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Crisis Working Group Report: Household Income and Credit Support

Communique #8: Ottawa Needs a Temporary Income-Support System Built to Last

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. The group's most recent meeting was held on Tuesday, June 2, 2020.

In the meeting, working group members identified two options for providing continued income support to CERB recipients who, after exhausting their maximum eligibility period, may remain unemployed without access to Employment Insurance (EI). The options are: (i) extending the CERB but introducing new phase-out modifications learned from the recent experience of EI's Working While on Claim (WWOC) feature; or (ii) expanding the EI program by reforming eligibility criteria to take on the role of the CERB.

The working group noted that this decision largely rests on the length of the crisis and recovery period and the number of CERB recipients in need of post-CERB financial support. This highlights the importance of access to real-time data for governments, particularly on the number of CERB recipients ineligible for EI, as well as the need for agreement on the right assumptions around re-opening of the economy and the potential re-employment of Canadians. The main administrative challenge for the use of income-tested support programs is that these programs currently rely on monthly or more frequent observations. The working group therefore considered a solution for getting real-time pay information on CERB or EI applicants to address the administrative challenge.



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Given the likelihood of a slow recovery, the working group leans towards building onto existing systems, such as EI, that are designed for the long term and further strengthening and expanding them to cover a larger number of Canadians through the recovery. The working group also discussed the impacts of working from home on employees and on the gender wage gap and jobs gap and concluded that a business model that involves hybrid work arrangements providing some flexibility in the workplace is likely a better option.

Lessons from Employment Insurance for Future Income Support

The working group starts from the assumption that provinces need to apply a risk-management lens to the reopening of the economy, given the vast differentials in COVID-19 experiences across the country. This is a similar assumption the group made for its previous [communiqué](#).

The working group discussed what the right transition is for current CERB recipients who will not qualify for EI once their eligibility expires. If adapting existing programs, particularly EI, is the right solution, then it requires special rules to include ineligible CERB recipients. If a continuation of CERB is the right approach, it requires some phase-out modifications to make the transition to work possible and desirable. The answer to which option is preferable depends on the length of recovery. If it is expected to last for years, the right approach is to focus on adjusting the EI program rather than running two parallel systems for a long time.

Short-term policy [options](#) can include a combination of extending the CERB program with some modifications such as applying an [income-tested claw-back](#) and introducing a temporary [Working Bonus](#) program for low-wage workers. But, gleaning from international and national Employment Insurance experiences with [Working While on Claim](#), more can be done to improve the CERB and facilitate the transition to work.

Working while on claim is a common activity among all EI claimants, regardless of gender and age and industry. The past 15 years of experiments with parameters of the program, such as claw-back rates and earnings exemptions, have confirmed that WWOC is effective in creating work incentives and particularly increasing the take-up of part-time work. The results show that higher exemptions for allowable earnings create more incentives to accept short-hours, part-time jobs while staying below the threshold of allowable earnings. A lower benefit claw-back rate beyond that initial earnings exemption helps with the take-up of jobs with more hours.

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Before COVID-19, there have been three concerns with the WWOC program. These regard its effectiveness in: (i) facilitating the return to work, (ii) transitioning from working part-time hours while on claim to full-time employment, and (iii) encouraging search for full-time work rather than part-time work.

Regarding the first concern, the existing evidence is mixed with respect to the causal impact of WWOC on EI dependency. The prevalence of WWOC in Canada, however, tends to be higher among those with the [highest frequency of past EI receipt](#). Increasing the income exemption may help reduce that dependency.

The second concern is the WWOC program's effectiveness in transitioning participants from working part-time hours while on claim to full-time employment. International evidence from Belgium, Denmark, Finland, France, Germany and Switzerland shows that an income support program that subsidizes part-time jobs increases the likelihood of subsequent full-time employment.

The third concern is that the WWOC may encourage search for part-time work over full-time work as claimants face a [trade-off](#) between time spent searching for, and working in, part-time jobs and searching for a full-time, more stable job.

The working group identified several issues that affect the possible application of WWOC to modifying the CERB. A major issue is to identify the gaps in EI eligibility among CERB recipients who will remain unemployed when CERB ends. This highlights the importance of access to data to assess the needs of individuals. So far, we know that the lockdown has had the biggest impact on precarious employment and low-seniority part-time and full-time jobs, and individuals in these types of jobs are less likely to be eligible for EI. Conversely, gig employment has increased since the beginning of the crisis. On the supply side of the labour market, virus fear and skills depreciation are potential problems, while on the demand side, lack of suitable jobs while on claim is a problem.

For the WWOC system to work under the current circumstances, setting the right parameters is key (e.g., the level of income exemption and the claw-back rate). Members believed Canada can learn from the experiences of other countries' where these parameters are individualized and vary depending on duration of unemployment and working while on claim. Notably, these programs required recipients to report their earnings as well as hours more frequently.

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Getting Real-time Pay Information

In its previous meeting, the working group identified a lack of administrative infrastructure for real-time income testing of support programs such as CERB. The main question is how to get timely and accurate information to support the administration of support programs. The traditional paper payroll reporting processes impose a burden on employers as well as employees, and create error and delay. The rules are complex and many organizations, particularly small ones, lack compliance capacity.

The [Liberal platform](#) in 2019 included a discussion of “lower costs, less red tape” for business as part of its plan to create an e-payroll system. Recognizing it is still a work in progress, the working group heard that this initiative faces some challenges. It is a major technology initiative that would result in data duplication and a significant shift in privacy relationships.

Members noted there is an [alternative](#) to an e-payroll system that can also meet the needs of current income support programs. A large group of organizations, the Human Capital Management (HCM) industry, operates in the space between employers and government. This means the information that government is looking for is already available in digital form. Getting access to the data is therefore a simpler process than trying to duplicate and move the data to a different location. The federal government working with the industry would gather only the specific data it needs for its immediate needs, while employers would continue to maintain the information, leading to accurate information on a timely basis.

Impacts of Working from Home

The pandemic has forced many workers to work from home, impacting both employers and employees. The working group discussed several questions in that regard: What does it mean for employees and employers? What are the implications for the near future? And what are the upsides and downsides of working from home?

COVID-19 and perceived improvements in productivity in some instances may make the business model of working from home more attractive, leading some businesses to permanently shift to a work-from-home business model for some of their employees.

Traditionally, employees would be required to negotiate time spent working from home with their employers. Employers have generally been reluctant to allow employees to work remotely, and employees may previously have accepted lower pay as part of the negotiation. The working group heard

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that the remuneration cut has had two sources. First, employers were less able to monitor employees' productivity and may have expected that workers who work remotely are shirking. Second, employees revealing to their employers that care giving is a significant priority may have weakened the bargaining position of employees.

The recent massive shift towards working remotely provides evidence that the productivity concerns of employers, and the organizational challenges, can be overcome. This recent positive experience and the speed of adaptation may help balance employee/employer bargaining power in the future, and ultimately improve the gender wage gap (since women tend to assume more family care responsibilities).

On the other hand, the gender wage gap and jobs gap also stem from women not occupying as many senior positions and higher-paying jobs as men; a situation that a shift to greater work-from-home-arrangements would not improve. The working group noted that working remotely may take away some advantages of working from the office, particularly for younger workers, such as mentoring and training opportunities, leadership development, and social connections. It is possible that more work flexibility would grow the jobs gap between men and women, increasing the gender wage gap.

The working group agreed that a good business model for the future may involve hybrid work arrangements providing some flexibility in the workplace. But more is needed to be done to understand this dynamic.

At its next meeting, the working group will continue to explore options to support Canadians during the pandemic and recovery and ways to improve existing programs.

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

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