

April 27, 2020

Crisis Working Group Report: Household Income and Credit Support

Communique #5: Tackling Disincentives to Work

To help Canadian governments confront the public health and economic crisis resulting from the spread of COVID-19, the C.D. Howe Institute has established several working groups to rapidly distill expert policy advice. The Working Group on Household Income and Credit Support is co-chaired by Michael Horgan (Senior Advisor at Bennett Jones LLP and Former Deputy Minister of Finance, Government of Canada) and Kathleen Taylor (Chair of the Board at Royal Bank of Canada) and supported by a group of Canadian business leaders and economists. Meeting regularly, this group identifies and prioritizes policy challenges. The group's most recent meeting was held on Tuesday, April 21, 2020.

In that meeting, the working group identified some remaining gaps for the Canadian Emergency Response Benefit (CERB) and the need for clarifications on how the program works. The working group also explored various considerations for a gradual winding down of CERB.

Remaining Gaps

There are niche populations who are affected by the COVID-19 but are falling through the cracks as they do not meet the CERB requirements. Working group members, however, advised the government to be careful about further tweaking the CERB. Any remaining support gaps should be addressed through existing or new targeted federal or provincial programs.

Working Social Assistance Recipients and New Entrants to the Labour Market

Some social assistance recipients earn income from employment. Although such earnings partly reduce their welfare entitlements, working on social assistance does help many individuals and families lift their income level to a less precarious level, especially after taking into account the impact of the Canada Workers Benefit. Those who lost their jobs because of the pandemic without having



April 27, 2020

accumulated more than \$5,000 in 2019 or in the last 12 months, either because they have been working only for a few months or because they simply do not earn enough, may experience a drop in income that is essential to them and their family.

Others without a sufficient work history to qualify for the CERB may have recently left social assistance due to an employment opportunity, or simply may have recently entered or re-entered the job market after graduating from school or coming out of other support programs such as EI maternity benefits.

Provincial social service agencies should provide temporary financial assistance targeted to these families in these difficult financial circumstances.

Students

Some students may need financial support because they lost their jobs due to the pandemic without meeting the \$5,000 requirement or because they rely on summer work to finance their upcoming school year. Subsequent to the Working Group's meeting, the federal government announced a new [Canada Emergency Student Benefit](#) to provide financial support to students and recent graduates who are affected by the COVID-19 crisis. The Working Group will review this new program at its next meeting.

Need for Better Government Information

The working group found the number of [CERB applications](#) surprisingly high and noted that the sheer number of applicants, to some extent, may be indicative of issues with the CERB. There were 6.73 million unique applications as of April 21, 2020, which is more than 35 percent of the employed labour force in Canada in February 2020. The heavy use of the CERB could be, in part, related to the late implementation of the Canada Emergency Wage Subsidy (CEWS). We may see reductions in the number of applications as the government starts rolling out the CEWS in coming weeks.

Working group members, however, recognized the need for more information and clarification on CERB eligibility. The group highlighted that communication is key to form the right expectations. Some people might use the program mistakenly due to the lack of clear and detailed explanations on eligibility and future checks. Others may take advantage of the CERB (or other programs) as they meet the requirements as stated, but the program was not really structured or intended for them.

Furthermore, the working group identified the need for better information on how receiving the CERB would affect maternity or parental leave. Will pregnant women receiving the CERB potentially lose eligible weeks on maternity leave? And are those receiving maternity leave benefits eligible for the CERB when benefits run out?

April 27, 2020

Considerations for a Gradual Winding Down of CERB

The working group also highlighted a number of considerations for the gradual winding down of benefits.

Encouraging a gradual winding down of the CERB will require tackling disincentives to work. Unlike the Employment Insurance program, CERB recipients are not required to be able and available to work, or to seek suitable employment.

There is already anecdotal evidence that some people on the CERB refuse to go back to work when employment opportunities arise. In some cases, this may be due to legitimate pandemic fears, but in many other cases employees may prefer receiving the CERB rather than working difficult shifts even if they would make more than \$500 per week.

To address this issue, the government could mandate that recipients accept their employer's offer of return to work under certain conditions. [For example](#), the claimant's obligation to return to his or her old job could be limited to situations where the employer's conditions (number of hours per week and hourly wage) are not less than those prevailing before the start of the eligibility for CERB.

Alternatively, an appeal mechanism could be put in place for employers. CERB eligibility requires involuntary work stoppage, but there do not appear to be provisions covering employees voluntarily declining work opportunities as economic activity resumes. A system of income-tested CERB clawbacks could also be envisaged, where employees returning to work would be able to keep a declining amount of CERB up to maximum earnings threshold.

Finally, a gradual winding down of the CERB should be built with childcare roles in mind. In two-parent families, parents would not be able to share child care responsibilities by both returning to work but could need to take on a reduced workload. Similar to the EI Parental Sharing Benefit, the CERB could allow both parents to take time off work for child care purposes, with both collecting a proportionately reduced CERB amount.

The Household Income and Credit Support Working Group will meet again in two weeks and assess the progress made. Much is likely to change between now and then on both the health and economic fronts. With the upcoming roll out of the Canada Emergency Wage Subsidy program, and the potential release of more data on program enrolments and the labour market, it will be interesting to make sense of the data and assess the dynamics of the various support programs in place.

April 27, 2020

Members of the Household Income and Credit Support Working Group Include:

Michael Horgan (Working Group Co-Chair), Senior Advisor, Bennett Jones LLP and former Deputy Minister of Finance, Government of Canada.

Kathleen Taylor (Working Group Co-Chair), Chair of the Board, Royal Bank of Canada.

Don Drummond, Stauffer-Dunning Fellow and Adjunct Professor, Queen's University.

Luc Godbout, Professor and Director of the Chair in Taxation and Public Finance, Université de Sherbrooke.

Brian Kingston, Vice President, International & Fiscal Issues, Business Council of Canada.

Alexandre Laurin, Director of Research, C.D. Howe Institute.

Parisa Mahboubi, Senior Policy Analyst, C.D. Howe Institute.

Janice McKinnon, Professor, University of Saskatchewan.

Kevin Milligan, Professor, University of British Columbia.

Mike Pedersen, Chair of the Board, Business Development Canada.

Bill Robson, President and Chief Executive Officer, C.D. Howe Institute.

Tammy Schirle, Professor, Wilfrid Laurier University.

Lara Speirs, Executive Vice President & Public Affairs General Counsel, Randstad Canada.