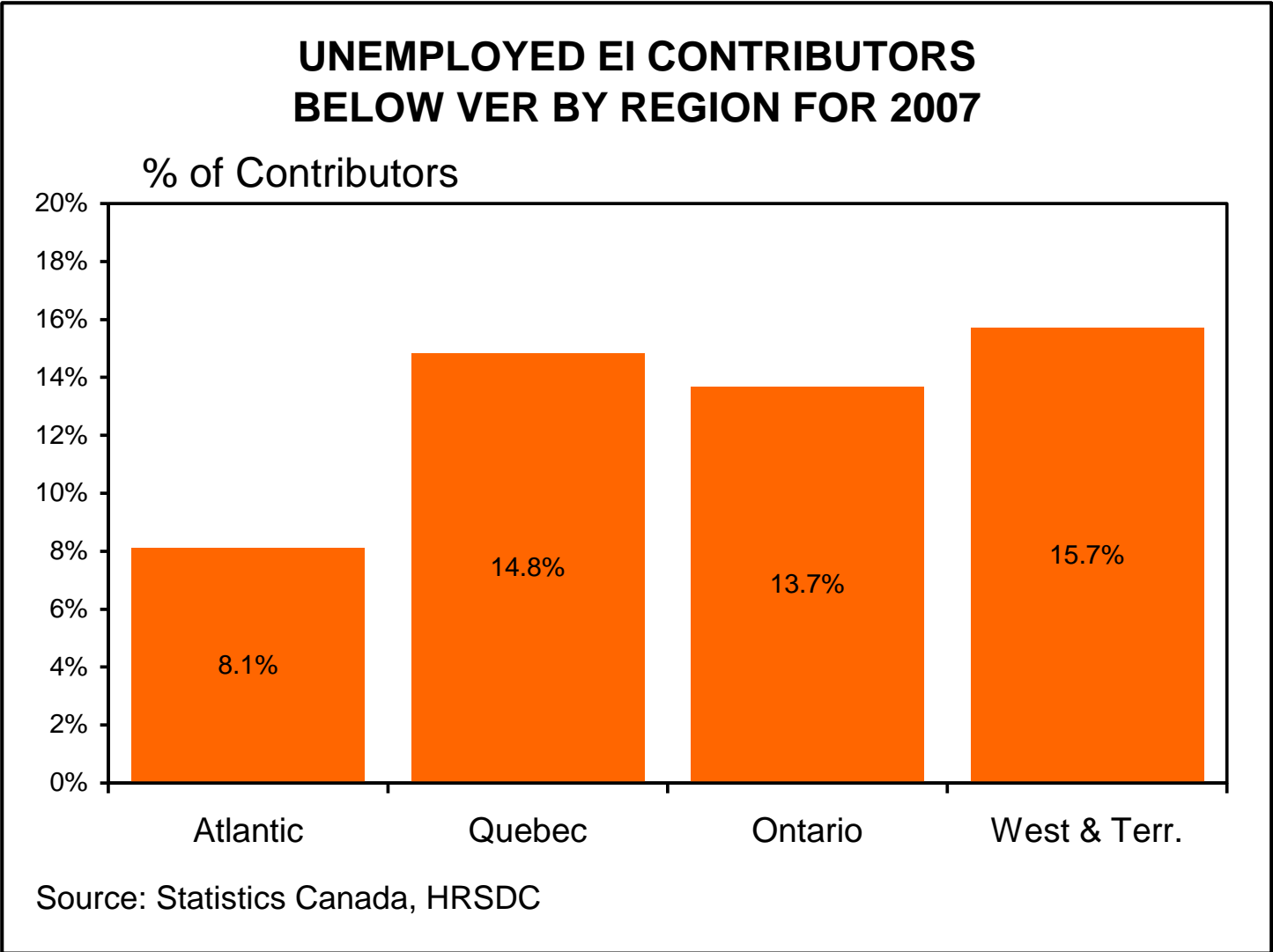


WIDE DISPARITIES APPARENT IN EI COVERAGE



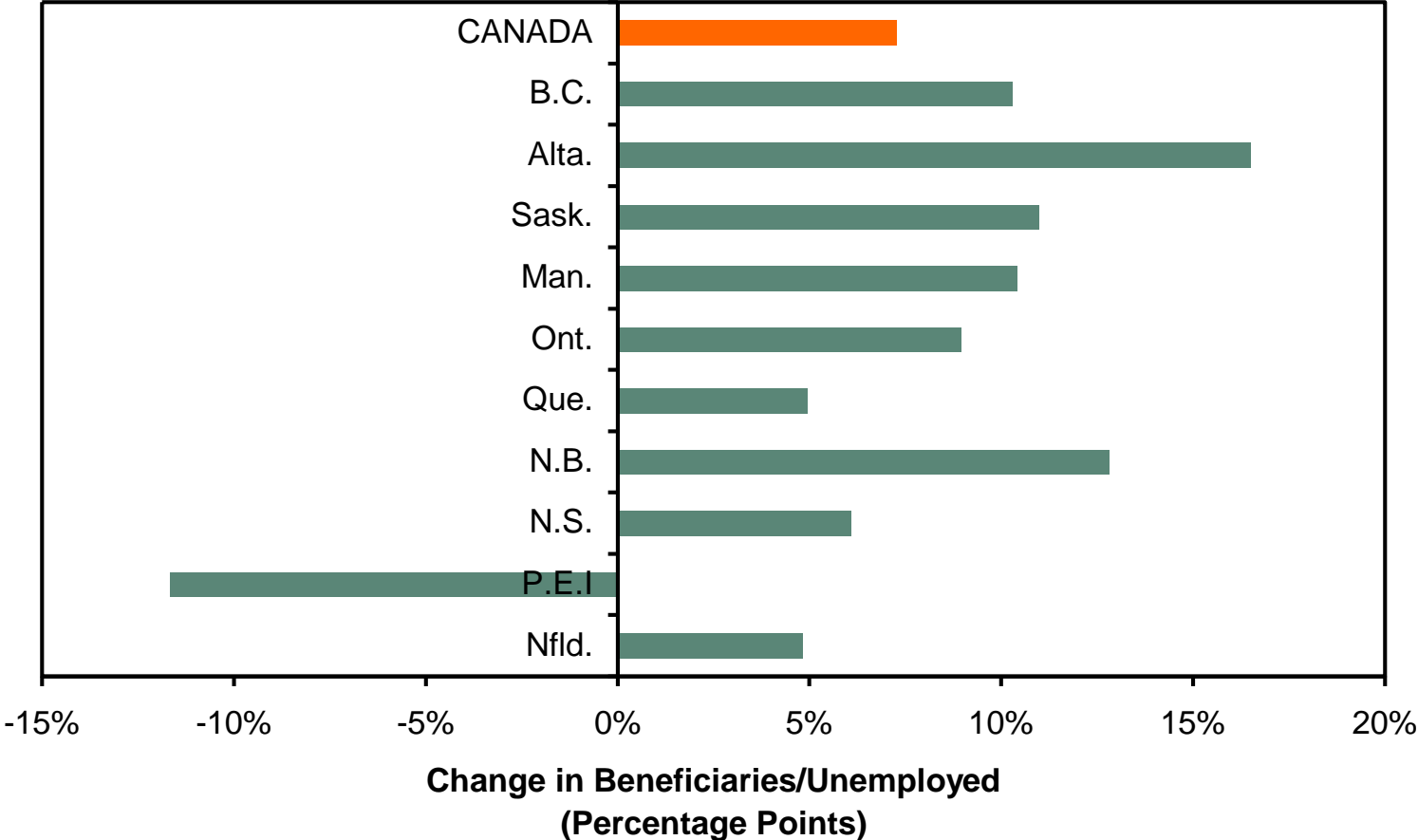
Source: Statistics Canada, TD Economics

VARIABLE ENTRANCE REQUIREMENT IMPACTS ELIGIBILITY BETWEEN REGIONS



SOME IMPROVEMENT IN EI COVERAGE

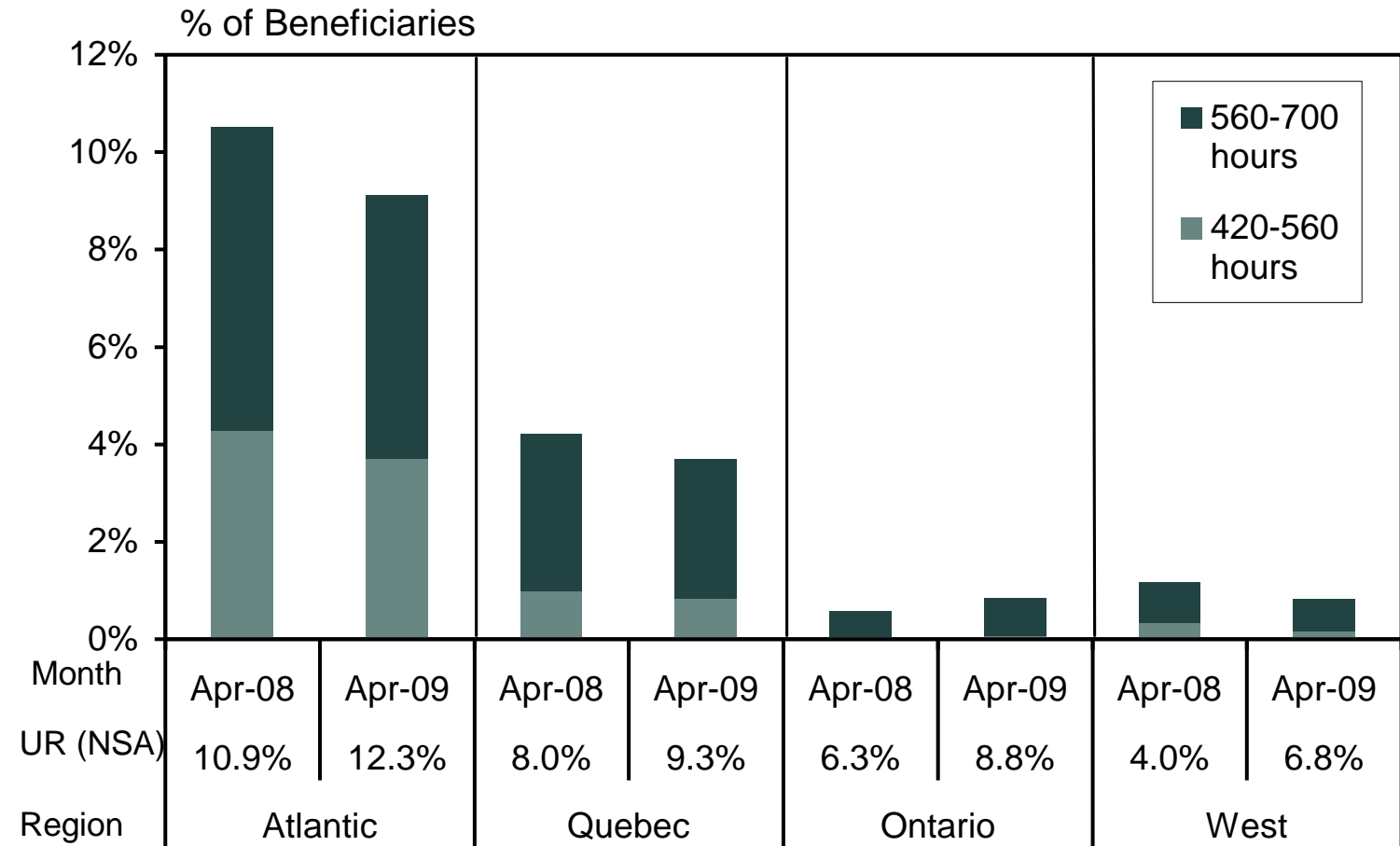
IMPROVEMENTS IN EI COVERAGE (May 2008 - May 2009)



Source: Statistics Canada, HRSDC

BUT GREATER COVERAGE APPEARS TO BE DRIVEN BY JOB LAYOFFS, NOT VER SHIFT

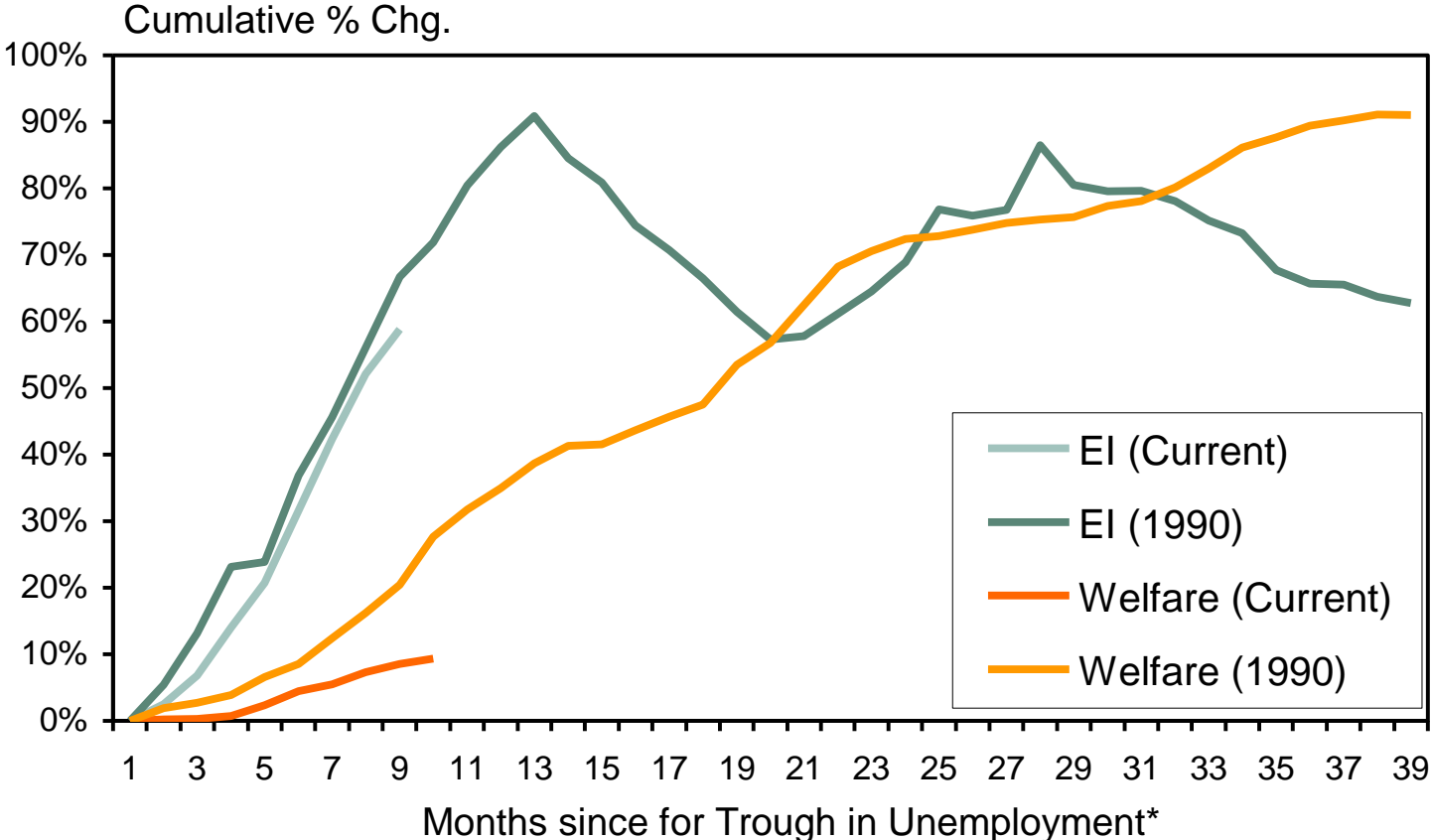
EI BENEFICIARIES BY INSURABLE HOURS



Source: Statistics Canada, HRSDC

WELFARE USE WILL RISE WITH EI EXHAUSTION

EI AND WELFARE BENEFICIARIES IN ONTARIO DURING 1990-1 AND 2008-9 RECESSIONS



Source: Ontario MCSS, Statistics Canada

* April 1990 & August 2008

SHORT-TERM RECOMMENDATION

- “Flattening” at 560 hours for <10% UR regions
 - Better equality between regions
 - Better equality for early layoffs
 - Less costly than full standardization
 - Reasonable threshold to promote job-search during recovery

WHAT ABOUT INCENTIVES?

- Assume worker can choose to “lose” job:
Present Value(Work) > Present Value(EI)
for incentive compatibility
- Must consider re-employment probability once benefits exhausted:
 - Lower probability discourages “loss” of job
- Replacement rate and minimum divisor ensure incentive compatibility

ARGUMENTS FOR VER REFORM

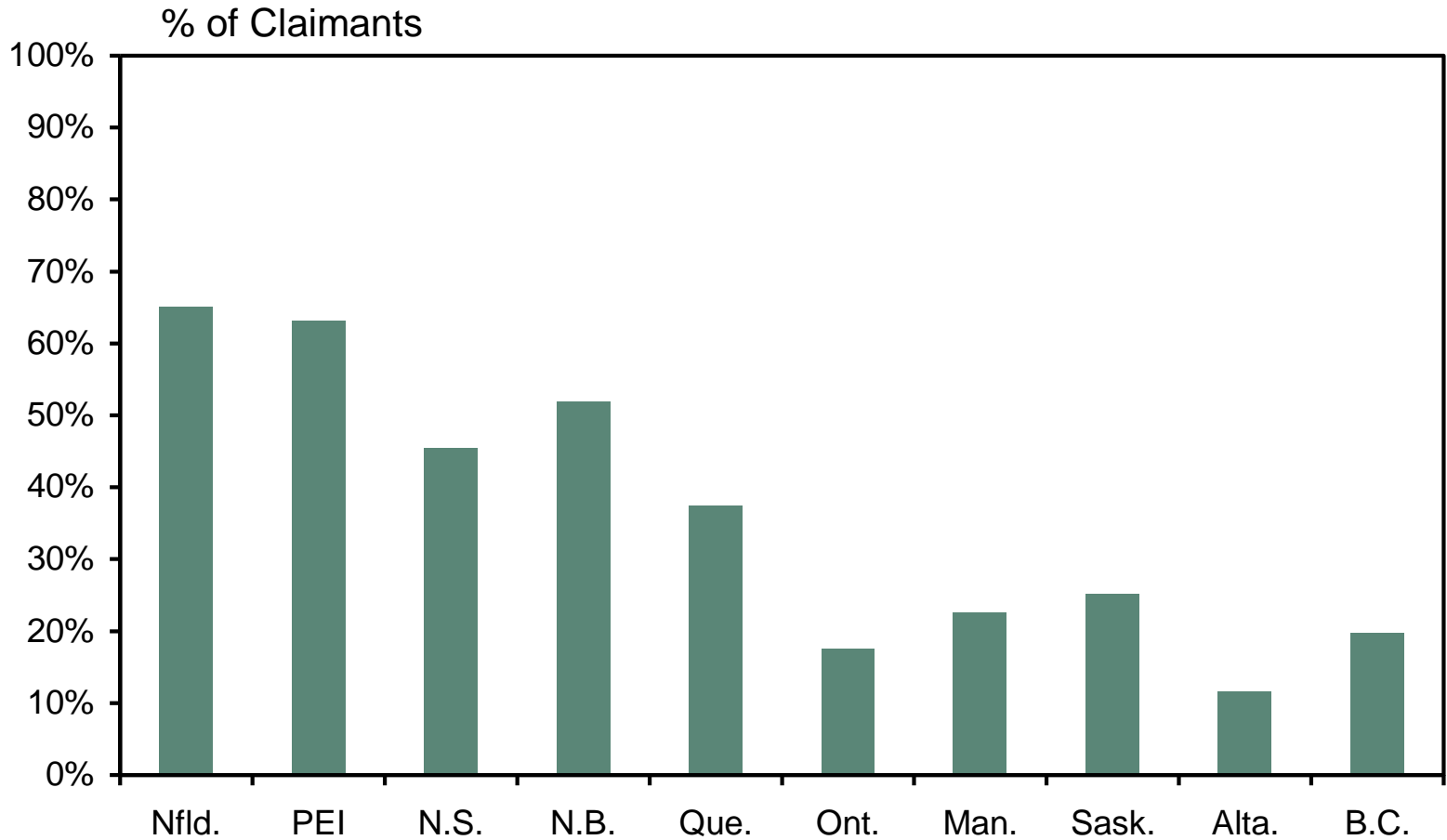
- Re-employment probability is basis of equity
- Additional measures are needed:
 - Gross change in employment
 - Turnover within unemployed workers
 - Job vacancies

OTHER REFORMS

- “Risk-rating” of workers/jobs/industries?
 - Common premium rates imply cross-subsidization
 - But differentiated premiums problematic
 - “Intensity rules” were successful but were arguably removed for political reasons
 - Could remedy repeat use and persistent pockets of unemployment

REPEAT USE LARGE DRAW ON SYSTEM

FREQUENT CLAIMANTS* BY PROVINCE (2006/2007)



Source: HRSDC

* >3 active claims in last five years

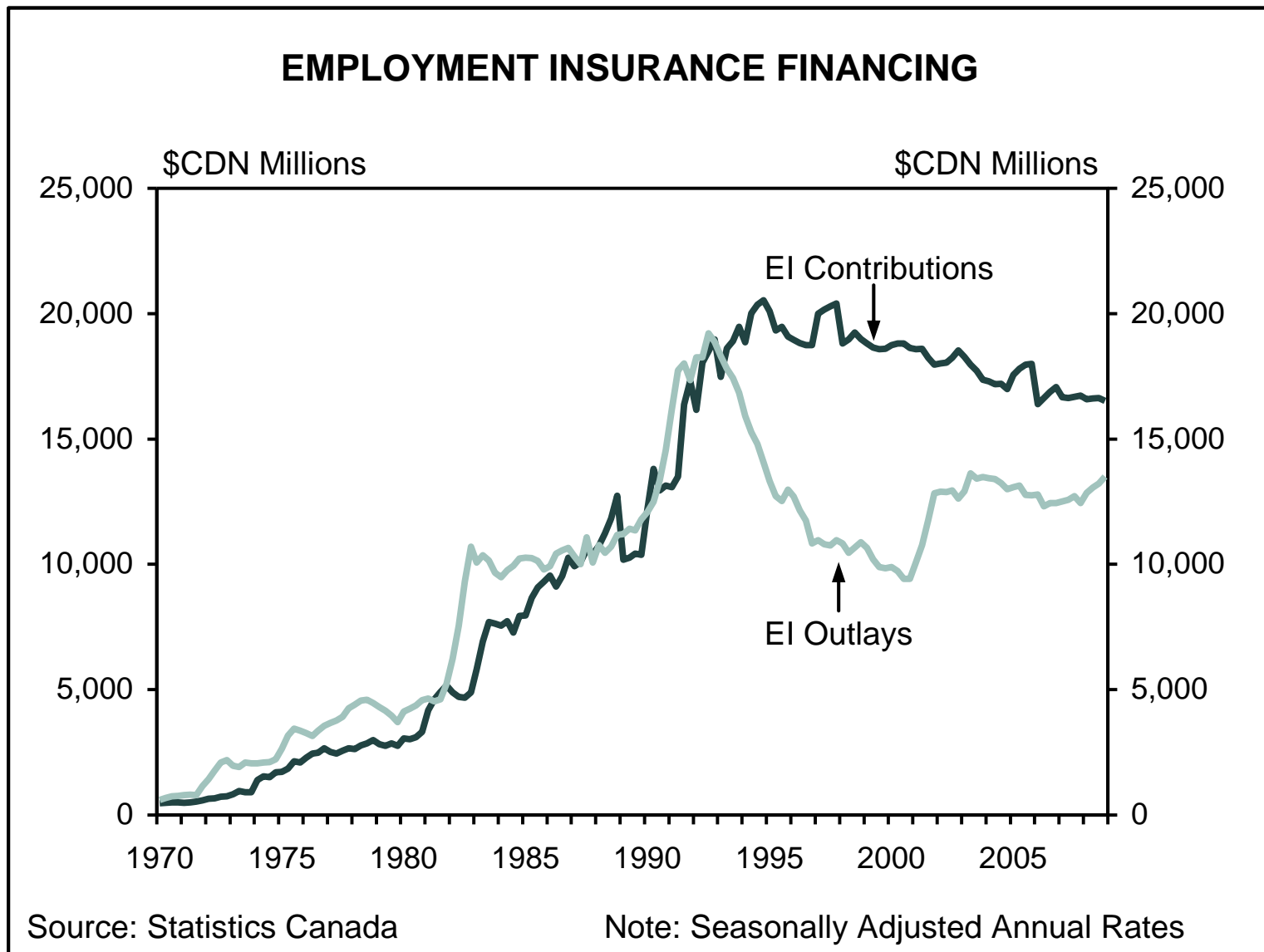
OTHER REFORMS

- EI for Self-Employed?
 - Observed shift toward “contract jobs”
 - Adverse selection inhibits “opt-in” system
 - Difficult to define “unemployment” for “self-employed”

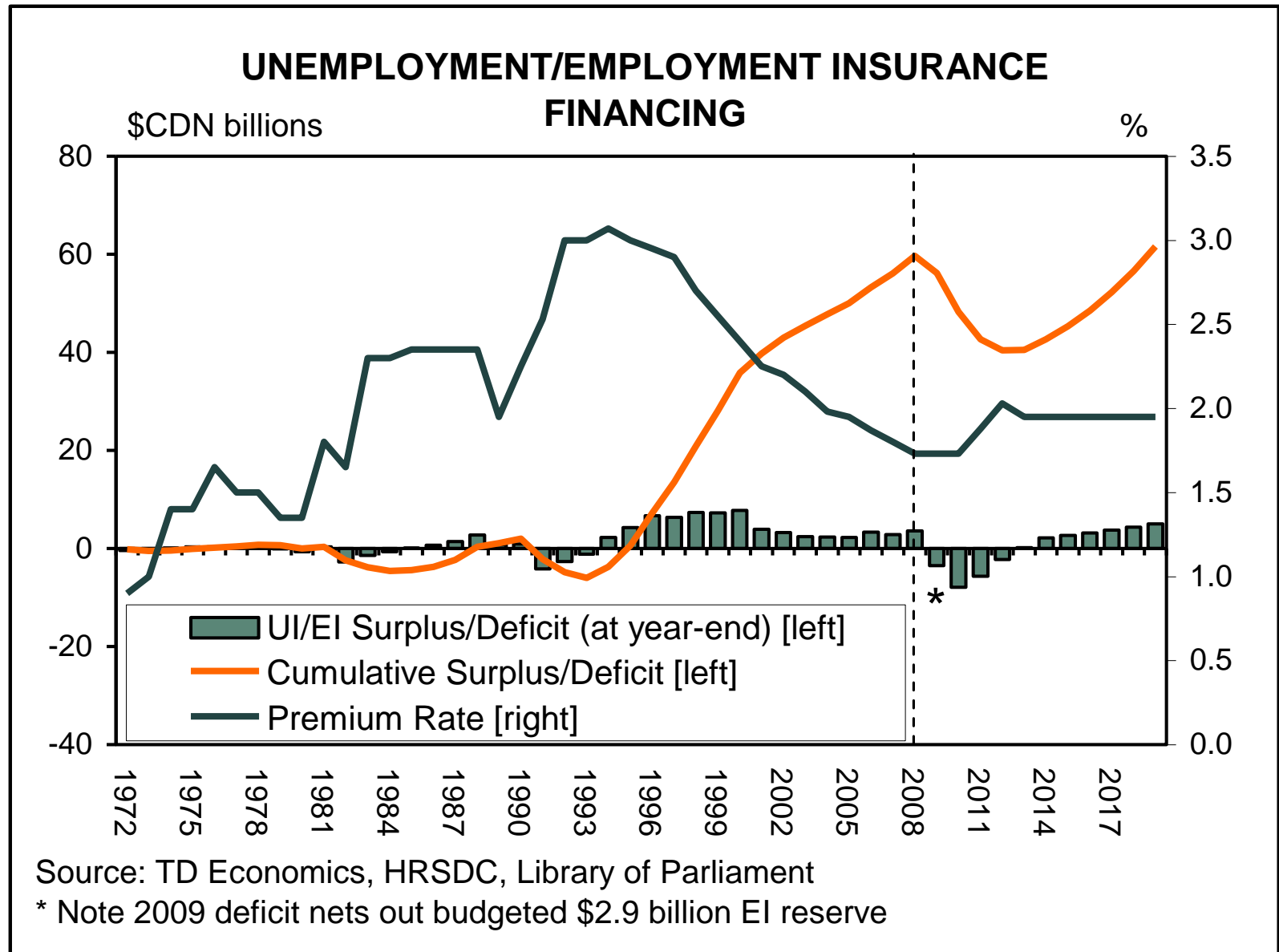
EI PROGRAM WILL RUN LARGE ANNUAL DEFICITS

| EI FORECASTED REVENUES AND EXPENDITURES FOR STATUS QUO PROGRAM (2009) | | |
|--|----------------------------------|------------------------------------|
| | TD Forecast (Apr. 09) | EI Commission (Oct. 08) |
| Unemployment Rate | 9.0% | 6.5% |
| | (\$CDN Billions) | |
| Insurable Earnings | 420.8 | 432.9 |
| Revenues | 16.5 | 18.3 |
| Outlays | 22.7 | 18.3 |
| Regular Benefits | 14.0 | 9.6 |
| Other Costs | 8.7 | 8.7 |
| Deficit | (6.1) | (0.0) |
| Budgeted Reserve | 2.9 | |
| Deficit net of reserve | (3.2) | |
| Source: TD Economics, HRSDC | | |

BUT PAST SURPLUSES WERE ALSO LARGE



LONG-TERM VIEW ON FINANCING REQUIRED



EI FINANCING REQUIRES REFORM

- Non-benefit costs (\$8.75bn) should be pruned
 - Consolidate expenditures on re-training elsewhere
 - Parental benefits appropriate in EI program?

- Program should be funded across “business cycle”
 - Rates might be tied to counter-cyclical indicator
 - Reserve fund an option but needs size constraints
 - Rate-setting and funds must stay independent

EI REFORMS: SUMMING UP

- For Benefits:
 - Short-term: Address inter-regional disparities
 - Long-term:
 - Address perverse incentives for persistent EI use
 - Tie eligibility to re-employment probability and benefit duration to a worker's past use
- For Financing:
 - “Business cycle” approach to rate-setting
 - Separate reserve fund with constraints

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