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November 2011

Summative Evaluation of New Entrants and Re-Entrants

Final Report
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Final Report

***Evaluation Directorate
Strategic Policy and Research
Human Resources and Skills Development Canada***

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List of Abbreviations

COEP	Canadian Out-of-Employment Panel
HRSDC	Human Resources and Skills Development Canada
LAD	Longitudinal Administrative Database
NERE	New Entrant and Re-Entrant
OECD	Organization for Economic Co-operation and Development
SLID	Survey of Labour and Income Dynamics

Executive Summary

On September 1, 1978, eight amendments to the *Unemployment Insurance Act* were implemented. One of the eight amendments was aimed at workers who were entering or re-entering the labour market, also commonly referred to as new entrants and re-entrants (NEREs). For these workers, the entrance requirements were tightened. Although the specific goal of this amendment was not explicitly stated, the general intention of the eight amendments was to reduce any adverse labour market attachment effects caused by the 1973 expansion of the Unemployment Insurance system. Several evaluations of the impact of incremental changes have been undertaken, but this evaluation constitutes the first evaluative work on this program feature.

It is generally understood that the NERE provision was introduced for two reasons: (i) early use of Employment Insurance may induce an individual to become dependant on the Employment Insurance program, and (ii) the provision can induce greater levels of work effort before claiming Employment Insurance.

Findings indicate that there is no one distinct type of NERE although close to half of all NEREs are made up of individuals under the age of 25 (recent immigrants comprise about five percent of all NEREs and recent mothers make up two percent). Thus, roughly half of all NEREs do not fall into any of these three groups.

There is general agreement among the labour market experts interviewed that the level of frequent Employment Insurance use in Canada is high enough to warrant provisions designed to strengthen the relationship between work effort and entitlement to Employment Insurance benefits (as the NERE rules are intended to do). However, various lines of evidence for this evaluation suggest that the process of becoming a frequent user of Employment Insurance benefits has little to do with whether or not a claimant is a NERE and has more to do with the industry of employment, the seasonality of the occupation and the regional unemployment rate. The consensus belief among labour market experts interviewed is that frequent use is not linked to receiving or being denied benefits early on in an individual's working career.

Detailed statistical analysis indicated that future frequent use of Employment Insurance benefits is higher for *all* new entrants compared to non-new entrants, irrespective of the number of hours worked or if Employment Insurance benefits were collected following the first-ever Record of Employment. Future frequent use tends to be higher among younger new entrants, those in certain industries and those in high unemployment rate regions. Thus, given that it is more difficult for new entrants to qualify for Employment Insurance benefits and that their future frequent Employment Insurance use rates are still significantly higher, it appears that simply making it more difficult for new entrants to qualify for Employment Insurance the first time may not be discouraging the future frequent use of the Employment Insurance system.

Further analysis showed that those who work in either the fishing, forestry or construction industry have higher future frequent use rates than those who work in any other industry. In fact, those who work in one of the three aforementioned industries and do not make a

claim for Employment Insurance benefits after their first-ever Record of Employment have higher future frequent Employment Insurance use rates than those who work in any other industry and do make a claim after their first-ever Record of Employment. This provides further evidence that simply making it more difficult for new entrants to collect Employment Insurance benefits for the first time is not the main driver of future frequent Employment Insurance benefit use.

Management Response

Introduction

Part I of the Employment Insurance program provides temporary financial assistance to unemployed workers while they look for work or upgrade their skills. Part I also provides assistance to workers who are sick, pregnant, or caring for a newborn or adopted child, as well as to those caring for a family member who is seriously ill with a significant risk of death.

Currently, most individuals require between 420 and 700 insurable hours to qualify for Employment Insurance regular benefits. However, individuals who recently entered the labour force for the first time or those who are re-entering the labour force after an absence of two or more years (collectively known as New Entrants and Re-Entrants or NERE) require 910 hours of work, regardless of their region of residence.

Background

The NERE provision was first introduced in 1978 as part of a series of amendments designed to improve incentives to work, reduce Unemployment Insurance costs and improve the public perception of Unemployment Insurance. The objective of the rule was to address the problem of ease of entry and re-entry into the Unemployment Insurance program and to reinforce insurance principles by excluding those with marginal work attachment at that time. NERE claimants required at least 20 weeks of insurable employment to qualify for Employment Insurance benefits, while non-NERE claimants required between 12 to 20 weeks, depending on the regional rate of unemployment.

The 1996 Employment Insurance reform maintained and strengthened this provision – raising it from 20 weeks (approximately 700 hours) to 910 hours (approximately 26 weeks) of insurable employment. The entrance requirement for non-NERE claimants remained unchanged, but converted to hours. The rationale for the NERE provision, as it was implemented in 1996, was to:

- discourage a cycle of reliance: ensuring that workers, especially young people, develop significant work attachment before collecting Employment Insurance benefits;
- ensure workers make a reasonable contribution to the system before collecting benefits; and
- strengthen the relationship between work effort and entitlement to benefits.

Response to Findings and Recommendations

This evaluation constitutes the first evaluative work on this Employment Insurance program feature. The results suggest that increasing the eligibility requirements for those who are accessing Employment Insurance regular benefits for the first time may not discourage the future frequent use of Employment Insurance. Furthermore, the findings illustrate that the

seasonal nature of the industry in which the individual works may be more of a determining factor on future frequent use of Employment Insurance than being a new-entrant. While these findings provide valuable insight on the effectiveness of the NERE provision relative to its stated objectives since 1996, it is important to exercise caution when interpreting these results, given that only new-entrants were considered in this evaluation. As a result, the findings should not be generalized to all NEREs.

An impact assessment of incremental changes to the NERE provision has been undertaken through a pilot project from December 2005 to December 2010. The pilot was designed to determine whether giving NEREs access to Employment Insurance regular benefits after 840 hours of work rather than 910 hours, and informing them of Employment Insurance employment training programs, would improve their employability and help reduce future reliance on Employment Insurance regular benefits. Results of the NERE pilot project indicate that the proportion of NEREs qualifying for regular benefits after having accumulated between 840 and 909 hours increased, while the proportion of NEREs qualifying for regular benefits after accumulating between 910 and 949 insurable hours decreased. This suggests that NEREs in the pilot project had some flexibility in adapting their work patterns.

The Government of Canada is committed to ensuring the responsiveness of the Employment Insurance program. As such, Program Management agrees that the stated policy objectives and rationale of the NERE provision should be re-examined, in order to ensure that they are aligned with the insurance principles of the program and the evolution of the labour market context. Program Management is also in agreement with the recommendation that future analysis could consider the impact of the provision on re-entrants and potentially other NERE sub-populations (e.g. youth and immigrants), depending on data availability.

This evaluation provides a great deal of insight and adds to the existing knowledge in terms of eligibility aspects of the Employment Insurance program. The results and recommendations presented in this evaluation are important and will be taken into account when modifications to the NERE provision are considered in the future.

1. Introduction

1.1 Overview

On September 1, 1978, the Government of Canada announced its intention to proceed with a series of eight amendments to the *Unemployment Insurance Act*:

- New Regulatory Authority;
- New Entrants and Re-Entrants (NEREs);
- Program Repeaters;
- Reduction in the Benefit Rate;
- Earnings While on Job Creation Projects;
- Tripartite Financing of Labour Force Extended Benefits;
- Increase in Minimum Fine; and
- Benefit Repayment by High-Income Claimants.

The second amendment listed above was aimed at workers who were entering or re-entering the labour market, commonly referred to as new entrants and re-entrants (NEREs).¹ This amendment was directed at individuals who had not formed a substantial attachment to the labour force or paid little in premiums into the Unemployment Insurance Account. The amendment established a higher entrance requirement for NEREs.

With the reform of the Unemployment Insurance system in July 1996 into the renamed Employment Insurance system and the introduction of new eligibility rules for NEREs, access to Employment Insurance benefits was further restricted for NEREs, as the requirements for work effort prior to a first Employment Insurance claim were increased.

This report sets out the results of a summative evaluation of the NERE provision and has a distinct focus on the achievement of program objectives, namely whether or not the NERE rules discourage future dependence on Employment Insurance benefits.²

The report begins with a brief description of the evaluation goals and methodology. Section 2 of the report provides the rationale for the NERE rules, a description of how they were implemented, the eligibility criteria, and some basic descriptive statistics on NEREs. In Section 3, this report lays out the evaluation evidence focusing on various issues surrounding the rationale for the NERE rules, the achievement of program objectives and the impacts and effects of the NERE rules. Section 3 also looks at the annual cost savings

¹ For further information on this amendment and subsequent amendments for NEREs, see Appendix III.

² Individuals are considered frequent Employment Insurance users if they made three or more claims for Employment Insurance benefits in the five years prior to their current claim.

to the Employment Insurance system from the existence of the NERE rules and a program delivery issue concerning the determination of NERE status by Service Canada Centre insurance officers. Finally, the conclusions are presented in Section 4.

1.2 Evaluation Goals

The major objective of the summative evaluation of NEREs is to explore the continuing relevance and effectiveness of this feature of the Employment Insurance program in meeting the stated objective. The evaluation is being conducted as part of a cyclical evaluation of the Employment Insurance program.

An Advisory Committee was created to oversee and guide the evaluation.³ The Advisory Committee decided to focus the analysis for the evaluation on eighteen questions related to evaluation issues and one question related to program delivery.⁴ The questions fall into five broad categories:

- Program Rationale;
- Achievement of Program Objectives;
- Impacts and Effects of the Program;
- Cost-Effectiveness and Program Alternatives; and
- Program Delivery.

The key evaluation questions and the methods of research adopted to provide evidence are listed in Appendix II. This summary report discusses the outcome of each evaluation question.

1.3 Lines of Evidence

Whenever possible, the evaluation project used multiple lines of evidence to help answer these evaluation issues and questions. The analysis performed was comprised of:

- A file review of official program documentation;
- A literature review and international comparisons;
- Data analysis involving Statistics Canada's Longitudinal Administrative Database (LAD);
- Focus groups of youth, immigrants, re-entrant females and frequent users in Calgary, Toronto, Montreal and Halifax;
- Expert interviews with labour market experts and HRSDC administrative officials;

³ Key stakeholders on the Advisory Committee included representatives from the Treasury Board Secretariat, Service Canada, the HRSDC Evaluation Directorate, the Skills and Employment Branch, and the Labour Market Policy Directorate.

⁴ The question list for this evaluation was developed before the Evaluation Policy was revised by the Treasury Board Secretariat in 2009.

- Administrative data analysis involving HRSDC's Status Vector and Record of Employment files to determine the impact of the NERE rules on the future frequent use of Employment Insurance benefits, and to determine some of the other key impacts and effects of the NERE rules not related to the future frequent use of Employment Insurance benefits; and
- Two reports for the 2006 Monitoring and Assessment Report to Parliament, using Status Vector and Record of Employment administrative data and Statistics Canada Census data:
 - Younger Workers and New Entrants and Re-Entrants; and
 - New Entrants and Re-Entrants and Immigrants.

There were, however, some methodological limitations with some of the lines of evidence generated by these approaches. These limitations are discussed at the end of this section.

1.3.1 File Review

A file review was conducted to assist in determining the underlying rationale for the NERE regulations. The major part of the methodology consisted of reviewing and examining documents that describe the official rationale for the creation of the NERE rules.

To help gain insight into the official rationale underlying the introduction of the NERE rules in 1978, the following documents, available in libraries or requisitioned from the National Archives, were reviewed:

- House of Commons and Senate Debates before and after 1978;
- *The White Paper on Unemployment Insurance* (1970);
- Annual reports from Employment and Immigration Canada, the Unemployment Insurance Commission and the Auditor General (1977-1978);
- Reports of the Standing Senate Committee on Finance (various years);
- Evidence from the Standing Committee on Labour, Manpower and Immigration (1977-1978);
- Cabinet documents (various years);
- Information papers issued by Public Affairs of Employment and Immigration Canada (various years);
- The Canada Gazette (various years);
- An interview with the Deputy Minister of the time;
- *Comprehensive Review of the Unemployment Insurance Program in Canada* by the Unemployment Insurance Commission (1977); and
- Research reports for the Unemployment Insurance Commission (various years).

1.3.2 Literature Review and International Comparisons

The literature review and international comparisons for this evaluation focused on the following:

- A study of previous literature on the frequent use of unemployment insurance benefits in Canada and other countries;
- A comparative analysis of the NERE rules in Canada with similar rules that are in place in other developed countries; and
- An examination of the econometric issues involved in quantifying the impact of the NERE rules on the future frequent use of Unemployment Insurance or Employment Insurance benefits and a methodology for estimating the impact.

The literature review component of the study examined four Canadian studies that explicitly treat the topic of NEREs, five Canadian studies that deal with the entrance requirements, seven Canadian studies dealing with the frequent use of Unemployment Insurance or Employment Insurance benefits, and four additional Canadian and U.S. studies of relevance to the evaluation. In total, 20 studies were analyzed as part of the literature review.⁵ The international comparisons component of the study involved 35 countries, 30 of which are part of the Organization for Economic Co-operation and Development (OECD).

Note that this study did not discuss the effectiveness of UI-related provisions in other countries – it only presented details concerning the provisions and how they compared to the NERE rules. Comparing the effectiveness of the NERE rules with similar provisions in other countries would require additional research.

1.3.3 Longitudinal Administrative Database Analysis

The LAD analysis involved the use of the LAD, a longitudinal database created by Statistics Canada that links together the tax records of tax filers within the same family. The file covers 20 percent of all tax filers. The main reason for using the LAD is the detailed information on family income and the fact that analysis of the LAD offers an additional line of evidence.

The Employment Insurance system defines individuals as NEREs if, during the 52 weeks preceding the qualifying period⁶ (also known as the pre-qualifying period), they accumulated fewer than 490 hours of labour force attachment. However, because there is no information on hours of employment in the LAD, an approximate criterion based on wages and salaries was used.⁷ Also, since there is no information on the periods of employment and unemployment, the pre-qualifying period was approximated using information from the previous year (i.e. the qualifying period).

⁵ For information on methodologies used in the different studies and the key findings, see Gray and McDonald (2007).

⁶ The qualifying period is the shorter of the 52-week period immediately before the start date of a claim or the period from the start of a previous benefit period to the start of a new benefit period, if an individual applied for benefits earlier and the application was approved in the last 52 weeks.

⁷ The summative evaluation was slated to link the LAD, as well as Canada Revenue Agency data, with Employment Insurance administrative data, but the timelines for data delivery were not met. As a result, there is not as much detailed information on families and immigrants as there would have been. However, not being able to use the linked file did not have an impact on the ability to address the key evaluation questions.

Using the LAD for the 1995 to 2004 period, individuals are classified as NEREs in a given year if:

- In the current year, they reported wages and salaries and paid Employment Insurance premiums, or received Employment Insurance benefits; and
- In the previous year, they had less than \$4,000 in wages and salaries, and no Employment Insurance benefits (or did not file income taxes, in which case it is presumed that they did not have wages and salaries or Employment Insurance benefits).

The \$4,000 threshold was used as a proxy for the 490 hours threshold (under the assumption that the typical NERE earned about \$8.00 per hour in 2004, times 490 hours). For earlier years, the \$4,000 threshold is adjusted by dividing by the Consumer Price Index (CPI).⁸

The focus of the analysis is on all paid workers. Ideally, the focus should have been on those who experienced a period of unemployment or at least a job interruption. Unfortunately, no such information is available in the LAD. Therefore, the sample includes everybody within the year having wages and salaries, as well as Employment Insurance premium deductions.

1.3.4 Focus Groups

This line of evidence involved separate focus groups with four specific groups of labour market participants: (i) youth; (ii) re-entrant females; (iii) immigrants; and (iv) frequent users. The NERE status of the focus group participants was determined beforehand using the HRSDC administrative databases (i.e. the Record of Employment and Status Vector files). The original intention was to complete one focus group with each of the four groups in four different cities (Calgary, Toronto, Montreal and Halifax) – for a total of 16 focus groups in all.⁹ However, due to a lack of available immigrant NEREs in Halifax, only 15 of the 16 scheduled focus groups were successfully completed.

It was likely that most participants would not be aware of their NERE status. Since the sample only included likely NEREs, the screener attempted to clarify NERE status. It was agreed that at least two participants per group had to be directly aware of their NERE status. Participants were also asked other screening questions to determine their eligibility to attend the groups. There were specific qualifications and quotas that participants had to meet to attend the groups, and they are broken out below:

- **Frequent users** – three to six participants per group were recruited as frequent users who were new entrants or re-entrants when making their first claim. The remaining participants were frequent users who were not NEREs when they made their first claim for Employment Insurance benefits.

⁸ A wage deflator should have been used instead of the CPI. However, the difference between the two is minimal, as total Consumer Price Index for the 1995 to 2005 period increased 2.04 percent annually, while private sector wage settlements increased 2.19 percent annually. For more information, see <http://www.bankofcanada.ca/en/cpi.html> and http://www.bankofcanada.ca/en/rates/indinf/wages_data_en.html

⁹ Smaller rural areas were not considered for focus groups because there wasn't enough of a sample of re-entrant females and immigrants.

- **Re-entrant females** – this group consisted of females re-entering the labour force who were considered NEREs when they made a recent claim.
- **Youth** – anyone aged 18-24 who had been subject to the NERE rules.
- **Immigrants** – The groups were divided so that 50 percent of participants made their first claim within three years of immigration and 50 percent of participants after living in Canada for at least five years subject to the NERE rules.

The ideal number of participants per group is 8 to 10. As it is normal for some participants to agree beforehand and not show up, an attempt was made to recruit 12 participants. However, it was not always possible to have 8 to 10 participants due to the limited sample size for potential participants for some of the focus groups. Exhibit 1.1 provides information on the actual number of participants in each focus group (it is conceivable that a participant could fall into more than one of the categories – however, no participant took part in more than one focus group).

Exhibit 1.1 Summary of Focus Group Attendance by City					
Focus Group	Halifax	Montreal	Toronto	Calgary	Total
Frequent users	7	7	10	4	28
Re-entrant females	7	11	5	6	29
Immigrants ¹	–	7	6	7	20
Youth	7	7	4	6	24
# of Participants per City	21	32	25	23	101
Source: 2007 Focus Groups of NEREs.					
¹ There were not enough immigrant NEREs in the Halifax market to draw participants to this focus group.					

Focus groups do have limitations. Even though the participants were chosen based on their NERE status, the findings for a group of 4 to 11 people cannot be projected onto the entire NERE population. Thus, the findings need to be interpreted with caution. As well, the results are dependent upon the interaction between the respondents and the moderator.

1.3.5 *Expert and Program Official Interviews*

Interviews were conducted to obtain opinion and feedback from labour market experts¹⁰ and HRSDC administrative officials from across Canada on the NERE rules under the Employment Insurance system, using separate interview guides for the two groups. Questions for the labour market experts included those related to the rationale for the NERE rules, the perceived effectiveness of the NERE rules and areas for improvement, while questions for administrative officials pertained to the delivery of the Employment Insurance program, specifically the process of assessing NERE status.

¹⁰ The labour market experts who participated in the interviews have authored numerous studies on the topic of UI/EI, the frequent use of Unemployment Insurance or Employment Insurance benefits and NEREs.

HRSDC produced a list of 53 potential participants representing all service delivery regions (except Quebec), with the objective of completing 20 interviews. This list included a mix of labour market experts and HRSDC administrative officials – specifically, 15 labour market experts and 38 HRSDC administrative officials employed in various Service Canada offices across the country. Completed interviews were obtained from 4 labour market experts and 16 HRSDC administrative officials.

The 20 interviews were conducted over the telephone from October 12, 2007 to November 20, 2007 and took between 20 and 40 minutes to complete. All respondents possessed in-depth knowledge of the NERE rules and, in one way or another, interfaced with the Employment Insurance system in their professional lives. Respondents either possessed labour market expertise or were involved in program delivery.¹¹

1.3.6 Data Analysis – Future Frequent Use of Employment Insurance Benefits

The key question for this component of the data analysis was “Do the NERE rules discourage the future frequent use of EI?” The focus of the study is entirely on new entrants and does not consider individuals who are re-entering the labour force (i.e. re-entrants).

The analysis that was performed is based on linked Record of Employment and Status Vector files. The sample consisted of a random sample of 200,000 individuals who were laid off during the 1997 to 1999 period and whose layoff was verified as being their first-ever Record of Employment. The source data covered the 1987 to 2007 period. To further ensure that the selected Record of Employment was the first-ever Record of Employment, the sample was restricted to those who were 16 years of age or younger in 1987. Since very few individuals younger than 17 receive a Record of Employment, the age restriction essentially guarantees that the selected first-ever Record of Employment is indeed the first-ever Record of Employment. For the selected sample, this implies that individuals laid off in 1997 cannot be older than 26 years of age (or older than 27 for those laid off in 1998 and 28 for those laid off in 1999).

The methodology was based on the hypothesis that, among those who were considered NEREs according to their first-ever Record of Employment, those who were ‘just eligible’ for benefits (i.e. had slightly more than the required 910 hours of insured employment) and received Employment Insurance were more likely to become frequent Employment Insurance users in the future than those who were ‘just ineligible’ (i.e. had slightly fewer than 910 hours).

This line of evidence has two main limitations. Firstly, the analysis assumes that those who ‘just qualify’ for Employment Insurance benefits (i.e. those with between 910 to 1,119 insured hours of employment) are not a valid comparison group, as there is clear evidence that some of these individuals are altering their labour market behaviour because of the

¹¹ For further information, see Fleishman-Hillard (2007).

NERE rules. Thus, this group of individuals has been excluded from the analysis. Secondly, the analysis only considered new entrants as a whole and did not include re-entrants in the analyses, as there was not enough data to capture all re-entrants.

1.3.7 Data Analysis – Impacts and Effects of NERE Rules

While Section 1.3.6 examined questions from first principles, this line of evidence looked at the marginal impacts of changes to the NERE rules. This line of evidence assessed the impacts and effects of the Employment Insurance entrance requirement for NEREs by answering questions related to work effort and entitlement to benefits, stability of work patterns, eligibility, Employment Insurance receipt, the impacts of the pilot project, and the impact of the Bill C-2 reform of 2001.

The data used for this study is derived from the Record of Employment and Status Vector databases and is based on a sample of 300,000 unique individuals who terminated their employment (i.e. had a Record of Employment) between December 1987 and December 2005. For each of the Records of Employment selected, all other Record of Employment and Status Vector records for that individual within the same time period were also included.

The sample was then restricted to the period covering January 1991 to December 2005. This period covers the introduction of Bill C-17 (change in Employment Insurance entrance requirements for non-NEREs), Bill C-12 (Employment Insurance reform) and Bill C-2 (change in Employment Insurance eligibility for recent parents).¹² Individuals who had maternity, parental, injury or illness, and compassionate care as a reason for job separation were excluded from the sample, as the NERE rules do not apply to these types of benefits. This restriction reduced the sample size to 265,796 unique individuals having 1,409,919 job separations. The sample was then divided into two sub-samples, NEREs and non-NEREs. NEREs were defined as individuals who had less than the minimum requirement (490 hours worked) in the pre-qualification period. Non-NEREs were defined as individuals with more than the minimum requirement.

A third sub-group was also created for ‘near-NEREs’, for which there is no existing common definition. For this paper, near-NEREs are defined as those individuals who had fewer than 100 hours worked in excess of the minimum requirement (490 hours) during the pre-qualification period. These individuals are analyzed because it may be the case that their labour market experience and outcomes are different from both NEREs and non-NEREs

1.3.8 Data Analysis – Younger Workers and NEREs

This line of evidence involved the data analysis contained in a report for the 2006 Monitoring and Assessment Report (MAR) to Parliament. The report looks at NEREs, with a focus on youth, and examines the trends in the NERE population, receipt rates and

¹² For further information on the different bills, see Appendix III.

qualification rates; the composition of NEREs in terms of basic demographics, job and unemployment experience; their job search and training behaviour; and their receipt of Employment Insurance benefits.

The report uses data from the Canadian Out-of-Employment Panel (COEP) survey, which interviews samples of individuals with a job separation during specified reference periods. Information collected by the COEP survey includes background demographics on the individual and household, the reason for job separation, receipt of Employment Insurance benefits, information on job search activities and outcomes, income, assets and debts, expenditures, and training.

The analysis also makes use of administrative data from the Record of Employment database in conjunction with Status Vector data to help determine whether or not an individual is a NERE. The Record of Employment is required to establish an Employment Insurance claim and is used to determine if a person can qualify for Employment Insurance benefits, how much the benefits will be and how long the benefits can be paid. The Status Vector file includes data on the characteristics of the claimant, benefit rates and claim durations, and a week-by-week account of claimant activity during the life of the claim. Using these data sources, the report takes a close look at the composition of the NERE population. Claimant characteristics and Employment Insurance eligibility and receipt rates are examined using univariate statistical analysis and probit model estimation techniques.

For this report, NERE status is based on the information on the Record of Employment form filled out by the employer at the time at which a person separates from their employment. In determining eligibility for EI, all insured hours of work from all jobs that span the qualifying period and the pre-qualifying period are used.

One limitation of the analysis in this report relates to those with multiple Records of Employment. For a multiple job holder, it is possible that someone loses their job and is calculated as being a NERE (based on all their prior Records of Employment) even though they are still holding another job where insured hours of employment are accumulating. However, unless a Record of Employment is issued, it is not possible to determine if someone is employed. Thus, the NERE estimates in this study might be slightly overstated, as some multiple job holders with unseen employment will have surpassed the NERE threshold but be calculated as still being a NERE. However, this limitation does not impact the NERE population estimates presented in Exhibit 2.1.

1.3.9 Data Analysis – NEREs and Immigrants

This line of evidence also involved data analysis contained in a report for the 2006 Monitoring and Assessment Report to Parliament. The impact of the NERE rules on immigrants is the motivating issue behind this paper. It is hypothesized that recent immigrants may be more likely to be subject to the NERE requirements, given that they are new to the Canadian economy. Thus, they may have more difficulty in qualifying for Unemployment Insurance

or Employment Insurance benefits. In addition to examining the impact of the NERE rules on immigrants, this paper also examines whether the benefit receipt rates of immigrants and Canadian-born workers are similar.

The report uses Census data for the 1981, 1986, 1991, 1996 and 2001 years. In order to capture the heterogeneity of immigrants, data from the Public Use Microdata File on individuals is used, which is based on a sample of the population enumerated in each Census and contains variables that provide information on the demographic, social and economic characteristics of the Canadian population. Individuals who are under the age of 15 and over the age of 64 at the time of the Census have been excluded from the sample, since they are not usually active members in the labour market.

The sample is also restricted to those who received employment earnings in the year prior to the Census year. For analyzing Unemployment Insurance or Employment Insurance benefit receipt in the pre-Census year, it would have been ideal to consider only those individuals who were unemployed at some point during the pre-Census year. However, since there is no variable in the Census database that indicates whether or not an individual was unemployed during the pre-Census year, the restriction of having employment earnings during the pre-Census year must be used. Thus, for example, for the 2001 Census data (which is based on the questionnaire that was mailed to all Canadians in May 2001), only those who received employment earnings during 2000 are included in the analyses. And further, in terms of Employment Insurance benefit receipt, those who received employment earnings in 2000 are then looked at to see how many collected Employment Insurance benefits in 2000.

The findings from the report that are used in this evaluation involve the comparison of Employment Insurance use by NEREs who are recent immigrants versus NEREs who immigrated to Canada years ago. The comparison allows for an assessment of the extent to which integration into the Canadian labour market impacts the use of Employment Insurance benefits.

1.3.10 Methodological Limitations

As outlined in earlier subsections, there are a few considerations that need to be taken into account when interpreting the results of this report:

1. The data analysis on the future frequent use of Employment Insurance benefits assumes that those who ‘just qualify’ for Employment Insurance benefits (i.e. those with between 910 to 1,119 insured hours of employment) are not a valid comparison group, as there is clear evidence that some of these individuals are altering their labour market behaviour because of the NERE rules. Thus, this group of individuals has been excluded from the analysis.¹³

¹³ This assumption is based on the advice of two leading Canadian academics with econometrics expertise.

2. The data analysis on the future frequent use of Employment Insurance benefits considered new entrants as a whole and did not include re-entrants in the analyses, as there was not enough data to capture all re-entrants. Hence, there is no breakdown of new entrants by immigrant status, youth status, etc.
3. The literature review and international comparisons report did not discuss the effectiveness of UI-related provisions in other countries – it only presented details concerning the provisions and how they compared to the NERE rules. Comparing the effectiveness of the NERE rules with similar provisions in other countries would require additional research.
4. Even though the focus group participants were chosen based on their NERE status, the findings for a group of 4 to 11 people cannot be projected onto the entire NERE population. Thus, the findings need to be interpreted with caution.
5. One limitation of the analysis in the Younger Workers and NEREs report relates to those with multiple Records of Employment. For a multiple job holder, it is possible that someone loses their job and is calculated as being a NERE (based on all their prior Records of Employment) even though they are still holding another job where insured hours of employment are accumulating. However, unless a Record of Employment is issued, it is not possible to determine if someone is still employed. Thus, the NERE estimates in this study (aside from those given in Exhibit 2.1) might be slightly overstated, as some multiple job holders with unseen employment will have surpassed the NERE threshold but be calculated as still being a NERE. This will affect both the treatment and comparison groups equally.

2. *Description of the New Entrant and Re-Entrant Provision*

2.1 Background

On September 1, 1978, the Government of Canada officially announced eight proposed amendments to the *Unemployment Insurance Act*, one of which was for New Entrants and Re-Entrants (NEREs). The bill (C-14) would establish a higher entrance requirement for New Entrants and Re-Entrants (NEREs) (eligibility conditions listed below). Major attachment claimants¹⁴ would continue to qualify under the existing rules.

The proclamation and implementation of the clauses in Bill C-14 related to NEREs had an effective starting date of July 1, 1979.

2.2 Objective

The objective of the 1978 amendments to the *Unemployment Insurance Act*, one of which was a special requirement for NEREs, was to bring program expenditure under control, to reduce work disincentives created by the 1971 *Unemployment Insurance Act*, to strengthen incentives for looking for work and accepting suitable employment, and to reduce the scope for abuse. This called for not merely streamlining the program administration, but also tightening the eligibility requirements for benefits.

Numerous sources have pointed to a multi-pronged rationale, as given by the four objectives listed above.¹⁵ One source is a set of statements made in the House of Commons on November 9, 1978 by the presiding Minister at the time:

- *“The essence of the changes we propose to the unemployment program is two-fold. First, we want to reduce some of the disincentives to work which are present in the program. Second, we want to encourage workers to establish more stable work patterns and develop longer attachments to the active labour force, thereby reducing the dependency on unemployment insurance.”*

The Minister referred to concerns about those who will be prevented from establishing Unemployment Insurance (UI) claims. He explained:

- *“...for new entrants to the labour market it is preferable in my view, both socially and economically, that they be given meaningful work experience rather than just income maintenance. It is also preferable that those marginally*

¹⁴ A ‘major attachment claimant’ is a claimant who qualifies to receive Employment Insurance benefits and has 600 or more hours of insurable employment in their qualifying period.

¹⁵ For further information, see the technical report entitled, “File Review for the Evaluation of New Entrants and Re-Entrants”, Arun Roy (2007).

attached to the labour force, either by choice or circumstance, be helped to become substantially employed and, hopefully, not to make unemployment insurance a way of life.”

In addition, the Minister stated:

- *“The growing costs of the unemployment insurance program...could not be ignored. Nor could we ignore the employment disincentive effects which were adding to other problems in the labour market.”*

Another confirmation of these objectives appears in the 1998 Employment Insurance Monitoring and Assessment Report to Parliament, which indicates a rationale of ‘discouraging a cycle of reliance’ – ensuring workers, especially young people, develop a significant attachment to the labour force before collecting Employment Insurance benefits.

2.3 Eligibility

A NERE is a person who, during the 52 weeks preceding the qualifying period (also known as the pre-qualifying period), has accumulated fewer than 490 hours of labour force attachment, which includes:

- Hours of insurable employment;
- Weeks of Employment Insurance benefit receipt, with each week received counting as 35 hours of labour force attachment;
- Prescribed hours (e.g. workers’ compensation payments, training, unemployment due to a labour dispute, etc.) related to employment in the labour force;¹⁶ or
- Hours comprised of any combination of the above.¹⁷

If an individual does not have the 490 hours of labour force attachment in the pre-qualifying period, then 910 hours of insurable employment in the qualifying period are required in order to be eligible for Employment Insurance benefits.¹⁸

Furthermore, those who have received a week of maternity or parental benefits in the four years preceding the labour force attachment period are not considered to be re-entrants and, as a result, can qualify for benefits as regular qualifiers for benefit periods established on or after October 1, 2000.

¹⁶ For a complete list of all types of prescribed hours, please refer to http://www.servicecanada.gc.ca/eng/ei/legislation/ei_regs_part1_2.shtml#a12_1

¹⁷ For information on how NERE status is determined by HRSDC, please refer to Question 20 of this document.

¹⁸ Prior to the Bill C-12 reforms in 1996, a NERE was classified as an individual with fewer than 14 weeks of labour force attachment in the pre-qualifying period. Before Bill C-12, NEREs required 20 weeks of insurable employment to be eligible for Unemployment Insurance benefits. Effective July 1, 1996, NEREs required 26 weeks instead of 20 weeks. In January 1997, eligibility switched from a weeks-based system to one based on hours. Thus, the 26 weeks were converted to 910 hours.

A claimant must prove that they met the qualifying conditions. It is up to the claimant to demonstrate that he or she is not a NERE (or that they meet the NERE requirements) and to provide evidence of labour force attachment such as a Record of Employment, a letter from a relevant person or pay stubs. The claimant does not need to substantiate information already in the hands of the Employment Insurance Commission, such as the number of weeks for which benefits have been paid or earnings that have reduced the payment of benefits.¹⁹

2.4 NERE Population

When calculating the percentage of the population that is considered to be a NERE, the denominator can make a significant difference. For example, if the denominator is the labour force as a whole, then the percentage that is NEREs will be lower. However, if the denominator is the flow of job leavers, then the share that is NEREs will be higher.

The definition of NEREs used in the Longitudinal Administrative Database (LAD) study (see Section 1.3.3) is imputed since there is no information on hours of employment in the LAD. Exhibit 2.1 summarizes how the LAD estimates compare to the results of other studies. The other studies are based on the Survey of Labour and Income Dynamics (SLID) and the Canadian Out-of-Employment Panel (COEP) survey and are based on different methodologies and populations. Thus, caution must be exercised when comparing the results.

Exhibit 2.1 Comparison of Alternative NERE Estimates			
Database	Methodology and Relevant Year	NEREs (%)	Under 25 (%)
LAD ¹	Sample: All individuals with wages and salaries or Employment Insurance benefits in 2004. NEREs: Less than \$4,000 in wages and salaries and no Employment Insurance benefits in 2003, or did not file a tax return.	15.7	48.4
SLID ²	Sample: Individuals aged 17-69 with paid work in December 2004. NEREs: Fewer than 490 paid hours of work during the pre-qualifying period.	14.9	35.8
COEP ³	Sample: All 1997 job separations. NEREs: Fewer than 490 hours of work during the pre-qualifying period.	26.4	40.3
COEP ⁴	Sample: All 2002 job separations. NEREs: Fewer than 490 hours of work during the pre-qualifying period.	27.5	55.6
Sources: ¹ Kapsalis, C., "Unlinked LAD Data Analysis for the Evaluation of New Entrants and Re-Entrants", 2007. ² Kapsalis, C. and P. Tourigny, "Potential Employment Insurance Eligibility of Employed Canadians in December 2003", 2005. ³ Phipps, S. and F. MacPhail, "The Impact of Employment Insurance on New Entrants and Re-Entrant Workers", 2000. ⁴ HRSDC, "Younger Workers and New Entrants and Re-Entrants", (2006b).			

Conceptually, the LAD estimates are closest to the SLID estimates, since both studies refer to the total paid workforce. A comparison of the results of the two studies shows that the LAD incidence of NEREs (15.7 percent) is closest to the SLID estimate (14.9 percent).

¹⁹ Refer to Section 3.5 of this report for detailed information on how NERE status is determined by SCC insurance officers.

However, the LAD estimate of the share of youth among NEREs (48.4 percent) is considerably higher than the corresponding SLID estimate (35.8 percent). Part of the difference is explained by the fact that the SLID sample is restricted to those who were employed in December – thus excluding students working in summer jobs (who are included in the LAD sample).²⁰

As for the COEP survey estimates, the higher percentage of NEREs may be due to the fact that NEREs are more likely to have job separations than non-NEREs and, therefore, account for a larger share of all separations than paid workers. By age, there is a significant difference between the 1997 and 2002 COEP survey results in terms of the shares of NEREs that are youth (40.3 percent versus 55.6 percent).

2.5 Who are the NEREs?

In terms of the composition of NEREs as based on the LAD analysis, the characteristic most closely associated with NEREs is age – 37.3 percent of all youth (i.e. those under 25 years of age) in the workforce in 2004 were NEREs, compared to 10.1 percent among the rest of the workforce. The share of the 25-29 year-old age group that are NEREs is substantially lower at 13.9 percent and drops slightly for the 30-39 year-old group (11.2 percent) and 40+ age group (8.3 percent). Youth account for almost half of all NEREs (48.4 percent).

Recent immigrants were also more likely to be NEREs than the rest of the workforce (25.1 percent versus 15.4 percent), but less likely than youth. Recent immigrants accounted for 4.6 percent of all NEREs in 2004.

Recent mothers (those with children who were under 2 in 2004) were less likely to be NEREs than the rest of the population (10.8 percent versus 15.8 percent) and accounted for 2.0 percent of all NEREs. This finding can be explained by the changes brought about by Bill C-2 (see Section 2.3).

HRSDC administrative officials noted that the rest of the NERE population is comprised of older people returning to work after a short period of retirement, workers in seasonal jobs and individuals with sporadic work patterns.

Among the remaining characteristics examined, there is a very weak correlation of NERE status with gender (14.9 percent for males versus 16.4 percent for females) and virtually no correlation with the regional unemployment rate. With respect to the family situation, single individuals were the most likely to be NEREs in 2004 (27.3 percent). This is partly explained by the fact that most single individuals are youth. Individuals with a working spouse were the least likely to be NEREs (8.7 percent).

Exhibit 2.2 presents all of these findings related to the composition of NEREs.²¹

²⁰ Data from the COEP survey indicates that the share of NEREs that are youth tends to be far higher for those with an employment separation in the summer (i.e. the third quarter, July to September).

²¹ Many of these findings are corroborated with the findings in HRSDC (2006a) – i.e. youth and single individuals are the most likely to be NEREs, while there is little difference by gender.

Exhibit 2.2 Incidence of NEREs by Worker Characteristics (Based on Total Paid Workforce), 2004				
Characteristic	All Workers ('000s)	NEREs ('000s)	Dist'n of NEREs (%)	Incidence of NEREs (%)
Age				
Youth (under 25)	2,926	1,093	48.4	37.3
25-29	1,575	219	9.7	13.9
30-39	3,321	371	16.4	11.2
40+	6,605	576	25.5	8.7
Non-youth (25+)	11,501	1,166	51.6	10.1
Recent Mothers				
Children under 2 in 2004	414	45	2.0	10.8
Rest of population	14,012	2,214	98.0	15.8
Recent Immigrants				
Immigrated since 1999	415	104	4.6	25.1
Rest of population	14,011	2,155	95.4	15.4
Family Situation				
Single without children	4,802	1,312	58.1	27.3
Single with children	868	112	5.0	13.0
With a non-working spouse	1,917	239	10.6	12.4
With a working spouse	6,839	596	26.4	8.7
Gender				
Male	7,283	1,086	48.1	14.9
Female	7,144	1,173	51.9	16.4
Regional Unemployment Rate				
Less than or equal to 6.0%	3,583	563	24.9	15.7
6.1% to 7.0%	3,546	556	24.6	15.7
7.1% to 8.0%	4,612	731	32.3	15.8
8.1% to 10.0%	826	118	5.2	14.3
10.1% or higher	1,859	292	12.9	15.7
All Individuals in Workforce	14,426	2,259	100.0	15.7
Source: Kapsalis, C., "Unlinked LAD Data Analysis for the Evaluation of New Entrants and Re-Entrants", 2007.				

Findings from other studies²² (using alternative data sources) confirmed the majority of the findings above and further indicated that: (i) job separators from the Atlantic region are less likely to be NEREs than job separators in the rest of Canada (as individuals in the Atlantic region are more likely to have previous claims experience, which is a consideration in determining NERE status), and (ii) NEREs are more likely to have a high school degree or less (65 percent of NEREs), and are far more likely to have a lower level of employment income. This is consistent with the finding that close to half of all NEREs are youth (i.e. just graduated high school, college or university and earning an entry-level wage or salary).

²² For further information, see S. Phipps and F. MacPhail (2000), "The Impact of Employment Insurance on New Entrants and Re-Entrant Workers" and C. Kapsalis (2000), "The Impact of Bill C-12 on New Entrants and Re-Entrants".

3. Key Findings

3.1 Program Rationale

Q-1: Is the degree of frequent use of Unemployment Insurance/ Employment Insurance benefits high enough to warrant provisions designed to strengthen the relationship between work effort and entitlement to benefits?

Ideally, the answer to the above question would state some measure of frequent use that could be used as a benchmark for deciding if policy changes were needed.²³ However, there have never been any publicly-stated frequent use targets. There may well be some types of frequent Employment Insurance use that would be viewed more favourably than others – for example, supporting the early career of workers trying out different employment options in order to find their best match. However, in general, frequent use of the Employment Insurance system (and particularly an increase in the level of frequent Employment Insurance use) does not represent the best use of available labour for the economy. Thus, the motivation to strengthen the relationship between work effort and entitlement to benefits is valid.

The literature review cited numerous studies that sought to measure the extent of frequent use and its evolution over time. Wesa (1995) and Lemieux and MacLeod (1995) analyzed the 1972 to 1992 period and found a strong upward trend over the period.²⁴ A more recent study, Gray et al. (2006), indicated that there was a secular, upward trend in the frequent use of Unemployment Insurance or Employment Insurance benefits during the 1984 to 1996 period, only interrupted by the recession of the early 1990s.²⁵ Since 1996, when the share of frequent users as a percentage of all claimants peaked at about 30 percent, there has been a downward trend, levelling off to roughly 25 percent in 2003.²⁶ Gray et al. noted that the degree of frequent use is higher in the Atlantic Provinces and in Quebec than in the rest of Canada, likely due to the industrial composition of these provinces.²⁷

²³ The most commonly-used definition of frequent use is “individuals who have had three or more active claims in the five years prior to their current claim”. This is the definition used in the annual Monitoring and Assessment Reports to Parliament.

²⁴ For further information, see the reports entitled “Seasonal Employment and the Repeat Use of Unemployment Insurance”, Leslie Wesa (1995) and “State Dependence and Unemployment Insurance”, Lemieux, T. and W.B. Bentley (1995).

²⁵ Note that it is not possible to compare the levels of frequent use to those before 1978 (i.e. the introduction of the NERE rules) because of the lack of availability of data.

²⁶ For further information, see the report entitled “Repeat Use of Unemployment Insurance or Employment Insurance Benefits in Canada”, Gray et al (2006).

²⁷ The 2006 Monitoring and Assessment Report to Parliament noted that the proportion of all regular and fishing claims accounted for by frequent claimants in 2005/2006 was 38.4 percent.

Another study by Kuhn and Riddell (2006) attempted to address this issue by comparing two similar economies in Canada and the U.S.²⁸ Using data spanning the 1940 to 1991 period for New Brunswick and Maine, they studied the long-term effects of the different unemployment insurance regimes. They found that the frequent use of Unemployment Insurance benefits was far more pervasive in New Brunswick than it was in Maine, and they posited that it was due to the difference in the generosity of the two Unemployment Insurance schemes.

Findings from the expert interviews noted that all labour market experts agreed that the frequent use of Employment Insurance benefits is an important issue and warrants provisions designed to strengthen the relationship between labour market attachment and entitlement to benefits.²⁹ Labour market experts said that some workers and employers build Employment Insurance income into employees' income, indicating it has become part of some recipients' work life (i.e. a worker is employed for 8 or 9 months, receives Employment Insurance benefits for 3 or 4 months, and is then rehired by the employer to work for another 8 or 9 months). However, these labour force specialists underlined from the outset that pervasive Employment Insurance use is an issue only in certain areas of the country, including regions where the economy is not as strong. In any case, this renders the Employment Insurance system less of an insurance system, as it leads to the steady transfer of funds from one sector or region to another.

It is also worth noting that other policies have been attempted to help curtail the frequent use of Employment Insurance benefits. One such policy (the Intensity Rule) was implemented along with several other reforms in 1996. The Intensity Rule reduced the benefit rate by one percentage point for every 20 weeks of regular or fishing benefits collected in the previous 5 years, to a maximum reduction of 5 percentage points. It was designed to reduce reliance on Employment Insurance as a regular income supplement, while not excessively reducing the benefits of those who make long or frequent claims. However, the rule was repealed in October 2000.

Q-2: Does the process of becoming a frequent user start while a claimant is a New Entrant and Re-Entrant (NERE)?

Findings from the focus groups, literature review, expert interviews and Longitudinal Administrative Database (LAD) data analysis all suggest that the process of becoming a frequent user likely has little to do with whether or not a claimant is a NERE.

Participants in the focus groups involving frequent users were asked to discuss the factors that lead to the process of becoming a frequent user of Employment Insurance benefits. The most common response was that the type of employment, and its seasonality, is the main

²⁸ For further information, see the report entitled "The Long-Term Effects of a Generous Income Support Program: Unemployment Insurance in New Brunswick and Maine, 1940-1991", Kuhn, P. and C. Riddell (2006).

²⁹ The 1996 Employment Insurance reforms attempted to address the issue of frequent use of Employment Insurance via the Intensity and Clawback rules, whereby previous use of the Employment Insurance system had an impact on future Employment Insurance benefit rates and benefit re-payments.

factor.³⁰ Participants who had been involved in their industry for awhile had become quite used to the cycle of receiving Employment Insurance benefits while not working. It was not uncommon to hear that the employers, especially those in education, would instruct, facilitate and orient new employees on the application process and system.

The strong sense among the focus groups of frequent users is that being or not being a NERE for the first claim has no significant impact on future frequent use:

- Most involved in non-education fields such as construction and fishing had been in these industries their entire lives and had never made a non-cyclical claim. If they were a NERE for their first claim it was because of an injury. For the most part, those who transferred into these fields had never made previous claims before.
- Many of those involved in the educational industry tended to enter it from other industries and job environments. Some had been employed in stable jobs and environments and had never made an Employment Insurance claim. Others had made some Employment Insurance claims, but they were not claims made as a NERE. In general, it was their involvement in the education system that caused their frequent claims and triggered their NERE status (as a re-entrant).
- There were a few frequent users who were subject to the NERE rules before becoming frequent users. However, these primarily involved maternity leave, moving from one city to another, or changes of career early on in their labour force involvement. In some cases, participants took a leave from the workforce between their old career and their new cyclical career, which caused their first claim in their new cyclical career to be made as a NERE.

However, there was a consensus among these focus group participants that being on Employment Insurance once does indeed encourage frequent use of benefits. Participants are able to better understand the system and have lived through the stigma of it, so applying for Employment Insurance benefits in the future is much easier. But, participants across all of the focus groups were quick to point out that frequent use is driven by circumstances, not by an individual – they cannot simply choose to leave a job and then collect benefits.

Literature on the topic of frequent use supports some of the findings from the focus groups, while also offering alternative explanations for how individuals become frequent users:³¹

- A major contributing factor to the frequent use of benefits is the industry of employment, particularly the long-term attachment of certain workers to seasonal, periodic jobs.
- Those who have made use of the Unemployment Insurance or Employment Insurance system are more likely to use it again. As exposure to the Unemployment Insurance or Employment Insurance system lengthens, so does the likelihood of becoming a frequent claimant.

³⁰ This reasoning is supported by statistical evidence in the report, “The Repeat Use of Employment Insurance Benefits by Youth”, HRSDC (2006c). This report finds that youth frequent use of Employment Insurance benefits may be tied mainly to the type of industry a youth is employed in and the strength of the local labour market.

³¹ For further information, see the report entitled “Literature Review of the Employment Insurance New Entrant/Re-Entrant Provision”, pages 19-33.

- Becoming a frequent user depends greatly on the type of region one resides in (i.e. urban versus rural) and the level of regional unemployment.

Many of the above explanations were also given in the expert interviews. It was suggested that frequent use probably starts with younger workers and is directly related to where workers live, how stable the economy is, and the industry in which they are working. However, labour market experts were not able to put a figure on how many times an individual claiming Employment Insurance benefits leads to becoming a permanent frequent user.

Analysis using the LAD was also conducted, with the results indicating that receiving Employment Insurance benefits in 1998 is more likely to lead to someone becoming a frequent claimant over the 2000 to 2004 period than not receiving benefits in 1998. However, it is irrelevant if an individual was a NERE (as defined for this analysis) in 1998 or not. Among NEREs, as defined using the LAD, 31 percent of those with Employment Insurance benefits in 1998 reported benefits in each year from 2000 to 2004, while the corresponding rate among non-NEREs was 32 percent. It is still possible that, by excluding some individuals from collecting Employment Insurance benefits early on in their labour market careers, the NERE rules may end up also reducing the number of frequent users in the future. Unfortunately, this is hard to prove by only using the LAD.

There is one study that may indirectly suggest that the process of becoming a frequent user starts while a claimant is a NERE. An HRSDC report for the 2006 Monitoring and Assessment Report to Parliament noted that the younger an individual is when they make their first claim for Employment Insurance benefits, the more likely they are to go on to become a future frequent user.³²

Q-3: Are the features of the NERE rules relevant to the reduction of the frequent use of Unemployment Insurance or Employment Insurance benefits?

Findings from the expert interviews suggest that, for the most part, the features of the NERE rules are not relevant to the reduction of the frequent use of Unemployment Insurance or Employment Insurance benefits.

The half of the labour market experts who offered input for this question answered that there was not a strong connection between frequent users and NEREs, as they had seen no evidence that the early use of Employment Insurance leads to frequent use. They noted that frequent use is not necessarily linked to receiving benefits at the beginning of a working career or the re-launching of a career and that the NERE rules are tougher than the old repeat user rules that frequent claimants were exposed to through the Intensity Rule. Given that the focus is on frequent use, respondents felt that the repeat user rules should be re-instated and strengthened and that the NERE rules should perhaps be dropped.

Those labour policy experts who agreed that the NERE rules are relevant said that, in the absence of data to the contrary, anything that will reduce the amount of frequent use of

³² For further information, see the report entitled “The Repeat Use of Employment Insurance Benefits by Youth”, HRSDC (2006c).

Employment Insurance should be kept. It was further suggested that if the NERE entry requirements went far enough (e.g. three years of work required to collect Employment Insurance benefits), that they would have a significant impact on future frequent use.

However, others re-iterated that it is fundamental to better understand why frequent use arises. They stated that frequent use has been shown to be tied to areas of lower economic development and to employers who lay off workers knowing that they will receive Employment Insurance benefits for the months they are unemployed. This results in employers building these wage subsidies into their salary envelope and has very little to do with NEREs in the work force.

Q-4: Is the objective of strengthening the relationship between labour market attachment and entitlement to benefits relevant for both new entrants and re-entrants?

While the NERE objective of strengthening the relationship between labour market attachment and entitlement to benefits may be a relevant policy objective, findings are somewhat mixed with respect to whether or not different types of new entrants and re-entrants should be covered under the same set of rules.

Findings from all of the focus groups revealed that many participants feel that the NERE rules are better suited to new entrants than re-entrants. In the groups that contained re-entrants, which were the re-entrant female and frequent user groups, there was a strong sense that they had contributed many years of premiums to the Employment Insurance system, and that many of the circumstances that caused them to fall into the NERE category were beyond their control (e.g. layoff, illness, death of a relative, etc.). In this regard, they see Employment Insurance as an insurance system, where they have paid into it and incur issues beyond their control that have caused them to reduce their involvement in the labour force. Having to work 910 hours to demonstrate their attachment to the labour force when they have been paying into the system for many years beforehand does not seem to be appropriate to them. Further, there is a belief that new entrants, who have not made significant premium contributions and have minimal attachment to the Canadian labour force, should be subject to rules that encourage them to pay more into the system or that encourage them to search longer to find an appropriate job.

In general, youth agreed with the principle that people should have to pay into the system and that they should demonstrate an attachment to the workforce. And, aside from the Halifax focus groups, youth did not see the NERE qualifying conditions as being difficult to obtain. However, youth believed that there should be exceptions for certain circumstances (e.g. a plant closure) and that there should not be a total denial of benefits. There was also a sense that, since youth are more likely to be at risk in terms of layoffs compared to more established workers, there should be circumstances for these situations. It should be noted that the evidence collected from the focus groups of NERE participants is subjective and an impartial source of opinion about the NERE provision, as participants may not take all information into account when it comes to the reasons for the existence of the NERE rules.

The file and literature reviews noted some of the debates that took place in the House of Commons. In reaction to the 1978 Bill C-14 amendments in the House of Commons debates, members expressed concerns over how the higher entrance requirement would affect different groups. On one hand, it was noted that older women returning to the workforce after raising a family for a number of years would be more impacted by the NERE rules than other types of NEREs, as many of these re-entering women who have spent years in the home lack necessary skills and find it very difficult to find other than casual jobs (Bill C-2 in 2000 subsequently addressed this issue). On the other hand, it was also mentioned that the majority of the general public felt that the Unemployment Insurance system was prone to abuse and required stricter eligibility requirements.

Half of the labour market experts interviewed suggested that new entrants and re-entrants should be treated separately, as the way youth are treated by the Employment Insurance system in their first few years in the workforce could have an effect on how or if they integrate into the workforce at all. Experts also added that the Employment Insurance system should have separate rules for youth based on their highest level of education obtained. Others said that immigrants should be treated separately because they want to work but often have difficulty because of language barriers and credential recognition.

In the case of recent mothers (re-entrants) and recent immigrants (new entrants), it was shown that current Employment Insurance use is less likely to lead to future frequent use of Employment Insurance benefits than is the case with youth (new entrants) or the rest of the NERE population. This would suggest that similar rules for new entrants and re-entrants may not be warranted.³³

Q-5: Should the NERE rules vary by economic region in a manner similar to that for regular claimants?

Respondents in the expert interviews were asked whether or not the NERE rules should vary by economic region, with one respondent saying ‘yes’ and the other three labour market experts saying ‘no’. The respondent who agreed that the NERE rules could vary said that, while obtaining 910 hours of insured employment in Alberta may not be a problem, in Newfoundland it can be challenging.

The other three labour market experts said that the Employment Insurance rules should follow the NERE rules and not vary by economic region so that frequent use in economically depressed regions would decline. This would happen because people would find other types of employment or would move to areas that are not as economically depressed.

³³ For further information, see Kapsalis (2007).

Q-6: Do other countries have NERE or similar provisions and what are the features?

Of the Organization for Economic Co-operation and Development (OECD) and non-OECD countries surveyed, no country other than Canada has regulations in the spirit of the NERE rules.³⁴ However, a number of countries have regulations that make it easier for young people to qualify for unemployment insurance benefits, though in some cases on reduced benefit levels or on condition that a specified level of education has been completed.³⁵

For two countries (Austria and Luxembourg), minimum work requirements are lower for youth than for adults, and for four countries (Denmark, Ireland, Poland and Portugal), there are no work requirements for youth to obtain benefits. In Belgium, work requirements necessary to qualify for benefits increase with age, with individuals aged 36 and under having the lowest work requirements. However, the eligibility period in which to accumulate work is also lower for younger people. The net effect is that each age group of workers must work approximately 58 percent of the calendar days in the qualifying period. Finally, prior to 2004, the Czech Republic allowed periods of study to count towards the work requirement necessary to collect benefits, but this is no longer the case.

For unemployment assistance benefits, five countries (Australia, Belgium, New Zealand, Sweden and the United Kingdom) make such benefits available to youth with little or no work requirement, though sometimes with other requirements such as participation in training programs.

For parents of young children returning to the workforce, some countries make qualification for Unemployment Insurance benefits easier by counting time spent at home towards the work requirement. In the Netherlands, for example, years spent caring for children younger than 6 years old counts fully towards the work requirement for UI, while years spent caring for children aged 6 to 12 years of age counts 50 percent towards the work requirement. In Sweden, up to two months of time on parental leave can count towards the work requirement for UI, while in Estonia, days spent caring for children under 7 years old (and days spent in full-time study and in the military) count towards the number of work days required to qualify for UI.

However, one aspect that must be taken into consideration is the fact that the funding mechanism for each country's Unemployment Insurance system can differ greatly. For instance, in many OECD countries the UI system is at least partially funded from general tax revenues, while in Canada the system is funded entirely by employer and employee contributions. In a system that is funded from general tax revenues, rather than funded entirely by employers and employees, broad income support that is not tied to work effort or contributions (premiums paid) is more feasible.

³⁴ The international comparison centers primarily on OECD countries, as these countries are broadly comparable to Canada in terms of the stage of economic development, political structure and attitudes towards social welfare and income support.

³⁵ For a complete country-by-country breakdown, see the Appendix of the report entitled "Literature Review of the Employment Insurance NERE Provision".

3.2 Achievement of Program Objectives

Q-7: Are the NERE rules discouraging the future frequent use of the Unemployment Insurance or Employment Insurance system?

Theoretically, by making it more difficult for NEREs to qualify for Employment Insurance benefits, some NEREs should be less likely to become future frequent users. However, the administrative data analysis using the Record of Employment and Status Vector files seems to indicate otherwise (see Exhibit 3.1).

Exhibit 3.1		
Distribution of Laid-Off Individuals by New Entrant Status Based on First-Ever ROE		
Classification of Laid-Off Worker	# of Laid-Off Individuals	Incidence of Future Frequent EI Use (%)
New Entrants (# of Insured Hours + Employment Insurance Receipt Status)		
Fewer than 700 – no Employment Insurance	37,986	14.6
700 to 909 – no EI	3,084	13.4
910 to 1,119 – no EI	1,657	13.3
910 to 1,119 – EI received	3,177	23.3
More than 1,119 – no EI	2,992	11.3
More than 1,119 – EI received	4,650	14.7
All new entrants with first-ever Record of Employment ending in '97-99	53,546	14.9
Non-New Entrants (# of Insured Hours + Employment Insurance Receipt Status)		
Fewer than 700 – EI or no EI	184	6.5
700 to 909 – EI or no EI	345	11.3
910 to 1,119 – no EI	440	12.5
910 to 1,119 – EI received	221	9.5
More than 1,119 – no EI	3,022	9.2
More than 1,119 – EI received	3,799	8.0
All non-new entrants with first-ever Record of Employment ending in '97-99	8,011	8.9
Sample: Random sample of laid-off workers (who were under age 17 in 1987) whose last day of work (in their first Record of Employment since 1987) was between January 1997 and December 1999.		
Source: Record of Employment or Status Vector Database.		

Based on the analyses of all first-ever Records of Employment given in Exhibit 3.1, the future frequent use of Employment Insurance benefits is significantly higher for all new entrants, irrespective of the number of hours worked or the claiming of Employment Insurance benefits, compared to non-new entrants with the same work/Employment Insurance benefit receipt composition.³⁶ Thus, given that it is more difficult for new entrants to qualify for Employment Insurance benefits than non-new entrants and that their future frequent Employment Insurance use rates are still significantly higher, it appears that simply making it more difficult for new entrants to qualify for Employment Insurance the first time may not be discouraging the future frequent use of the Employment Insurance system.

³⁶ For further information, see Kapsalis (2009).

Additional data analysis showed that future frequent Employment Insurance use tends to be higher among younger new entrants, as well as new entrants in primary industries (i.e. fishing, forestry, mining, etc.), in the construction industry, and those living in high unemployment rate regions. Some of these findings are consistent with those found in previous studies related to the frequent use of Employment Insurance benefits, in that frequent use tends to be higher for workers in certain industries (fishing, forestry and construction) and workers who live in higher unemployment rate regions (e.g. Atlantic Canada).³⁷ In fact, those who work in one of the three aforementioned industries (fishing, forestry and construction) and *do not* make a claim for Employment Insurance benefits within 5 weeks of their first-ever Record of Employment have *higher* future frequent Employment Insurance use rates than those who work in any other industry and do make a claim within 5 weeks of their first-ever Record of Employment. This provides further evidence that simply making it more difficult for new entrants to collect Employment Insurance benefits for the first time is not the main driver of future frequent Employment Insurance benefit use.

Finally, numerous studies³⁸ have indicated that the frequent use of Unemployment Insurance benefits increased significantly *after* the introduction of the NERE rules in 1978. For example, using a definition of a ‘high frequency claimant’ – 3 or more Unemployment Insurance spells in 5 years – Wesa (1995) showed that, for males, the share of all Unemployment Insurance claimants that were high frequency claimants increased from roughly 43 percent in 1978 to as high as 58 percent in 1988. For females, the share increased from about 23 percent in 1978 to over 40 percent by the late 1980s. These figures suggest that the introduction of the NERE rules did not discourage the future frequent use of Unemployment Insurance benefits.

Q-8: What are the characteristics of those individuals who are discouraged from becoming future frequent users of the Unemployment Insurance or Employment Insurance system due to the existence of the NERE rules?

The findings for Question 7 showed that the NERE rules have little impact on discouraging the future frequent use of Employment Insurance benefits. Therefore, there are no definable characteristics of individuals who are discouraged from becoming future frequent users of the Employment Insurance system.

³⁷ For further information, see the report entitled “Repeat Use of Unemployment Insurance or Employment Insurance Benefits in Canada”, Gray et al (2006) and the report entitled “Seasonal Employment and the Repeat Use of Unemployment Insurance”, Lesle Wesa (1995).

³⁸ For further information, see the report entitled “Unemployment Insurance Once Again: The Incidence of Repeat Participation in the Canadian Unemployment Insurance Program”, Miles Corak (1993), the report entitled “A 21st Century Employment System for Canada”, Supply and Services Canada (1995), and the report entitled “Seasonal Employment and the Repeat Use of Unemployment Insurance”, Lesle Wesa (1995).

Q-9: Do the NERE rules strengthen the relationship between labour market attachment and entitlement to Employment Insurance benefits?

Ideally, a comparison of the number of hours worked for NEREs and non-NEREs before and after the implementation of the NERE rules would have addressed this question. Unfortunately, accurate administrative data before 1978 is not available. However, this question can still be partially addressed by focusing on the impact of the 1996 Employment Insurance reform, which led to an increase in the minimum entrance requirement for NEREs, from 20 weeks to 26 weeks (or 910 hours).

Using the Record of Employment and Status Vector files, individuals who experienced a job separation between June 1991 and May 1993 (before Bill C-17), June 1994 and May 1996 (after Bill C-17 and before Bill C-12), and between June 1997 and May 1999 (after Bill C-12) were analyzed.³⁹ Descriptive findings indicate that the average number of hours worked by non-NEREs between these 3 periods increased from 1,149 hours to 1,176 hours, and to 1,239 hours after Bill C-12. For NEREs, the number of working hours decreased from 769 hours to 738 hours, and to 672 hours after Bill C-12. Multivariate analyses that controlled for economic conditions (using the unemployment rate) confirmed the descriptive findings.⁴⁰

In terms of NERE workers (those who were NEREs at the time of their Record of Employment) versus NERE claimants (those who were NEREs at the time of collecting Employment Insurance benefits), the Record of Employment and Status Vector data analysis indicated that Bill C-12 reduced the number of hours worked by NERE workers (a drop of more than 100 hours per Record of Employment), but had a small positive effect on the number of hours worked by NERE claimants (slightly more than 20 hours per Record of Employment). What this implies is that NEREs who did not file a claim averaged more than 100 hours less per Record of Employment after Bill C-12 than NEREs who did not file a claim before Bill C-12. NEREs filing a claim after Bill C-12 had about 20 more hours of work per Record of Employment than NEREs filing a claim before Bill C-12. These findings support the notion that the NERE provision had a different impact on various sub-groups within the NERE population. The NERE provision could be deemed to have encouraged those most likely to file a claim for Employment Insurance to seek and obtain additional work, whereas the impact on individuals with a minimal attachment to the workforce, and with limited expectations of receiving Employment Insurance benefits, could have been minimal.

As expected, the Record of Employment and Status Vector data analysis showed a significant drop in the proportion of NEREs eligible for Employment Insurance benefits (33.7 percent) compared to the two periods under the UI system (50.7 and 47.3 percent). These findings were corroborated in the 2006 Summative Evaluation of Employment Insurance Part I, which also indicated that one-sixth of NEREs impacted by the 1996 Employment Insurance

³⁹ For further information, see HRSDC (2009), "Impacts and Effects of the New Entrant and Re-Entrant Rules".

⁴⁰ The composition of NEREs and non-NEREs during this time period was not examined.

reform (i.e. the increase in required hours of work from 700 to 910 in order to qualify for Employment Insurance benefits as a NERE) were able to increase their hours to maintain eligibility for benefits.

The focus group discussions indicated that since most participants were not aware of the NERE regulations (even though they were all recruited as likely NEREs based on their Record of Employment and Status Vector information), they did not plan their employment around them. A few participants mentioned that if they were aware of the NERE rules, they may have been able to change their behaviour in the labour market. Many of the participants who were short a few hours would have made arrangements to get the additional hours to qualify for Employment Insurance benefits.

Thus, it is somewhat unclear whether or not the NERE rules led to a strengthening in the relationship between labour market attachment and entitlement to Employment Insurance benefits. It is clear that changes to the NERE rules can cause changes to work effort by a certain segment of workers, as roughly one-sixth of the NEREs impacted by the tightening of the provision during Employment Insurance reform increased their work effort.⁴¹ However, it is impossible to make any inferences from this on the impact on the entire work force if the NERE rules were eliminated.

Q-10: Are the NERE rules leading to workers developing a stronger attachment to the active labour force?

To measure labour force attachment, administrative data analysis involving the Status Vector and Record of Employment files was conducted and measured the average number of jobs held by NEREs and the number of hours/weeks worked before and after Bills C-12 and C-17 using statistical estimation analyses.

Findings reveal that there is not a clear answer as to whether or not changes to the NERE rules led to workers developing a stronger attachment to the labour force:

- After the introduction of Bills C-12 and C-17, the number of jobs held by NEREs declined, although in the case of NEREs who filed a claim for benefits, the number of jobs held increased.
- In terms of the number of hours/weeks worked in the same job, the results show that, in the period following the introduction of Bills C-12 and C-17, the number of weeks worked in the same job increased for NEREs, although in the case of NEREs who filed a claim for benefits, the number of weeks worked decreased.

⁴¹ For further information, see page 23 of “Summative Evaluation of Employment Insurance Part I”, HRSDC (2006).

3.3 Impacts and Effects of the Program

Q-11: To what extent are NEREs less likely to be eligible for Unemployment Insurance or Employment Insurance benefits than non-NEREs?

Administrative data analysis using Status Vector and Record of Employment data indicates that NEREs are about one-third less likely to be eligible for Employment Insurance than non-NEREs.⁴² Results also show that the introduction of Bill C-12, which increased the entrance requirement for NEREs from 20 insurable weeks to 26 insurable weeks (910 hours), had a significant impact on the eligibility rate of NEREs, reducing eligibility by around 10 percent.

Additional analysis using Canadian Out-of-Employment Panel (COEP) survey data in Kapsalis (2000) suggested that, on average, 36,500 NEREs were affected each month in 1997 (i.e. they did not qualify for Employment Insurance but would have qualified under the old rules).⁴³ As a result, the average number of monthly beneficiaries in 1997 was reduced by about 5.8 percent. It is important to note that an estimated 9,100 individuals (monthly) who would not have otherwise qualified under the new NERE rules were able to secure additional hours of work to meet the higher entrance requirement.⁴⁴

Another report by Phipps and MacPhail (2000), which was also based on the COEP survey, investigated the extent to which the change from Unemployment Insurance to Employment Insurance reduced the access of NERE workers to Employment Insurance benefits.⁴⁵ The study focused on two components of the program change – the increase in the entrance requirement and the switch from a weeks-based system Unemployment Insurance to one based on hours (EI). Findings showed that NEREs were much less likely to receive benefits, both under Unemployment Insurance and EI. Benefit receipt rates for NEREs were generally one-half that of non-NEREs. The increase in the entrance requirement substantially reduced access to benefits for NERE workers, but the switch to an hours-based system significantly improved the situation – possibly as a result of NEREs being more likely to hold non-standard jobs. The net effect of the two policy changes was thus only a small reduction in the overall benefit receipt rate for NEREs. These findings were also confirmed in both a 2002 and 2005 Monitoring and Assessment Report report.⁴⁶

Furthermore, eligibility and receipt rates between NEREs and non-NEREs as defined for the purposes of the LAD analysis compared the incidence of Employment Insurance

⁴² For further information, see the report entitled “Impacts and Effects of the New Entrant and Re-Entrant Rules”, HRSDC (2009).

⁴³ For further information, see the report entitled “The Impact of Bill C-12 on New Entrants and Re-Entrants”, Costa Kapsalis (2000).

⁴⁴ It is important to note that the analysis did not control for the other measures introduced in Bill C-12.

⁴⁵ For further information, see the report entitled “The Impact of Employment Insurance on New Entrants and Re-Entrant Workers”, Shelley Phipps and Fiona MacPhail (2000).

⁴⁶ For further information, see the report entitled “Employment Insurance Reform and New Entrants/Re-Entrants to the Labour Market”, HRSDC (2002, 2005).

receipt between NEREs and non-NEREs for the 2004 taxation year.⁴⁷ Results indicated that the percentage of NEREs who received Employment Insurance benefits in 2004 was substantially lower than that of non-NEREs (5.1 percent versus 18.6 percent).

To consider a longer time period, additional analysis using COEP survey data for those with an employment separation between 1995 and 2003 was completed.⁴⁸ As expected, the results indicated that youth NEREs and non-youth NEREs are roughly 12 percent less likely to collect benefits than all non-NEREs.⁴⁹

Q-12: To what extent are some types of NEREs less likely to be eligible for Unemployment Insurance or Employment Insurance benefits than other types of NEREs?

As shown in Exhibit 2.2 and in the findings for Question 4, although the different groups that comprise NEREs differ significantly in their labour market patterns and stage of life, they are all treated the same under the NERE rules. However, their eligibility for Employment Insurance benefits and subsequent benefit receipt rates differ greatly.

The Longitudinal Administrative Database analysis showed that youth had the lowest incidence of Employment Insurance receipt among NEREs in 2004 (2.1 percent). A likely explanation is that many youth are full-time students and, typically, not eligible for Employment Insurance benefits. Another plausible explanation is that youth have a weaker attachment to the labour force. Among NERE recent mothers, the Employment Insurance receipt rate is far higher (19.9 percent), likely because of the presence of maternity benefits. Finally, the incidence of Employment Insurance is roughly the same for recent immigrants (5.5 percent) as it is for all NEREs (5.1 percent).

Additional data analysis for immigrants based on Census data for 1981, 1986, 1991, 1996 and 2001 indicated that very recent immigrants to Canada (i.e. those who immigrated within the previous 2 years and most likely to be NEREs) tend to have lower Employment Insurance receipt rates.⁵⁰ However, immigrants who have been living in Canada between 2-5 years tend to have higher Employment Insurance receipt rates than other immigrants. After that, the longer that an immigrant lives in Canada, the more likely it is that their labour force performance and earnings improve, thus reducing their utilization of the Employment Insurance program.

Finally, the literature review cited a study (Phipps and MacPhail (2000)) that attempted to uncover some differential outcomes according to whether one is a new entrant or a re-entrant. The overall effect of new entrant status (independent of Bill C-12) is estimated to be negative, implying that

⁴⁷ Ideally, the analysis should be limited to the unemployed or individuals with an employment separation. However, the LAD does not permit this. Thus, the focus is on whether NEREs in general are more likely to receive Employment Insurance benefits than non-NEREs and the degree to which this occurs.

⁴⁸ For further information, see the report entitled “Younger Workers and New Entrants/Re-Entrants”, HRSDC (2006b).

⁴⁹ The results are based on a probit regression which has a dependent variable that equals one if a person succeeded in collecting Employment Insurance benefits and zero otherwise.

⁵⁰ For further information, see the report entitled “New Entrants/Re-Entrants and Immigrants”, HRSDC (2006a).

re-entrants are more likely to qualify for benefits. As far as the impact of Bill C-12 is concerned, however, access to benefits among re-entrant mothers decreased with the change in the threshold from 20 to 26 weeks; this effect was not observed for the change to the hours-based system.

Q-13: To what extent are NEREs with an insufficient number of insurable hours of employment collecting Unemployment Insurance or Employment Insurance benefits?

Administrative data analysis indicates that 6.0 percent of all NEREs who received Employment Insurance had an insufficient number of insurable hours of employment in their qualifying period. By comparison, 1.4 percent of all non-NEREs who received Employment Insurance had an insufficient number of insurable hours.⁵¹ As outlined in Section 2.3, this occurs because some NEREs have prescribed hours related to employment in the labour force that must be taken into account.

The expert interviews with HRSDC administrative officials revealed a variety of different answers pertaining to the extent to which NEREs with an insufficient number of insurable hours of employment collect Employment Insurance benefits. On average, approximately one to ten percent of all NEREs who collect Employment Insurance benefits do not have enough hours of insurable employment.

When HRSDC administrative officials were queried about why NEREs with an insufficient number of insurable hours could qualify for Employment Insurance benefits, four main reasons were cited, all of which fall under the category of prescribed hours: the respondent attended a Ministry-approved training course; experienced a long illness; was away from the workforce due to Workmen's Compensation benefits; or was incarcerated.⁵²

Q-14: What are the impacts and effects of the pilot project?

The NERE pilot project tested whether giving individuals who are new to the labour market, or who are returning after an extended absence, access to Employment Insurance benefits after 840 hours of work rather than 910 hours, and informing them of Employment Insurance employment programs, would improve their employability and help reduce their future reliance on Employment Insurance benefits.

This pilot project began December 11, 2005 and was extended until December 4, 2010. It tested the labour market impacts by inviting individuals who meet the conditions to contact either an employment assistance services provider or a provincial or territorial local employment center for assistance in developing a plan to address their employment needs and help them in returning to work. This help could include information about the labour market and services such as counselling, career decision making and possible referral to an employment benefit such as training.

⁵¹ These results are specific to a sample of individuals with an employment separation between January 1991 and December 2005. For further information, see HRSDC (2009).

⁵² For further information, see Section 2.3 and Question 20.

Findings suggest that the NERE pilot project led to a five-percent increase in the probability that a NERE residing in one of the pilot regions qualifies for EI.⁵³ As well, there appears to be evidence of a behavioural change in labour market behaviour by NEREs (or their employers) in response to the pilot project, specifically an increase in the probability that a NERE in the pilot regions has between 840-909 insurable hours in the qualifying period, and a decrease in the probability that a NERE in the pilot regions has between 910-949 insurable hours.

The introduction of the NERE pilot appears to have had no clear significant effect on other dimensions of a NERE's labour market outcomes, including the duration of receipt of Employment Insurance benefits, the number of hours worked in the pre-qualifying period, the duration of unemployment following job loss, the take-up of training, or the decision to move.

Q-15: What is the impact of the Bill C-2 reform of 2001?

As a result of Bill C-2 in 2001, re-entrants who have received one full week or more of maternity or parental benefits in the 208 weeks preceding the pre-qualifying period are not considered to be re-entrants and, as a result, can qualify for benefits as regular qualifiers for benefit periods established on or after October 1, 2001.

Prior to Bill C-2, re-entrants who had significant previous work experience but who had been out of the workforce for a year or more to raise a family were treated as if they had no labour force attachment. The legislative amendment in Bill C-2 for re-entrants made it easier for parents to qualify for regular benefits after returning to the labour force following an extended absence to raise children. The change targeted parents who received one or more weeks of maternity or parental benefits at any time in the four years prior to the claimant's qualifying period. Re-entrant parents who meet the regular entrance requirements applicable in the area in which they reside benefit from the new rules. This applies to both fishing and non-fishing claimants.

A recent internal report based on the COEP survey database suggests that the new definition of NEREs outlined in Bill C-2 does not significantly change the percentage of individuals who are NEREs.⁵⁴ According to the findings, 26.8 percent of all survey respondents were NEREs prior to Bill C-2, while 26.5 percent were NEREs after Bill C-2. When the analysis is restricted to women only, the same result is true – 30.8 percent were NEREs prior to Bill C-2 and 30.3 percent were NEREs after Bill C-2.

In terms of Employment Insurance benefit receipt, as expected there doesn't appear to be any significant change brought about by the Bill C-2 reform. Prior to Bill C-2, 13.1 percent of all NEREs and 12.5 percent of female NEREs received Employment Insurance benefits. After Bill C-2, the corresponding figures were 13.0 percent and 12.4 percent.

⁵³ For further information, see the report entitled "Evaluation Report on the Impacts of the Employment Insurance Pilot Project on Increased Access to Benefits by New Entrants and Re-Entrants", David M. Gray and J. Ted McDonald (2009).

⁵⁴ For further information, see the report entitled "Employment Insurance Reform and New Entrants/Re-Entrants to the Labour Market", HRDC (2003).

Administrative data analysis using the Record of Employment and Status Vector files confirms that Bill C-2 did not have an impact on the Employment Insurance eligibility of NEREs in general, but only on a specific group of individuals who had received maternity, parental or adoption benefits in the previous five years.

3.4 Cost-Effectiveness and Program Alternatives

Q-16: What are the annual cost savings to the Unemployment Insurance or Employment Insurance system from the existence of the NERE rules?

On August 29, 1978, Cabinet agreed that six amendments to the *Unemployment Insurance Act*, designed to secure reductions in cash requirements on the order of \$530-\$630 million in fiscal 1979-1980 and maturing to \$750-\$900 million in fiscal 1980-1981 be introduced into Parliament as soon as possible to take effect on January 1, 1979 or as soon thereafter as possible.

The six amendments included a provision for new entrants (re-entrants were not mentioned at this time). It was recommended that new entrants to the labour market face a higher initial entry requirement. The annual savings was estimated to be \$300 million, although this is difficult to measure accurately due to changes in the size of the program and behavioural impacts.

The literature review cited one study (Kapsalis (2000)) that attempted to measure the impact of the NERE rules (specifically, the impact of the 1996 Employment Insurance reform) on benefit payments. The study examined the maximum savings to the Employment Insurance system from the higher entrance requirement for NEREs, while keeping in mind that some of the savings may simply be a deferral of benefits.

Based on 1995 data, the higher entrance requirement for NEREs under Bill C-12 could have reduced the average monthly number of regular beneficiaries in 1997 by about 36,500, and the total payments for regular benefits by about \$520 million. These figures take into account the impact of behavioural effects, although the case may understate the actual behavioural response if NEREs are less successful in adjusting their insured hours, implying that the actual savings would be more than \$520 million. However, with the continued ageing of the population, specifically the large cohort of 'baby boomers'⁵⁵, there are likely fewer NEREs now than there were in 1995, implying that the actual savings due to the NERE rules is now lower than \$520 million.

These savings to the Employment Insurance Account are significantly higher than those achieved by the Intensity Rule, another element of the 1996 Employment Insurance reforms and an alternative to the NERE rules for reducing the future frequent use of Employment Insurance benefits. The Intensity Rule reduced the Employment Insurance benefit rate by one percentage point for every 20 weeks of regular or fishing benefits collected in

⁵⁵ A baby boomer is a person who was born during the demographic Post-World War II baby boom and who grew up during the 1960s and 1970s.

the previous five years, to a maximum reduction of five percentage points. Repealed in 2001, analysis indicated that the Intensity Rule led to almost \$400 million in Employment Insurance savings during the four-year time period in which it was in effect.⁵⁶

Q-17: What are the annual cost savings to the Unemployment Insurance or Employment Insurance system from discouraging some individuals from becoming future frequent users of the Unemployment Insurance or Employment Insurance system?

In order to calculate the annual cost savings to the Employment Insurance system from discouraging some individuals from becoming future frequent users, it would be necessary to do a pre- and post-comparison of the period in which the NERE rules were introduced (i.e. 1978). However, since data is not available that far back, instead the focus is on the impact of the 1996 Employment Insurance reform, which increased the entry requirement for NEREs from 700 hours to 910 hours.

The data analysis calculated the impact on the annual Employment Insurance costs of a repeal of the 1996 Employment Insurance reform (i.e. a reduction in the entrance requirement for NEREs from 910 hours to 700 hours).⁵⁷ Findings showed that the additional cost to the Employment Insurance system of reducing the entrance requirement from 910 hours to 700 hours would be 0.4 percent. Given that the annual dollar value of Employment Insurance regular benefits paid out over the last few years has been roughly \$8 billion, this implies that the 1996 Employment Insurance reform has saved the Employment Insurance system about \$32 million per year over the last few years due to discouraging some individuals from becoming future frequent users.

Q-18: What are the administrative costs of having to determine NERE status?

Evidence gathered from the expert interviews suggests that the additional administrative costs of having to determine NERE status are minimal. The reason for this is that NERE claims comprise less than one-quarter of all Employment Insurance claims, with most NERE claims clearly indicating that an individual is far below the NERE threshold of 490 insured hours of employment during the pre-qualifying period. Thus, an insurance officer rarely needs to do background fact checks (e.g. review an applicant's Employment Insurance claim history and any gaps in employment throughout the qualifying period) or make phone calls to applicants, former employers or government departments. In addition, the Support System for Agents (a computer application used by insurance officers to assess Employment Insurance applications) automatically assesses NERE situations, after the gaps in employment have been verified by the insurance officer, thereby minimizing the requirement for insurance officers to manually assess such situations.

⁵⁶ For further information, see the report entitled "Employment Insurance Use and the Intensity Rule", Gray et al (2005).

⁵⁷ For further information, see the report entitled "Evaluation of New Entrants and Re-Entrants", Costa Kapsalis (2009).

3.5 Program Delivery

Q-19: How is NERE status determined by Service Canada Centre insurance officers?

In the limited cases where an Service Canada Centre insurance officer must manually determine NERE status, the insurance officer must determine if an applicant had the required number of hours during the pre-qualifying period (i.e. the 52-week period immediately prior to the 52-week qualifying period). Often, an applicant will have 910 or more hours of insurable employment during the qualifying period. In cases such as these, it is unnecessary for the insurance officer to determine the degree of labour force attachment during the pre-qualifying period, as the applicant will qualify for Employment Insurance benefits whether they are a NERE or not. Similarly, an insurance officer need not determine NERE status for an applicant with fewer than 420 hours of insurable employment in the qualifying period, as the applicant will not qualify for benefits even as a non-NERE, regardless of which economic region they reside in.

However, in cases where an applicant has fewer than 910 hours of insurable employment during the qualifying period but more than 420, an insurance officer must determine the degree of labour force attachment during the pre-qualifying period. This is often not clear, because a Record of Employment records only the number of hours worked for the 52-week qualifying period. Often, an applicant may have to provide proof of labour force attachment in terms of their ‘prescribed hours’, as outlined in Section 2.3.

Sometimes it is clear that an individual had a sufficient number of hours worked during the pre-qualifying period. If, for example, a Record of Employment indicated that an individual was employed for 3 years by an employer, but had only 800 hours of employment during the 52-week qualifying period, then the number of weeks worked during the qualifying period becomes critical for determining the number of hours worked during the pre-qualifying period. An insurance officer would have to assume that an individual who worked 52 weeks and had 800 hours of employment during the qualifying period also worked for 800 hours during the pre-qualifying period. This assumption must be made even if the applicant actually worked 500 or 1,800 hours during the pre-qualifying period because the applicant will have worked for the same duration (52 weeks) during the pre-qualifying period. With no other information available, an insurance officer must estimate the number of hours worked, which may not always be accurate.

Furthermore, the opposite of the above also holds true. If the same applicant had worked for only one-and-a-half years on the job, then it would be assumed that the applicant worked for only 400 hours during the pre-qualifying period. This is the case because there will only have been a 26-week period of employment during the pre-qualifying period. Hence, it is possible that an applicant will be erroneously classified as a NERE and refused Employment Insurance benefits when, in fact, they had more than 490 hours of employment during the pre-qualifying period. In cases such as these, the insurance officer must also take into account:

- Any hours for which benefits have been paid or payable, calculated on the basis of 35 hours per week for each week of benefits paid.
- Any hours that relate to a situation arising out of insurable employment or a situation which prevents the payment of benefits. Insurance officers must manually calculate, for each of the following weeks, 35 hours per week for any week for which applicants received or will receive:
 - Worker’s Compensation benefits, other than a lump sum or permanent settlement;
 - Wage-loss insurance earnings;
 - Indemnity payments due to preventative withdrawal of work; and
 - Monies preventing payment of Employment Insurance benefits due to allocation of earnings during the two-week waiting period.
- An insurance officer also must take into account any week for which an applicant:
 - Was attending a course of instruction to which he or she was referred to by an HRSDC designated authority;
 - Was employed under an approved self-employment or job creation program;
 - Did not work but had earnings that prevented an interruption of earnings;
 - Was serving part of the waiting period;
 - Was unemployed during a stoppage of work due to labour disputes (e.g. strike or lockout); and
 - Was serving a disqualification.

Thus, although an applicant may be classified as a NERE when only taking into account insurable hours of employment, they may exceed 490 hours when factoring in other situations which are deemed to represent attachment to the labour force such as Worker’s Compensation benefits and wage-loss insurance earnings.

In general, an applicant does not need to substantiate information already in the hands of the Employment Insurance Commission, such as weeks for which Employment Insurance benefits have been paid or employment earnings they have reported on a previous claim. However, all other information must be presented to the insurance officer in charge of the application.⁵⁸

⁵⁸ If an applicant does not agree with a decision made by HRSDC in relation to a claim for Employment Insurance benefits, an appeal can be filed with the Employment Insurance Commission.

4. *Conclusions*

On September 1, 1978, eight amendments to the *Unemployment Insurance Act* were implemented. One of the eight amendments was aimed at workers who were entering or re-entering the labour market, also commonly referred to as new entrants and re-entrants (NEREs). For these workers, the entrance requirements were tightened. Although the specific goal of this amendment was not explicitly stated, the general intention of the eight amendments was to reduce any adverse labour market attachment effects caused by the 1971 expansion of the Unemployment Insurance system. Although several evaluations of the impact of incremental changes have been undertaken, this evaluation constitutes the first evaluative work on this program feature as a whole.

Based on quotes from the Minister of the day and other Department documents, it is generally understood that the NERE provision was introduced for two reasons: (i) early use of Employment Insurance may induce an individual to become a frequent user and, (ii) the provision can induce greater levels of work effort before claiming Employment Insurance.

Findings indicate that there is no one distinct type of NEREs although close to half of all NEREs are made up of individuals under the age of 25 (recent immigrants comprise about five percent of all NEREs and recent mothers make up two percent). Thus, roughly half of all NEREs do not fall into any of these three groups.

There is general agreement among the labour market experts interviewed that the level of frequent Employment Insurance use in Canada is high enough to warrant provisions designed to strengthen the relationship between work effort and entitlement to Employment Insurance benefits (as the NERE rules are intended to do). However, various lines of evidence for this evaluation suggest that the process of becoming a frequent user of Employment Insurance benefits has little to do with whether or not a claimant is a NERE and has more to do with the industry of employment, the seasonality of the occupation and the regional unemployment rate. The consensus belief among labour market experts interviewed is that frequent use is not linked to receiving or being denied benefits early on in an individual's working career.

Detailed statistical analysis indicated that future frequent use of Employment Insurance benefits is higher for *all* new entrants compared to non-new entrants, irrespective of the number of hours worked or if Employment Insurance benefits were collected following the first-ever Record of Employment. Future frequent use tends to be higher among younger new entrants, those in certain industries and those in high unemployment rate regions. Thus, given that it is more difficult for new entrants to qualify for Employment Insurance benefits and that their future frequent Employment Insurance use rates are still significantly higher, it appears that simply making it more difficult for new entrants to qualify for Employment Insurance the first time may not be discouraging the future frequent use of the Employment Insurance system.

Further analysis showed that those who work in either the fishing, forestry or construction industry have higher future frequent use rates than those who work in any other industry. And those who do not make a claim for Employment Insurance benefits within 5 weeks of

their first-ever Record of Employment have higher future frequent use rates than those who do make a claim within 5 weeks of their first-ever Record of Employment. This provides further evidence that simply making it more difficult for new entrants to collect Employment Insurance benefits for the first time is not the main driver of future frequent Employment Insurance benefit use. These findings must, however, be interpreted with caution, as only new entrants were considered in the analyses.

Bill C-2, which took previous weeks of maternity or parental benefits into consideration and made it easier for re-entrants to qualify for Employment Insurance benefits, had little impact on Employment Insurance eligibility for NEREs. This is largely because re-entrant females comprise a small share (about 2 percent) of all NEREs.

The annual cost savings to the Employment Insurance system from the existence of the NERE rules is estimated to be around \$500 million, with the cost savings from discouraging some individuals from becoming future frequent users estimated to be \$32 million per year. Administratively, there is little additional cost to the system from having to determine an individual's NERE status when processing a claim for Employment Insurance benefits.

Given the significant length of time since the NERE provision was originally introduced and the changes that have occurred in regards to the nature of the Canadian labour market since that time, it is recommended that the policy objectives and rationale of this provision be reviewed to validate that it remains a relevant feature of the Employment Insurance system. In undertaking this analysis, it is recommended that the impacts on various sub-populations be considered – new entrants versus re-entrants, youth, immigrants and those not falling into any of these categories.

Appendix I – Technical Reports

Documents Prepared for the Summative Evaluation of New Entrants and Re-Entrants

Fleishman-Hillard (2007), “Expert Interviews for the Evaluation of the New Entrant and Re-Entrant Rules”, HRSDC.

Gray, D. and T. McDonald (2007), “Literature Review of the Employment Insurance New Entrant and Re-Entrant Provision”, Working Paper, HRSDC.

HRSDC (2009), “Impacts and Effects of the New Entrant and Re-Entrant Rules”.

HRSDC (2006a), “New Entrants and Re-Entrants and Immigrants”.

HRSDC (2006b), “Younger Workers and New Entrants and Re-Entrants”.

HRSDC (2006c), “The Repeat Use of Employment Insurance Benefits by Youth”.

Kapsalis, C. (2009), “Evaluation of New Entrants: Impact of the NERE Rules on the Future Frequent Use of Employment Insurance Benefits”, HRSDC.

Kapsalis, C. (2007), “Unlinked LAD Data Analysis for the Evaluation of New Entrants and Re-Entrants”, HRSDC.

Roy, A. (2007), “File Review for the Evaluation of New Entrants and Re-Entrants”, HRSDC.

Thinklounge Market Research (2007), “Focus Groups for the Formative Evaluation of New Entrants and Re-Entrants”, HRSDC.

Appendix II – Evaluation Questions

Exhibit A-II Evaluation Matrix						
Topic	Question	File Review	Literature Review	LAD Analysis	Focus Groups	Expert Interviews
Program Rationale	Q1: Is the degree of frequent use of Unemployment Insurance or Employment Insurance benefits high enough to warrant special provisions such as the NERE rules?	√	√			√
	Q2: Does the process of becoming a frequent user start while a claimant is a NERE?		√	√	√	√
	Q3: Are the features of the NERE rules relevant to the reduction of the frequent use of Unemployment Insurance or Employment Insurance benefits?					√
	Q4: Is the objective of strengthening the relationship between work effort and entitlement to benefits relevant for both new entrants and re-entrants?	√	√	√	√	√
	Q5: Should the NERE rules vary by economic region in a manner similar to that for regular claimants?					√
	Q6: Do other countries have NERE or similar provisions and what are the features?		√			
Achievement of Program Objectives	Q7: Are the NERE rules discouraging the future frequent use of the Unemployment Insurance or Employment Insurance system?		√			√
	Q8: What are the characteristics of those individuals who are discouraged from becoming future frequent users of the Unemployment Insurance or Employment Insurance system due to the existence of the NERE rules?					√
	Q9: Do the NERE rules strengthen the relationship between work effort and entitlement to benefits?		√		√	√
Impacts and Effects of the Program	Q10: Are the NERE rules leading to workers establishing more stable work patterns and developing longer attachments to the active labour force?					√
	Q11: To what extent are NEREs less likely to be eligible for Unemployment Insurance or Employment Insurance benefits than non-NEREs?		√	√		√
	Q12: To what extent are some types of NEREs less likely to be eligible for Unemployment Insurance or Employment Insurance benefits than other types of NEREs?		√	√		√
	Q13: To what extent are NEREs with an insufficient number of insurable hours of employment collecting Unemployment Insurance or Employment Insurance benefits?					√
	Q14: What are the impacts and effects of the pilot project?	√				
	Q15: What is the impact of the Bill C-2 reform of 2001?	√	√		√	√
Cost Effectiveness and Program Alternatives	Q16: What are the annual cost savings to the Unemployment Insurance or Employment Insurance system from the existence of the NERE rules?	√	√			√
	Q17: What are the annual cost savings to the Unemployment Insurance or Employment Insurance system from discouraging some individuals from becoming future frequent users of the Unemployment Insurance or Employment Insurance system?					√
	Q18: What are the administrative costs of having to determine NERE status?	√				√
Program Delivery	Q19: How is NERE status determined by Service Canada Centre insurance officers?	√			√	√
Notes: 1. Q15 is addressed using evidence from the Pilot Project evaluation.						

Appendix III

Employment Insurance Legislation

Prior to 1979, New Entrants and Re-Entrants (NEREs) had no special provisions and qualified for Employment Insurance under the same rules as other claimants. Since Bill C-14, a few bills have been passed (listed below in chronological order) that have had an impact on the entrance requirement for NEREs. And, in 2005, a three-year pilot project for NEREs was introduced.

Amendments to the *Unemployment Insurance Act* (Bill C-14)

The higher eligibility threshold for NEREs was first introduced on August 29, 1978, when Cabinet announced six amendments (Bill C-14) to the *Unemployment Insurance Act*, one of which was the establishment of a higher entrance requirement for NEREs, which became effective on July 1, 1979.

The objective of the higher entrance requirement was to reduce the employment disincentive effects of the Unemployment Insurance program and to encourage workers to establish more stable work patterns and develop longer attachments to the active labour force, thereby reducing the dependency on UI.

Under Bill C-14, a NERE was classified as an individual with fewer than 14 weeks of labour force attachment in the 52-week period immediately preceding their qualifying period. A NERE required 20 weeks of insurable employment to be eligible for Unemployment Insurance benefits.

Implementation of the Bill C-17

Although Bill C-17 did not change the entrance requirement for NEREs, it did change the entrance requirement for non-NEREs. It is possible that this change may have had an indirect impact on NEREs. Before the introduction of Bill C-17 (which was implemented in two steps – in April 1994 and July 1994), a claimant needed at least 10 weeks of work in the previous 52 weeks to receive any Unemployment Insurance benefits, and the maximum number of benefit weeks for which one could qualify was 50. Bill C-17 increased the minimum number of work weeks required to qualify for Unemployment Insurance from 10 to 12 weeks. It also substantially reduced the Unemployment Insurance entitlements of most workers with less than a full year of work in the previous year, regardless of the local unemployment rate or the region. It should be noted that the replacement rate was reduced from 57 percent to 55 percent (Bill-113 had already reduced the replacement rate from 60 percent to 57 percent).

The *Employment Insurance Act* (Bill C-12)

The *Employment Insurance Act* replaced the *Unemployment Insurance Act* on July 1, 1996. One important change introduced by Bill C-12 was the increase in the entrance requirement for NEREs from 20 insurable weeks to 26 insurable weeks effective June 30, 1996. On January 5, 1997, the 26 weeks were converted to 910 hours (26 weeks x 35 hours). The higher entrance requirements for NEREs supported a key policy objective of ensuring that individuals entering or re-entering the workforce demonstrated a significant workforce attachment before gaining access to regular Employment Insurance benefits.

Amendments to the *Employment Insurance Act* (Bill C-2)

Prior to Bill C-2 (May 2001), re-entrants who had significant previous work experience, but who had been out of the workforce for a year or more to raise a family, were treated as if they had no labour force attachment. The legislative amendment in Bill C-2 for re-entrants made it easier for parents to qualify for regular benefits after returning to the labour force following an extended absence to raise children. If an individual has been paid one or more weeks of maternity or parental benefits in the 208 weeks (four years) preceding the period of 52 weeks before their qualifying period for a claim, that individual is not considered a NERE and is therefore not subject to the NERE entrance requirement. This applies to both fishing and non-fishing claimants.

NERE Pilot Project

On December 11, 2005, a three-year pilot project affecting new claims in high unemployment (eight percent or more) regions came into force. The purpose of the pilot project was to test the impacts of lowering the entrance requirements that NEREs to the labour market face. Requirements to qualify for Employment Insurance benefits changed from 910 hours to 840 hours. Since the qualifying conditions for fishing benefits are based on earnings rather than hours of employment, and given that the vast majority of fishers already meet the NERE threshold and have access to employment programming, fishers were not included in this pilot project. The analysis of the impact of the NERE Pilot Project is the subject of another paper.

