Intelligence MEMOS

From: David Gray

To: The Hon. Carla Qualtrough, Minister of Employment, Workforce Development and Disability Inclusion

Date: August 29, 2022

Re: **Extended Employment Insurance (EI) Benefits for Claimants at Risk of Exhaustion**

With the exception of the pandemic period, the provisions for maximum benefit Employment Insurance (EI) entitlements are a function of two things: i) the number of insurable hours that the claimant has attained and ii) the prevailing unemployment rate in his/her administrative region. But on five occasions since 2000, the government has deemed these durations to be inadequate for seasonal claimants in particular. I argue that benefit extensions beyond those stipulated by the standard provisions should be targeted to a much broader group of EI claimants than just seasonal workers and include long-tenure workers, and that the federal government should provide EI benefits which reflect changes as opposed to levels in unemployment rates.

As for seasonal workers, various governments have resorted to so-called 'pilot projects' that extend benefits by 5 weeks with the objective of eliminating the 'gap' that some seasonal claimants face. In EI jargon, 'the gap' refers to the interval between the time of benefit exhaustion and the commencement of the next working season; a period during which workers receive no employment income.

The desired impact of these interventions is to postpone the benefit exhaustion date. They typically involve selecting relatively high-unemployment regions with unemployment rates above either 10 or 8 percent. The original pilot project (No. 6) targeted seasonal workers dates in the period 2004 – 2006. Pilot project No. 10 running from 2006-2009 immediately succeeded it. Benefit durations were extended for claimants across Canada in 2009 in response to the recession of 2008-2009, but there were no further pilot projects for "gappers" until pilot project No. 21 was implemented in 2018 to run until 2021. Whereas the previous pilot projects covered all claimants within the selected administrative regions, pilot project 21 was the first to explicitly target claimants meeting the specific, technical criteria defining seasonal claims patterns. The government also reduced the number of eligible regions from 21 to 13. When pilot project No. 21 expired, it was extended until October 2022 as part of *Budget 2021*; it was renewed again until October 2023 as part of *Budget 2022*.

A number of conclusions flow from this chronology of special provisions targeting seasonal workers. First, the government deems them as meriting supplemental coverage on a quasi-permanent basis. Second, the preferred policy delivery mechanism is through the selective and discretionary pilot projects as opposed to through a permanent increase in durations built into the benefit formulas that would apply to all high-unemployment regions. Third, over this period the targeting has become more narrowly focused and targeted at a subgroup of seasonal workers – the 'gappers'. Evaluative research has suggested that these interventions have had the intended impacts of lowering the likelihood of benefit exhaustion, increasing the number of benefit weeks collected, and (less desirably from the standpoint of taxpayers and employers) reducing claimants' labour market earnings.

Another, broader, type of benefit extension occurred after two sharp, successive drops in the price of crude oil in 2014 and 2016 caused a major downturn in the labour markets in Alberta, Newfoundland, and parts of Saskatchewan. Although some increase in benefit durations was delivered automatically through the standard provisions, this response was lagged, and the government felt compelled to implement discretionary benefit extensions through a new pilot program labelled the 'commodities cycle' project. It was in effect from July 2016 to July 2017. This exceptional intervention broke the mold in several ways. First, the awarding of extra weeks was based on *increases* in regional unemployment rates as opposed to persistently high levels in them. This modification was quite significant, as the measure was addressing cyclical unemployment (albeit concentrated in some areas) occasioned by negative shocks to the labour markets.

This response mechanism was in sharp contrast to the conventional practice outlined above that addresses structural unemployment associated with persistent mismatches between job availability and labour supply. As such, the commodities cycle pilot project was based on an insurance logic rather than an income maintenance objective. Another salient feature was that long-tenure workers – defined as those who have paid into EI for 7 out of the last 10 years and have received no more than 35 weeks of EI benefits in the last 5 years – were awarded up to 20 additional weeks (in addition to the baseline treatment of an extra 5 weeks). By definition, seasonal claimants do not meet this criterion. This differentiation in the quantity of extra weeks awarded merits further research from a policy perspective.

My co-authors and I assess the impact of extending EI benefits under the commodities cycle pilot project. Compared to other pilot programs providing extended benefits, in which EI claimants receive an extra 5 weeks of entitlement, beneficiaries of the commodities cycle pilot program get access to an incremental 20 weeks of benefits. However, our quite preliminary results suggest that controlling for factors such as regional unemployment rates, the number of insured hours, gender, and age of claimants, long-tenure workers do not collect a high proportion of the extended benefits to which they are entitled. Further, we find that frequent EI users still exist in these regions despite the fact that they lack a high concentration of seasonal workers.

This particular and rather unique pilot project, which was triggered by negative shocks to labour markets – and affords longer benefit extensions to long-tenure workers – should serve as a model for broader reforms to the entire regime.

David Gray is a Professor of Economics at the University of Ottawa.