

Intelligence MEMOS



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To: Canadians Concerned about the Labour Market

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Re: LESSONS FROM EMPLOYMENT INSURANCE FOR THE CERB

The Canada Emergency Response Benefit (CERB) was designed as an emergency measure to offset the income losses of millions of individuals following the COVID-19 outbreak.

It has been effective in providing financial support to many individuals and families quickly through the Canada Revenue Agency system. But in the longer run, CERB is not affordable and raises issues of [fairness](#) and [work disincentives](#) that may impede economic recovery.

With the gradual re-opening of the economy and the rollout of the Canada Emergency Wage Subsidy, an increasing number of CERB recipients will have opportunities to return to their previous work or to new jobs, but what type of jobs and work arrangement will be available (full/part-time, hourly, temporary casual or contract) is still uncertain.

Existing tools of our income maintenance programs can be used to facilitate the transition for workers out of CERB into the labour force. The unemployment insurance system of most developed countries allows individuals to collect benefits while engaged in part-time work.

In Canada, it is administered by the Working While on Claim (WWOC) program of the Employment Insurance (EI) system. In [normal times](#), working while on claim is a common activity among EI benefits claimants; 42.5 percent of male claimants worked at least one week during the length of their claims and 46 percent of female claimants did. The shares of claimants with an episode of working while on claim are relatively similar across all age groups and industries in the 30-50 percent range. For seasonal industries, the rate is 57.9 percent.

What did we learn from the WWOC program's ability to promote work incentives? Typically, an individual can work and earn up to a certain amount of allowable earnings (the disregard) with no reduction in benefits, but earnings beyond this threshold will reduce the benefits the individual is entitled to receive (applying a clawback rate). The magnitude of the benefits reduction, the partial benefits and number of part-time hours depend on the clawback rate. Under the current parameters of CERB, the disregard is set at \$1,000 and the [clawback rate](#) is rigid – the first dollar earned from work past \$1,000 reduces CERB benefit to \$0.

Fifteen years of [experimentation](#) with the WWOC parameters of the EI program has consistently demonstrated that WWOC is effective in encouraging the take-up of part-time/short-hours work. In 2005, the allowable earnings provision for working while on claim increased from \$50 to \$75 per week or 40 percent of a claimant's weekly EI benefits. Earnings above would be reduced by a dollar with each additional dollar earned (100 percent clawback).

In 2012, new provisions were introduced to clawback EI benefits by 50 cents for each dollar earned up to a threshold of 90 percent of a worker's insurable earnings for EI. After this threshold, EI benefits would get clawed back at a rate of 100 percent.

The main conclusion from these pilots was that increasing the disregard leads to higher incentives to accept work and report earnings up to the threshold of allowable earnings, thereby increasing the take up of short-hours part-time jobs but not beyond the disregard due to the clawback rate.

A reduction in the clawback rate from 100 percent to 50 percent induces claimants who work while on claim to take up jobs with more hours.

There is no consistent evidence on the ability of the WWOC program to enable a permanent return to work in Canada, and results are mixed from a few empirical studies in other countries.

Potential barriers to the take up of part-time work for CERB recipients may be a low level of earnings exemption and/or the lack of availability of jobs/hours with earnings around the set disregard level.

This will be especially the case since the labour market impact of COVID-19 have been strongest for [hourly wage jobs](#) and services industry work that typically offer part-time/short hour earnings.

How beneficial would it be for the WWOC feature of EI to be ported over to the CRA for administering an income-tested modified CERB?

With an individual-based EI account system, it would be possible to condition the benefits on the history of employment, unemployment and working while on claim (receiving partial benefits).

Individuals with multiple spells of working while on claim (frequent or repeat users) could receive different benefits relative to those working while on claim for the first time.

In sum, this would have two main benefits: In the short-run, it would help support the proposed extended CERB system, encouraging part-time work (with careful parameter settings). In the longer run, it may improve the EI system to allow a more targeted approach to providing insurance while maintaining work incentives.

[Alvarez-Parra and Sanchez \(2009\)](#) offer many insights to optimizing the unemployment insurance system when individuals receive partial benefits and engage in part-time work (whether doing so legitimately or not).

Their key recommendation – that EI benefits be adjusted to unemployment duration as well as the history of working while on claim – offers a way to optimally adjust the trade-off between working part-time and receiving partial benefits and searching for full-time employment.

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