

## Options: Employment Flexibility

### Introduction

The future will place increasing demands on Canadian workers to adapt to a changing environment. The resulting pressures will make it important that work arrangements become more flexible. Public policies and institutional practices will have to be modified because of the increasing participation of women in the labour force, the effects of declining birth rates, the rising number of single-parent and multiple-earner families, and the aging of the population. Unemployment Insurance must also be adapted to meet new needs arising from these trends.

Consideration of ways to increase the flexibility of the labour market leads to the following questions:

- How are work arrangements changing?
- Are increased job sharing and part-time work simply responses to the recession or are they here to stay?
- Will more work sharing take place to avoid mass layoffs?
- What effect will changing retirement and pension policies have on participation in the labour force?
- What are the implications of these changes for Unemployment Insurance?

The focus of this chapter is on the manner of structuring work that enables individuals to exercise greater choice and allows the labour market itself to adapt more readily to change. The need to adapt to change is emphasized throughout this report. Technological developments, evolving trade arrangements and deregulation make this need critical. Each of these developments will involve major changes in industries such as transportation and communications; and the workers in these industries, as well as those employed in declining industries, occupations or regions, will need to adapt. The Macdonald Royal Commission and other reviews have raised the possibility that the existing Unemployment Insurance system may actually retard adaptability. Regionally extended benefits, for example, may encourage workers to stay in areas where they have little chance of finding a job. Employers may use the system to subsidize temporary layoffs, knowing that the combination of Unemployment Insurance benefits and a pool of available labour will work to their advantage.

It has been pointed out that the number of workers who remain unemployed for more than six months has increased substantially since 1980. Only those who remember the Great Depression have known long-term unemployment on the scale that is now being experienced. It is essential, therefore, that more be done to meet the need of these workers to adjust.

"We recommend that part-time work, job sharing, flexible hours, and all types of changes to working hours be encouraged in order to offer to the active population a whole range of options adapted to modern challenges and to the new responsibilities (men finally responsible for children by choice or by necessity, women working outside the home), but providing benefits." (Réseau d'action et d'information pour les femmes, written brief)

"I think the stress in the future will be on contract work and short-term jobs, not because workers want it but because that is the way it is going. We will have a higher number of people who are looking for work at any given time. Not only because of technological change and not only because of dips in the business cycle, but because people are going to be engaged for shorter periods of time. That means that UI has to develop its facilities for connecting people with work." (Women for Economic Survival, Victoria hearings)

"In terms of mobility, I am personally very sensitive to that. I don't think one can impose a move to Alberta or Toronto on people in Cape Breton. I think it is the responsibility of government or the system to provide interesting enough proposals to entice people to make that decision. But I don't think one could cut off from benefits a guy 50 or 55 years old that will find very little opportunity to get another job, to move away from the area where his kids are living and maybe older people of his family and his milieu are living." (United Steelworkers of America, Ottawa hearings)

"There are whole communities in which labour demand is stationary or declining, while in other areas demand is rising rapidly. Thus reabsorption of the unemployed requires that large numbers of people move from the first kind of area to the second. There are cases in which movement could be accelerated and made less painful by a cash grant or loan." (Sarnia and District Labour Council, written brief)

"Newfoundlanders seek work intensively. They are significantly more mobile than their Ontario counterparts." (Pat Kerans, written brief)

"The government could and should provide some better coordination than they have in the past with regard to getting the worker from the depressed area to the area where the work is available." (International Brotherhood of Electrical Workers, Local 254, Calgary hearings)

Long-term unemployment has a compounding effect: the longer a person is unemployed, the more difficult it becomes for him or her to find a job. The cause of long-term unemployment is generally structural – reflecting a permanent change in the labour market. For the individual, it may mean a need to retrain or relocate. Individuals who suffer long spells of unemployment are a minority of the unemployed, but they are in need of special help.

Job displacement, however, is not always a misfortune. Some workers are able to take advantage of the situation by finding a better job, undertaking training, starting a business or changing careers. The challenge for policy makers is to introduce incentives that will help, rather than impede, the process of adjustment in the labour market. These incentives should serve to minimize the cost of lost output due to idle manpower.

The objectives of adjustment-oriented options are:

- to smooth and encourage the transition from employment in declining sectors to employment in expanding sectors;
- to reduce the personal and social costs of job displacement; and
- to provide more choice for individuals in making decisions about their role in the labour force.

A labour adjustment program must deal with the employment problems of the following kinds of individuals: workers with a substantial attachment to a given firm; workers in rural or less developed areas of the country; workers with inadequate education or out-of-date skills; workers in declining occupations; and older workers.

The Labour Adjustment Benefits program and the new Program for Older Workers' Adjustment, which was announced by the federal government in 1986, are intended to resolve some of the difficulties encountered by older workers. The proposed Cumulative Employment Account outlined in Chapter 7 is supplementary to such initiatives. It would enable workers to accumulate eligibility for additional benefits to help in specific adjustment situations.

### **Mobility Assistance**

Labour displacement in declining industries and in depressed regions often involves large numbers of people. It is sometimes in everyone's long-term interest that jobs, plants or workers be relocated, no matter how painful the adjustment may be in the short term for those involved. The distressing effects of the relocation should be mitigated as much as possible.

Provisions for mobility assistance are currently included in a number of government programs: the Canada Mobility Program, Industrial Adjustment Service, the Modified Industry and Labour Adjustment Program, and the labour adjustment measures of the Canadian Industrial Renewal Program. The Canada Mobility Program facilitates the movement of individual workers who are unemployed, underemployed, or about to become unemployed. The program encourages workers to seek employment in the nearest area where suitable work is available and provides relocation assistance when suitable employment has been

---

obtained. It also provides temporary travel assistance to accept employment that will last between six weeks and nine months (including seasonal agricultural employment), travel assistance to obtain employment services not available locally, and "day haul" (daily transportation) assistance for agricultural workers travelling to the work site. Estimated funding of the program for 1986/87 totals \$10.3 million.<sup>1</sup> Nearly 60 percent of the total funding is for relocation expenses.

The three other programs contain mobility assistance provisions designed, with a considerable amount of overlap, to aid adjustment on either an industry or community basis. The stated objective of the Industrial Adjustment Service is to encourage employees and workers to reduce current and anticipated problems arising from a reduction of the work force *within an establishment*; the Modified Industry and Labour Adjustment Program focusses on *community* dislocation; and the Canadian Industrial Renewal Program is directed at the textile, clothing, footwear and tanning *industries*. The overlap among the various programs (the labour adjustment portions of the latter two programs are both delivered by personnel of the Industrial Adjustment Service) led the Nielsen Task Force to recommend consolidation of these services into a single program.<sup>2</sup> This Commission of Inquiry concurs with that recommendation.

"The application of shorter qualification periods and longer benefit entitlement periods in high unemployment areas made it relatively more attractive for workers to remain in their regions and occupations, thus discouraging labour adjustments through migration, retraining and more forceful job searches." (Surrey Regional Chamber of Commerce, Vancouver hearings)

---

## Recommendation

### 18.1 All federal labour market programs that provide mobility assistance should be consolidated.

---

Mobility, however, is not a panacea for solving labour market problems. In an economy increasingly characterized by structural unemployment, a key policy element must be the degree of flexibility in labour adjustment. Current programs are limited in coverage and are based on community/industry characteristics. Political influence is often perceived to be a factor in apportioning labour adjustment assistance. The practice of combining industrial development and labour adjustment initiatives should not continue because mobility assistance should be based as much on the needs of the worker as on the needs of the industry. The consolidated mobility program would be improved if it had fewer criteria that limit eligibility and if it provided assistance to those who relocate to undertake training. Current mobility programs reimburse expenses and are not programs of income support. A Cumulative Employment Account, recommended in Chapter 7, would assist long-term workers who need income support while taking measures to adjust to changes in the labour market.

"We do not accept the Macdonald Commission's assertion that Unemployment Insurance has contributed significantly to unemployment in this country by discouraging Canadians from accepting jobs or from moving to areas of the country where jobs are more plentiful." (Government of Manitoba, Department of Employment Services and Economic Security, Winnipeg hearings)

---

## Recommendation

### 18.2 In the new consolidated mobility assistance program:

- the industry and community basis for determining eligibility should be eliminated; and
  - in addition to those currently eligible, assistance should be provided to workers who relocate for training purposes.
-

"There is a pool of workers in this country who would voluntarily select the option of working part time, if conditions and benefits in all respects were equal to those of full-time workers. In particular, this is true of some employees in high-unemployment areas, or where there is limited availability of adequate child-care facilities, or for those pre-retirees who may gradually want to ease their way out of the job market." (Economists, Sociologists and Statisticians Association, written brief)

### Flexibility in Work Arrangements<sup>3</sup>

The future role of Unemployment Insurance must be seen within the context of a human resource development strategy. Unemployment Insurance is an earnings replacement program which is based on social insurance principles and provides protection against both loss of jobs and interruptions of earnings. It should, however, be adapted to encourage flexibility in the labour market. This flexibility means that other patterns of working are possible in addition to the conventional pattern of one person, one job, 9 to 5, five days a week, 52 weeks a year except for vacation. It could include work sharing, working after age 65, working part time, retiring before age 65, working less than 40 hours a week, working less than five days a week, and other arrangements. When the Unemployment Insurance program was implemented, most of these alternatives were neither of concern nor of interest to many Canadians.

Social values dramatically influence the perception of the world of work. During recent decades, important changes have occurred in the relative importance of work compared with leisure and family-centred

#### The 21 Work Alternatives

##### Group 1: Job-Related Work Alternatives

**Job enrichment** : A broad label for many alternatives that increase variety in individual jobs, expand the range of tasks undertaken, and extend responsibility for decisions.

**Work-at-home arrangements** : Formal agreement for people to do some of their work at home on a regular basis. (Not simply a temporary accommodation due to illness, pregnancy, etc.)

**Cross-training** : Provision for training people in skills beyond those they need in their job. The purpose of such training is to improve individual flexibility and capacity to contribute in other areas.

**"Permanent" part-time jobs** : Formal arrangements for people working less than full time to obtain the benefits of full-time employment.

**Job sharing** : Two or more people sharing a single job normally held by one.

**Transition arrangements at retirement** : Mechanisms for shifting people's roles on or near retirement so they can continue to make a contribution but gain more flexibility (i.e., part-time work).

**Formal job rotation** : System to assure breadth of knowledge and flexibility

by routinely moving people through a sequence of jobs and tasks.

##### Group 2: Quality-of-Working-Life Alternatives

**Gain-sharing systems** : Any mechanism that distributes some portion of the profit from improved performance to people who contributed: i.e., "Scanlon Plan," "Improshare."

**Flex time or flexible schedules** : Systems giving employees some control over the starting and ending times of their jobs.

**Compressed work week** : Four-day, 40-hour work week or similar program.

**Quality circles or problem-solving teams** : Groups of employees with responsibility for solving problems or addressing specific issues in their work unit.

**Joint labour-management committees** : Groups involving representatives from both management and union ranks, designed to discuss workplace issues not covered by collective bargaining agreements.

**Work councils or communications councils** : Councils representing all levels and functions of the organization that serve as forums for communication or for discussion of issues related to the unit as a whole.

**Formal training in participative management or employee involvement** : Training programs designed specifically to provide knowledge and skills to reduce reliance on hierarchical authority.

**Pay-for-capability/skills system** : Compensation system that tracks and pays people for breadth and range of skills, whether used in their current jobs or not.

##### Group 3: Alternative Organizational Structures

**Project team/project-based organization** : Large-scale flexible systems for organizing people around specific tasks and projects. People are loosely attached to functional or permanent units; primary responsibility is held by project management.

**Matrix or multiple reporting structures** : Formal systems in which people are simultaneously responsible to two or more separate areas of the organization, reporting, for example, to a functional (sales, manufacturing) manager and also to a product or market manager.

##### Group 4: Employee Participation and Control

**Semi-autonomous or self-managed work groups** : Groups of employees given substantial responsibility for their work or their products.

activities, in the length of time spent obtaining an education, and in the age of retirement. Now that more Canadian workers and employers want choices in their work arrangements, the design of Unemployment Insurance should take into account their changing lifestyles. Indeed, if the entire structure of the economy is in transition, more flexible arrangements on the job may ease adaptation to a more stable and more thriving economy. In other words, more flexible work arrangements may, in and of themselves, lead to a drop in unemployment and therefore to a more efficient use of Unemployment Insurance. Conversely, if the economy fails to adapt, greater pressures on Unemployment Insurance will result.

### Alternative Work Arrangements

In 1985, the American Management Association analyzed the alternative work arrangements used by its members in terms of their impact on individual working conditions and on organizational changes. Twenty-one work alternatives were analyzed. They included job-related work alternatives such as job sharing, work-at-home arrangements, and

"[We recommend] income tax deductions to persons who work for the same hourly pay for six hours a day, rather than eight hours a day, equal to the loss in gross earnings; and tax incentives for companies which allow flex-time in compatible areas." (British Columbia Federation of Labour, Unemployment Action Centre, Vancouver hearings)

**Internal venture funds or**

**entrepreneurial opportunities :**

Systems that provide employees with resources for developing new ideas or launching seed ventures.

**Employee-owned organizations or equity participation in the firm :**

Programs that provide employees with the opportunity to become owners of the organization.

**Parallel organization structure :**

System for managing change, quality of working life, or innovation issues. It involves flexible task forces and special assignments within a formalized management system that frequently includes top management. It has its own resources and accountability.

**Major Findings**

- *A proliferation of alternatives.* Almost half the companies studied use cross-training; more than one-third use flex time, permanent part-time jobs, and quality circles. The latter, originally designed for problem solving on the shop floor, are now also found in government agencies and public utilities. Almost 30 percent use project teams.
- *Long-lasting changes in the workplace.* Eight of the alternatives have been in place longer than five years, suggesting that these methods of

organizing work are here to stay. These include cross-training, permanent part-time jobs, pay-for-capability/skills, project teams, matrix organizations, and employee ownership/equity participation.

- *A narrowing of scope.* The trend in recent years has been toward job and quality of working-life alternatives – quality circles, semi-autonomous work groups, work-at-home arrangements, and the like. These innovations are likely to have less impact on organizational change.
- *Public sector innovation.* This sector now uses more innovations, on average, than its private sector cousins – a surprising finding.
- *A curvilinear relationship between unionization and frequency of workplace innovation.* In other words, some alternatives are more likely to take root and flourish in either of two conditions: (1) no unionization, or (2) total unionization. This suggests that the middle ground – mixture of unionized and non-unionized workers – may be less fertile for workplace innovation.
- *Company size makes a difference.* Smaller organizations seem to be fertile soil for certain kinds of alternatives – work-at-home arrangements, semi-autonomous work groups, and work councils, for

example. In contrast, over 40 percent of the largest companies studied offer formal training in participative management, a program found far less frequently in smaller organizations.

- *Workplace innovation relates to total effectiveness.* Certain companies which are "progressive" in introducing more alternatives (and doing so earlier) than most other firms have been seen to achieve greater profitability. Over time, there is a strong link between workplace innovation, product innovation, and superior financial performance.

Some major differences among the four groups of work alternatives are clear. *Job-related alternatives*, which provide less employee empowerment, are certainly popular, but the alternatives are used in a limited way (by fewer employees and in only a few work sites or units). The *quality of working-life alternatives* seem to be spread more evenly throughout the host organizations. The last two clusters, the *alternative organizational structures and opportunities for participation and control*, have a broader organizational scope and provide greater empowerment. They are used primarily by managers and professionals, however, and do not extend to workers at lower organizational levels.

Source: American Management Association, *The Changing American Workplace: Work Alternatives in the '80s* (New York: The Association, 1985).

transition to retirement; quality-of-working-life arrangements such as profit sharing, flex time, and joint labour-management committees; alternative organizational structures, including project and matrix structures; and alternatives for employee participation and control, including equity participation and self-managed work groups (see box). The conclusions based on this survey have relevance to the Canadian work environment because of the high degree of similarity between Canadian and American workplaces. The survey determined that over 80 percent of responding organizations already use at least one alternative work arrangement and nearly 75 percent use *more* than one.

The report concludes that the best explanation of the wide use of work alternatives is the fact that workers are dissatisfied with traditional arrangements. That dissatisfaction is the result of pressure from an increasingly competitive environment and of the constraints imposed on experimentation with innovative work methods. Caught in a broad stream of social and economic change, businesses can no longer count on established practices as the best antidote to current ills.

The variety and benefits of work alternatives, however, are not yet sufficiently understood. Paradoxically, the very success of work alternatives has led to reluctance to share results, ideas and experience outside the organization. This reluctance limits the opportunity for others to be informed and to take advantage of these innovations.

Some of the work alternatives – part-time work, job sharing, and compensated work sharing – have direct implications for employment income and consequently for the Unemployment Insurance system. Part-time work means working for fewer hours per week than those normally scheduled for persons performing similar work.<sup>4</sup> Job sharing involves two or more workers sharing one full-time job. Compensated work sharing refers to a situation where, for example, a plant has work for 600 employees but has 800 on the payroll. If the 800 are retained but each works 25 percent less and is partially compensated through the Unemployment Insurance program, that would be compensated work sharing. Job sharing involves permanent restructuring of a single full-time job into two or more part-time jobs (or any variation involving a number of full-time jobs being restructured into a greater number of part-time jobs). Interest in job sharing has increased recently in response to the needs and preferences of working parents and those who want partial retirement.

### Part-Time Work

Part-time employment has been increasing rapidly over the last decade, as the recent report of the Commission of Inquiry into Part-time Work has confirmed. In 1985, over 1.7 million persons held part-time jobs in Canada – 15.5 percent of total employment. Corresponding figures for 1976 were 1.0 million or 11 percent of employment.<sup>5</sup> The trend toward part-time work is expected to continue.

The Labour Force Survey defines part-time employees as persons who usually work fewer than 30 hours per week. Excluded from this classification are a small group of occupations – airline personnel, truck

“Part-time work is on the rise in Canada. Most part-time workers are women. For some, part-time work is the best choice because of the myriad responsibilities required by their home lives. For many, part-time work is the only kind of work that is available, considering their marketable skills. These women are in areas such as sales clerks, bank tellers, secretarial work, cleaning.” (Canadian Congress for Learning Opportunities for Women, Regina hearings)

“There are some real shortcomings in the UI Act in the way it provides benefits to part-time workers. The majority of people who work part time are young people who are trying to break into the labour market and women who are trying to re-enter the market. And in the North there may well be a higher percentage of native people in part-time work as well.” (Northwest Territories Federation of Labour, Yellowknife hearings)

drivers and entertainers, for example – in which persons normally work fewer than 30 hours per week but their jobs are essentially full-time in nature. In addition, for purposes of defining the part-time labour force, part-time employees who seek full-time work are excluded.

To a large extent, institutional constraints within the tax system, employment standards legislation, and the administrative practices of bodies like labour relations boards make part-time or job-sharing options less attractive. Unemployment Insurance, for example, predisposes employers and employees toward layoff rather than reduction in hours as a means of responding to temporary reductions in demand for labour, because (with the exception of formal work-sharing plans under Section 37) benefits are payable if employment ceases, but not if working time is reduced.

Employers often impose penalties on part-time workers. Part-time workers may be paid less than full-time workers for identical jobs, be unable to accumulate seniority, and have fewer fringe benefits or opportunities for promotion. In addition, the administrative practices of some labour relations boards specify that there be separate bargaining units for part-time employees.

These issues are particularly important to women, who comprise 72 percent of all part-time workers. The majority of male part-time workers are under age 25, and only in the 65-and-over age group does their number exceed that of women.<sup>6</sup>

The definition of part-time work used by the Labour Force Survey tends to underestimate the “job tenure” of part-timers (that is, the length of time they remain in the same position). Of the 1.8 million part-time workers in Canada in 1981 (whose total earned income was gained only from part-time work), 72 percent received wage and salary income of less than \$5,000 per year. Another 20 percent earned between \$5,000 and \$10,000, and a small proportion earned more than \$20,000.<sup>7</sup>

Where does this money go? A popular stereotype is that most part-time workers are either married women with husbands earning comfortable incomes or students supported by their parents. Earnings from part-time work, according to this view, provide the extras that individuals and families can easily manage without, and consequently the loss of a part-time job would simply mean being without some luxuries. On the contrary, most part-time workers contribute a substantial share of total household income (see Figure 6.1). Since the great majority of these workers earn no more than \$5,000 per year, it is evident that, in most cases, total household income is relatively low. Earnings from part-time work are needed for essentials, particularly in families with dependent children. Loss of a part-time job can mean real and severe hardship.

Related to the impression that part-time workers work for “pin money” is the belief that many of them are actually “moonlighting” in a second job. There is no strong evidence to support that argument. In 1985, multiple job-holders generated only 1.3 percent of total hours worked per week. Furthermore, multiple job-holders who worked more

“Where people work on-call, or in seasonal jobs, job tenure reflects only the most recent spell of employment. The part-time retail sales clerk who works in each of the seasonal retail peaks at the same store for over 20 years, and the part-time nurse who works on-call or on summer relief at the same hospital for over 20 years, may both be recorded as having less than one year’s job tenure in each of the 20 years in which they worked.” (Commission of Inquiry into Part-time Work, *Part-time Work in Canada*, Ottawa, 1983, p. 62)

) X

“The Retail Council has argued for some time that identification of part timers who qualify for UI should be based on a specific number of hours of work for a continuous period of one year or more. This is the most significant test of their durable attachment to the work force, not a minimum income figure which may or may not reflect regular and continuous work.” (Retail Council of Canada, written brief)

“And here we are, in 1986, still faced with the old myth that women do not really need the income that they earn; that they work to buy themselves ‘baubles’; that they can always count on a man to keep them! On the other hand, it is well known that the number of poor Canadian families would double if married women withdrew from the labour market.” (Action-travail des femmes, written brief)

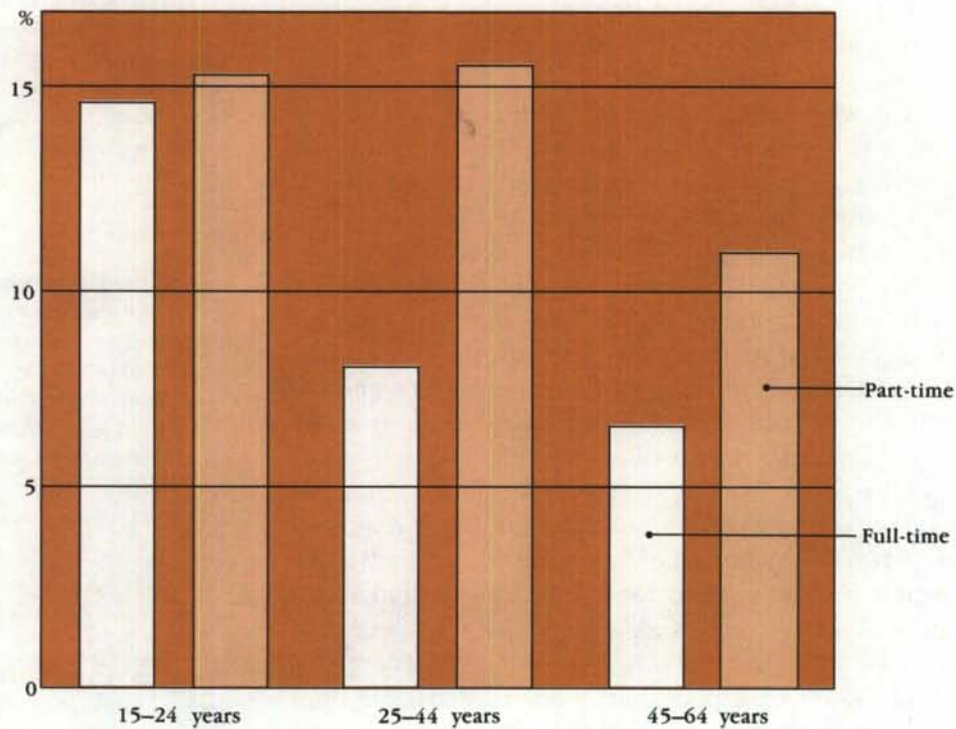
“The notion that the social safety net and the increasing participation of women and wives and the advent of two-earner families reduces the need for full employment policies is a myth. Unemployment imposes immense hardship on the unemployed.” (Social Planning Council of Metropolitan Toronto, written brief)

**Figure 6.1**  
**Income from Part-Time Employment as Percentages of Total Household**  
**Income from Paid Employment, 1981**

Part-time workers	Men	Women
All ages	28%	20%
15-24 years	25%	14%
25-44 years	68%	25%
45 years & over	57%	23%

Note: Total number employed part-time at some time in 1981: men, 868,000; and women, 1,564,000  
 Sources: Canada, Commission of Inquiry into Part-time Work, *Part-time Work in Canada* (Ottawa: Minister of Supply and Services Canada, 1983), p. 64.

**Figure 6.2**  
**Unemployment Rates for Persons Who Last Worked Full Time or Part**  
**Time, 1985**  
 (Annual averages)



Source: Statistics Canada, special tabulation.



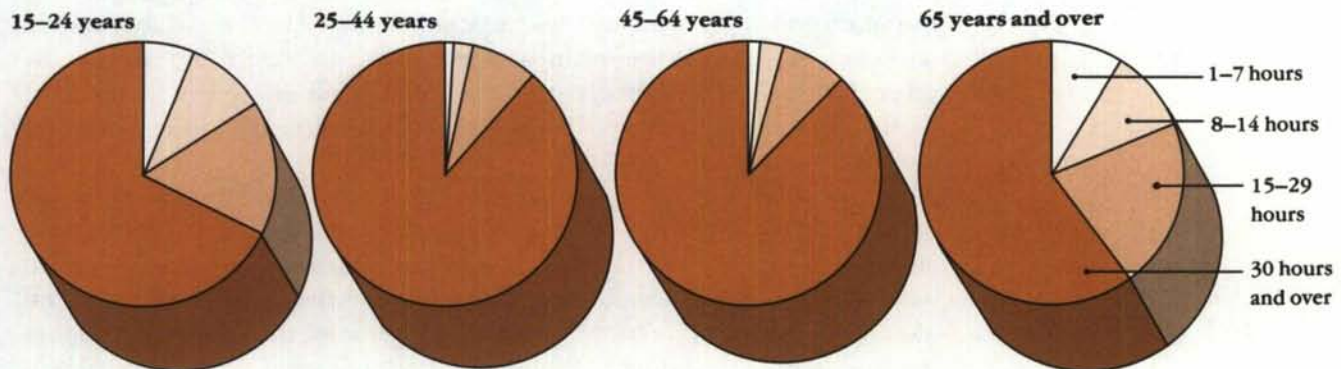
than 40 hours per week in all jobs and who may be considered "moonlighters" are less than one in six of all workers with part-time jobs.<sup>8</sup>

Figure 6.2 indicates the unemployment experience of part-time workers. Unemployment rates for all age groups are higher for part-time than for full-time workers. In many cases, part-time workers do not receive Unemployment Insurance benefits when they lose a job or are temporarily without earnings. Unemployment Insurance regulations require that a person must have worked at least 15 hours for the same employer to be eligible for coverage; 6.6 percent of all workers (40 percent of part-time workers) in 1985 were ineligible for Unemployment Insurance benefits because they worked fewer than 15 hours per week (see Figure 6.3). The average part-time employee works only about 14 hours per week.

"Unemployment Insurance coverage should be expanded to cover all part-time employment in recognition of its growing importance and in recognition of changing work patterns." (Government of New Brunswick, Fredericton hearings)

This requirement means hardship for the many families that depend on part-time earnings for basic necessities. It is also unfair. A person who

Figure 6.3  
Hours of Work by Age, 1985  
(Annual averages)



Number of Employees by Hours of Work, by Age Group, 1985  
(Annual averages)

Age group	Part-time jobs <sup>a</sup>						Full-time jobs (30 hours and over)	Total		
	Ineligible for Unemployment Insurance				Eligible			Number	Percent	
	1-7 hours		8-14 hours		15-29 hours					
Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	
15-24	143,100	1.3%	237,600	2.1%	383,000	3.4%	1,624,900	14.4%	2,388,600	21.1%
25-44	77,200	.7%	133,400	1.2%	472,200	4.2%	5,208,700	46.0%	5,891,500	52.1%
45-64	47,000	.4%	76,800	.7%	240,200	2.1%	2,483,500	22.0%	2,847,500	25.2%
65 & over	16,100	.1%	17,900	.2%	39,000	.3%	110,800	1.0%	183,800	1.6%
All ages	283,400	2.5%	465,700	4.1%	1,134,400	10.0%	9,427,900	83.3%	11,311,400	100.0%

<sup>a</sup> Statistics Canada definition of part-time jobs.  
Source: Statistics Canada, special tabulations.

"We urge the elimination, or at the very least the reduction, of the minimum levels of weekly employment required for part-time employees to qualify for participation in the UI program." (College-Institute Educators' Association of British Columbia, Vancouver hearings)

regularly works 14 hours per week over 50 weeks will have worked 700 hours by the end of the year. So will a person who works 35 hours a week for 20 weeks. On what basis can the latter be said to have a stronger labour force attachment than the former? Why should one be covered by Unemployment Insurance and not the other? Is the income of the full-time worker more "habitual" than the income of the steady part-time worker? Whose income loss is the greater in the event of unemployment? Why is one eligible for income replacement and not the other?

A review of these issues and of the trend toward increased part-time work has led to the conclusion that current eligibility rules are unfair and out of step with future trends. The regulations which prevent workers from accumulating the hours that they work for different employers also seem unfair. Administrative convenience appears, in these cases, to have overridden a key principle of social insurance – namely, to provide the widest possible coverage.

Changing economic and social demands will require greater flexibility in the way in which work is organized. In Chapter 7, a reform of the Unemployment Insurance program is proposed that would use an annual rather than a weekly basis for determining maximum insurable earnings. Eligibility for benefits would be based on a minimum entrance requirement of 350 hours of insurable work in the previous 52 weeks. The idea is to increase the flexibility of the Unemployment Insurance program and at the same time to tie benefits more directly to labour force attachment. Under the proposed program, it would no longer be necessary, at least in theory, to define minimum eligibility in terms of hours of work in a week. In principle, all hours of work should be covered.

Extending coverage to every hour of work and including every worker may, however, create administrative problems and cause additional costs particularly for small businesses. The Wallace Commission of Inquiry on part-time work and the Boyer Committee on equality rights both recommended a reduction of the current minimum requirement of 15 hours to 8 hours of work per week.<sup>9</sup> That recommendation received considerable support during the public hearings. The principle that all hours of work should be covered, if it is feasible to do so, should not be overlooked simply because of the potential problems that might be created. For practical reasons and in keeping with the proposals to phase in the new program, described in Chapter 7, it would be appropriate to extend the coverage of part-time workers, starting with those working 8 hours per week. The feasibility of covering every hour of work by a regular part-time worker is a question that the Canada Employment and Immigration Commission should pursue.

---

### Recommendation

**19** Unemployment Insurance coverage, in principle, should be extended to all part-time workers, but first of all to those who work a minimum of eight hours per week. Workers should be allowed to accumulate hours of work in order to become eligible for coverage. The administrative feasibility of covering all hours of work, including work for different employers, should be examined by the Canada Employment and Immigration Commission.

---

A supplementary statement by Commissioner R.F. Bennett regarding Recommendation 19 is contained in Part V of the report.

### Compensated Work Sharing

Compensated work sharing is intended to preserve employment through the avoidance of layoffs, at least in the short term. *Compensated work sharing* is a temporary arrangement and is distinct from permanent, voluntary measures referred to as *job sharing*. Under compensated work sharing, a prorated share of the regular weekly Unemployment Insurance benefit is paid to those workers whose normal hours are reduced by a formal agreement. The arrangement is part of the regular Unemployment Insurance system and is a logical extension of the more familiar "partial" benefit paid to workers who do a limited amount of work while they are unemployed (earnings on claim).

The current compensated work-sharing arrangement, under Section 37 of the Unemployment Insurance Act, was introduced in January 1982. It permits Unemployment Insurance benefits to be paid when the work week has been reduced in order to prevent layoffs. The program involves a formal agreement which is intended to facilitate temporary adjustment and which cannot last longer than nine months. The usual eligibility requirements apply, and if the participants subsequently lose their jobs their eligibility for conventional Unemployment Insurance benefits is unaffected. In 1982 and 1983, the work-sharing program of the Canada Employment and Immigration Commission involved 14,500 firms with 275,000 employees, and averted layoffs of 122,000 persons. On average, work-sharing arrangements lasted 24 weeks. The average work-time reduction per worker was 30 percent or 1.5 days per week.<sup>10</sup>

International experience in work sharing has been limited largely to recent periods of economic downturn. A program of this sort has existed in Germany since 1927, however, and is characterized by greater simplicity and lower administrative costs than the Canadian scheme. In the United States some states have introduced work sharing modelled on the 1978 California plan. That plan differs from the Canadian work-sharing scheme in several respects.<sup>11</sup> In California, both temporary and permanent work reductions are eligible for work-sharing benefits, though conventional Unemployment Insurance benefits, if subsequently paid, are reduced by the dollar value of benefits drawn throughout the work-sharing period. A further distinction arises because the California Unemployment Insurance program makes use of experience rating. Negatively rated employers (those on whose behalf benefits paid out exceed their contributions) are discouraged from participating in work sharing by the imposition of an additional Unemployment Insurance tax. The California work-sharing scheme is much smaller in scope than the Canadian. With a labour force approximately equal in size to Canada's, the California program in 1980 involved only 714 firms and 16,000 employees (less than one-twelfth the number of firms and employees participating in the Canadian scheme during its first year of operation). The California program began in 1978, at a time when unemployment was declining, whereas the Canadian program was introduced in the midst of a severe recession.

"The forestry sector has made use of work-sharing programs, and supports the concept with one qualification: Unemployment Insurance funds used to support work-sharing programs should not be used to remedy long-term structural problems, such as maintaining unproductive plants in operation." (Canadian Pulp and Paper Association, written brief)

"Our experience with work sharing during this period was generally favourable. In smaller plants in particular, it allowed us to avert layoffs and the employer to retain a skilled work force. With appropriate safeguards as they now exist, we feel that the work-sharing program should be retained as part of the UI Act." (International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW), written brief)

"We view work sharing somewhat differently. We wish, above all, that there were no need for such programs, but our experience has been that many of our members benefited from these initiatives. For the time being at least, while unemployment levels are so high, we recommend preserving the program." (Amalgamated Clothing and Textile Workers Union, Toronto hearings)

"We are alarmed, for instance, at suggestions of dividing work more equitably. Simply spreading what jobs there are among more people is not creating more employment. It is creating more unemployment, though only on a part-time basis. Such job-sharing arrangements are never proposed or undertaken with the same standard of living for the participants. Job sharing means wage sharing and may mean no benefits at all." (Canadian Union of Public Employees, Vancouver hearings)

The major benefit that employers gain by instituting work-sharing schemes rather than layoffs is that there are no rehiring costs when full production is resumed. In addition, work sharing means a greater reduction in the total wage bill because the wages of all employees are lowered proportionately, while a layoff affects mainly the employees with the least seniority and lowest wages. On the other hand, employers' administrative and reporting costs are somewhat higher, as are fringe benefit costs.

The effects of work-sharing plans on productivity are difficult to determine, although a 1983 survey concluded that "53 per cent of the firms believed productivity under [work sharing] was higher than it would have been had lay-offs occurred . . . In addition, some firms . . . believed that [work sharing] had prevented the unit or plant from being shut down altogether."<sup>12</sup> An analysis of the work-sharing program carried out by the Department of Employment and Immigration in 1984 estimated that benefits exceeded costs by some 30 percent.<sup>13</sup> Attempts by others to include the effects of productivity and the social costs of unemployment in the analysis reveal a still higher ratio of benefits to costs.

Considerable evidence has now been accumulated that suggests fairly widespread support for work-sharing arrangements. In a recent study conducted for the Canada Employment and Immigration Commission, 94 percent of the employees who participated in work sharing expressed satisfaction with the program and willingness to participate again, and 81 percent of participating employers responded positively.<sup>14</sup> Most of the negative evaluations by employers were related to administrative requirements that were perceived to be needlessly complex.

During the public hearings, a range of views on the subject of alternative work arrangements was expressed. Many were in favour, but others argued against the work-sharing concept. On balance, the work-sharing provisions of the Unemployment Insurance Act (Section 37) are considered to be a favourable alternative to layoffs in the face of temporary downturns.

---

## Recommendation

**20** The current work-sharing provision in Unemployment Insurance should be retained, and an internal review should be undertaken in order to streamline procedures and reduce administrative and compliance costs.

---

### Shorter Work Weeks and Work Years

Since the end of World War II, the proportion of a worker's life spent in the labour force has declined substantially. This fact is largely a reflection of a preference for increased leisure as real wages and real incomes rise. The major feature of this reduction in work time has been the shorter work year. Since 1949, holidays in the manufacturing sector have increased from 6.9 days to 11.1 days per year, and annual vacations have risen from 2.3 weeks to 3.6 weeks per year.<sup>15</sup>

The extent to which a decline in the work year will continue in the future is unknown, although some international developments are of interest. In France, for example, a 1982 initiative increased the minimum annual paid vacation to six weeks, and in the Netherlands increases in workers' vacations have been negotiated in many instances.<sup>16</sup> In Canada, vacation benefits have increased significantly in recent years. Substantially more employers provide annual paid vacations of three or four weeks after one year of work. For employees with 10 to 25 years of service, paid vacations of four, five or six weeks are increasingly common. The proportion of collective agreements providing five weeks of vacation after 20 years service, for example, increased from 33 percent in 1978 to 63 percent in 1985.<sup>17</sup>

A 1978 survey by the U.S. Department of Labor found that 59.3 percent of respondents expressed a desire for some form of alternate work arrangement, corresponding to a 4.7 percent reduction in total work time (with a proportionate reduction in income).<sup>18</sup> Although this percentage is small relative to total work time, it is estimated that the increase in employment that might be generated by a similar scheme in Canada could lead to a 2 percent reduction in the unemployment rate.

While there appears to be a long-term tendency to reduce work time through increased holidays and the growing relative importance of part-time work, the evidence with respect to the shorter work week is contradictory. There seems to be an important distinction between what people do and what they say in this regard. Figure 6.4 shows that the reduction in the normal hours worked in Canada that has occurred in the past decade is entirely the result of the greater relative importance of part-time workers. Full-time employees have consistently worked on average 41.5 hours a week. In the United States, the average work week in manufacturing has remained constant since about 1946.

A recent survey by the Conference Board of Canada found that more than 57 percent of working Canadians would consider changing the number of working hours if there was a proportionate adjustment in pay.<sup>19</sup> This survey also found that:

- There is more interest in reduced work time among union members than among non-union employees.
- Interest in reduced work time rises with the level of income. Within each level of income, interest rises with the level of education. Interest in reduced work time varies among age groups and is greatest among the 25-44 age group.

"You asked the Board how you can eliminate some of these problems. Number one, it's a shorter work week: abandoning overtime gets more people working." (New Brunswick Federation of Labour, Moncton hearings)

"I think that instead of working 40, or 45, or 50 hours, as some Canadians do now because they have a second job, perhaps someone should say, 'From now on, you are going to work 30 hours and you are going to be subsidized through programs like UI to make up the other 10 hours'. Then more Canadians would be put to work." (Mr. Comeau, Newcastle hearings)

"The general reduction in work time to a standard four-day, 32-hour work week with no loss in pay, or an increase in vacation entitlement to four or five weeks could stimulate a tremendous increase in employment and subsequently in aggregate spending." (Alberta Federation of Labour, Calgary hearings)

"It is estimated that 189,000 new jobs could be created in Quebec alone if the legal work week were reduced to 35 hours." (Action chômage Kamouraska inc., Québec hearings)

"Provide the option for a four-day work week." (National Council of YMCAs of Canada, written brief)

"They should be forced to say, 'Okay, there's a shortage of jobs. You can't lay guys off. You've got to keep some of the work force on, no overtime'." (R. Van Embden, Sudbury hearings)

"Most people in the labour movement believe that because productivity has increased so much in the last 40 years it should be possible and may even be necessary to further shorten the work week without loss in pay in order to achieve full employment." (Victoria and District Labour Council, Victoria hearings)

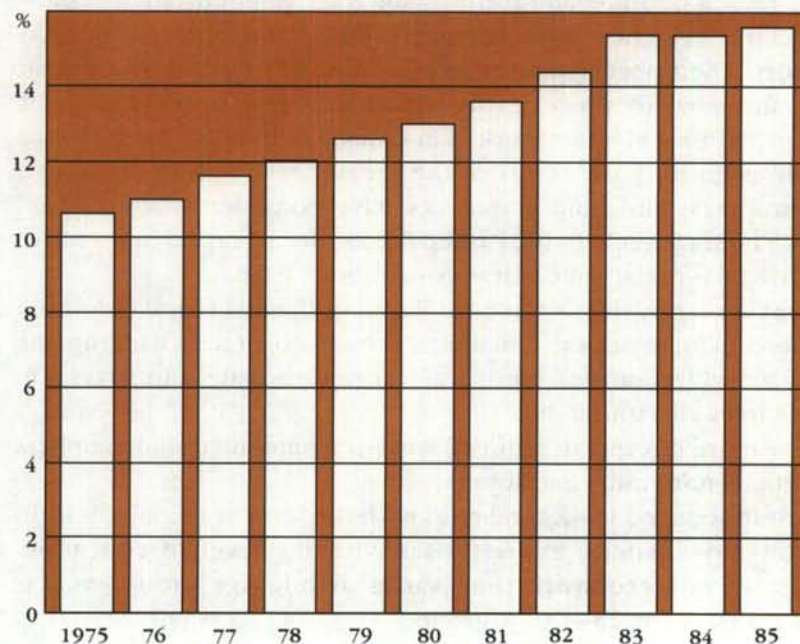
- Interest in reduced work time varies among industries, ranging from 25 percent in trade to 45 percent in utilities.
- The most popular way to reduce work time is to work fewer days each week. Leisure and family interests were most frequently cited as reasons for reducing work time.

Although some workers expressed a high level of interest in shorter working hours, the amount of additional employment that would be generated in this way is questionable. The reduction in hours for each individual would have to be substantial (such as a change to a four-day week), since smaller reductions are believed to be largely offset by increases in productivity. Studies in France and other European countries indicate that between 30 and 70 percent of a work week reduction is offset by a corresponding increase in productivity.<sup>20</sup>

A reduction – even a legislated reduction – in work time or a ban on overtime work is frequently recommended in response to the fear that technological change will generate massive unemployment unless the increased productivity is offset by a reduction in work time.<sup>21</sup> Several studies dealing with the impact of technological change on employment levels were reviewed. The worst plausible outcome over 10 to 20 years would be a total cumulative impact of technological change on employment levels of between 5 and 10 percent (see box). It seems that a very modest reduction in working time would be entirely sufficient to absorb the required reduction in employment and spread it over the entire work force.

Part-time employment as a percent of total employment.

Figure 6.4  
The Shifting Relative Importance of Part-Time Work, 1975-85



Source: Statistics Canada, *The Labour Force* (Cat. no. 71-001), various years.

## Technological Change and Employment

Many studies have examined the impact of technological change on employment. Only a few are reviewed here. In general, these studies make no firm predictions as to the significance of that impact. Conceptually, anything can happen because new technologies can emerge with unprecedented effects; in practice, future technological change will probably be along the lines of past change.

Wassily Leontief has examined the question in two studies on Austria and the United States. In each case, scientific and engineering data are used to modify input/output coefficients in models for those economies, so as to reflect the most up-to-date technology that could be expected in 1990 as compared to the technology of the mid-1970s. The impact on employment in Austria is a reduction of 10 percent. For the American economy, the impact of technological change over a 17-year interval is of the same order, namely 12 percent. In both cases (but more so for the United States), the increased demand for equipment-making industries resulting from technological change is taken into account but nothing else is, a very important omission being the impact of aggregate demand on the country's competitive position. (W.W. Leontief, "The Distribution of Work and Income," *Scientific American* 247 (September 1982), pp. 188-204.)

A study conducted on behalf of the Ontario Task Force on Employment and New Technology examines many alternative scenarios looking at whether productivity increases are reflected in lower prices, whether wages and salaries are adjusted upwards, whether governments pursue

expansionary policies, and so on. The most optimistic scenario anticipates a 2 percent increase in employment, while the most pessimistic scenario anticipates a 5 percent decrease in employment over a 10-year period with a 1.5 percent annual rate of increase in productivity. (Ontario, Task Force on Employment and New Technology, *Report*, Toronto: Government of Ontario, 1985.)

In a study for the Senate Committee on Youth, Dr. John B. Robinson of the University of Waterloo used a simulation model to estimate the impact of an increase in productivity growth from the 1970s' average of 0.7 percent a year to 1.9 percent. He finds that the employment level would be reduced by 6.6 percent in 2000 and by 10.5 percent in 2020. (John B. Robinson, "Doleful Projections: Some Long-Term Employment Scenarios Using the Socio-Economic-Resource Framework," Waterloo: University of Waterloo, 1985.)

A study by Employment and Immigration Canada uses a methodology similar to that used by Leontief for the United States and Austria in a retrospective study of input-output coefficients for 1971 and 1979, interpreting the change in coefficients between these two years as technological change. Adjusting for the impact of changes in the composition and volume of demand, the impact of technology is estimated as a gross loss of 626,000 jobs, or 8 percent of total employment over that period – a loss, however, totally compensated for by a rise in aggregate demand. (Sunder Magun, *The Effects of Technological Change on the Labour Market in Canada*, Ottawa: Department of Employment and Immigration, Strategic Policy and Planning, 1984.)

"I think what you have to look at is the amount of overtime last year, because there are people not working in this town and there are people that are getting overtime. Where do you balance it out?" (Burlington Chamber of Commerce, Hamilton hearings)

"I believe that the whole matter of working more closely with the unions . . . to cut down or eliminate overtime, will create many, many jobs, some of them relatively highly paid jobs." (Social Planning Council of Kitchener-Waterloo, Toronto hearings)

The wisdom of attempting to shorten working time by banning or taxing overtime is questionable. If the shortening of working time were not reversible, it would only aggravate the long-term labour deficit that is anticipated after the turn of the century, when there will be a high proportion of older people in the Canadian population. If the returns from increased productivity are dissipated by increasing leisure time, less or none will be available to reduce the cost of goods and services produced in Canada compared with those produced abroad. The deterioration of the trade balance that this implies might then reduce employment in Canada by as much as or even more than productivity growth itself. In an open economy like Canada's, the growth of productivity is probably less important than the rate of the increase relative to that of other countries. If Canadian productivity grows more rapidly than that of competing nations, costs in Canada will fall relative to theirs and the trade balance will improve sufficiently to create more jobs than are destroyed by the growth in productivity.

The question of reducing working time is one that cannot be finally settled for all industrial sectors or all firms. The competitive position of each firm and each industry in its domestic and international market will determine the extent to which productivity improvements can be translated into shorter working time, on an annual or weekly basis, without loss of market.

The trend to shorter work years and work weeks in order to contribute to lower unemployment rates and respond to the desire of workers to assume other responsibilities is to be supported in the short run. Caution is required regarding the long-term effect. A legislated shorter work day or week, once established, would be very difficult to reverse. These trends should be allowed to develop without legislative interference, and should be guided by both short-run and long-run considerations.

---

### Recommendation

- 21** Flexibility in work time should be encouraged but shorter work days, weeks or years should be negotiated by individual firms and industries rather than being established by legislation.
-



## Choices in Working Life

### Flexibility in Retirement

Mandatory retirement at age 65 has come under heavy fire because of the equality provisions of the Canadian Charter of Rights and Freedoms. While it is difficult to assess the potential impact of the abolition of mandatory retirement, findings published by the Conference Board of Canada in 1979 suggest that by far the majority of workers retire for reasons of personal choice or poor health.<sup>22</sup> In any given year, only about 25 percent retire because they have reached a maximum age or length of service.

The federal government, in its Response to the Parliamentary Committee on Equality Rights, expressed a commitment to facilitate flexible retirement. These measures will include changes to the Canada Pension Plan to provide actuarially adjusted benefits for retirees between the ages of 60 and 70. That arrangement is already in effect in the Quebec Pension Plan.

This new flexibility is not confined to public pension plans. Provincial legislation regulates private pension plans. Changes are being contemplated, particularly in Ontario, that would compel private pension plans to offer a retiree the choice of taking a pension at any time in a ten-year interval beginning five years before the "normal retirement age" and terminating five years later. As in public plans, that would entail an actuarial adjustment to the amount of the pension.<sup>23</sup> Moreover, any person going into retirement would have the option of postponing the receipt of pension income for up to five years, with an actuarial adjustment to the monthly amount payable. It is likely that similar legislation will be in force in all provinces within a few years.

The increasing flexibility in retirement and pensions relates not only to the *age* when retirement takes place but also to the *level* of pension income that an individual will receive. The expansion in personal choice in arranging one's life involves several implications for many income security programs.

Under the current Unemployment Insurance plan, those over 65 do not pay premiums and are not eligible for benefits. Upon reaching age 65, they are eligible to receive a "retirement benefit" equivalent to three weeks of regular benefit. It would appear to be consistent with the anti-discrimination provision of the Charter of Rights that the upper age limit for eligibility for Unemployment Insurance be removed. Then workers over age 65 would continue to pay premiums and be eligible for regular benefits, subject to the qualifications outlined in Chapter 8. The three-week retirement benefit would no longer have a *raison d'être*, since it is payable in lieu of regular benefits when a claimant reaches 65.

Elimination of compulsory retirement may possibly lead to extended labour force participation by some individuals. Available empirical evidence from the United States (where the retirement age has been raised to 70) and from Quebec, where the usual retirement age was legislated away in 1982 and the Quebec Pension Plan was made more flexible, suggests that these measures may have little effect on postponing retirement. On the other hand, the increasing importance of multi-

"If the impact of technological change is going to be addressed in a meaningful way, we have to look at shortening the work week and the amount of time one spends in the active work force over one's life. Early retirement, in our view, is an important immediate step that could be taken." (Confederation of Canadian Unions, Vancouver hearings)

"It is our suggestion that optional retirement at the age of 55 years be available to all Canadians." (Fredericton Anti-Poverty Organization, Fredericton hearings)

"To create more jobs we must look at reducing the retirement age to, say, 55, and transfer some of the cost of the UI program to the Canada Pension Plan and other pension programs so that there are no penalties to the individual for this early retirement." (Corner Brook Chamber of Commerce, written brief)

"The most glaring disparity in the UI Act is the fact that anyone retiring at age 65 is eligible for a one-time lump-sum payment equivalent to three weeks of benefits, while a person electing to retire early is denied any benefit whatsoever. By eliminating the availability of the UI benefits to early retirees, an important incentive to retire early has been removed." (Ontario-Manitoba Primary Council of the Canadian Paperworkers Union, Thunder Bay hearings)

earner families and the rise in real per capita incomes suggest that the trend toward earlier retirement will likely continue, at least for some time. This trend may be influenced somewhat by the fact that many older workers prefer to work part time but are constrained from doing so. According to a poll commissioned by the Department of National Health and Welfare, 40 percent of those aged 55 and over would like part-time employment, although in 1984 only 10 percent of those aged 55 to 64 and 32 percent of those aged 65 to 74 were, in fact, working part time.<sup>24</sup>

"Why is it that an insurance program gives three weeks of benefits to someone who turns age 65?" (Alberta Teachers' Association, Edmonton hearings)

"Persons aged 65 and over who are still in the labour force should be eligible for Unemployment Insurance." (Fédération des travailleurs et travailleuses du Québec, written brief)

"A meaningful reform of the UI program must also improve the present policy with regard to such things as ineligibility on the basis of age, coverage of part-time workers . . ." (Confédération des syndicats nationaux (CSN), Montréal hearings)

The benefits of these "partial retirement" arrangements would likely be numerous. Older workers would be able to ease their transition from the labour force by gradually reducing work time in anticipation of full retirement. Those who chose to work part time after the normal age of retirement would retain the income and personal benefits of working – self-esteem and a sense of contributing. Society in general would benefit from the continued participation of workers who have accumulated a wealth of skill and knowledge over a lifetime of working.

The experience and policies of other countries related to the age of retirement vary. Some OECD countries have recently instituted various "pre-retirement" schemes in an attempt to free up more jobs for the unemployed, particularly for youth. Other countries, however, are beginning to *raise* the legislated age of retirement, while still others have introduced transitional schemes that permit a person to continue working part time while receiving pension benefits.<sup>25</sup>

In the context of apparently conflicting tendencies with respect to retirement age, there is need for a degree of flexibility that will allow any trend to be reversed as circumstances dictate. Not only is life expectancy increasing, but the probability of remaining in good physical and mental health until relatively late in life is increasing even more rapidly. Both the evolving demographic patterns and the changing nature of the workplace stemming from the shift from primary and manufacturing industries to services make it likely that by the beginning of the next century many will continue working until age 75.

All of these developments tend to expand the range of genuine personal choice and to provide greater freedom. None poses any great risk of creating labour market imbalances. What is needed is a flexible approach which facilitates individual choices. Initiatives to increase the portability of pensions and to eliminate the mandatory retirement age are to be supported.

The implications of all of these changes are greater than may first appear. They radically change the context in which the payment of the three-week "retirement benefit" at age 65 and the treatment of pension income for purposes of determining Unemployment Insurance benefits must be approached. Currently, Old Age Security pensions are unconditionally payable at 65, irrespective of labour force status. The question of the age limits under both Unemployment Insurance and Old Age Security

must be considered simultaneously, since they are both elements of the social security system that should be coordinated. The present rules are clear: one program begins when the other stops.

---

**Recommendation**

**22** The age limit of 65 years should be removed as a barrier to Unemployment Insurance eligibility, concurrently with changes in the age limit established in the Old Age Security program. At that time, the provisions in the Unemployment Insurance Act for payment of a three-week “retirement benefit” should be rescinded.

---

The treatment of pension income by those receiving Unemployment Insurance benefits is discussed in Chapter 8.

**Flexibility in Participation**

Unquestionably the most dramatic change in labour market behaviour in the postwar period has been the rapid increase in the participation of women. By 1985, the labour force participation rate of women had risen to over 65 percent from its 1946 level of 24.7 percent. This change reflects many social and economic factors, including: smaller families, lighter household responsibilities, and a gradual trend toward greater sharing of these responsibilities; higher divorce rates, with increased numbers of women supporting themselves and children; increasing reliance of families on two incomes; the higher career aspirations of women and the costs in terms of career progression of dropping out of the work force for some time – for example, while children are young.

Responsibility for the care of children, and also for elderly and disabled persons, nevertheless continues to fall disproportionately upon women, a result of both the values of society and the generally lower incomes of women. Although demographic projections indicate that over the next three decades or so the number of dependants relative to the working-age population will be lower than has been the case historically, the dependent population will increasingly be made up of elderly persons.<sup>26</sup>

As was noted in Chapter 2, parental responsibilities in households with pre-school children appear to be associated with lower labour force participation and higher unemployment rates. The available data do not indicate the extent to which these lower participation rates reflect a preference for staying at home during those years rather than the difficulties inherent in reconciling job and family responsibilities.

The question of tax relief for persons staying at home to care for dependants, and of the associated labour market incentives or disincentives, is a complex and controversial issue. The tax system should be as neutral as possible with respect to the labour market decisions of individuals. For those who care for dependants in the home, for example, a possible improvement to the current system might be retargetting the existing married and child tax exemptions into a refundable tax credit payable to the spouse at home. This would substantially cushion the financial penalty inherent in a temporary absence from the labour

“Historically, women have been brought out of the home and into the labour force when they were needed and then sent back packing when they weren’t. I feel that kind of movement is happening again. There aren’t enough jobs and we are sending the women home.” (Canadian Congress for Learning Opportunities for Women, Regina hearings)

“Many of the problems are being caused by the return of women to the work force. I cite many examples of women who, for no other reason than boredom, are returning to the work force, and are probably taking jobs from many people who do require a job.” (Alberta Chamber of Commerce, Calgary hearings)

"Further provision should be made to enable parents to combine paid work with family responsibilities. Such provision should include shorter working hours at a pro-rated rate of pay." (Ontario Coalition for Better Day Care, written brief)

"A full employment policy must necessarily be effected through a reduction in working time; in particular, a shorter work week, longer vacations, voluntary early retirement plans, and paid educational and parental leave." (Solidarité populaire Québec, Montréal hearings)

market. In that sense, it would extend the philosophy of the "dropout" provision introduced some ten years ago in the Quebec Pension Plan and more recently in the Canada Pension Plan, whereby persons temporarily absent from the labour force can have their years of non-contribution disregarded in the calculation of their average lifetime earnings. This arrangement minimizes the adverse impact on pension rights.

Tax provisions are only one possible measure to support the care of dependants. Other options that can and should be considered involve encouraging employers to take account of the family obligations of workers. Flexibility could be introduced in the workplace through supporting daycare, in addition to alternative work arrangements such as working from the home and increasing the use of job sharing and part-time work, as discussed earlier.

### Summary and Conclusions

A redefinition of work can be achieved only by enhancing the flexibility of work arrangements which affect participation in the labour force, the proportion of time spent working, and activity outside of the wage economy. This flexibility is important for two reasons. The first emphasizes the individual's ability to choose the lifestyle that he or she prefers without facing unnecessary or arbitrary constraints. This flexibility requires a recognition that current behaviour reflects historical conditions that may no longer be valid. The second, and of equal importance, is the recognition that a lack of flexibility may cause society to fall short of important goals, both economic and social.

The nature of work has changed and these changes are likely to continue. The increasing prevalence of part-time work and of both shorter work years and shorter work weeks means that the Unemployment Insurance program must be capable of dealing fairly with these situations. For this reason, to the extent that it is feasible, all part-time work should be covered by Unemployment Insurance and workers should be allowed to accumulate their hours for eligibility purposes. In addition, the concept of work sharing as embodied in Section 37 of the current Unemployment Insurance Act is supported. It promises to allow industry to adapt more smoothly to a changing competitive environment.

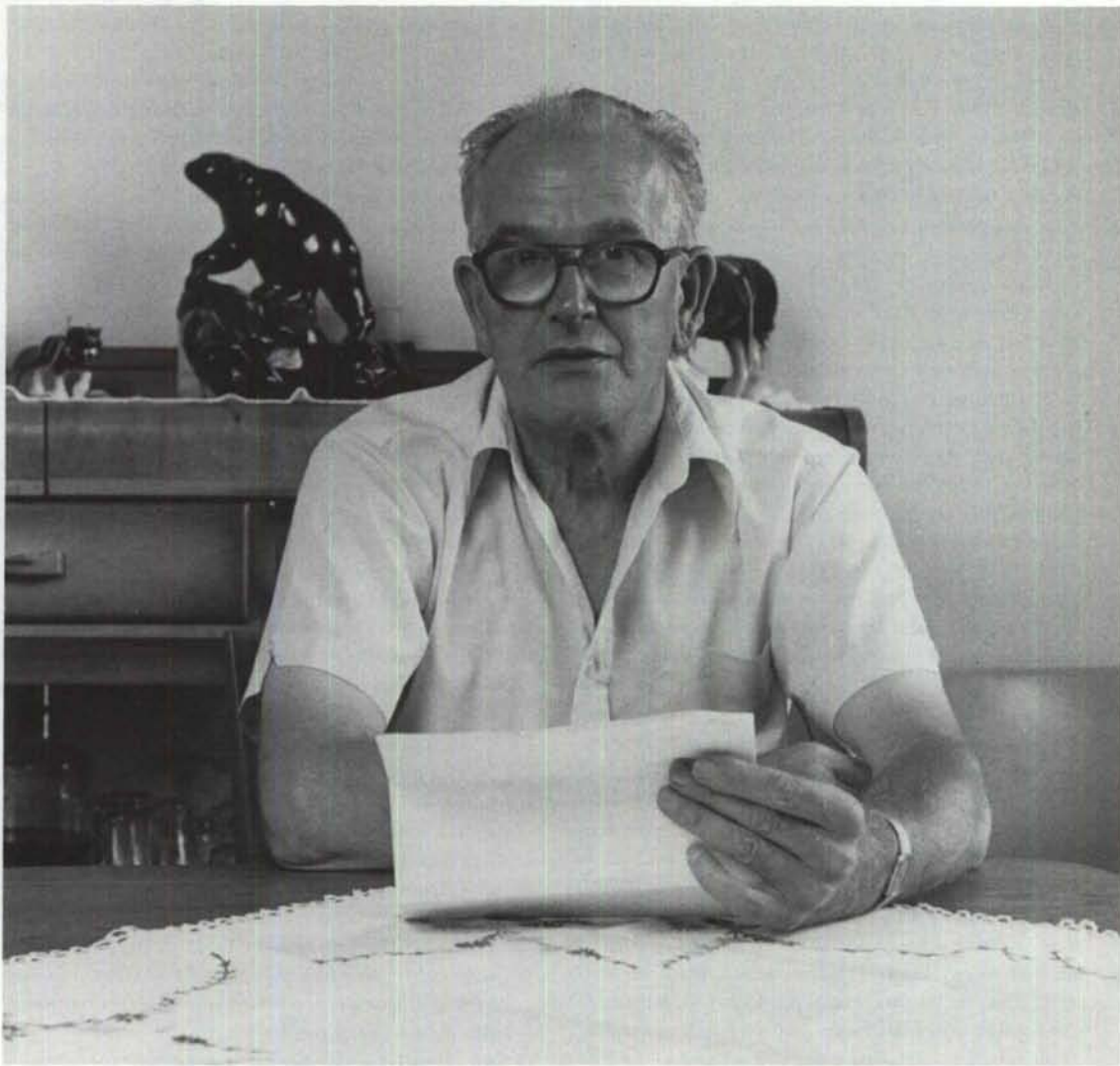
A person's choice to move in and out of the labour market should not be hindered by barriers within the employment system. Flexible retirement options and tax reform to decrease the barriers to caring for dependants in the home are to be supported.

---

Notes

- 1 Canada, Department of Employment and Immigration, *Estimates 1986-1987* (Ottawa: Minister of Supply and Services Canada, 1986), p. 3-55.
- 2 Canada, Task Force on Program Review (Nielsen Task Force), *Job Creation, Training and Employment Services* (Ottawa: Minister of Supply and Services Canada, 1986), pp. 142-68.
- 3 This section relies heavily upon two works: for the section on part-time work, see Canada, Commission of Inquiry into Part-time Work (Wallace Commission), *Part-time Work in Canada* (Ottawa: Minister of Supply and Services Canada, 1983), and for work sharing and shorter working-life issues, see Frank Reid, "Reductions in Work Time: An Assessment of Employment Sharing to Reduce Unemployment," in *Work and Pay: The Canadian Labour Market*, Volume 17 of the Research Studies of the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
- 4 This definition of part-time work is consistent with the definition used in the Commission of Inquiry into Part-time Work, *Part-time Work in Canada*, p. 42.
- 5 Statistics Canada, *The Labour Force, December 1985* (Cat. no. 71-001), 1986, p. 114 and *Labour Force Annual Averages 1975-1983* (Cat. no. 71-529), 1984, p. 298.
- 6 Statistics Canada, *The Labour Force, December 1985* (Cat. no. 71-001), 1986, p. 114.
- 7 Commission of Inquiry into Part-time Work, *Part-time Work in Canada*, p. 63.
- 8 Based on actual hours per week, all jobs versus main job (Statistics Canada, *The Labour Force, December 1985*, Cat. no. 71-001, 1986, pp. 112-13). Multiple job-holders who work more than 40 hours per week in all jobs are excluded from the official count of part-time workers, and are added here to determine the extent of moonlighting (*ibid.*, pp. 114 and 120).
- 9 The Wallace Commission on part-time work noted that the majority of women's organizations were in favour of expanding opportunities for part-time work because they see it as the best way for women to combine a career with home responsibilities. Accordingly, they recommended that legislation be introduced to eliminate the 15-hour minimum and that it be replaced with a revised system under which all employed workers working over 8 hours a week would pay a straight percentage of their salary. Similarly, the Boyer Committee recommended that the rule stipulating a 15-hour minimum for claiming benefits be adjusted downward (minimum threshold of 8 hours) so as to better reflect the work schedules of part-time employees (Canada, House of Commons, Standing Committee on Judicial and Legal Affairs, *Equality for All*, Ottawa: Queen's Printer, 1985).
- 10 Canada, Department of Employment and Immigration, Program Evaluation Branch, Insurance Program Division, *Evaluation of the Work Sharing Program* (Ottawa: The Department, 1984), p. 23.
- 11 Frank Reid and Noah M. Meltz, "Canada's STC: A Comparison with the California Version," in *Short-Time Compensation: A Formula for Work Sharing* (New York: Pergamon Press, 1984).
- 12 DPA Consulting Ltd., *CEIC Work Sharing Program: Analysis of Productivity Changes and Hiring-Training Costs* (Ottawa: Canada Employment and Immigration Commission, 1983), p. 50.
- 13 Reid, "Reductions in Work Time," p. 154.
- 14 DPA Consulting, *CEIC Work Sharing Program*.
- 15 Reid, "Reductions in Work Time," p. 151.
- 16 *Ibid.*, p. 141.
- 17 Canada, Department of Labour, *Provisions in Major Collective Agreements Covering 500 or More Employees* (Ottawa: Minister of Supply and Services Canada, 1985), pp. xxiii-xxiv.
- 18 Fred Best, *Work Sharing: Issues, Policy Options and Prospects* (Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research, 1981).
- 19 Conference Board of Canada, *Attitudes Toward New Work Patterns* (Ottawa: The Board, 1986).
- 20 Frank Reid, "Combatting Unemployment Through Work Time Reductions," *Canadian Public Policy* 12 (June 1986), p. 278.
- 21 Brief from F.P. Hughes to the Commission of Inquiry on Unemployment Insurance.
- 22 Donald P. Dunlop, assisted by Mark Daniel, *Mandatory Retirement Policy: A Human Rights Dilemma?* (Ottawa: Conference Board in Canada, Compensation Research Centre, 1979), p. 12.
- 23 An actuarial adjustment to a pension is very simple. If a pensioner was entitled to a \$1,000-a-month pension at 65 but chose to draw his pension at 64, he would get only \$950 a month; if he delayed it to 66, he would get \$1,050 a month. This 5 percent per year adjustment is typical.
- 24 Canada, Department of National Health and Welfare, Policy Research and Long-Range Planning, *Retirement in Canada* (2 vols.) (Ottawa: The Department, 1977).
- 25 Organisation for Economic Co-operation and Development, *Socio-Economic Policies for the Elderly* (Paris: OECD, 1979).
- 26 Mireille Ethier, "Survey of Pension Issues," in *Income Distribution and Economic Security in Canada*, Volume 1 of the Research Studies of the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985), p. 217.

### Lawrence Axe, Machinist, Kincardine, Ontario



*Mr. Axe argues the case for sharing work rather than laying off workers and expresses the frustration of those affected by changes to the severance pay regulations.*

I am 63 years old. I've had to work hard all my life. This is the first time I've ever been out of work.

I am a steel machinist by trade – vertical boring, horizontal boring, planing, turning – stuff like that. I came over to Canada from England in 1963. In 1966 I got a job with Byron Jackson, a pump manufacturer for nuclear plants.

In December 1983 I had to go into hospital. I had a kidney removed and I was off sick for six months, on sick pay from the company health plan. While I was sick, my job in the inspection department was put on the layoff list. To keep working I had to take a new job in the stores at a lower wage. In the application I had to waive my seniority rights from the previous 17 years. A year and a half later they cut down from seven in the stores department to three . . . I couldn't stay there and I couldn't go back to inspecting, so they laid me off on 24 January 1986.

I find it very unfair. They laid quite a few of us off, but the rest of the guys are working 12-hour shifts and Saturdays too, to make up for the people that got laid off. Now, if they made it 40 hours for everybody, I'd probably still be there. I don't think the government should allow it. I figure there were probably around 100 people working there originally, and now there's about 60 . . . and they're all working 12-hour shifts. And this sort of thing is going on all over Toronto. I think the way the employers look at it is that if they lay the people off, then they don't have to pay these benefits, like dental and like my sick pay, things like that.

We used to live in Scarborough, but the rent's got that expensive in Toronto . . . and the cost of living and delving into the savings to keep going kind of thing . . . One of my two sons bought a house up here in Kincardine. He said that we could rent it . . . We decided to move up here so that we could spread out the money a bit further . . . We were comfortable down there in Toronto . . . but financially, we had to go. The wife and I aren't in too good health, though, and we miss the medical facilities.

When I was machining and inspecting, my wage was just over \$13 an hour. And when I started in the stores, it dropped to \$11. The company was decent . . . they gave me vacation pay and 19 weeks' severance pay at my original wage of \$13 an hour. But UIC added my last work week to the severance pay! And then they divided it all up by \$11 an hour, so that it got paid out over 26 weeks, not 19. That 26 weeks was deducted out of my UI, so I can collect only half of my UI. On top of that, the guy at the UIC office said there's a two-week waiting period after July 20, when my severance pay ends, so the benefits only start on August 3.

Last September, my wife became a senior citizen. She started drawing the pension in October. Well, when I became unemployed, she asked if we could have a spouse allowance, and they said no, when he's finished with severance pay, he can go on UI. Now my severance pay cheques have stopped, and my UI is already weeks late. We're caught in a lot of red tape. Everything seems to have gone wrong all ways. The money we've got seems to be going down very fast. It gets you to tearing your hair at times.

What I resent about UI is this. First of all, I have to pay UI premiums on the vacation pay. How can I have a vacation when I don't have a job? And how can you charge me for UI when I'm not working?

Second, I feel the new regulations are making me subsidize the government with my severance pay. People expect severance pay to be a booster to help pay for things you can't afford when you're unemployed, what with the cost of things rising every year. We hoped to save my severance pay towards our retirement. Maybe go to America, which we have never done before . . . go for a holiday and get away from the snow. Now we can't do that. We have to live on the money right now.

I'm supposed to look for another job. Who can get a job at 63? Why can't people like me go into early retirement? I get a bit of UI. Then what? Do we go on welfare till I'm 65? . . . They could start some training program and employ elderly people, workers like myself that get laid off, to teach the young ones when they come into the work force. That's how I started. I started work at 14, learning from the fellows on the machines, which is far better than reading from a book.

If I had bummed around and had 19 different jobs, I would have gone straight on UI. I have been penalized because I stuck to my job. It's not fair at all. That's the way I look at it.

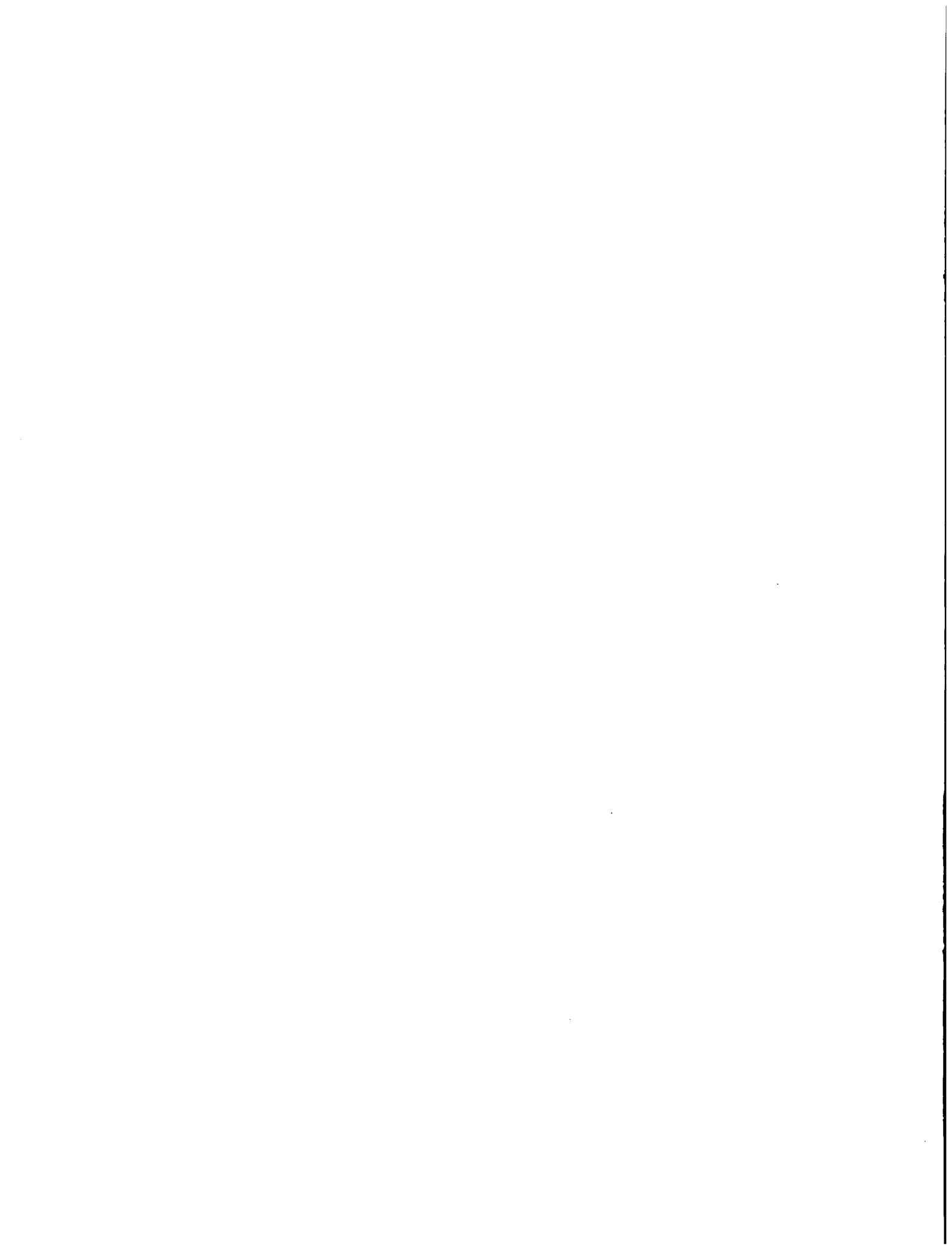




## Part III The Solutions

---

### **Responding to the Needs of the Unemployed**



## Responding to the Needs of the Unemployed

During the public hearings, many participants called for a return of Unemployment Insurance to insurance principles. They said repeatedly that the program's integrity had been compromised by changes over the years. Much of the criticism centred upon regionally extended benefits. In Part II, the phasing-out of regionally extended benefits was recommended and it was proposed that the savings be used to fund an Earnings Supplementation Program, as well as a range of other initiatives designed to improve the employability of jobless Canadians and to promote community and regional development.

If regionally extended benefits were phased out and no other changes were made in the current program, 51 weeks of work would qualify workers for up to 38 weeks of benefit (25 weeks of regular benefits and 13 weeks of labour force extended benefits). The variable entrance requirement would mean that workers who had worked the same number of weeks would still qualify in some regions but not in others, and existing special rules would still apply for repeaters, new labour force entrants, and re-entrants. Furthermore, removing regionally extended benefits would not correct the inequity of the program's treatment of full-year workers relative to part-year workers. The current program would still be unfair, would provide the wrong incentives, and would be too complicated.

The program is unfair because workers in similar situations are treated differently. Some contributors, such as retired military personnel, are not able to collect benefits when they become unemployed. Self-employed fishermen are covered by Unemployment Insurance, but other workers earning a living in seasonal, self-employed work are not. A worker with 12 weeks of insured employment is eligible for Unemployment Insurance if the local unemployment rate is 7.1 percent or more, but if that worker had only 11.5 weeks of insured employment or if the local unemployment rate were 7.0 percent or less, no benefits would be paid.

The current program does not provide sufficient incentives for claimants to work while receiving Unemployment Insurance. Recipients can earn an amount up to 25 percent of their maximum benefits from part-time employment without suffering any loss of benefit. Each dollar of earnings after that point reduces benefits by one dollar and contributes nothing to overall income, so there is little financial incentive for a person in receipt of benefits to take on part-time work. Since taking any full-time job disqualifies a claimant, there is little incentive to take a job paying less than the Unemployment Insurance benefit or one that is not guaranteed to last long enough to generate another claim.

For the employer, the program makes it easier to hire or lay off workers for short periods. Since workers are supported by benefits until their employers need them again, and entrance requirements are lower in regions with high unemployment rates, they have little incentive to look for work elsewhere. Thus, the current program of Unemployment Insurance may encourage unstable work patterns by subsidizing layoffs.

*alone - why should they pay? what will happen to regions affected? won't rule still apply to employees be the rule beneficiaries?*

*x*

The current program is too complex because the number of goals that Unemployment Insurance is expected to meet has increased over the years. Special rules designed to meet various objectives have resulted in a program that is virtually impossible for clients to understand and difficult for the staff to administer. Such basic definitions as "insurable employment" and "interruption of earnings" are open to misinterpretation.

Staff must master a large amount of information contained in the Act, regulations, various directives, circulars and telexes. Often the information is inconsistent, which means that inconsistent information is given to clients. Frequent changes in regulations make it difficult for both staff and clients to have the most up-to-date information. The Record of Employment requires an employer to translate pay periods into calendar weeks regardless of how employees are paid, and is a major source of errors and delays in benefit payments. The basic eligibility criteria are complex, easily misunderstood, and often lead to inequities. The appeal system is not seen as allowing a fair and independent review of cases.

Part III develops proposals which respond to these concerns. Chapter 7 suggests a new direction for Unemployment Insurance, to make it fairer and less complex, and to improve work incentives. The proposed program does so by calculating benefits over a longer earnings period and paying them out over 50 weeks. A Cumulative Employment Account is proposed which will provide benefits to long-term workers who need to adapt to changing economic circumstances. An important part of these proposals is the transition from the current program to the new system.

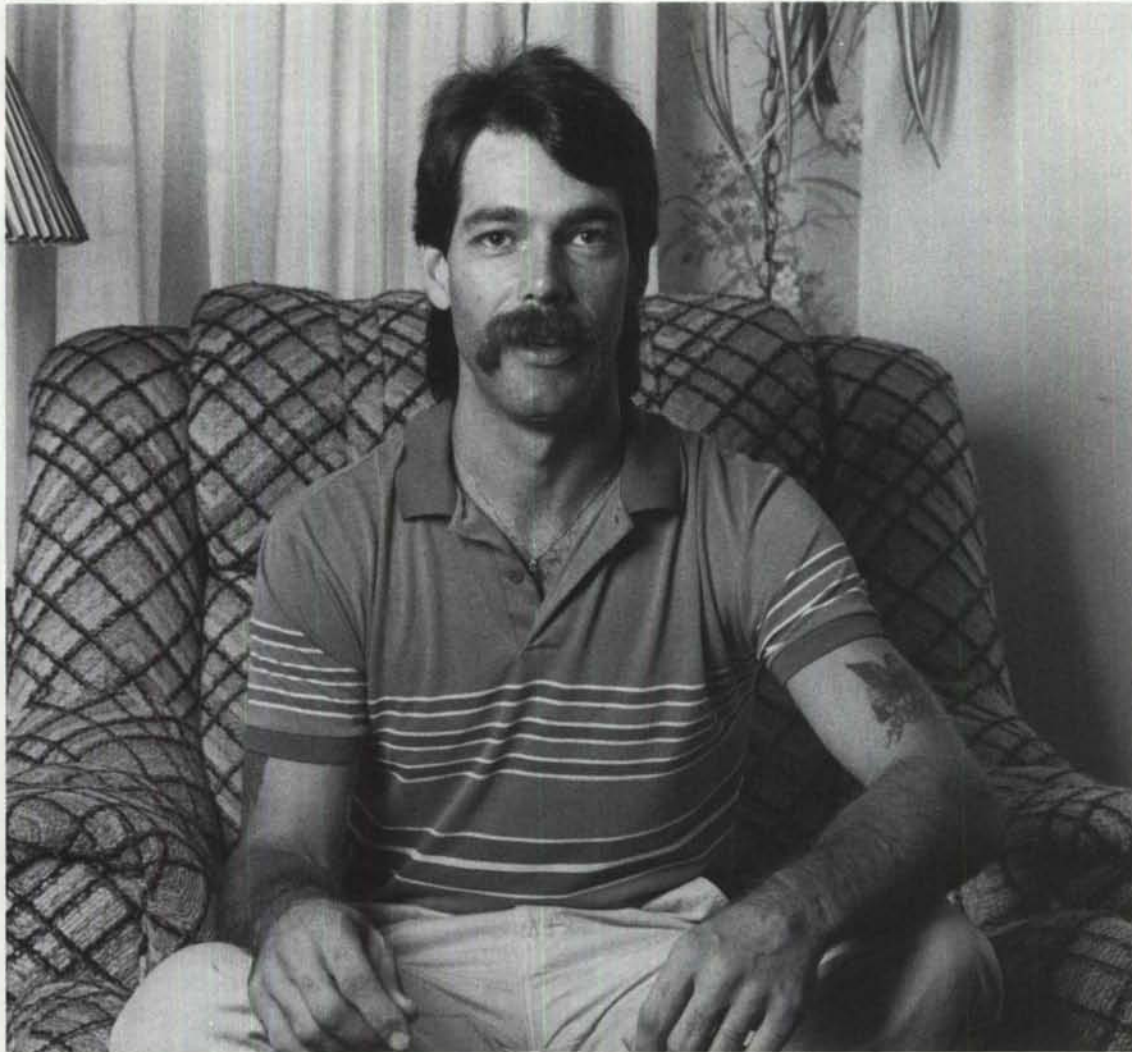
Chapter 8 presents a range of amendments that should be introduced whether or not the changes in Chapter 7 are adopted. It includes proposals which deal with the controversial issues of pension income, severance pay, vacation pay and lump-sum payments.

Self-employment and Unemployment Insurance are considered in Chapter 9. This chapter deals in some detail with the issue of fishermen's Unemployment Insurance and makes proposals for replacing it with a form of income supplementation.

Finally, Chapter 10 provides a range of proposals for improving the administration of the program. The proposals are on two levels. The first level deals with fundamental changes which would result in the program being administered by an autonomous institution at arm's length from the government; the second considers a range of less fundamental changes which could be adopted whether the major organizational changes proceed or not.

These chapters represent the essence of the proposals for reorienting the Unemployment Insurance program. The recommendations that they contain, together with the proposals in Part II, constitute a significant redirection of both employment and unemployment policy in Canada and indicate the direction that Canada should take to have a well-functioning and internationally competitive labour force as the twenty-first century approaches.

---

**Tim Hannan, Auto-Plant Worker, Windsor, Ontario**

*Mr. Hannan is typical of a large number of Canadian workers who enjoy the protection of a union, although the supplementary unemployment benefits provided to workers in the auto industry have not been established in the majority of Canadian unions.*

I started working for Chrysler in 1973, straight out of school. I'm presently work in a big plant upholstering seats . . . I get paid about \$14.52 an hour, a

little more than a regular line man's base wage, plus cost of living.

In the past thirteen years I've experienced several layoffs, and you could talk to a hundred employees and get the same story.

I was laid off for eight to ten weeks in my first year. Then, in 1975 sales were down and so there was a nine-month layoff . . . All I had to live on was UI, so that time was quite rough.

With a year's seniority, you qualify for supplementary unemployment benefits from the union. SUB makes up the difference between UI and 95 percent of your wages. And if there is an indefinite layoff, you have "bumping" rights to get work at another plant, according to your seniority.

At the beginning of the recession in 1980 it was looking real bad. A lot of my friends that I worked with from 1973 up till that time packed up and went out West. Most people stayed hoping to be recalled. They rode it out, collecting the SUB and UI to its maximum. A lot of people had to sell their houses and cars and couldn't pay back their credit union loans. And 1980 was the hardest time for most people because the SUB fund was almost drained dry, and you had to have 10 years of seniority or more to qualify for it. The union is the backbone . . . If it wasn't for them, it could have been a lot worse.

There were regular meetings at the union hall once a month during that layoff to keep laid-off employees updated . . . whether the profits were good, whether they were thinking of calling back people. If you heard of someone being recalled and you had just a little less seniority than that person, then you might be the next person to be called back. So you sat back and hoped that you would be next. Because it is such a good-paying job, you don't want to give up the chance to get it back by looking for something else.

In 1983 they shut down for retooling. Most employees were off from June until December, but with UI and SUBS we were receiving 95 percent of our wages, so it was comfortable. The mini-van we were going to work on was receiving a lot of good publicity, so we knew that we would be into some

good money when the plant reopened. Since December of 1983, since I have been back, we have worked almost every Saturday. It is a little over three years now since I have had to collect UI, thank God!

We just experienced a two-week shut-down, for a model change . . . It happens every year. They normally tell you when they will be shutting down, and you take your holidays then. It is usually the same two weeks every year. We are not entitled for UI because we are receiving vacation pay.

There are only two big plants left . . . almost 7,000 employees working steady six days a week for over three years now. Chrysler is slowly closing down the plants in Canada . . . They are retooling a plant in St. Louis to pick up slack from this plant. We have been losing contracts to other plants in the States and Mexico because they give lower wages and put in cheaper bids.

In the paint and metal shop area, we have also lost quite a few jobs because of the robot — but on the other hand we have gained a few in order to maintain these robots. We are worried a bit about losing our jobs to higher technology, but there are quite a few areas in the assembly plant where it would be virtually impossible for a robot to perform certain duties. There are far more jobs for people than for machines, but the company's engineers are probably five years ahead of what we can do, what would be feasible.

For me right now, it is very comfortable, but I wish I could say that about other people. People that left Windsor before are now coming back from the West because unemployment there is so high. They are trying to get their old jobs back.

---

## A Plan for Reform

### Introduction

Canadians have strong views about Unemployment Insurance. On the one hand, they are enthusiastically committed to it as an insurance program that pools the risks of unemployment among employers and employees and pays benefits as a right, not as a charity. On the other hand, they are angry and frustrated about abuses of the program – not abuses because of dishonest people, but abuses because of deficiencies embedded in the very structure of the program. The system itself is seen as unfair, illogical, lacking integrity, and overly complex.

The program applies different criteria and provides different benefits to individuals whose circumstances are similar. It is more generous to some short-term workers than it is to some full-year workers. It provides a higher level of benefits to employees in some regions of Canada than in others. For some, benefits run out too early; for others, benefits provide more income than the wages that they earned while working.

Many participants at the public hearings called for a return to insurance principles. They stated repeatedly that the program's integrity was at stake and had been compromised. The innumerable modifications to the program over the years were viewed as political compromises which had distorted the objectives of the program and undermined its principles. At the same time Commissioners were challenged to devise better ways to meet the needs of the unemployed.

This chapter presents the overall plan for reform and sets out the broad direction and ultimate objectives of Unemployment Insurance. It involves a gradual transition over a period of years to a new program based upon Annualization. Once the new system is fully implemented, the program will calculate benefits on the basis of total insurable earnings during the previous 52 weeks and will pay out benefits in equal instalments for 50 weeks or until the recipient is re-employed, if that should happen sooner. Another major proposal, designed to assist long-term workers, is the establishment of a Cumulative Employment Account. This proposal will make it possible for long-term workers to accumulate credits that could be used under certain conditions to top up or extend their benefits.

The proposed plan must be viewed both within the broad context of the human resource development proposals and within the framework of the Canadian income security system. The elimination of regionally extended benefits was recommended on the grounds that Unemployment Insurance is not an appropriate instrument to provide either income support or income supplementation. From the savings obtained from the phasing-out of regionally extended benefits and from other proposed reforms, the implementation of an Earnings Supplementation

"Some beneficiaries benefit nine or ten times more than the value of the contributions made by their employers and themselves." (St. John's Status of Women Council, St. John's hearings)

"The number one concern we have is the return of the Unemployment Insurance program to its original purpose, which is to provide relief for people who are temporarily out of work. To that end, we would like to see the program return to a program which is based on insurance principles." (Atlantic Provinces Chamber of Commerce, Charlottetown hearings)

"It can be perceived – and we submit it is perceived wrongly – that Unemployment Insurance is part of the social aspect. It is an insurance. Construction workers recognize and live within the aspect of seasonal work. That seasonal work only entitles them to x number of dollars. They have to have x number of dollars from somewhere else. Right now their somewhere else is the earned income from Unemployment Insurance." (Labourers' International Union of North America, Regina hearings)

"There are other things in this world that are more important than Unemployment Insurance, but not in the Unemployment Insurance program. In that program, what is number one is insurance for loss of employment." (Greater Moncton Chamber of Commerce, Moncton hearings)

"We have a ridiculous system here in Canada – where anyone can receive \$244.00 tax free and paid holidays for not working – that is why we as a country are non-competitive." (D. English Inc., letter to the Minister of Employment and Immigration)

"The guiding principle of the Unemployment Insurance program as a whole should be fairness. All subordinate principles should be measured against a principle of fairness. One such subordinate principle could be that of a national program, without regional disparities." (Social Planning Council of Oshawa–Whitby, Toronto hearings)

Program is recommended. That proposal is a critical element of reform. It is needed in order to offset in some measure the hardship that would result for individuals and for communities from the phasing-out of regionally extended benefits and fishing benefits. To that end the establishment of a community development fund, the adoption of long-term regional economic development programs, a concerted attack on illiteracy, and a refocussing of training programs are also recommended. The reform of the core program should be considered in the context of these other proposals.

The objective of Unemployment Insurance is to provide temporary replacement of earnings in the case of job loss or an interruption of employment earnings. Several criteria have been applied to decide how well various options meet this objective (see box). These six criteria establish the basis for trade-offs. The choices are not easy. The purpose was neither to cut back nor to enrich the program. The compelling need for a comprehensive human resource development strategy, however, made it obvious that meeting the needs of the unemployed would be costly. The options that must be chosen are those that direct money to programs that provide the best possible foundation for the future. It is in this spirit that the following proposals for fundamental changes to Unemployment Insurance were developed.

### Criteria for Assessing Changes in the Unemployment Insurance Program

#### 1 *Horizontal Equity*

Persons in similar situations should receive similar treatment, and appropriate variations should be permitted in recognition of different circumstances. This criterion requires the clarification of what constitutes similar situations for purposes of Unemployment Insurance. In order to assess similarities and differences, it is necessary to consider a time horizon that allows meaningful similarities and differences to be identified. If, for example, too narrow a time horizon is used to measure work patterns, a person who has worked for only a few weeks could be defined as eligible for the same benefits as someone who has been continuously employed for 10 years.

#### 2 *Labour Market Efficiency*

This criterion is concerned with the balance between replacement of earnings and the efficiency of the labour market.

Finding the best balance is one of the most difficult aspects of developing a program. Benefits must be high enough to maintain an ongoing standard of living but not so high as to encourage a person to remain unemployed, supported by the program benefits. In other words, incentives to work are an essential element in any program evaluation.

#### 3 *Targetting of Benefits*

This criterion refers to the ability of the program to provide the appropriate level of assistance to those whom the program intends to help, while minimizing the extent to which benefits flow to those outside the intended target population. A program that provides the appropriate ratio of benefits to previous earnings to all unemployed persons would be effective, but if a large proportion of benefits were paid to persons who are not unemployed, it would be inefficient. Under this criterion, the goal is to find an appropriate balance between effectiveness and efficiency.

#### 4 *Sensitivity to Economic and Social Conditions*

Paying benefits on the basis of age alone, for example, would make the program insensitive to economic conditions. By contrast, specific programs such as social assistance and Unemployment Insurance are relatively sensitive to economic conditions.

#### 5 *Appropriate Program Costs*

The higher the cost of the program, the fewer the resources available for other social purposes. Thus, the goal under this criterion is to ensure an appropriate balance between costs and the other criteria.

#### 6 *Administrative Simplicity*

The program should be not only simple to administer but also easy for clients to understand. Administrative simplicity is usually associated with programs such as Family Allowances or Old Age Security, in which benefits are based solely on age. Meeting some of the other criteria, however, necessarily involves a loss of administrative simplicity.



## The Proposed Approach: Annualization

The proposed approach represents a fundamental shift in the program one which restores equity, integrity, clarity and administrative simplicity to Unemployment Insurance. It embodies the view that Canada must invest in human resources and it frees resources to fund the human resource development plan proposed in Part II. The new approach also is more equitable in its treatment of short-term and seasonal workers as compared to long-term workers, improves work incentives, and provides broader coverage. Furthermore, it achieves these objectives while simplifying the program from the perspective of both the claimants who benefit from it and the staff who administer it.

The proposed reforms involve moving to "Annualization" in the calculation of benefits. This means basing the benefit level on all insurable earnings over the previous 52 weeks and paying benefits for up to 50 weeks. An additional component of the new program is the Cumulative Employment Account, which will permit workers with long-term employment and Unemployment Insurance contributions to build up additional credits to be used only under specific conditions.

To redirect the program and achieve a better balance among the criteria identified, it is proposed that:

- There would be a uniform entry requirement of 350 hours of work (roughly equivalent to 10 weeks) which would apply to all workers, including those applying for sickness and maternity benefits, as well as new entrants to the labour force, re-entrants and repeaters.
- Benefits after a transition period would be based upon average weekly earnings in the preceding 52 weeks and not, as now, on earnings in the preceding 10 to 20 weeks.
- Benefits would be paid in 50 weekly instalments, after a two-week waiting period. This would eliminate the current practice of varying the duration of benefits according to weeks worked and regional rates of unemployment.
- During the course of the transition period, consideration would be given to increasing the level of benefits from the current 60 percent to 66 2/3 percent of insurable earnings.

### Eligibility

The entrance requirement of the proposed program would be a cumulative total of 350 hours of work (approximately equivalent to 10 weeks) within the preceding 52 weeks. The proposed program treats all hours of work equally in determining eligibility for benefits. Entrance requirements would also be uniform throughout Canada, eliminating the complication of variable entrance requirements.

The proposed approach redresses several inequities. The current system sets eligibility requirements at differing lengths of time. If the unemployment rate is over 9 percent, for example, the requirement is 10

"The plan should provide benefits to eligible claimants based on their attachment to the work force and premiums paid. Claimants should be legitimately out of work and actively seeking employment." (Canadian Construction Association, Ottawa hearings)

"Insurance benefits should be payable only to employees with an extended connection to the paid work force, with the length of benefit entitlement directly tied to the number of weeks worked during the past year." (Canadian Organization of Small Business, Toronto hearings)

"In Canada we have 49 economic zones for Unemployment Insurance purposes. Only seven of those zones have a higher requirement than 10 weeks as far as entry onto UI. Now, it doesn't seem to us that it would be that tough a problem to resolve and put it so that it is standard from sea to sea." (Port Alberni and District Labour Council, Victoria hearings)

"The call is for change from an inordinately complex system to one more easily administered, less prone to error and more easily understood by recipients and the general public alike. If the goals are those of clarity, precision and uniformity, then one looks for changes to eligibility procedures, a reduction to contingency rules and the reduction, if not the elimination, of discretion." (Social Planning Council of Winnipeg, written brief)

"An arithmetic correlation between the amount paid into the fund by an individual and the amount received by that person should also be established." (Alberta Chamber of Commerce, Calgary hearings)

"Don't you think that 400 hours of work in a year, whether it is done continuously without sleeping and within three weeks, or whether it is done over 50 weeks, is 400 hours of work? And it should be insurable and allow someone to derive the same benefits?" (Provincial Advisory Council on the Status of Women, St. John's hearings)

*Not done's I don't  
we want*

*Large reduction*

*potential offset*

"Let's say someone is working for \$10 an hour or \$8 an hour, it doesn't really matter. Does it really matter or should it matter for insurance purposes, whether those 50 days or 60 days in the year – and, again, that is an arbitrary number – does it matter what the pattern of employment is over the year in terms of benefits? And, if so, why?" (Coalition for Equality, St. John's hearings)

"Whether we are talking about regional unemployment, or cyclical, or seasonal, or structural, or even sectoral, they are all items that don't make much difference to the individual who is unemployed. We would suggest that it is possible and that you ought to concentrate on a level and duration of benefits that would apply equally to any person who is unemployed, regardless of where they are or the type of activity they may be in." (Canadian Federation of Labour, Ottawa hearings)

"Because of the area in which a person lived, rather than where he was employed, when some of those claims ran out they were not allowed to re-establish a claim because of the variable entrance requirement." (United Auto Workers, Local 707, Toronto hearings)

"We feel that all the earnings of part-time workers should be insurable, regardless of the amount earned or the hours worked in a week." (Canada Employment and Immigration Union, Fredericton hearings)

"All UI could be based on an hourly contribution rate." (Peter Doering, Edmonton hearings)

weeks, and if it is 6 percent, then 14 weeks are required. The local unemployment rate is at best a poor indicator of how easy it is to get and keep a job. Some skills may be in high demand in spite of the unemployment rate, while others are in low demand. It is unfair to treat workers differently when they are in occupations with the same employment prospects. That inequity is removed through uniform entrance requirements.

The current program also imposes longer eligibility requirements for "repeaters" (those who have received benefits in the 52 weeks immediately prior to their claim), as well as for new entrants and those establishing sickness or maternity claims. Since the Annualization approach averages earnings from the last 52 weeks, it automatically takes account of claimants' attachment to the labour force in that period, and so no additional eligibility requirement is necessary. Finally, as was noted in Chapter 6, the inequity in the treatment of part-time work is reduced.

Accordingly, the proposed entrance requirement for eligibility would be 350 hours for everyone and in all regions.

## Level of Benefits

### Reference Period and Base Period

Chapter 4 identified the characteristics that an Unemployment Insurance program should *not* have. It should not have an income or needs test and benefits should not relate to the family status and responsibilities of the claimant. Rather, entitlements should be closely related to earnings and the premiums paid on those earnings. For this reason, re-emphasizing insurance principles requires that the level of benefits should be closely related to earnings experience. In this way, past earnings provide a more accurate picture of what the claimant would have earned if he or she had not become unemployed.

To establish the level of benefits requires decisions on the value of what is being insured. The proposed system would base benefits on average earnings established over a reasonably long period of time. Most workers establish expectations and make financial commitments on the basis of their annual earnings. Therefore, the commonsense approach would be to use average earnings over a year as the basis for establishing the level of benefits. This contrasts with the current approach, which implicitly assumes that expectations and financial commitments may be established over as short a period as 10 weeks. In order to calculate the benefit level in the proposed system, earnings from employment over the previous 52 weeks would be used.

### Maximum Insurable Earnings

Some employees in professional or technical occupations have suggested that the present \$495 limit to weekly insurable earnings should be raised to provide more protection to higher-income workers. This concern is addressed, in part, by the proposal to raise the ratio of benefits to insurable earnings from the present 60 percent to 66  $\frac{2}{3}$  percent. This change increases the level of protection provided to both low-income

*Should you were  
asking to occupational  
but were more in  
demand*

earners and high-income earners. It should also be noted that the maximum insurable earnings limit is not static: it moves in step with the average industrial wage, according to a particular indexation formula.

It was argued in Chapter 6 that more should be done to encourage flexibility in work arrangements. The same arguments apply equally to the need for flexibility in setting a maximum limit to insurable earnings. The concept of one uniform limit is incompatible with the concept of flexibility in work arrangements. It has the same weaknesses as any general rule or policy that is applied equally to diverse circumstances.

Currently, there is considerable flexibility in the way that premiums are collected and this suggests a method to apply the limits. To assist them in calculating premiums, employers are provided with a booklet which translates insurable earnings, expressed as a weekly amount, into the relevant pay period of each employee. The tables in the booklet make it easy for the employer to calculate the correct amount of premiums to deduct for employees regardless of the pay period (weekly, bi-weekly, monthly, etc.). The argument to increase flexibility in work arrangements also supports the view that the approach used in the calculation of premiums should be adopted in the calculation of benefits. An annual maximum would be established and within that annual limit maximum insurable earnings would be established according to the pay period used by the employer. At present, this maximum would be \$25,740, or 52 times the current weekly maximum of \$495. Entitlement to benefits would be calculated on the basis of total premiums paid and weeks of employment in the previous 52 weeks.

This approach would not only contribute to increased flexibility but would also simplify the Record of Employment. Currently, in completing the Record of Employment the employer must translate pay periods into weeks as defined for Unemployment Insurance purposes. Under the proposed program, the employer would report the premiums paid according to his regular pay period, and if the employee had worked less than 350 hours the employer would report the number of hours worked.

### Replacement Ratio

The choice of the ratio of benefits to earnings is a matter of judgment. Arguments range from those in favour of a 50 percent ratio to those favouring 75 percent. The lower ratio is advocated for its effect on work incentives. It corresponds to the view of Unemployment Insurance as a program providing very short-term transitional assistance and to the view that there is a large share of household income that goes to expenditures which can be postponed. The higher ratio provides better income protection and is more appropriate to relatively long-term unemployment. Since the higher replacement ratio mitigates the impact of Annualization on those who work less than a full year, it is proposed that consideration be given to increasing the replacement ratio to 66  $\frac{2}{3}$  percent in the third phase of the transition to Annualization.

It should be noted, however, that increasing the ratio to 66  $\frac{2}{3}$  percent without increasing premiums would consume approximately \$700 million of the amount that would be saved by phasing out

"We feel that the best way to guarantee a viable UI fund, thus ensuring that the present UI program is strengthened or at least maintained, is to increase the revenues into the fund. The current formula is based upon the worker's paying a premium rate of \$2.35 for each \$100 up to a ceiling of \$460 of weekly insurable earnings, with the employer's rate set at 1.4 times the worker's premium. We feel that those who earn more should pay more. Specifically, we are recommending that the ceiling on weekly insurable earnings for the purposes of calculating UI premiums should be removed altogether." (National Union of Provincial Government Employees, Ottawa hearings)

"Perhaps the problem lies with having a minimal level of employment before one is subject to contributions. If that were eliminated and any employment made subject to contribution, then whether people had four or five different employments at the same time, all of those would count." (Manitoba Teachers' Society, Winnipeg hearings)

*makes no sense*

"The benefit level should be partially geared to previous earnings. Lower-income workers should not be punished for having been lower-income workers, because quite frequently they are heads of households and they have serious responsibilities. In the Netherlands a minimum-wage worker will receive 90 percent of average insurable earnings as a benefit." (Doug Broome, Vancouver hearings)

"Comments were made earlier by others about Unemployment Insurance as bridging the gap between jobs. Well, that bridge used to be over a very small stream; now the bridge needs to be built over an ocean. People are unemployed for longer periods of time and they cannot be abandoned by the government. I don't think it creates a sense of dependency. I think it is something that is owed to the people who have contributed and they should not be abandoned to charity." (Saskatchewan Federation of Labour, Regina hearings).

"There will be instances where a UI claimant will decide part way through his claim that a training program is the answer to his inability to secure a job. We propose that the claimant be able to 'freeze' the claim, take a training program through the Canadian Jobs Strategy program, and receive the regular training allowance." (Canadian Bankers' Association, written brief)

"The Îles-de-la-Madeleine socioeconomic committee recommends that the UI program be structured to motivate individuals to take part-time or casual work; and that a system of banking hours or days be put into place to encourage people to work on a temporary basis." (Comité socio-économique des Îles-de-la-Madeleine, written brief)

regionally extended benefits and changing to an annualized program. Whether that amount would be better spent on Unemployment Insurance to mitigate the effects of the proposed changes or whether it might not be used more effectively to provide assistance through the Earnings Supplementation Program is a question to be decided by political decision makers.

### **Duration**

The average duration of unemployment is increasing (from 14.7 weeks in 1980 to 21.6 weeks in 1985). More workers are exhausting their Unemployment Insurance benefits before they find work. With the phasing-out of regionally extended benefits, the maximum duration of benefits under the current program would be only 38 weeks. In the proposed program all beneficiaries would be eligible for 50 weeks of benefits after a two-week waiting period.

### **Credit Banking**

As an incentive to take a job, the current program provides for a system of "credit banking." A claimant who finds a full-time job and is therefore no longer eligible to receive benefits may suspend rather than terminate his claim. If the new job does not last long enough to make him eligible for new benefits, he can revert to the old claim.<sup>1</sup>

Under Annualization, the credit banking option is retained (see box). Accepting a full-time job would still suspend the original claim. If that job were lost after nine weeks, the original claim could be reactivated for the remaining time available at the current level and the brief work episode would not be taken into account. These nine weeks, however, would not be forgotten, since after the original claim has been exhausted, they would be used to meet eligibility requirements and to calculate benefits for a new claim. The new claim would be based on the previous 52 weeks. Those nine weeks at 40 hours a week would be sufficient to satisfy the 350-hours requirement, but even if they were not, they would still count in establishing a new entitlement, provided the person had worked at least 350 hours in the 52-week period preceding the new claim. Thus, the person would be able to complete the first claim and subsequently establish a new claim on the basis of a new 52-week qualifying period.

By ensuring that all hours worked and all earnings are considered in calculating claims, this approach to credit banking would provide an incentive to the unemployed person to accept full-time work rather than to continue drawing benefits.

## Cumulative Employment Account

### Introduction

In the course of the public hearings a paradox became apparent. While the current Unemployment Insurance program was perceived as providing too much assistance to certain individuals – primarily short-term and seasonal workers – it was also perceived as inadequate for meeting the needs of others who were affected by major structural changes in the economy. Adoption of Annualization would shift the focus of Unemployment Insurance toward full-year workers. It is recognized, however, that a year of benefits may well be insufficient for the kinds of adjustment that workers will find increasingly necessary.

The particular concern that was most frequently raised at the hearings was concern for the older worker. It centred on those workers who are too young to begin drawing a pension but are unable to find work because many employers consider them too old to be employable. It was suggested that Unemployment Insurance could play a role as a “bridge to retirement.” These arguments were very persuasive. It became clear, however, that initiatives already under way in both public and private pension plans would significantly reduce the problem. In 1982, the Quebec Pension Plan began paying actuarially reduced pensions at age 60. The Canada Pension Plan is now in the process of adopting the same measure. Private pension plans also are increasingly providing the option of actuarially reduced pensions for those who wish to retire before the normal age specified in the plan. These develop-

“The introduction of new technology is made easier where older workers with long service can choose early retirement as an alternative to retraining near the end of their working careers. This becomes particularly important for production workers who may face unpleasant working conditions and arduous tasks. The choice of this early retirement alternative by the older worker provides wider opportunities for younger workers who normally have more dependants to support and might otherwise be laid off. The UI program should include provisions for workers who retire early. This would facilitate the negotiation of early retirement packages and encourage individual workers to utilize those provisions. Since the benefits of technological change accrue to all Canadians, it is only fair to expect Canadian society to ease the burden upon those most adversely affected by it.” (Canadian Paperworkers Union, Ottawa hearings)

### Illustration of Credit Banking Options under Annualization

Gerald is entitled to benefits of \$200/week, based on previous full-year employment at \$300/week. Unemployment begins on December 31, 1985. Unemployment Insurance benefits start on January 12 and are due to terminate on December 31, 1986.

On March 23, after 10 weeks on claim (and the initial two-week waiting period), Gerald starts a full-time job that lasts nine weeks, until May 24. If he then makes a second claim, it will run for 52 weeks beginning on that date and ending a year later, that is May 24, 1987. If he goes back to his earlier claim, his benefits will end on December 31, 1986.

In making a choice between reverting to the old claim and switching to a new claim, three variables would be important to Gerald: the weekly benefit, the total benefit, and the likelihood of finding another full-time job before total benefits are exhausted.

Weekly benefit on first claim	Weekly benefit on second claim, on earnings of \$200	Weekly benefit on second claim, on earnings of \$400	Time remaining (weeks)	Total benefit available
\$200			31	\$6,200
	\$142		50	\$7,100
		\$165	50	\$8,250

"If you are no longer employable because you have ceased to be a marketable commodity in the labour system and the employee/ employer relationship . . . then to help those people find a new niche in life is a social responsibility we all bear as Canadians." (Regina Chamber of Commerce, Regina hearings)

"If a person has worked for 10 or more years for a company and it is closing because of recession or economic reasons, they should be able to draw UI benefits for more than one year, depending on their situation." (Campbell River, Courtenay and District Labour Council, Victoria hearings)

"Rather than attempting to drive the unemployed from high unemployment regions by reducing benefits, the system should provide incentives to employable individuals to seek unfilled vacancies elsewhere in the country." (Canadian Paperworkers Union, Ottawa hearings)

"Establish incentives for the purpose of assisting unemployed workers in relocating to areas where there is a greater likelihood of employment." (Kamloops Unemployment Guidance Centre, Vancouver hearings)

"The worker may have to relocate to other areas, and in these cases assistance to relocate should be provided to the worker by the fund. However, in some cases this may not be practical or possible, and in these cases we would recommend that short-term training programs be made available." (Construction Association of Prince Edward Island, Charlottetown hearings)

ments, together with the conviction that Unemployment Insurance is not a retirement program, made the proposal for using Unemployment Insurance as a "bridge to retirement" much less appropriate.

Nonetheless, the plight of the older worker, compounded by the increase in structural unemployment, remains a serious problem and one that is likely to persist. Older workers tend to be unemployed longer than average; in 1985 male workers over 45 were unemployed for an average of 31.8 weeks, 7.8 weeks longer than the average for all unemployed men, and older female workers were unemployed for 23.4 weeks, 2.1 weeks longer than the average for all unemployed women.<sup>2</sup>

It is proposed that an individual account be established, to be known as a Cumulative Employment Account, to provide assistance to long-service workers. Workers would contribute over time and would be able to use the benefits, under certain circumstances, to adjust to major changes in their employment situation.

### **Building Up the Account**

The proposed Cumulative Employment Account allows a long-term contributor to build up credit in an account in much the same way that automobile insurance policies give good drivers a no-claims bonus. Under the Cumulative Employment Account, employment beyond one year increases either the amount or the duration of benefits available to workers, provided that they satisfy certain conditions. Specifically, the Employment Account would accumulate at the rate of two weeks for every full year employed. The account would build up slowly and would not be available until after approximately 30 years of employment. A full year would be defined as 2,080 hours, and those who worked for fewer hours in a year would accumulate credits on a prorated basis. The maximum that could be accrued would provide one additional year of benefits.

### **Drawing Down the Account**

Certain conditions would have to be met in order for benefits to be withdrawn from the account. The threshold of 30 years of labour force attachment ensures that benefits are directed to long-service workers. This attachment would be calculated from the first full year of employment of each individual. Furthermore, setting the threshold at 30 years when it takes only 26 years to accumulate maximum benefits effectively provides a "dropout" provision that permits workers to be out of the labour force for up to four years without reducing their maximum benefits.

The uses to which benefits could be put would include the following:

- The Cumulative Employment Account could assist workers who suffer a number of layoffs in quick succession after many years of steady employment with the same company. In these cases, Annualization of earnings over a period of years would reduce benefit entitlement. Workers in this situation could choose to use the Cumulative Employment Account to top up their benefits to

66 ⅔ percent of their average weekly earnings over the previous five years.

- Workers could use their Cumulative Employment Account within 13 weeks of a layoff, either to top up or extend benefits, to allow them to undertake training, retraining or educational upgrading, or to move to another approved location for employment or training/educational upgrading. In these cases, the top-up could bring benefits up to 80 percent of their previous insurable earnings. This higher replacement ratio would provide an additional incentive for older workers to retrain or move instead of remaining on Unemployment Insurance, since it would offset the additional expenses resulting from retraining or relocating. In addition, the higher ratio recognizes that long-service workers tend to have higher wages and that the limit on maximum insurable earnings may mean that actual replacement ratios are low.

"The greatest potential for the positive use of Unemployment Insurance lies in using these resources to train and retrain workers of all kinds whose skills are becoming obsolete."  
(Canadian Congress for Learning Opportunities for Women, Regina hearings)

### Phasing in the Account

By its nature, the Cumulative Employment Account would pay benefits only after many years. Obviously, the phasing-in process must be accelerated so that benefits would be available immediately. Individual records of annual earnings, but not of time worked, are maintained by both the Canada and Quebec Pension Plans. Furthermore, the current \$25,800 maximum for annual pensionable earnings is very close to the \$25,740 maximum for annual insurable earnings for Unemployment Insurance. Even though the Cumulative Employment Account would be accumulated in terms of time, it would be translated into money when benefits are paid. The records of the Canada and Quebec Pension Plans, which go back to 1966, could serve as the basis for the calculation of benefits. These records would not give direct information about whether a full year had been worked, but to the extent that unemployment reduced pensionable earnings below the maximum, the data would provide an indirect indication.

"Older persons who are victims of plant closures: we could list a number of clients who fall into this category. These people are the most deprived, the most disadvantaged of all. Something must be done for them. It is largely a question of adapting current programs which no longer have the scope and no longer answer the need." (Centrale de l'enseignement du Québec, Montréal hearings)

At the present time information is available for 20 years, and it would take another 10 years before the Account could be drawn upon, if the 30-year threshold were maintained in the phase-in period. In order to ensure that benefits become available immediately, it is proposed that during a phasing-in period benefits would be based on the information available. Thus, if the program were instituted in 1987, 21 years of information would be available and would be sufficient to qualify for maximum benefits. In 1988, 22 years would be available and would be used to calculate benefits and so on, until the 30-year threshold could be met.

### Alternatives to the Cumulative Employment Account

Several alternatives were considered in the development of this proposal.

The Cumulative Employment Account bears similarities to the Transitional Adjustment Assistance Program (TAAP) recommended by the Macdonald Royal Commission.<sup>3</sup> Among the activities that TAAP would support would be the following:

- funding of on-the-job training programs;

"Under the suggested eligibility criteria, the [Macdonald] Commission noted that concentrating the \$4 billion of annual TAAP funds on the 253,000 workers who in 1984 had been unemployed at least one year would yield benefits of \$15,800 per worker, and that further restricting the program to 150,000 would raise the per capita benefits to \$26,700. The Commission also proposed that TAAP benefits for individual participants be proportioned to their length of time in the labour force up to a maximum of 15 or 20 years." (J.R. Kesselman, "The Royal Commission's Proposals for Income Security Reform," *Canadian Public Policy* 12 (February 1986, Supplement), p. 104)

- portable wage-subsidy programs;
- early retirement plans for older workers;
- mobility grants; and
- special projects financing, such as aiding in the funding of a cooperative purchase of a plant by the workers.

In terms of the clientele that TAAP is directed toward, it is clear that the Macdonald Royal Commission had in mind older workers with a labour force attachment of at least five years. To that degree TAAP, like the Cumulative Employment Account, is an extension of Unemployment Insurance to cover workers with a long-term labour force attachment. TAAP funding, however, would come from general revenues rather than from premiums. The only requirement specified is that the "entitlement to use TAAP must be based on their [the workers'] willingness to undertake adaptive behaviour."<sup>4</sup>

The major problem with the TAAP proposal is that it is targeted to persons who have been unemployed for longer than one year and is not generally available earlier. There are further concerns. Savings from the phasing-out of regionally extended benefits and other reforms are best devoted to an integrated human resource development strategy that includes, among other features, employment development, literacy programs and earnings supplementation. To direct savings to a small targeted population of Unemployment Insurance exhaustees as the TAAP proposal advocates, ignores the fact that the unemployment problem in Canada extends far beyond the concerns of long-term employees who lose their jobs and exhaust their benefits. By contrast, the Cumulative Employment Account is just one element in a range of initiatives intended to make the Canadian work force more adaptable.

Two further options to address the needs of older workers were considered. The first would use age alone to determine benefits. It would provide extended benefits for those over age 45, and each year worked beyond age 45 would result in an additional five weeks of Unemployment Insurance benefits, to a maximum of 50 weeks. This approach would be easier to administer than the Cumulative Employment Account, since it uses only age to determine benefits. The simplicity gained, however, would not be without costs. Age-based criteria may involve problems because of the Canadian Charter of Rights and Freedoms. Age, moreover, is not necessarily a good indicator of long-term attachment to the labour force. This approach would also rekindle concerns that, unless a minimum labour force attachment is required, workers might be induced to postpone retirement or enter the labour force simply to collect benefits. To avoid this, a minimum of 10 years or more of attachment to the labour force could be required. Restrictions similar to those contemplated under the Cumulative Employment Account would also be needed.

Another option would expand the role of the labour force extended benefits now provided in the current program. In the absence of regionally extended benefits, a person who has worked for a year would be eligible for a total of 38 weeks of benefits (25 weeks of regular benefits

"Trust companies and insurance companies would offer Registered Education and Retraining Fund (RERF) contracts to employers, labour unions and individual taxpayers to receive voluntary contributions which would be accumulated towards the day when job loss occurs, and upgrading of skills, or a change of industry and hence the learning of new skills becomes necessary." (Benetech Canada Inc., written brief)



and 13 weeks of labour force extended benefits). If the goal was to provide a maximum of one additional year of benefits, this would require looking back an additional two years if the ratio of weeks worked to benefit duration were set at two to one. Again, benefits would be available not as a right but only if certain labour market adjustments were undertaken, such as education, training or moving from a high-unemployment area. The concern with this approach is that three years may be too short a period to warrant extended benefits. It is much shorter than the threshold suggested for the Cumulative Employment Account. For that reason, this approach was seen as failing to direct assistance to the long-term worker who is the real focus of concern.

### **The Consequences of Reform**

The full impact of reform will be felt only after several transitional phases (discussed later in this chapter). Once fully implemented, the proposed reforms would have consequences which arise from two sources: the removal of regionally extended benefits; and the change in the premium-financed element of the program from one which provides a maximum of 60 percent of insurable earnings, based on 10 to 20 weeks of work, to one which bases benefits on 66 ⅔ percent of average weekly earnings over the past 52 weeks and pays benefits for a maximum of 50 weeks.

The consequences of these changes can be considered from several perspectives:

- the reallocation of federal funds under all of the proposals;
- the impact on selected individuals (typical workers) of shifting from the current program;
- the overall consequences of the change for the premium-financed part of the Unemployment Insurance Account; and
- the impact on provincial government expenditures (for social assistance, job creation, education, etc.).

### **Reallocation of Funds**

As Figure 7.1 demonstrates, expenditures on Unemployment Insurance were close to \$12 billion in 1985. The elimination of regionally extended benefits, the switch to Annualization, and the introduction of the Cumulative Employment Account would mean that just over \$2.5 billion would be available to fund the range of initiatives which constitute the proposed human resource development plan. This would be augmented by some \$570 million from existing short-term job creation programs. Thus the overall total of funds available would be about \$3.1 billion.

### **Distributional Consequences**

There are two important aspects of the distributional impact of the change to the Annualization approach: the impact on individuals and the aggregate impact. In any assessment of these impacts, it must be kept in mind that Annualization is only one element in a series of changes that are being proposed and that other changes will mitigate its effects.

"Another problem is the different zones that we have in the province. We have found that on a construction site in mainland Nova Scotia, you may have members who live in four or five different counties and travel every night to their homes. It is also a possibility that these members may have the same amount of work over the last year, or the same amount of Unemployment Insurance stamps the second time around. Unfortunately, the members living in Halifax County may need 16 weeks or more and the members living outside of Halifax County need only 10 weeks." (Mainland Nova Scotia Building and Construction Trades Council, Halifax hearings)

**Figure 7.1**  
**Estimated Expenditures under Current System and after**  
**Full Implementation of Proposed Program (millions of 1985 dollars)**

	Current program		—	After full Implementation
	Unemployment Insurance Account	General Revenue		
<b>Program expenditures</b>				
Regular benefits	6,170	—		6,090
Regionally extended benefits	—	2,800		—
Sickness benefits	221	—		221
Maternity benefits	437	—		437
Work sharing (Section 37)	13	12		25 <sup>a</sup>
Retirement benefit	22	—		—
Pension provisions	—	—		100 <sup>b</sup>
Fishing benefits	—	180		—
Job creation (Section 38)	71	62		—
Training (Section 39)	126	109		—
Cumulative Employment Account	—	—		700 <sup>c</sup>
Increased coverage of part-time workers	—	—		100 <sup>d</sup>
<b>Non-program expenditures</b>				
Administration	1,000			1,000 <sup>e</sup>
Interest	500			500
<b>Total</b>	<b>8,560</b>	<b>+</b>	<b>3,163 = 11,723</b>	<b>9,173</b>

a Existing work sharing would be funded entirely from premiums.

b This was the amount saved by the changes instituted in January 1986. It is therefore an overestimate of the cost of the proposal change.

c The costing of this kind of initiative is necessarily imprecise. The current estimate of \$700 million is based on the assumption that 70 percent of exhaustees over age 55 would receive one year of additional benefits at \$15,000 a year.

d This estimate is derived by assuming that part-time workers with between 8 and 14 hours have the same unemployment rate (an underestimate) and the same insurable earnings (an overestimate) as all workers, so that the cost of this initiative is 1.2 percent of program costs.

e No account is taken of reductions anticipated due to recommended changes in administration.

Source: CEIC *Statistical Bulletin*. Estimates prepared by the staff of the Commission of Inquiry.

**The Impact on Individuals**

Since the current program provides regionally extended benefits, total benefits depend on the local unemployment rate. Comparisons of the impact on individual workers must take this into account. Benefits in Toronto, Winnipeg and St. John's illustrate the overall impact of the changes proposed. These cities represent areas of low, moderate and high unemployment rates, respectively. The extent of the impact also depends on the number of weeks of employment and, therefore, within each city a range of weeks of employment is also considered. More detailed tables showing the impact on workers with different weeks of employment and different durations of unemployment are presented in Appendix G.

The first illustration is a short-term (10-week) worker whose average insured earnings are \$400 a week.<sup>5</sup> In Toronto, where the unemployment rate was 5.8 percent in May 1986, this worker would receive no benefits under the current program because the minimum entrance requirement is 14 weeks. Under Annualization the worker would qualify for benefits of \$51 a week for 50 weeks. If unemployment lasted for 52 weeks, total benefits would be \$2,550.

If that same short-term worker lived in Winnipeg, where the unemployment rate was 8.6 percent in May 1986, a similar situation would apply. There the minimum entrance requirement was 11 weeks and therefore no benefits would be paid under the current program. With Annualization the worker could receive the same benefits as the Toronto worker – a maximum of \$2,550 over 52 weeks.

In St. John's, however, the situation would be quite different. There the local unemployment rate was 14.5 percent in May 1986. Under the current program a short-term (10-week) worker with insurable earnings of \$400 a week receives \$240 per week for up to 42 weeks, with maximum Unemployment Insurance benefits of \$10,080. Under Annualization, weekly benefits would be \$51 just as in Winnipeg and Toronto, and maximum benefits would be \$2,550.

In the case of a part-year (30-week) worker earning \$400 a week, weekly benefits in Toronto under the current system are \$240 for a maximum of 35 weeks, and maximum total benefits are \$8,400. In Winnipeg the current system pays \$240 a week, but for a maximum of 45 weeks because of the higher local unemployment rate, so that maximum total benefits are \$10,800. Finally, in St. John's under the current system the same worker receives \$240 per week for 50 weeks, so that maximum total benefits are \$12,000. Annualization would again treat all workers the same in Winnipeg, Toronto and St. John's. Under Annualization, weekly benefits would be \$154 for up to 50 weeks, so the maximum benefits would be \$7,700.

In Toronto, for a full-year worker whose insurable earnings are \$400 a week, maximum benefits under the current program are \$11,040, or \$240 a week for 46 weeks. Annualization would provide maximum benefits of \$13,300, or \$266 a week for 50 weeks. The pattern in Winnipeg and St. John's would be similar. In both cities the current maximum is \$12,000, whereas under Annualization it would be \$13,300.

Handwritten calculations:  

$$\begin{array}{r} 0 \\ 0 \\ 10.8 \\ \hline 10.8 \end{array}$$

$$\begin{array}{r} 2,550 \\ 2,550 \\ 2,550 \\ \hline 7,650 \end{array}$$

"We have concentrated on changes that would increase labour force attachment. Anomalies, such as workers relocating to high unemployment regions to draw benefits equal to 240 to 300 percent of their previous earnings, have to be eliminated." (Canadian Federation of Independent Business, Ottawa hearings)

"One of the very few concrete measures that people in economically disadvantaged sections of the country can point to as in any way coping with that regional imbalance is the variable entrance requirement in Unemployment Insurance." (Coalition for Equality, St. John's hearings)

Handwritten calculations:  

$$\begin{array}{r} 8.4 \\ 10.8 \\ 12.0 \\ \hline 21.2 \end{array}$$

$$\begin{array}{r} 7.7 \\ 3 \\ \hline 23.1 \end{array}$$

"Regional benefits are the source of the greater part of the incentive problems in the current Unemployment Insurance system. To reduce the extent of these problems, it is necessary to restore a closer link between time worked and the length of eligibility for benefits." (Fisheries Council of Canada, written brief)

The impact on the individual is complex and depends critically on weeks of employment, duration of the unemployment spell, and the local unemployment rate. Longer-term workers are generally better off and short-term workers worse off under Annualization, although there are important exceptions because of the change to a standard entrance requirement, as the Toronto and Winnipeg examples illustrate.

### The Aggregate Consequences

The consequences of phasing out regionally extended benefits were discussed in Chapter 4. In this chapter the change from the current system without regionally extended benefits to Annualization is analyzed. In the consideration of aggregate consequences, the focus is on the net impact of change rather than on whether some individuals within a certain category receive greater benefits while others receive lower benefits. The impact on individuals would depend on such matters as the length of time worked, average insurable earnings, and duration of unemployment. The estimated impact of Annualization is based on the assumption of no behavioural change. By contrast, if it was assumed that all exhaustees would receive benefits for 50 weeks, total expenditures would increase by about 3 percent rather than fall by 1 percent. More details are to be found in Appendix G.

In terms of weeks of insured employment, the shift to Annualization would redistribute benefits away from short-term workers and toward longer-term workers (see Figure 7.2). The proposed changes would also mean that the program would be more generous to those who are unemployed for longer periods (see Figure 7.3). The impact of the proposals by level of earnings reflects the more unstable employment patterns of low-income workers. Since their employment during the year

"We want regional unemployment rates taken into account when benefit eligibility criteria are determined." (Action chômage Kamouraska, inc., Québec hearings)

"We would like Unemployment Insurance to be everyone's right regardless of where they live and with the same number of weeks for all." (Mouvement action chômage de Québec inc., Québec hearings)

"We talked about the ten-week idea, and that some people, through no fault of their own can't do any better than that and think in those terms. It's also a fact that governments create that mentality themselves, because governments in fact have some job creation programs which suit the Unemployment Insurance requirements." (Government of Prince Edward Island, Charlottetown hearings)

Figure 7.2  
Estimated Effect of Annualization by Weeks of Insurable Employment

Weeks of insurable employment	Number of beneficiaries in current program	Current program		Annualization	
		With regionally extended benefits (\$ millions)	Without regionally extended benefits (\$ millions)	Benefits paid (\$ millions)	Change from current program without regionally extended benefits
Under 20	419,000	2,000	690	580	-16%
20-29	573,000	2,500	1,570	1,250	-20%
30-39	333,000	1,210	960	870	-9%
40-49	324,000	1,180	990	1,120	+13%
50 & over	434,000	2,070	1,940	2,260	+16%
Total <sup>a</sup>	2,084,000	8,970	6,170	6,090	-1%

<sup>a</sup> Totals may not add due to rounding.  
Notes: Regular benefits only. Based on 1984 data on beneficiaries and 1985 data on finances provided by the Canada Employment and Immigration Commission. See Appendix G for additional information.

tends to be more sporadic, they would be harder hit by the shift to Annualization (see Figure 7.4).

The provincial distribution reflects the extent to which the above three characteristics are prevalent in the labour market of each province. The more employment and unemployment are short term, the more likely it is that a province would suffer from a change from the current system without regionally extended benefits to an annualized system (see Figure 7.5).

In general, the change from the current system without regionally extended benefits to Annualization would increase benefits for those longer-term workers who are unemployed for a year or more and would reduce benefits for short-term and seasonal workers. The impact of these

"Insurance itself is a very limited concept. A limited range of people qualify for it and a limited range of people will get adequate benefits out of it. What do you do with the rest of the people? What do you do to top up the benefits if they are inadequate?"  
(Manitoba Federation of Labour, Winnipeg hearings)

Figure 7.3  
Estimated Effect of Annualization by Duration of Unemployment

Duration of unemployment (weeks)	Number of beneficiaries in current program	Current program		Annualization	
		With regionally extended benefits (\$ millions)	Without regionally extended benefits (\$ millions)	Benefits paid (\$ millions)	Change from current program without regionally extended benefits
1-10	367,000	260	260	200	-23%
11-20	359,000	830	820	590	-28%
21-30	362,000	1,440	1,230	920	-25%
31-40	350,000	2,030	1,260	1,160	-8%
41 & over	524,000	4,410	2,600	3,210	+23%
Total <sup>a</sup>	2,084,000 <sup>b</sup>	8,970	6,170	6,090	-1%

<sup>a</sup> Totals may not add due to rounding.

<sup>b</sup> Includes claimants with a duration of zero.

Notes: Regular benefits only. Based on 1984 data on beneficiaries and 1985 data on finances provided by the Canada Employment and Immigration Commission. See Appendix G for additional information.

Figure 7.4  
Estimated Effect of Annualization by Weekly Earnings

Weekly earnings (in 1985 dollars)	Number of beneficiaries in current program	Current program		Annualization	
		With regionally extended benefits (\$ millions)	Without regionally extended benefits (\$ millions)	Benefits paid (\$ millions)	Change from current program without regionally extended benefits
Under \$200	454,000	1,080	710	670	-6%
\$200-400	1,052,000	4,660	3,120	3,040	-3%
\$400 & over	578,000	3,230	2,340	2,370	+1%
Total <sup>a</sup>	2,084,000	8,970	6,170	6,090	-1%

<sup>a</sup> Totals may not add due to rounding.

Notes: Regular benefits only. Based on 1984 data on beneficiaries and 1985 data on finances provided by the Canada Employment and Immigration Commission. See Appendix G for additional information.

"We feel it would be inappropriate to increase the rate of contribution by employees and employers at this time."  
(Halifax Board of Trade, Halifax hearings)

"Allow people to pay a larger premium to UI if they want to have their benefits paid for a longer period of time or to offset the eligibility period when necessary." (Northern Alberta and Northwest Territories Building and Construction Trades Council, Edmonton hearings)

"What does UI mean to children? The income is not adequate for those with dependants. It is not enough to put three decent meals on the table every day. My children have fresh milk once every three days, just as an example." (Jobs or Income Now Coalition, Vancouver hearings)

"The duration of UI benefits should take into account regional economic conditions and the regional unemployment rate. That is, after the maximum number of benefit weeks payable in the full benefit period, the Act could provide for certain differences for economically weak or disadvantaged regions, depending on economic circumstances."  
(Syndicat de l'emploi et de l'immigration du Canada, Montréal hearings)

changes is reflected in the provincial analysis. The overall reduction in benefits, including those due to the phasing-out of regionally extended benefits, however, would be replaced by expenditures on Earnings Supplementation and other human resource development programs.

### **The Impact on Premiums**

As can be seen from Figure 7.6, the total amount chargeable to the Unemployment Insurance Account would be similar for the current program and Annualization. Regionally extended benefits and fishing benefits have no net impact on the Account because outlays under these headings are paid for by special government contributions. The "special benefits" such as maternity, sickness and work sharing stay essentially the same. The three-week retirement benefit is eliminated and premiums would be used to cover all of the work-sharing benefits. Job creation and training benefits disappear but are replaced by the Cumulative Employment Account. Figure 7.6 does not include any anticipated net savings in non-program expenditures as a result of program streamlining and increases in productivity. Consequently, the full implementation of the recommendations would seem to carry few implications for the level of premiums.

### **The Impact on Provincial Government Expenditures**

Estimating the extent to which changes in the Unemployment Insurance program would affect provincial social assistance expenditures is complicated by the fact that Unemployment Insurance benefits are paid on an individual basis and depend on previous earnings, while social assistance benefits are needs tested and so take into account not only family income but also assets. Available information on Unemployment Insurance recipients does not permit reliable determination of the number who would qualify for social assistance.

In the absence of more direct information, the following reasoning has been used. It is expected that the number of claimants receiving less than \$100 a week would triple. Currently, about 3 percent of claimants eventually become social assistance recipients (30 percent of Unemployment claimants remain on claim until benefits are exhausted, and 10 percent of exhaustees claim social assistance). The number of social assistance beneficiaries might increase by about 150,000 or 9 percent. It should be kept in mind that these individuals are employable and hence unlikely to stay on social assistance for a whole year. In the absence of the proposed Earnings Supplementation Program, this increase would probably raise social assistance costs nationally by about \$486 million, which would be cost-shared under the Canada Assistance Plan so that the cost to the provinces could be about \$243 million. Current provincial expenditures in this area total \$5.4 billion. While the reduction in Unemployment Insurance expenditures by themselves would likely increase provincial expenditures on social assistance, this potential effect could be entirely offset by the introduction of initiatives such as

Figure 7.5  
**Estimated Effect of Annualization by Province**

	Number of beneficiaries in current program	Current program		Annualization	
		With regionally extended benefits (\$ millions)	Without regionally extended benefits (\$ millions)	Benefits paid (\$ millions)	Change from current program without regionally extended benefits
Newfoundland	91,000	460	240	220	-8%
Prince Edward Island	17,000	90	50	40	-20%
Nova Scotia	83,000	380	250	240	-4%
New Brunswick	91,000	470	250	240	-4%
Quebec	628,000	2,810	1,940	1,890	-3%
Ontario	615,000	2,160	1,650	1,620	-2%
Manitoba	68,000	270	210	200	-5%
Saskatchewan	55,000	220	180	160	-11%
Alberta	177,000	740	530	570	+8%
British Columbia	252,000	1,260	850	890	+5%
<b>Total<sup>a</sup></b>	<b>2,084,000</b>	<b>8,970</b>	<b>6,170</b>	<b>6,090</b>	<b>-1%</b>

<sup>a</sup> Total includes territories. Totals may not add due to rounding.  
 Notes: Regular benefits only. Based on 1984 data on beneficiaries and 1985 data on finances provided by the Canada Employment and Immigration Commission. See Appendix G for additional information.

Figure 7.6  
**Estimated Effect of Annualization on Premium-Financed Expenditures**  
 (millions of 1985 dollars)

	Present program	Proposed program
<b>Program expenditures:<sup>a</sup></b>		
Regular benefits	6,170	6,090
Sickness benefits	221	221
Maternity benefits	437	437
Retirement benefits	22	-
Pension provisions	-	100
Work sharing	13	25
Job creation	71	-
Training	126	-
Cumulative Employment Account	-	700
Increased coverage of part-time workers	-	100
<b>Non-program expenditures:</b>		
Administration	1,000	1,000 <sup>b</sup>
Interest	500	500
<b>Total for Unemployment Insurance Account</b>	<b>8,560</b>	<b>9,173</b>

<sup>a</sup> Excludes regionally extended benefits and fishermen's benefits.  
<sup>b</sup> Excludes anticipated reductions in administrative costs.  
 — = not applicable.

Earnings Supplementation and other elements of the human resource development plan which would be part of the negotiated agreements with individual provinces.

It should also be noted that the transitional plan laid out in the following section will mean that the full impact of any cost increase would be felt only after the program is fully phased in. In addition, the proposed transition period would provide an opportunity to adjust the proposals if provincial expenditures on social assistance should rise unexpectedly.

### **The Transition**

"The Unemployment Insurance program should be reformulated so that it once again fulfills its original function: to serve strictly as a form of insurance for those Canadians who, for a variety of reasons, are experiencing short-term unemployment (a year or less in duration)." (Government of Alberta, written brief)

Annualization is very different from the current program, and it was not possible, within the time allotted to this Commission of Inquiry, to develop in comparable detail the proposals for Earnings Supplementation and other programs and then to analyze the impact of all of the proposals in relation to one another. Time to monitor, to do more detailed analysis of implications, to adjust and to adapt is essential, and for these and other reasons the transition phase is crucial.

One objective of the phasing-in process for Annualization was to avoid very large changes in individual benefits as one phase of the plan gives way to another. A second objective was to avoid intermediate steps that would be cumbersome or difficult to administer. A third objective was to have a process that could be adjusted to the pace of change in other elements of the human resource development plan. Finally, the phasing-in process was designed to permit time to monitor the proposed changes, to hold consultations on successive changes, and to assess their impact on individuals and regions before seemingly irrevocable steps were taken. Embarking on the change to the proposed new program will require both courage and caution, and the transition has been designed in stages so that it can be accomplished gradually as circumstances warrant.

One possible method is to move toward Annualization "a quarter at a time." The earnings base for benefit calculation would be 13 weeks during the first stage, 26 weeks in the second, 39 weeks in the third, and 52 weeks in the fourth. In each stage, benefits would be calculated on the basis of average weekly earnings over the period specified, but would be paid over 50 weeks. Because of the uncertainty over so many factors, these steps have not been expressed in years. It is envisaged, however, that full implementation could be effected within five years.

In effect, regionally extended benefits would be retained in the first stage, since all recipients would receive 50 weeks of benefits based on only 13 weeks of insurable earnings. Indeed, some short-term workers in low-unemployment regions would actually gain, since the minimum entrance requirement of 350 hours would be introduced. In the option simulated, this change is made in Phase 1, but it could be introduced gradually or at a later stage. To offset the increased costs due to the increased benefit duration, however, the replacement ratio would be maintained at 60 percent in the initial stage of the transition.

---



In the second stage, benefits would continue to be calculated as 60 percent of insurable earnings but these would be averaged over 26 weeks rather than the 13 weeks used in the first stage. The third stage would involve two changes, a move from 60 percent to 66  $\frac{2}{3}$  percent in calculating benefits, and a move to a period of 39 weeks in calculating average insurable earnings. In the final stage, benefits would be calculated as 66  $\frac{2}{3}$  percent of average insurable earnings over the previous 52 weeks.

### **The Impact on Individuals**

#### **Phase 1**

The impact of the first phase would be felt mostly by short-term workers who work less than 13 weeks in a year. If they live in a low-unemployment region, their benefits would actually increase because of the lower entrance requirement of 350 hours. If they live in a high-unemployment region, benefits would be reduced. For example, in St. John's, where unemployment is 14.5 percent, a 10-week worker unemployed for 20 weeks would experience a reduction in total benefits of \$990. A similar worker living in Winnipeg or Toronto would receive an additional \$3,330, since under the current program 10-week workers in those cities do not qualify for benefits. In this first phase, longer-term workers would be largely unaffected by the change.

#### **Phase 2**

Making 26 weeks the basis for calculating benefits means that all of those who work less than 26 weeks would experience a reduction in benefits. The 10-week worker unemployed for 20 weeks in St. John's, Winnipeg or Toronto would suffer a reduction of \$1,674 from the Phase 1 benefits.

#### **Phase 3**

The 39-week base extends the losses to all those who work less than 39 weeks in a year. In this phase, however, these losses would be offset slightly by the introduction of a 66  $\frac{2}{3}$  percent replacement ratio. Those who work less than 39 weeks would see their benefits further reduced by \$432 from Phase 2 benefits.

#### **Phase 4**

The final step to full Annualization would involve introducing the full 52 weeks as the basis for benefit calculation. The final benefit reduction would be \$306. Some longer-term workers, however, would be entitled to an increase in benefits.

---

Figure 7.7  
**Estimated Effect of Phase 1 of Implementation Scheme by Province**

	Number of beneficiaries in current program	Current program benefits paid (\$ millions)	Phase 1 of Annualization	
			Benefits paid (\$ millions)	Change
Newfoundland	91,000	460	440	-4%
Prince Edward Island	17,000	90	90	0%
Nova Scotia	83,000	380	370	-3%
New Brunswick	91,000	470	450	-4%
Quebec	628,000	2,890	2,840	-2%
Ontario	616,000	2,160	2,150	0%
Manitoba	68,000	270	270	0%
Saskatchewan	55,000	220	220	0%
Alberta	177,000	740	740	0%
British Columbia	252,000	1,260	1,240	-2%
<b>Total<sup>a</sup></b>	<b>2,084,000</b>	<b>8,970</b>	<b>8,850</b>	<b>-1%</b>

<sup>a</sup> Total includes the territories. Totals may not add due to rounding.

Notes: Regular benefits only. Based on 1984 data on beneficiaries and 1985 data on finances provided by the Canada Employment and Immigration Commission. See Appendix G for additional information.

Figure 7.8  
**Estimated Effect of Phase 2 of Implementation Scheme by Province**

	Number of beneficiaries in current program	Phase 1 benefits paid (\$ millions)	Phase 2 of Annualization	
			Benefits paid (\$ millions)	Change
Newfoundland	91,000	440	330	-25%
Prince Edward Island	17,000	90	70	-22%
Nova Scotia	83,000	370	320	-14%
New Brunswick	91,000	450	340	-24%
Quebec	628,000	2,840	2,460	-13%
Ontario	616,000	2,150	1,960	-9%
Manitoba	68,000	270	250	-7%
Saskatchewan	55,000	220	210	-5%
Alberta	177,000	740	690	-7%
British Columbia	252,000	1,240	1,110	-10%
<b>Total<sup>a</sup></b>	<b>2,084,000</b>	<b>8,850</b>	<b>7,740</b>	<b>-13%</b>

<sup>a</sup> Total includes the territories. Totals may not add due to rounding.

Notes: Regular benefits only. Based on 1984 data on beneficiaries and 1985 data on finances provided by the Canada Employment and Immigration Commission. See Appendix G for additional information.

Figure 7.9  
**Estimated Effect of Phase 3 of Implementation Scheme by Province**

	Number of beneficiaries in current program	Phase 2 benefits paid (\$ millions)	Phase 3 of Annualization	
			Benefits paid (\$ millions)	Change
Newfoundland	91,000	330	280	- 15%
Prince Edward Island	17,000	70	60	- 14%
Nova Scotia	83,000	320	290	- 9%
New Brunswick	91,000	340	300	- 12%
Quebec	628,000	2,460	2,250	- 9%
Ontario	616,000	1,960	1,900	- 3%
Manitoba	68,000	250	240	- 4%
Saskatchewan	55,000	210	200	- 5%
Alberta	177,000	690	660	- 4%
British Columbia	252,000	1,110	1,050	- 5%
<b>Total<sup>a</sup></b>	<b>2,084,000</b>	<b>7,740</b>	<b>7,220</b>	<b>- 7%</b>

<sup>a</sup> Total includes the territories. Totals may not add due to rounding.

Notes: Regular benefits only. Based on 1984 data on beneficiaries and 1985 data on finances provided by the Canada Employment and Immigration Commission. See Appendix G for additional information.

Figure 7.10  
**Estimated Effect of Final Stage of Implementation Scheme by Province**

	Number of beneficiaries in current program	Phase 3 benefits paid (\$ millions)	Full Annualization	
			Benefits paid (\$ millions)	Change
Newfoundland	91,000	280	220	- 21%
Prince Edward Island	17,000	60	40	- 33%
Nova Scotia	83,000	290	240	- 17%
New Brunswick	91,000	300	240	- 20%
Quebec	628,000	2,250	1,890	- 16%
Ontario	616,000	1,900	1,620	- 15%
Manitoba	68,000	240	200	- 17%
Saskatchewan	55,000	200	160	- 20%
Alberta	177,000	660	570	- 14%
British Columbia	252,000	1,050	890	- 15%
<b>Total<sup>a</sup></b>	<b>2,084,000</b>	<b>7,220</b>	<b>6,090</b>	<b>- 16%</b>

<sup>a</sup> Total includes the territories. Totals may not add due to rounding.

Notes: Regular benefits only. Based on 1984 data on beneficiaries and 1985 data on finances provided by the Canada Employment and Immigration Commission. See Appendix G for additional information.

**The Aggregate Consequences**

The aggregate impact as the current program is phased out and the proposed program introduced has been analyzed on a province-by-province basis. See Appendix G for information on the limitations and assumptions of the simulations used.

The impact of Phase 1 is to reduce overall expenditures by 1 percent (see Figure 7.7). The reduction would be concentrated in the Atlantic provinces and British Columbia. Since this phase effectively retains regionally extended benefits, the total dollars available for other human resource initiatives would be \$120 million.

The impact of Phase 2 (Figure 7.8) would be to reduce benefits by 13 percent, with greater-than-average reductions in the Atlantic provinces and Quebec. The total funds available for use in other human resource initiatives would be \$1,110 million. The pattern of change is more uniform in Phase 3 (Figure 7.9) and the total saved is \$520 million or 7 percent.

In Phase 4 (Figure 7.10), the impact of the shift from 39 weeks to 52 as the base for benefit calculation reduces benefits by 16 percent. As in the previous phase, the provincial distribution of these changes is relatively uniform. This final step makes a further \$1,130 million available for income supplementation and other purposes.

---

## Summary of the Proposed Changes and Recommendations

The needs of the unemployed for jobs, money, skills and options, and the appropriate responses to those needs, have been discussed in Part II. The responses include programs to increase the flexibility of the labour market, improve literacy and training, provide income supplementation programs, and create community and employment development programs. Within this context the role for Unemployment Insurance can be made much more specific than it is at present. In large measure, that is because the income supplementation aspects of the current program can be transferred into a more appropriate policy and program context. Indeed, the upgrading of the various components of an integrated human resource development strategy has been made possible by the redeployment of these funds.

---

### Recommendations

- 23** A new Unemployment Insurance program should be developed and implemented. Features of the program should include:
- a standard cumulative entrance requirement of 350 hours;
  - benefits based on average weekly insurable earnings in the 52 weeks prior to unemployment;
  - benefits paid in 50 weekly instalments after a two-week waiting period;
  - benefits to equal  $66 \frac{2}{3}$  percent of insurable earnings in the third phase of implementation;
  - an annual maximum insurable earnings limit applied according to the employer's pay periods; and
  - a system of credit banking.
- 24** The reformed program should be introduced in four phases.
- Phase 1: benefits would be based on the average weekly benefits over 13 weeks, paid in 50 weekly instalments, and would be 60 percent of insurable earnings.
  - Phase 2: benefits would be based on the average weekly benefits over 26 weeks, paid in 50 instalments, and would be 60 percent of insurable earnings.
  - Phase 3: benefits would be based on the average weekly earnings over 39 weeks, paid in 50 instalments, and would be  $66 \frac{2}{3}$  percent of insurable earnings.
  - Phase 4: benefits would be based on the average weekly earnings over 52 weeks, paid in 50 instalments, and would be  $66 \frac{2}{3}$  percent of insurable earnings.
- 25** A Cumulative Employment Account should be developed, having the following features:
- Credits would accrue at the rate of two weeks for every year worked, to a maximum of 25 years of credit.
  - Benefits could be withdrawn only after a 30-year threshold.
  - Benefits could be used to (a) top up Unemployment Insurance benefits to  $66 \frac{2}{3}$  percent of the previous five years, and (b) top up or extend benefits for those undertaking training, retraining or mobility. Benefits could be extended to a maximum of 52 weeks.
- 

A supplementary statement by Commissioner R. F. Bennett regarding Recommendations 24 and 25 is contained in Part V of this report.

---

### **Other Options for the Core Program**

In the search for reforms of the current program, more than a hundred permutations and combinations were considered. Three of these are analyzed here to provide further insights into the trade-offs involved in reaching the proposed direction of reform. The first option is an approach that relates weeks of benefit to weeks of work on a one-for-one basis. The second option is the reform package proposed by the Macdonald Royal Commission. The third is a modification of the present system, chosen because it illustrates the consequences of enriching Unemployment Insurance.

#### **The One-for-One Option**

Both Annualization and the One-for-One option effectively remove regionally extended benefits and replace them with a structure which ensures a much closer relationship between weeks of work and weekly benefits, and between insurable earnings and total benefits. The major difference between the two is the period of time each uses to calculate benefits and the duration of the benefit period. The Annualization option looks back 52 weeks and pays benefits for 50 weeks, whereas the One-for-One option looks back only 28 weeks and pays benefits for up to 28 weeks.

The One-for-One option eliminates both labour force extended benefits and regionally extended benefits, and provides benefits on a one-for-one basis up to a maximum of 28 weeks. Thus, 10 weeks of insurable employment would result in 10 weeks of benefits, 15 weeks of work would qualify for 15 weeks of benefits, and so on. The replacement ratio would, as now, be 60 percent and would be applied to average insurable earnings in the last 13 weeks. To be eligible, a minimum of 10 weeks must be worked in the previous 28.

The One-for-One option affects not only the way in which benefits are calculated, but also how they are paid out. It pays benefits for a maximum of 28 weeks. Annualization would pay benefits for a maximum of 50 weeks, while benefits under the current system would last for as little as 25 weeks and as much as 50 weeks, depending on labour force attachment and the local unemployment rate. Thus, the One-for-One option provides shorter maximum duration of benefits than either the current system or Annualization.

To illustrate the differences between Annualization and One-for-One, an analysis is presented at both the individual and the aggregate level.

#### **The Impact on Individuals**

As in previous examples, the case of a worker earning \$400 a week in Toronto and St. John's is used to illustrate the impact on individuals. For the 10-week worker in Toronto, the One-for-One option would result in maximum benefit entitlement of \$2,400, while under Annualization the maximum would be \$2,550. Under the present program no benefits would be paid to him, since the minimum qualifying period in Toronto is 14 weeks of work. In St. John's the maximum benefit entitlement for this same worker under the One-for-One option would again be \$2,400. This

---

compares with a maximum of \$2,550 under Annualization, and \$10,080 under the current program.

A 30-week worker earning \$400 a week in Toronto would have maximum benefit entitlement of \$6,720 under One-for-One, \$7,700 under Annualization, and \$8,400 under the current program. In St. John's the corresponding figures would be \$6,720 for One-for-One, \$7,700 for Annualization, and \$12,000 under the current program.

For the full-year worker in Toronto, total benefit entitlement under the One-for-One option would be \$6,720, as compared to \$13,300 under Annualization and \$11,040 under the current system. In St. John's the corresponding benefit entitlement would be \$6,720 under One-for-One, \$13,300 under Annualization, and \$12,000 under the current system. The level of benefits actually paid would, however, probably be similar under all three options because a relatively small percentage of full-year workers are unemployed for more than 30 weeks.

Figures 7.11 and 7.12 illustrate the impact of the current program, Annualization and the One-for-One option on workers with different weeks worked.

Figure 7.11  
**Weekly Benefits and Eligible Weeks at 5.8 Percent Unemployment and Insurable Earnings of \$400 per Week**  
 (Dollars)

Weeks worked	Current program		Annualization		One-for-One option	
	Weekly benefits	Eligible weeks	Weekly benefits	Eligible weeks	Weekly benefits	Eligible weeks
10	240	0	51	50	240	10
20	240	28	102	50	240	20
30	240	35	154	50	240	28
40	240	40	205	50	240	28
50	240	45	256	50	240	28
52	240	56	266	50	240	28

Figure 7.12  
**Maximum Potential Benefits at 5.8 Percent Unemployment and Earnings of \$400 per Week**  
 (Dollars)

Weeks worked	Current program	Annualization	One-for-One option
10	0	2,520	2,400
20	6,720	5,100	4,800
30	8,400	7,700	6,720
40	9,600	10,250	6,720
50	10,800	12,800	6,720
52	11,040	13,300	6,720

These tables bring out major differences between Annualization and the One-for-One option. First, Annualization pays small weekly benefits to workers with few weeks worked and higher weekly benefits for those with longer-term employment. Since Annualization pays benefits for 50 weeks rather than only 28 weeks, however, total benefits are higher under Annualization if unemployment lasts more than 28 weeks.

Where weeks worked are fewer than 28, the difference in total potential benefits between the One-for-One option and Annualization is due to the different replacement ratios. Beyond 28 weeks, however, the One-for-One option does not provide increased benefits for the additional weeks worked, while Annualization does. This fact explains the increasing spread between the two options. If an individual worked for 52 weeks earning \$400 a week before becoming unemployed, the maximum benefit entitlement under the One-for-One option would be \$6,720, which is 28 times the weekly benefit payable (\$240). The maximum benefit with Annualization would be \$13,300, which is 50 times the weekly benefit under that option (\$266).

Both alternatives avoid the current situation, in which total annual entitlements increase if earnings are bunched. Both the One-for-One option and Annualization improve equity in this respect, as they reduce the extent to which the program attracts persons into short-term employment simply to take advantage of benefits.

Annualization is more stringent on the regular repeater or the seasonal worker than is the One-for-One option. For example, for a worker who regularly works 20 weeks each year at maximum insurable earnings, the current system would pay benefits of \$8,910, even though total eligible benefits at regional unemployment rates in excess of 11.5 percent would be \$14,850. The One-for-One option would pay \$4,800 and the Annualization approach would pay only \$3,060.

### **The Aggregate Consequences**

The One-for-One option has been designed to cost virtually the same as Annualization, approximately \$6.0 billion a year.<sup>6</sup> (See Appendix G for limitations and assumptions on simulations used.)

Figure 7.13 compares the impact of the current program, the One-for-One option and Annualization on persons who have worked for various lengths of time. In this and the following three figures the impact of options on actual payments is estimated and is based on the assumption that the change from the current program would not alter work patterns.

As Figure 7.13 demonstrates, a major difference between Annualization and the One-for-One option is that the former is relatively harsher on short-term workers and more generous to full-year workers. Indeed, Annualization at 66  $\frac{2}{3}$  percent is more generous to full-year workers than is the current system.

The impact of the two options can also be compared by considering the duration of unemployment. Figure 7.14 shows that the impact of

---



Figure 7.13  
**Estimated Effect of One-for-One Option by Weeks of Insurable Employment**

Weeks of insurable employment	Number of beneficiaries in current program	Current program with regionally extended benefits (\$ millions)	Annualization		One-for-One	
			Benefits paid (\$ millions)	Change	Benefits paid (\$ millions)	Change
Under 20	419,000	2,000	580	-71%	840	-58%
20-29	573,000	2,500	1,250	-50%	1,710	-32%
30-39	333,000	1,210	870	-28%	970	-20%
40-49	324,000	1,180	1,120	-5%	900	-24%
50 & over	434,000	2,070	2,260	+9%	1,490	-28%
<b>Total<sup>a</sup></b>	<b>2,084,000</b>	<b>8,970</b>	<b>6,090</b>	<b>-32%</b>	<b>5,900</b>	<b>-34%</b>

<sup>a</sup> Totals may not add due to rounding.  
 Notes: Regular benefits only. Based on 1984 data on beneficiaries and 1985 data on finances provided by the Canada Employment and Immigration Commission. See Appendix G for additional information.

Figure 7.14  
**Estimated Effect of One-for-One Option by Duration of Unemployment**

Duration of unemployment (weeks)	Number of beneficiaries in current program	Current program with regionally extended benefits (\$ millions)	Annualization		One-for-One	
			Benefits paid (\$ millions)	Change	Benefits paid (\$ millions)	Change
1-10	367,000	260	200	-23%	260	.0%
11-20	359,000	830	590	-29%	820	-1%
21-30	362,000	1,440	920	-36%	1,270	-12%
31-40	350,000	2,030	1,160	-43%	1,270	-37%
41 & over	524,000	4,410	3,210	-27%	2,290	-48%
<b>Total<sup>a</sup></b>	<b>2,084,000<sup>b</sup></b>	<b>8,970</b>	<b>6,090</b>	<b>-32%</b>	<b>5,900</b>	<b>-34%</b>

<sup>a</sup> Totals may not add due to rounding.  
<sup>b</sup> Includes claimants with duration of zero weeks.  
 Notes: Regular benefits only. Based on 1984 data on beneficiaries and 1985 data on finances provided by the Canada Employment and Immigration Commission. See Appendix G for additional information.

Annualization is relatively uniform when compared on the basis of benefit duration, whereas the One-for-One option tends to reduce benefits relatively more for beneficiaries who remain unemployed for longer periods.

When weekly earnings are taken into account, however, the pattern is somewhat different (see Figure 7.15). Annualization tends to reduce benefits more for those with low earnings (which are correlated with fewer weeks of employment), while the One-for-One option has a relatively uniform impact on the various earnings groups.

Finally, the provincial impacts of the two options are considered in Figure 7.16. As the figure demonstrates, while both options reduce overall expenditures by approximately the same amount – Annualization by 32 percent and One-for-One by 34 percent – the provincial impact is slightly different. The One-for-One option is more generous to the Atlantic provinces and less generous to British Columbia and Alberta.

On balance, while the One-for-One option is more generous to short-term workers and seasonal workers, its less generous treatment of long-term workers makes this option less acceptable than the Annualization approach. Annualization is more oriented to longer-duration unemployment, which is increasingly prevalent.

### **The Proposals of the Macdonald Royal Commission**

The Macdonald Royal Commission's recommendations on Unemployment Insurance are part of a more general reform package which includes the introduction of a Universal Income Security Program and a Temporary Adjustment Assistance Program. Their proposals for Unemployment Insurance reform are of interest not only because they were developed by a Royal Commission with a broad mandate to review Canada's economic performance, but also because they illustrate the consequences of changing individual elements without a fundamental alteration of the program itself. Although their proposals suggested a range of changes, specific values are used in this analysis to facilitate comparisons. The changes are as follows: the minimum weeks required to qualify are increased to a uniform 20 weeks; benefit levels are reduced from 60 to 50 percent of insured earnings; two weeks of work are required for each week of benefits; and regionally extended benefits are eliminated.

### **The Impact on Individuals**

As with previous options, comparisons are undertaken using both short-term and full-year workers in Toronto and St. John's.

A 10-week worker in Toronto who earned \$400 a week and was unemployed for 20 weeks would receive no benefits under either the current program or the Macdonald Royal Commission proposal. That same worker living in St. John's would receive \$4,320 in benefits under the current system but would not be eligible under the Macdonald Royal Commission proposal.

---

Figure 7.15  
**Estimated Effect of One-for-One Scheme by Weekly Earnings**

Weekly earnings (in 1985 dollars)	Number of beneficiaries in current program	Current program with regionally extended benefits (\$ millions)	Annualization		One-for-One	
			Benefits paid (\$ millions)	Change	Benefits paid (\$ millions)	Change
under \$200	454,000	1,080	670	-38%	710	-34%
\$200-400	1,052,000	4,660	3,040	-35%	3,010	-35%
\$400 & over	578,000	3,230	2,370	-27%	2,180	-33%
Total <sup>a</sup>	2,084,000	8,970	6,090	-32%	5,900	-34%

<sup>a</sup> Totals may not add due to rounding.  
 Notes: Regular benefits only. Based on 1984 data on beneficiaries and 1985 data on finances provided by the Canada Employment and Immigration Commission. See Appendix G for additional information.

Figure 7.16  
**Estimated Effect of One-for-One Scheme by Province**

	Number of beneficiaries in current program	Current program with regionally extended benefits (\$ millions)	Annualization		One-for-One	
			Benefits paid (\$ millions)	Change	Benefits paid (\$ millions)	Change
Newfoundland	91,000	460	220	-52%	240	-48%
Prince Edward Island	17,000	90	40	-56%	50	-44%
Nova Scotia	83,000	380	240	-37%	250	-34%
New Brunswick	91,000	470	240	-49%	260	-45%
Quebec	628,000	2,890	1,890	-35%	1,860	-36%
Ontario	616,000	2,160	1,620	-25%	1,510	-30%
Manitoba	68,000	270	200	-26%	200	-26%
Saskatchewan	55,000	220	160	-27%	170	-23%
Alberta	177,000	740	570	-23%	530	-28%
British Columbia	252,000	1,260	890	-29%	810	-36%
Total <sup>a</sup>	2,084,000	8,970	6,090	-32%	5,900	-34%

<sup>a</sup> Total includes territories. Totals may not add due to rounding.  
 Notes: Regular benefits only. Based on 1984 data on beneficiaries and 1985 data on finances provided by the Canada Employment and Immigration Commission. See Appendix G for additional information.

A full-year worker who earned \$400 and was unemployed for 52 weeks would receive \$11,040 in Toronto under the current program but only \$5,200 under the Macdonald Royal Commission proposal. In St. John's the same worker would receive \$12,000 under the current program but only \$5,200 under the Macdonald Royal Commission proposal.

### The Aggregate Consequences

In the aggregate, the impact of these changes would reduce overall expenditures by about 53 percent, in the absence of any induced changes in work patterns. Short-term workers would be adversely affected both by the higher entrance requirement and by the shift to a two-to-one ratio of work weeks to benefit weeks (see Figure 7.17).

The lower ratio of benefit weeks to work weeks and the elimination of regionally extended benefits reduce the availability of longer-term benefits (see Figure 7.18). The Macdonald Royal Commission changes would have a more severe impact on workers with low earnings, particularly those who earn less than \$200 a week (see Figure 7.19). Finally, Figure 7.20 sets out the provincial impact of this particular combination of the Macdonald Royal Commission proposals.

In terms of the principles of equity, incentives, integrity and simplicity, the Macdonald Royal Commission's proposals would have the following effects. Since they impose a high fixed entry requirement, an individual who worked 19 weeks would not qualify, while one who worked 20 weeks would. This could be regarded as inequitable. Requiring two weeks of work to receive one week of benefits may also be inequitable, since in some occupations it is possible to work year-round while in others the season is limited by weather, government regulation and other uncontrollable conditions.

Figure 7.17  
Effect of the Macdonald Royal Commission Proposal by Weeks of Insurable Employment

Weeks of insurable employment	Number of beneficiaries in current program	Current program with regionally extended benefits (\$ millions)	Annualization		Macdonald proposal	
			Benefits paid (\$ millions)	Change	Benefits paid (\$ millions)	Change
Under 20	419,000	2,000	580	-71%	0	-100%
20-29	573,000	2,500	1,250	-50%	960	-62%
30-39	333,000	1,210	870	-28%	710	-41%
40-49	324,000	1,180	1,120	-5%	770	-35%
50 & over	434,000	2,070	2,260	+9%	1,770	-14%
<b>Total<sup>a</sup></b>	<b>2,084,000</b>	<b>8,960</b>	<b>6,090</b>	<b>-32%</b>	<b>4,200</b>	<b>-53%</b>

a Totals may not add due to rounding.

Notes: Regular benefits only. Based on 1984 data on beneficiaries and 1985 data on finances provided by the Canada Employment and Immigration Commission. See Appendix G for additional information.

Figure 7.18

**Effect of the Macdonald Royal Commission Proposal by Duration of Unemployment**

Duration of unemployment (weeks)	Number of beneficiaries in current program	Current program with regionally extended benefits (\$ millions)	Annualization		Macdonald proposal	
			Benefits paid (\$ millions)	Change	Benefits paid (\$ millions)	Change
1-10	367,000	260	200	-23%	230	-12%
11-20	359,000	830	590	-29%	660	-20%
21-30	362,000	1,440	920	-36%	780	-46%
31-40	350,000	2,030	1,160	-43%	690	-66%
41 & over	524,000	4,410	3,210	-27%	1,840	-58%
Total <sup>a</sup>	2,084,000 <sup>b</sup>	8,970	6,090	-32%	4,200	-53%

a Totals may not add due to rounding.  
b Includes claimants with zero weeks.  
Notes: Regular benefits only. Based on 1984 data on beneficiaries and 1985 data on finances provided by the Canada Employment and Immigration Commission. See Appendix G for additional information.

Figure 7.19

**Effect of the Macdonald Royal Commission Proposal by Weekly Earnings**

Weekly earnings (in 1985 dollars)	Number of beneficiaries in current program	Current program with regionally extended benefits (\$ millions)	Annualization		Macdonald proposal	
			Benefits paid (\$ millions)	Change	Benefits paid (\$ millions)	Change
Under \$200	454,000	1,080	670	-38%	450	-58%
\$200-400	1,052,000	4,660	3,040	-35%	2,070	-56%
\$400 & over	578,000	3,230	2,370	-27%	1,690	-48%
Total <sup>a</sup>	2,084,000	8,970	6,270	-32%	4,200	-53%

a Totals may not add due to rounding.  
Notes: Regular benefits only. Based on 1984 data on beneficiaries and 1985 data on finances provided by the Canada Employment and Immigration Commission. See Appendix G for additional information.

Figure 7.20

**Estimated Effect of the Macdonald Royal Commission Proposal by Province**

	Number of beneficiaries in current program	Current program with regionally extended benefits (\$ millions)	Annualization		Macdonald proposal	
			Benefits paid (\$ millions)	Change	Benefits paid (\$ millions)	Change
Newfoundland	91,000	460	220	-52%	120	-74%
Prince Edward Island	17,000	90	40	-56%	20	-78%
Nova Scotia	83,000	380	240	-37%	160	-58%
New Brunswick	91,000	470	240	-49%	130	-72%
Quebec	628,000	2,890	1,890	-35%	1,290	-55%
Ontario	616,000	2,160	1,620	-25%	1,170	-46%
Manitoba	68,000	270	200	-26%	150	-44%
Saskatchewan	55,000	220	160	-27%	130	-41%
Alberta	177,000	740	570	-23%	410	-45%
British Columbia	252,000	1,260	890	-29%	610	-52%
Total <sup>a</sup>	2,084,000	8,970	6,090	-32%	4,200	-53%

a Total includes the territories. Totals may not add due to rounding.  
Notes: Regular benefits only. Based on 1984 data on beneficiaries and 1985 data on finances provided by the Canada Employment and Immigration Commission. See Appendix G for additional information.

Their proposals increase work incentives by raising the minimum number of weeks required to qualify and reducing the ratio of benefits to insured earnings. They also do much to restore the integrity of Unemployment Insurance as a social insurance program. They would substantially increase the administrative complexity of the program, however, since claimants would need 104 weeks of insured employment to qualify for 52 weeks of benefits. This longer qualifying period would add to the administrative burden of the program.

On balance, while their proposals improve work incentives and shift the program's direction to that of a social insurance program, their shortcomings in terms of equity and administration make this option less acceptable than the Annualization approach.

### **Enrichment of the Current System**

A third option which was given serious consideration would modify the current program in the following ways. It would embody a uniform minimum entrance requirement of 10 weeks and a replacement ratio of 66  $\frac{2}{3}$  percent. After a one-week waiting period, the duration of benefits would be calculated on the basis of a two-phase benefit structure. In the first phase, the program would provide one week of benefits for each week worked, to a maximum of 39 weeks. In the second phase, regionally extended benefits would be paid as now; that is, the program would provide two weeks of benefits for every 0.5 percent that the regional unemployment rate exceeded 4 percent, up to a maximum 32 weeks. Thus, the overall benefit maximum would be 72 weeks, including a one-week waiting period. There would be no minimum insurable earnings and maximum weekly insurable earnings would be increased to \$690.

Since this option continues to provide regionally extended benefits, it continues the inequity of providing less benefits to a long-attachment worker in a low unemployment region than to a short-term worker in a high unemployment region. Furthermore, workers with the same annual earnings would receive different benefits because they have worked a different number of weeks. This approach continues to allow a 10-week worker to have 42 weeks of benefits and so it continues the work incentive problems of the current approach.

As with previous options, the analysis is on the individual and the aggregate level.

### **The Impact on Individuals**

Again, the comparisons of the individual level are undertaken for both a short-term and a full-year worker in Toronto and in St. John's.

A 10-week worker in Toronto who earned \$400 a week and is unemployed for 20 weeks would receive benefits of \$4,788 under the Enriched Current Program, compared with no benefits under the current program. That same worker in St. John's would receive benefits of \$5,054 under the Enriched Current Program and \$4,320 under the current program.

---

A full-year worker in Toronto earning \$400 a week and unemployed for 52 weeks would receive \$12,768 under the Enriched Current Program, compared with \$11,040 under the current program. In St. John's the corresponding figures would be \$13,566 for the Enriched Current Program and \$12,000 for the current program.

### **The Aggregate Consequences**

The impact of these changes would be to increase expenditures by about \$2.9 billion. This estimate is based on an assumption that claimants currently exhausting benefits will remain on claim until the new limit is reached. Further information on the estimation techniques can be found in Appendix G. In relative terms, longer-term workers would benefit more (see Figure 7.21). In terms of the duration of unemployment, this option would be oriented toward workers employed for a short time and, of course, toward those unemployed for a long period (see Figure 7.22). Since it increases the maximum insurable earnings, this option shifts benefits toward workers with higher earnings (see Figure 7.23).

Figure 7.24 shows the provincial impact of this option. It is notable that Newfoundland, Prince Edward Island, New Brunswick, Manitoba and Saskatchewan gain less than average, while Alberta and British Columbia gain significantly more than average.

In terms of target effectiveness and efficiency, this option brings out the basic dilemma in redesigning an Unemployment Insurance program. To the extent that the income support or supplementation role of Unemployment Insurance is seen as important, emphasis should be placed on providing greater benefits to those with lower incomes, who often have shorter labour force attachments. The argument for this is that since these workers have lower earnings, they are in greater need of assistance. Those who view the program as an insurance program, on the other hand, would consider this highly inefficient because those with higher earnings have most to lose and should therefore receive higher benefits from a social insurance program.

This option is highly sensitive to both national and regional economic conditions, as measured by unemployment rates. But, since the premium cost of the program would rise considerably (by about \$3 billion) and since premium financing is not a very progressive tax, there may be legitimate concerns about both the equity and the wisdom of large increases in premiums at this time.

This option reduces administrative complexity to some extent, since it eliminates the variable entrance requirement and reduces the number of benefit phases from three to two. It retains, however, the complexity inherent in regionally extended benefits.

For these reasons, a majority of Commissioners were unable to recommend the Enriched Current Program option.

---

**Figure 7.21**  
**Estimated Effect of Enriched Current Program by Weeks of Insurable Employment**

Weeks of insurable employment	Number of beneficiaries in current program	Current program with regionally extended benefits (\$ millions)	Annualization		Enriched Current Program	
			Benefits paid (\$ millions)	Change	Benefits paid (\$ millions)	Change
Under 20	419,000	2,000	580	-71%	2,490	+25%
20-29	573,000	2,500	1,250	-50%	3,220	+29%
30-39	333,000	1,210	870	-28%	1,640	+36%
40-49	324,000	1,180	1,120	-5%	1,640	+39%
50 & over	434,000	2,070	2,260	+9%	2,950	+43%
<b>Total<sup>a</sup></b>	<b>2,084,000</b>	<b>8,970</b>	<b>6,090</b>	<b>-32%</b>	<b>11,930</b>	<b>+33%</b>

<sup>a</sup> Totals may not add due to rounding.  
 Notes: Regular benefits only. Based on 1984 data on beneficiaries and 1985 data on finances provided by the Canada Employment and Immigration Commission. See Appendix G for additional information.

**Figure 7.22**  
**Estimated Effect of Enriched Current Program by Weeks Duration of Unemployment**

Duration of unemployment (weeks)	Number of beneficiaries in current program	Current program with regionally extended benefits (\$ millions)	Annualization		Enriched Current Program	
			Benefits paid (\$ millions)	Change	Benefits paid (\$ millions)	Change
1-10	367,000	260	200	-23%	360	+38%
11-20	359,000	830	590	-29%	1,050	+27%
21-30	362,000	1,440	920	-36%	1,760	+22%
31-40	350,000	2,030	1,160	-43%	2,450	+21%
41 & over	524,000	4,410	3,210	-27%	6,310	+43%
<b>Total<sup>a</sup></b>	<b>2,084,000<sup>b</sup></b>	<b>8,970</b>	<b>6,090</b>	<b>-32%</b>	<b>11,930</b>	<b>+33%</b>

<sup>a</sup> Totals may not add due to rounding.  
<sup>b</sup> Includes claimants with zero weeks.  
 Notes: Regular benefits only. Based on 1984 data on beneficiaries and 1985 data on finances provided by the Canada Employment and Immigration Commission. See Appendix G for additional information.



Figure 7.23  
**Estimated Effect of Enriched Current Program by Weekly Earnings**

Weekly earnings (in 1985 dollars)	Number of beneficiaries in current program	Current program with regionally extended benefits (\$ millions)	Annualization		Enriched Current Program	
			Benefits paid (\$ millions)	Change	Benefits paid (\$ millions)	Change
Under \$200	454,000	1,080	670	-38%	1,340	+24%
\$200-400	1,052,000	4,660	3,040	-35%	5,790	+25%
\$400 & over	578,000	3,230	2,370	-27%	4,800	+50%
<b>Total<sup>a</sup></b>	<b>2,084,000</b>	<b>8,970</b>	<b>6,090</b>	<b>-32%</b>	<b>11,930</b>	<b>+33%</b>

<sup>a</sup> Totals may not add due to rounding.  
 Notes: Regular benefits only. Based on 1984 data on beneficiaries and 1985 data on finances provided by the Canada Employment and Immigration Commission. See Appendix G for additional information.

Figure 7.24  
**Estimated Effect of Enriched Current Program by Province**

	Number of beneficiaries in current program	Current program with regionally extended benefits (\$ millions)	Annualization		Enriched Current Program	
			Benefits paid (\$ millions)	Change	Benefits paid (\$ millions)	Change
Newfoundland	91,000	460	220	-52%	590	+28%
Prince Edward Island	17,000	90	40	-56%	120	+33%
Nova Scotia	83,000	380	240	-37%	500	+32%
New Brunswick	91,000	470	240	-49%	600	+28%
Quebec	628,000	2,890	1,890	-35%	3,900	+35%
Ontario	616,000	2,160	1,620	-25%	2,830	+31%
Manitoba	68,000	270	200	-26%	350	+30%
Saskatchewan	55,000	220	160	-27%	280	+27%
Alberta	177,000	740	570	-23%	1,020	+38%
British Columbia	252,000	1,260	890	-29%	1,750	+39%
<b>Total<sup>a</sup></b>	<b>2,084,000</b>	<b>8,970</b>	<b>6,090</b>	<b>-32%</b>	<b>11,930</b>	<b>+33%</b>

<sup>a</sup> Total includes the territories. Totals may not add due to rounding.  
 Notes: Regular benefits only. Based on 1984 data on beneficiaries and 1985 data on finances provided by the Canada Employment and Immigration Commission. See Appendix G for additional information.

"The deviation from the insurance goal has over time changed the perception Canadians had of the program. No longer viewed as insurance against emergency situations, people began to regard the funds as providing money owed to them. To an increasing number of people, Unemployment Insurance became an easily accessible safety net. The Unemployment Insurance program has proved to be rather regressive in terms of income redistribution, directing relatively more assistance to higher than to lower income families. By 1982, 50 percent of all benefits went to families with above average incomes." (Canadian Chamber of Commerce, written brief)

### Summary and Conclusions

Public policy is not a field that lends itself to mathematical proof, and the future cannot be predicted with certainty. All Commissioners expressed concern about the impact of the proposed changes on individuals and regions. The changes proposed to the present system are measurable within limits, and the losses can be determined. The countervailing gains from initiatives yet to be designed, such as the Earnings Supplementation Program, training and educational upgrading, the campaign against illiteracy, community economic development and the Youth Opportunities program, are more difficult to quantify. Nevertheless, refining the role of Unemployment Insurance as a social insurance program and making it the cornerstone of the income security system within the broad context of human resource development won the support of the majority of the Commissioners.

The detailed description of various options with respect to the structure of benefits under an Unemployment Insurance program may appear confusing. While, taken one by one, the advantages and disadvantages of each option may be understood, there is a need to make plain the reasons behind the rejection of some options and the decision to recommend the Annualization approach. Apart from technical criteria, the decision is based on a view of what is most important and what is required to reform Unemployment Insurance to meet the needs of the future. That view is what lends relatively more importance to certain strong points of the proposed orientation and less importance to some undeniable advantages of the rejected options.

First, any reform must start from a given situation. Unemployment Insurance at present incorporates a relatively low entrance requirement. In most of Canada, claimants must have worked 10 weeks in the previous 52. It also incorporates – also fairly generally across the country – a maximum benefit duration of one year. These are two features of the program to which Canadians are accustomed and which are very important to many of them. Not every Unemployment Insurance system in the world incorporates these two features. Their adoption in Canada was to some extent an arbitrary decision, but they have become familiar characteristics of the program. They constitute the starting point for any proposal for reform.

The reasons for a one-year maximum duration of benefits are probably more valid now than when it was first adopted. In a context of continuing and profound structural changes in the economy and in the labour force, the need for longer-term income maintenance has been increasing rapidly. There is no reason to believe that this phenomenon is artificial. The difficulty that some individuals experience in returning to employment is genuine and one year of benefits is needed. The knowledge that protection is there is what gives meaning to the term "social security."

Furthermore, one year of benefits is not inconsistent with the practices of other industrialized countries. Among the options examined and rejected, the One-for-One option would reduce maximum benefit duration to 28 weeks. This curtailment is too drastic, particularly at a time when longer benefits are more necessary than ever before. Except for relatively older workers, who would qualify for extended benefits under the Cumulative Employment Account, long-service workers of 10 or 15 years would have no alternative but the proposed Earnings Supplementation Program or social assistance. In some countries where Unemployment Insurance benefits are limited to six months, they are normally followed by an unemployment assistance program, similar to the income supplementation programs described in Chapter 4.

The second characteristic of the current program is the low entrance requirement of 10 weeks for most regions. Some systems – notably in the United States but also in Europe – incorporate a six-month entrance requirement, very much like the 20-week entrance requirement proposed by the Macdonald Royal Commission. In effect, that requirement disqualifies almost all short-term and seasonal workers. These are extreme examples of an approach to coverage that relies upon setting up different categories of workers and subjecting them to different rules. A 20-week entrance requirement would be extreme in that it effectively eliminates coverage for many workers. The current program, however, also places workers in categories, as illustrated by the complicated structure of variable entrance requirements and the multiple benefit phases. These characteristics create unfairness and complications that make the program obscure and difficult. For these reasons, the proposed reform rejects the practice of placing workers into many categories, each with different rules, and supports an open program with a low but uniform entrance requirement.

What is important to realize is that the need for a program with both long benefit duration and low entrance requirements creates a difficult problem. As noted above, once the worker categories and complex rules are eliminated, Annualization appears distinctly as the best option – and is indeed the only way to reconcile these two characteristics within the context of a viable and affordable program. The virtue of the Annualization approach is that, in its reliance on a uniform rule, it effectively relates total benefit entitlements to the length of labour force attachment of each worker. A low entrance requirement is retained and so is a long maximum benefit duration, but by linking past earnings (and hence past contributions) to total benefits payable, it can dispense with categorization and complicated rules.

The nature of the problem that Annualization helps to solve is well brought out by examining the last option reviewed – the Enriched Current Program. That option compounds the problem by extending benefit duration well beyond the present 50-week limit. The logical

---

result of that approach is to turn Unemployment Insurance into something resembling a partial guaranteed annual income. The next step would be to have needs-tested benefits, because the weaker is the link between the premiums paid and the benefit entitlements, the weaker is the justification for failing to provide these benefits to everyone, even though they may not meet the already low entrance requirement. Those who work only six weeks a year, for instance, need these benefits more than those who work for a longer period. If, however, the rationale for benefits and universal coverage is need, one consequence is inevitable – benefits are eventually related to need, and premiums, and the earnings on which they are paid become increasingly irrelevant. An income support program of this kind should not be financed by a regressive levy such as a payroll tax. The Enriched Current Program does not solve the problem of devising a workable and viable Unemployment Insurance program with a low entrance requirement and long benefit duration: it simply ignores it.

The Commissioners debated for many months about the strengths and weaknesses of the various options but, on balance and for reasons outlined above, the majority of Commissioners decided that Annualization provided a rational approach to the fundamental reform of Unemployment Insurance and should be recommended.

---

---

**Notes**

- 1 For example, Fiona has established a 50-week claim at \$200 a week. After 10 weeks, she finds another job paying \$350 a week. However, this new job lasts only 9 weeks. Without credit banking, taking the new job would have terminated her claim and would not have resulted in a new claim. Credit banking means that Fiona could revert to her old claim and would have 31 weeks of eligibility remaining (50 minus 19).
  - 2 Canada Employment and Immigration Advisory Council, *Older Workers: An Imminent Crisis in the Labour Market* (Ottawa: Minister of Supply and Services Canada, 1985), p. 8.
  - 3 Canada, Royal Commission on the Economic Union and Development Prospects for Canada, *Report*, Volume 2 (Ottawa: Minister of Supply and Services Canada, 1985), pp. 616–19.
  - 4 *Ibid.*, p. 617.
  - 5 The 10-week worker unemployed for 52 weeks represents the maximum impact of the elimination of regionally extended benefits and the change to Annualization. It should be noted that these workers represent only 3 percent of total claimants. This percentage ranges from a high of 10.3 percent in Newfoundland to a low of 0.3 percent in Alberta.
  - 6 In considering the impact of the two options, it should be borne in mind that part of the difference between them is due to the different structure of the two options and part to the difference in the replacement ratios.
-

## John Mitchell, Electrical Technician, Pembroke, Ontario

*Mr. Mitchell expresses the frustrations of those affected by changes to the regulations governing pensions.*

In 30 years I'd had two jobs, and this was the first time I'd asked for UI. I served 22 years with the Armed Forces as a technician in the Air Force. When I had to retire, I had a paid rehab.<sup>a</sup> leave, so I didn't see any reason for collecting UI, and then I got another job with an electronics firm. They laid me off at the end of December 1985, and I was unemployed for six months.

I don't believe that UI is a savings plan you have an automatic right to, and I didn't claim UI when I retired eight years ago. But this time I was having trouble finding work . . . I'm 47 years old, have trouble with my heart, and in Pembroke, where I live, the job market is pretty full and there's nothing too much in my line.

Because of the new regulations, I got only a quarter of what most people get. That's because of my pension, which is only \$473 a month. With my pension and benefits combined, I could get \$17,940 for the year. It meant we lived below the poverty level because I still have three children at home to support. My wife had to cut back on groceries, from \$230 every two weeks to \$150, and that's not much for five people.

We worried how we were going to make do on the little bit that was coming in. We yelled at each other . . . I know we shouldn't have, but that's what happens. The tension was felt by everyone. The kids knew why we were sometimes at each others'

throats. They knew it was because I was home all the time and I was frustrated.

It was only when I got my first cheque that I found out I wasn't getting full benefits . . . There was a note in it saying that – because you are getting a pension, or whatever – anyway it explained what was happening. I went to the Canada Employment Centre, and one supervisor who had also been in the service was sympathetic. But apart from that I don't think they felt anything for me, you know . . . I was just another number. That was the law and that was all there was to it. They listen to all kinds of people with problems and maybe after a while they just turn it off.

They did call me, said they had a job in Ottawa, a short-term job. We had moved a lot. We didn't want to move any more, but we would have if necessary. It meant giving up a lot, though, and that scared my wife. But by that time a friend had told me about the job I have now. I was very fortunate to get this job, although the pay is about one-third less than I was earning before. I was making about \$12.00 an hour before, now I'm making \$8.00 . . . about the same as I would on Unemployment Insurance from my other job.

The unemployment benefits wouldn't have run out until Christmas, but I wanted to get off it just as fast as possible and get working. I think that's what we all should do. I feel unemployment is something that you should collect when you have to collect, to keep everything going, but I don't see any reasons for being unemployed for 52 weeks just because you have 52 weeks of Unemployment Insurance benefits.



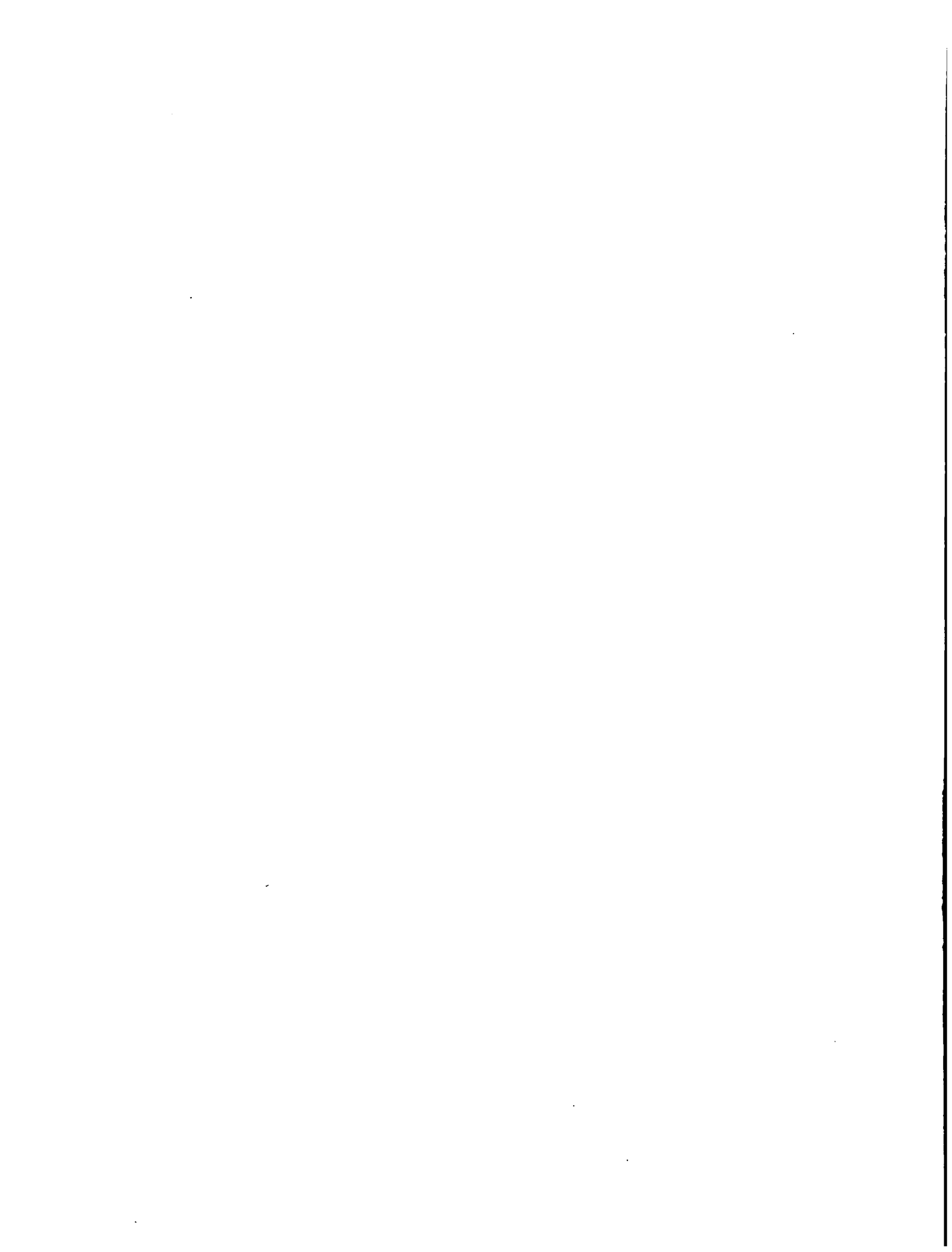
Now I'm supervising one part of a wood-working shop. It's a lot different from what I'm used to. Like I told my wife, I'm not a very good supervisor and don't think I ever will be, but I'm going to give it a good go. I'm used to technical things and just getting on with the job, you know, and it's a big change in that way . . . Oh, I think I'll make it, and everything will be fine. My boss offered me a little raise at the end of the month . . . So I think he likes my work and it's going to work out.

All the same, I'm continuing my electrical correspondence course for a civilian electrician's

licence. It is probably going to take another year and a half. And then I would have to write my provincial examination. So it's a long way away yet. It's just another alternative, to fall back on, that's all.

When I was unemployed, it was the worst six months of my life. I was really upset and frustrated because I couldn't do anything about the situation. I don't know . . . it doesn't seem right. I feel that I was really betrayed by the government, stabbed in the back, you know. That's the way I feel.

a Rehabilitation to civilian life.





---

## Immediate Steps: Other Program Reforms

### Introduction

Fundamental restructuring of the Unemployment Insurance program, whether in the form of Annualization or some alternative approach, is a sweeping change that must be carefully considered and gradually phased in. There are, however, a number of smaller changes that could be implemented more rapidly and easily, either within the current program or as part of a reformed program.

Though small in relation to the overall reforms discussed in Chapter 7, the changes put forward in this chapter would go a long way in correcting inequities for some groups of workers – particularly those planning to retire. Notable among these is the treatment of pensions and lump-sum payments such as severance or vacation pay, which were the subject of a special reference to the Commission of Inquiry. The chapter also recommends changes concerned with work incentives; treatment of part-time workers and workers involved in labour disputes; and criteria governing voluntary quits, job search and availability for work.

### Treatment of Pensions

The development of recommendations regarding the treatment of pension income under Unemployment Insurance was influenced by the fact that the whole question of retirement and retirement policy is changing rapidly. The Canadian Charter of Rights and Freedoms prohibits discrimination on the basis of age; age 65, for example, may no longer be a basis for mandatory retirement. Actuarial adjustments in benefits for those who wish to retire early or late are already taking place in the public and private sector. As a result, receipt of a pension and retirement from the labour force may no longer be synonymous. In this regard, military and police pension plans may be harbingers of things to come.

The issue of retirement and pensions is part of a more general problem that must be faced by policy makers. One aspect of this wider context, already discussed in Chapter 6, is the increasing importance attached to flexibility in retirement and pension arrangements. If it were not for that consideration, the rules governing the treatment of pension income for Unemployment Insurance purposes could be regarded differently and the maximum age limit could be retained. It may be that an even wider perspective ought to be adopted and that more thought should be given to better coordination of all the related social policies, including some aspects of the Old Age Security program. More specifically, it must be recognized that more flexibility in retirement and pension arrangements can be obtained only at the cost of changes in other policies and programs.

“The unions have fought to obtain concessions intended to ensure a better early retirement and planned retirement for our older employees, so as to make room for younger people. Now the government, by a unilateral action, without prior consultation, has completely destroyed in one fell swoop what we have spent so many years to build. This is totally unacceptable!” (Fédération des syndicats du secteur aluminium inc., written brief)

The current relationship between Unemployment Insurance and pensions has two aspects. First, both premiums and benefits cease at age 65 with the payment of the three-week retirement benefit. Second, until January 5, 1986, pension income was not taken into account in the calculation of Unemployment Insurance benefits. Since that date, pension income has been treated as earnings. Many individuals – notably military and police – who are required to “retire” from their first career with a pension at a relatively early age, have had to keep on paying premiums during their second career even though Unemployment Insurance benefits may be small or non-existent during a subsequent period of unemployment because of the treatment of their pension income.

“The decision made last year to take effect January 1, 1986, to treat pension income as earnings for Unemployment Insurance purposes should be reconsidered. Organized labour does not view and has not negotiated pension benefits as employment earnings. Such benefits are a form of deferred compensation.” (Winnipeg Labour Council, Winnipeg hearings)

In considering how pensions and Unemployment Insurance should be related, the following factors are significant.

- Unemployment Insurance is not a retirement program. Its major function is to protect workers from interruptions in earnings. Therefore, benefits should go exclusively to members of the labour force. Persons who have gone into retirement are no longer in the labour force and should not be covered.
- Receipt of pension income does not necessarily mean that an individual has left the labour force. Consequently, pension income should not automatically disqualify a worker from Unemployment Insurance benefits.
- Changes to the Quebec Pension Plan and anticipated changes to the Canada Pension Plan and private pension plans may make it increasingly common for workers to have pension income while they remain in the labour force.
- This increased flexibility means that individuals who choose to retire before age 65 will be able to take an actuarially reduced pension. If, however, they could draw Unemployment Insurance benefits for one year instead of going on pension immediately, they could receive a slightly higher pension for the rest of their lives. Therefore, it would pay them to use Unemployment Insurance benefits as the first year’s retirement income. This could cost the Unemployment Insurance program as much as \$1 billion a year.
- Unlike other benefits such as vacation pay and severance pay, which are also paid on termination of employment, pensions continue to be paid and may be considered as deferred earnings.

Underlying the current treatment of pension income in the Unemployment Insurance program is the implicit assumption that receipt of a pension is synonymous with being retired. At present, only a small proportion of workers receive a pension from one job while working in another and therefore are not protected by Unemployment Insurance in spite of paying premiums. Since age may soon not be used as a criterion for retirement, and pension plans are becoming more flexible, increasing numbers of people may be affected by this inequity in the future. This conflict, therefore, has to be resolved promptly by developing a way for the Unemployment Insurance program to deal equitably with pension income. Denying coverage to all of those with pension income would deny coverage to many individuals who then enter

another career. Maintaining the current approach compels those with pension income from previous employment to pay for coverage for subsequent employment when benefits may be negligible or non-existent if they should become unemployed. Ignoring pension income entirely would mean ignoring deferred income from another job.

Several possibilities for the treatment of pension income were reviewed. One possible option would be to link Unemployment Insurance eligibility to "deemed retirement." When a person is deemed to have retired, that person would no longer be eligible for coverage, would not pay premiums on earnings, and would not receive benefits. This proposal would involve substituting for the fixed rule based on age a rule based on entitlement to pension benefits, whether or not pension entitlement was drawn upon. This would be a radical way of dealing with the incentive that may be present in an individual's decision to draw or defer a pension. If a pension is deferred and the individual remains in the labour force – searching for a suitable job at age 65 or even after age 70 – Unemployment Insurance benefits are payable for up to a year, which would mean a maximum of over \$15,000 at current rates. The postponed pension is not lost, since it is actuarially increased for as long as it is paid. The risk of abuse to the insurance scheme would be checked by considering pensions payable and pensions received to be income. In certain cases, however, that course may force some individuals into taking their pension, and by so doing would detract from the objective of providing more rather than fewer options. For these reasons, the "deemed retirement" alternative was rejected.

The proposed solution recognizes that taking a pension is no longer synonymous with retiring. It treats pension income in two different ways.

The first treatment of pension income applies if the pensioner is unemployed when he takes his pension. Under the proposed approach, if a person who served in the military for 22 years became unemployed immediately upon leaving the Armed Forces, Unemployment Insurance would treat the pension as earned income just as in the current approach. It does so to lessen the possibility of using Unemployment Insurance as the first year of pension income in retirement, as explained above.

The second treatment applies if the pensioner becomes unemployed from a subsequent job. Premiums would be based on insurable earnings less pension income, and Unemployment Insurance benefits would also be based on this difference. In subsequent unemployment periods, insurable earnings would be the difference between pension income and the lesser of the new earnings or maximum insurable earnings.

If, for example, a retired soldier found a job paying \$300 a week and had pension income of \$200, his insurable earnings would be \$100 (\$300 minus \$200) and his premiums would be based on this amount. If he subsequently lost that job, Unemployment Insurance benefits would be based on adjusted insurable earnings of \$100 a week, not \$300. If the new job paid \$600 a week, insurable earnings would be \$295 (\$495 minus \$200). Again, both premiums and benefits would be based on that amount, and if he lost any subsequent job, benefits would be based on \$295, not on the maximum insurable earnings of \$495.

"A man who has paid his benefits for 30 or more years and never drawn upon it – insurance means insurance – then, sir, I say to you with all due respect: it is for a time when a man is unemployed. If this man is disqualified because he has a measly pension, again, sir, it is unjust and I object." (Mary McCormick, Toronto hearings)

"We find this totally discriminatory. A pensioner is one who either collectively or personally contributed his own funds for his advantage in his later years. It's like money in the bank. To have this used against him is not only insulting, but it is also plainly and simply unfair. The last thing we need at this time with high unemployment is the postponement of thousands of potential retirees." (Sudbury Mine, Mill and Smelter Workers Union, Local 598, Sudbury hearings)

In proposing this approach, it is recognized that much of the anger that greeted the recent changes to the treatment of pensions by Unemployment Insurance centred not only on the inequity of the change, but also on its timing. Building up a pension is a lifetime process and therefore any change, particularly one which might reduce pension income, should be introduced only after considerable warning to those likely to be affected. The January 1986 changes were formally announced in March 1985, but the full details were not understood and regulations were not available until December 1985. Minimum notice of three years is recommended for changes of this magnitude.

---

### Recommendation

**26** The current treatment of pension income should be rescinded with an effective date of January 5, 1986. The new policy should be announced and an implementation date of January 1, 1989 set. The new policy should be:

- that pension income received during a period of unemployment immediately following retirement from a first career would be treated as earnings when calculating Unemployment Insurance benefits for that period;
  - that during future employment periods, Unemployment Insurance would provide coverage only on the difference between pension income and the lesser of the new earnings or maximum insurable earnings;
  - that premiums would be calculated on the basis of insurable earnings minus pensions in pay; and
  - that administratively, weekly premiums would be calculated as now, with any excess rebated via annual income tax returns.
- 

A supplementary statement by Commissioner R.F. Bennett regarding Recommendation 26 is contained in Part V of the report.

### **Treatment of Severance Pay, Vacation Pay and Lump-Sum Payments**

Under the current system, lump-sum payments, including severance pay, vacation pay, bonuses and payments from employee profit-sharing plans, are treated as earnings on claim and are subtracted from eligible benefits. Lump-sum payments are translated into weekly earnings by dividing by the previous weekly earnings. Thus, someone with \$10,000 in a lump-sum payment whose previous weekly earnings were \$1,000 is considered as having 10 weeks of earnings. These earnings mean that no benefits are paid for that period. Since the benefit period is not extended past the original eligible period, a lump-sum payment reduces the amount of benefits.

In the proposed system, lump-sum payments would be considered as a continuation of earnings from the previous employer, even though employment has ceased. The current approach of dividing lump-sum payments by the amount of previous weekly earnings and thus converting them into weekly amounts would be continued. These weekly amounts, however, would not be considered as earnings on claim, because an

---

Unemployment Insurance claim could not begin as long as they accrue. Consequently, benefits would only be delayed. Premiums would be paid on amounts up to the maximum insurable earnings and the maximum benefit period would not be reduced.

---

### Recommendation

**27.1** Severance pay, vacation pay and lump-sum payments should be allocated to weeks, using the same formula as at present. These monies should delay but not reduce benefit entitlement. In addition, they should be considered as insurable earnings.

---

The exception to this treatment would be vacation pay trust funds. These funds exist predominantly in the construction industry in Ontario and Quebec. In these funds, vacation entitlement accrues in a vacation pay trust fund. The vacation pay itself is earned on a weekly basis and added to the salary for both income tax and Unemployment Insurance premium purposes. Benefits are usually paid twice a year, and vacation must be taken at a set time (usually in the two weeks following payment). In that case, even though a claimant was receiving benefits immediately before these vacation periods, the individual should not be considered as unemployed and available for work during the vacation.

---

### Recommendation

**27.2** Recipients of benefits from vacation pay trust funds should be disentitled for the period for which vacation pay is received. This would delay but not reduce benefit entitlement.

---

### Treatment of "Earnings on Claim"

Under the current program, claimants can continue to receive Unemployment Insurance until they exhaust their benefits, provided that they are not in full-time employment and that any earnings in part-time employment on claim are less than 75 percent of their previous insured earnings.

The present structure treats earnings on claim as follows. Earnings of less than 25 percent of benefits are ignored. After 25 percent, each additional dollar of earnings reduces benefits by one dollar. There is no financial incentive for a worker to earn more than 25 percent of benefits, since each dollar earned reduces benefits by one dollar.

In order to provide maximum work incentives without having benefits plus earnings exceed insured earnings before unemployment, the reduction rate on earnings on claim would be the same as the replacement ratio. For example, if the replacement ratio were 66  $\frac{2}{3}$  percent, then the reduction rate would be 66  $\frac{2}{3}$  percent.

Under the proposed system, as under the current one, benefits would cease when a recipient takes a full-time job, even if the wage is lower than in the previous job. This means that the program would not be a wage-loss insurance program. Adopting a wage-loss insurance program, which would pay benefits to workers if their earnings fell even though they were not unemployed, could lead employers to reduce

"In the construction industry, employees often need a worker for six hours or even a day, and the worker refuses for such a small period of time. There is also the fact that he's going to get a little stamp and it's going to reduce his UI benefits. We think this regulation should be changed, and the over-25-percent tax-back on earnings should be raised to encourage workers to take these kinds of 'jobs'." (Conseil provincial du Québec des métiers de la construction, Montréal hearings)

"We do not believe there should be a dollar-for-dollar reduction of benefits for income from employment. Household income from all sources, including investment income, for example, would be determined in a manner analogous to that used in the Guaranteed Income Supplement in order to determine the level of income security benefit to which the recipient was entitled. Any income security benefit received in excess of this threshold would have to be paid back." (William M. Mercer Limited, Ottawa hearings)

---

wages, since workers would receive Unemployment Insurance to make up the difference. In effect, Unemployment Insurance would be acting as a wage subsidy, allowing employers to reduce payroll costs.

---

## Recommendation

**28.1** Earnings while on claim should reduce benefits at a rate equal to the replacement ratio. That is, if the replacement ratio is 66  $\frac{2}{3}$  percent, then the reduction rate should also be 66  $\frac{2}{3}$  percent.

---

"The following possibility could easily be broached through the UI Act. This person who already pays premiums on his first job at which he works 30 hours, could inform his employer – let's call him the second employer – of the fact that he already has a first job and that the two jobs combined would give him more than 15 hours of work a week. In other words, in the case where his job was 5 or 10 hours a week, this would permit him to ask if it could be added to his other job, and that way it would add up to a total of more than 15 hours a week. Then he could ask, on a voluntary basis, to have the premiums deducted from his cheque and from that moment, if he became unemployed, he could have benefits calculated on the basis of both incomes." (Commission des services juridiques, Montréal hearings)

### Treatment of Part-Time Workers with More than One Job

At present, Unemployment Insurance coverage is limited to jobs that involve at least 15 hours of work a week and pay at least \$99 a week. Part-time workers with more than one job are considered unemployed and eligible to receive benefits if they lose one job, provided the job is covered by Unemployment Insurance.

In calculating their benefits, the current practice is to consider earnings from the job that continues as earnings while on claim. Benefits are calculated on the basis of insurable earnings from the lost job and then are adjusted to take account of earnings from the continuing job. For example, if a worker had two part-time jobs, one of which paid \$300 a week and the other \$100 a week, the current system would calculate maximum benefits to be \$180 (60 percent of \$300) if the higher-paying job were lost. Taking the earnings from the second job into account would reduce this amount to \$125 (\$180 minus [\$100 less 25 percent of \$180]). Loss of the \$100-a-week job, however, would mean maximum benefits of only \$60. In this case, the second job effectively eliminates unemployment benefits (\$60 minus [\$300 minus 25 percent of \$60]).

A more generous treatment of part-time work is proposed. Benefits would be calculated to ensure equity between a full-time employee who lost a \$400-a-week job and then found a job while on claim, and a part-time worker with two jobs and total earnings of \$400 a week. In the case of the full-time worker, benefits would be calculated as follows. Maximum benefits would be \$240 (60 percent of \$400). Accepting a part-time job paying \$300 a week would reduce benefits to zero (\$240 minus [\$300 minus 25 percent of \$240]), but if the part-time job paid \$100 a week, the benefit would be \$200 (\$240 minus [\$100 minus 25 percent of \$240]).

In the case of a worker with two part-time jobs, one paying \$300 a week and the other \$100, maximum benefits would be 60 percent of total earnings while employed (subject always to the maximum insurable earnings provision). Any earnings, including continuing earnings, would be treated as earnings on claim. If the worker loses the \$300-a-week job, maximum benefits would be \$240 (60 percent of \$400). Earnings from the \$100-a-week job would be treated as earnings on claim but would be subject to an exemption of \$60 (25 percent of \$240), so that benefits

---

actually paid would be \$200 a week. A full-time worker in the same circumstances would receive the same treatment.

---

## Recommendation

**28.2** Benefits for multiple job-holders should be calculated on the basis of total insurable earnings from all jobs. Any earnings during the benefit period should be treated as earnings on claim.

---

## Labour Disputes

A particularly contentious provision of the current Act makes workers who lose their jobs because of a labour dispute (strike or lockout) ineligible for benefits.

This provision is based on two considerations. The first is that a strike is voluntary. The employees involved have collectively decided not to work and can decide to return to work. The second consideration is neutrality, in that paying Unemployment Insurance benefits to strikers would make Unemployment Insurance, in effect, a strike fund.

In the current rules these two principles are applied in the following ways.

- The labour dispute is considered at an end only when 85 percent of the workers have been recalled to work.

The present rule deems a dispute to be in progress until 85 percent of the work force is recalled, even if an agreement has been ratified. This approach is inconsistent with the principles that led to the disqualification of strikers in the first place. Once the agreement has been ratified, there is no longer a dispute, there is no issue of neutrality, and there is no question of a voluntary decision not to work, since the workers have agreed to accept an offer and return to work. Accordingly, disenfranchisement of strikers from Unemployment Insurance benefits should cease when a collective agreement is ratified and signed, except in those provinces where a subsidiary agreement or protocol establishes the date for return to work.

- Employees are ineligible for Unemployment Insurance benefits in the event of a lockout by their employer.

The decision to lock out is made by employers, *not* by the employees. Employees who are locked out are *not* voluntarily unemployed. They should therefore be eligible for Unemployment Insurance benefits while the collective agreement is in force.

- Workers not directly involved in the strike but indirectly involved are ineligible.

The policy of disqualifying workers who are laid off as a result of a strike by other employees of the same or a different company violates the principles of voluntary action and neutrality. The layoff is clearly not voluntary, since the decision to strike was not made by these workers; and the workers' neutrality is evident, since they are not involved in the dispute. This is true even where they are separate bargaining units of the same union. Each bargaining unit makes its own decision regarding when to return to work, whether the other bargaining units are members of the same union, a different organization or no organization at all. Indeed, the

"This section has often been interpreted by the court to deny UI benefits to workers who have little or no involvement with the labour dispute in question. Problems have arisen over the CEIC's stringent definition of when a labour dispute has ended. CEIC officials apply the rule that 85 percent of the employees must have returned to work before the claimant can draw benefits." (British Columbia and Yukon Territory Council of the Canadian Federation of Labour, Vancouver hearings)

"We'll call a lockout at the time the season is going to end anyway. They'll be out there all winter. They will be cut off UI, therefore we will bring them to their knees and they will agree to something less than what applies elsewhere in the industry or what would otherwise be the basis of an agreement with these people.' So they did that. They called a lockout. We objected. We were originally disenfranchised by the officials. We appealed to the board of referees and won a unanimous decision upholding the appeal." (Fishermen's Union, Local 1252, St. John's hearings)

"The only people who will be denied benefits under this section are people who are direct participants in a stoppage of work or who are covered by a collective agreement that is at issue in the stoppage of work. The definition of a direct participant should not include workers who refuse to cross the picket line of workers who are direct participants in a labour dispute." (Canadian Labour Congress, Ottawa hearings)

---

“Section 44 should be further amended so that members of a union are not disqualified from benefit when they are laid off by a different employer from the one on strike, but are considered to have contributed to a strike fund within the same union and are therefore disqualified.” (United Steelworkers of America, Hamilton Area Council, Hamilton hearings)

“[We recommend] that the distinction between the concepts of ‘usual employment’ and ‘regular employment’ that is found in the reasons for re-establishing entitlement to benefits during a labour dispute be abolished, and that only the concept of ‘regular employment’ as defined by the Supreme Court be maintained.” (Confédération des syndicats nationaux (CSN), written brief)

“We are asking for an amendment to the legislation to allow for maternity and adoption leave benefits to continue during a work stoppage period.” (Ontario Secondary School Teachers’ Federation, Ottawa hearings)

need for Unemployment Insurance to be neutral between unions and between organized and unorganized workers would dictate that bargaining units should not be distinguished on the basis of their parent organization.

A similar problem relates to the operation of union strike funds. Under certain circumstances, the decision of the Canada Employment and Immigration Commission that a claimant is financing a strike by contributing to a common strike fund can lead to disqualification. This distinction is inappropriate because it discriminates between workers on the basis of their membership in an organization. It is also illogical. The rationale for disqualifying claimants because they belong to the same union as a group of strikers with whom they have a common strike fund is presumably that, otherwise, Unemployment Insurance funds would in effect be supporting a strike. Unions are financed from contributions from employment income – normally a dues check-off. When an employee is laid off, he or she ceases to contribute to strike funds. Finally, strike funds generally do not vary payments to members of a striking bargaining unit on the basis of the level of contribution of any other bargaining unit. Contributions to the fund are thus irrelevant to the level of strike benefits paid and can have no impact on the duration of a dispute.

For these reasons, those indirectly involved in a labour dispute should not be disqualified. But there may be instances where they receive substantial and early benefits from the strike. Where this has been established, they should be disqualified, but they should have the right to appeal this decision and the onus would be on the program administrators to justify their decision.

- Workers who are involved in a labour dispute and who take a second job are disentitled from Unemployment Insurance benefits if they are laid off from the second job.

In general, claimants on strike who take another job during the strike and are then laid off from that second job are disqualified unless they can demonstrate that they are “bona fide” employed elsewhere in the same occupation “or regularly engaged in some other occupation.” This approach ignores the fact that the layoff from the second job generally has nothing to do with the original labour dispute. The criterion should be that any laid-off worker is eligible for Unemployment Insurance unless the secondary employment itself is contrived for the purpose of justifying an Unemployment Insurance claim. The onus of proof should be on the Unemployment Insurance administration, not on the claimant. Similarly, those workers who are in receipt of Unemployment Insurance benefits and who take a part-time job which they subsequently lose as a result of an industrial dispute should not be disentitled from their original claim. Again, it is necessary to distinguish between the events giving rise to the original claim and the most recent reason for unemployment.

- Workers involved in a labour dispute are disentitled from sickness, maternity and adoption benefits.

Disqualification under Section 44 applies to all classes of benefits at all times during the course of a labour dispute. As a consequence, claims for sickness, maternity and adoption benefits are denied under this



section. Clearly, sickness, maternity and adoption are events that have nothing to do with any labour dispute and would have arisen whether or not the labour dispute had taken place. Special benefits should not be subject to a strike-related disqualification rule. To avoid potential abuse, sickness benefits would need to be limited specifically to hospitalization.

---

## Recommendations

- 29.1** A dispute should be considered over on the date that the collective agreement is signed, except in cases where a date for return to work is identified in a subsidiary agreement or protocol.
- 29.2** In the case of a lockout, workers should be eligible for Unemployment Insurance benefits while a collective agreement is in force.
- 29.3** Those indirectly involved in a dispute, including those who belong to the same union but are in a different local, should not be disentitled. Where there are direct, substantial and early advantages to those who are indirectly involved, they should be disentitled but that decision should be subject to appeal.
- 29.4** In a situation where a worker is disentitled because of a labour dispute, then takes another job and is laid off, that worker should be eligible for Unemployment Insurance on the basis of the second job. In cases where claimants have earnings on claim and lose those earnings because of an industrial dispute, this should not disentitle the worker from the original claim.
- 29.5** Maternity, adoption and sickness benefits should be paid during an industrial dispute. In the case of sickness, however, benefits should be awarded only if the claimant is confined to hospital.
- 

Supplementary statements by Commissioners R.F. Bennett and G. Saucier regarding these recommendations are contained in Part V of the report.

## Voluntary Quitters

The current system distinguishes between those who leave jobs “with just cause” and those who quit or resign voluntarily. “Just cause” is not clearly specified in the current Act. Those who leave voluntarily are penalized by a reduction and delay of their benefits of up to six weeks.

In any insurance program, it is not appropriate to permit individuals to choose to take benefits whenever they wish. This is an example of the “moral hazard” issue – the risk that an individual can create the conditions which allow collection of benefits. On strict insurance principles, voluntary quitters should not be eligible for benefits. To apply insurance principles, however, would involve reliance upon the employer to ensure that voluntary quits are identified. Since the employer assumes no extra cost if a voluntary quit is called a layoff, he has little reason to police the system. Indeed, in those cases where there is a mutual agreement to terminate someone’s employment, the employer may call it a layoff rather than a resignation. Such collusion and abuse of the system do not appear to be uncommon. Since there is no simple way of preventing that collusion, increasing the penalty for voluntary quitters would increase the incentive to falsify the situation. To prevent incorrect identification of people who quit voluntarily, employers should be required to report whether and when a job will be

“It goes against my grain that employers will put down ‘laid off’ on a UI separation slip when the employee was actually fired for whatever that employer thinks was reasonable and just cause. As a small businessman, I’ll tell you that the second you put down ‘fired’, you just blew \$200 of your money in real dollars and cents because that is going to cost you 50 hours and five letters of answering questions from the UIC.” (Hughie Williams, Whitehorse hearings)

“BRAC negotiated with the railways a provision in our job security agreement which allowed senior employees to take layoffs inversely for definite periods of time to allow the less senior employees, who, by and large, are the young workers attempting to establish a home and family, to work and secure their future. The provision provided that the senior employee would receive Unemployment Insurance benefits while on voluntary layoff, which, in fact, would have been the same benefits received by the less senior employee when laid off. The Unemployment Insurance Commission stated that Unemployment Insurance was available to the laid-off employee, but not for the employee who accepted unemployment ‘voluntarily’ out of seniority ranking.” (Brotherhood of Railway and Airline Clerks, Thunder Bay hearings)

filled, in order to determine whether it is a true layoff or a disguised resignation.

It is also necessary to clarify the conditions under which an individual can quit for “just cause” without being subject to the penalties imposed for voluntarily quitting a job. The conditions should include sexual harassment, discrimination, occupational health and safety reasons, and accompanying a spouse who is moving to a new job. Once the conditions are clarified, they should be made public. The rules about voluntary quitters should also be revised to cover cases of collective layoffs. When a firm is implementing a systematic reduction of its labour force, the union and the employer involved are frequently in agreement that older workers should be given the option of taking early retirement or being laid off with severance pay before younger workers are let go. As collective agreements usually contain seniority rules that are binding on employers, older workers who are laid off first are considered voluntary quitters. Rules about voluntary quitters should be waived in cases of collective layoffs when an “inverse seniority” preference is applied.

## Recommendation

**30**

The current penalty of loss of benefits for up to six weeks for voluntarily leaving a job should be retained. “Just cause” for leaving a job voluntarily should be clarified and publicized, and “inverse seniority” in a collective layoff should be included as just cause.

“They are cut off from the program just because they’ve put a yes or no in a wrong box, or because they answered honestly. If you’re living on a reserve and there’s no work and somebody asks, ‘Did you look for a job this week?’ – you’re going to say, ‘no, there’s no place to go to look for a job’. And if you say no, you’re cut off despite the fact that there’s only one band office and one store, and you’ve been to both of them.”

(N’Swakamok Native Friendship Centre, Sudbury hearings)

“Many people want to start their own businesses and create their own employment. These people are cut off because they are considered ‘not available for work’. They are told that they are spending too much time starting their own businesses. They should be considered like people who have a part-time job and their profits should be cut down, but they shouldn’t be penalized.”

(Action chômage Kamouraska, inc., Québec hearings)

## Job Search and Availability for Work

The requirements that Unemployment Insurance recipients be engaged in job search and available for work are critical ingredients in any Unemployment Insurance program. Their importance stems from the fact that these requirements determine whether a claimant is unemployed or has left the labour force. While it might be simpler to have a system in which benefits are paid automatically, experience shows that without controls, abuse of the system would soon spread. Enforcement of the requirements for availability and job search should be continued, in a humane, reasonable and intelligent manner.

There are instances, however, where availability for work and job search are not relevant – for example, where workers are on temporary layoff with assured recall or are not available because of sickness or maternity. In other situations, such as jury duty, claimants may be unavailable for reasons entirely out of their control. In these cases, availability and job search requirements should be waived. Other situations are less clear cut. It is not reasonable, for example, to waive job search requirements for seasonal workers who have access to “off-season” jobs. On the other hand, where there really are no jobs in a given area for a particular class of claimants, it is absurd to require them to line up every morning at the door of the one ongoing enterprise just to demonstrate that they are looking for work. In circumstances where enforcement of job search requirements does not appear reasonable, the guiding principle should be that workers be available for work but that

job search requirements be enforced only to the extent that jobs which are reasonably suitable for the unemployed worker are likely to be available.

Claimants will understandably search for a job that matches their skills and aspirations. Under the current program, those who refuse "suitable" employment are disentitled to benefits for up to six weeks. Suitability of employment is defined in terms of rates of pay and similarity to previous job. The longer workers are unemployed, the more they are expected to adjust their expectations to the realities of the labour market. This approach should be continued and these expectations should be made clear and explicit to claimants.

It is counter-productive to disentitle claimants who are attempting to start a business on the grounds that they are not available for other paid employment. They are creating their own employment opportunity in a very real sense. It is proposed that claimants who can demonstrate an active business plan should remain eligible. Any earnings while on claim should be subject to the standard reduction rate for earnings on claim. This recommendation borrows from successful experience with a similar policy in France and Britain. The approach in Britain is to pay benefits in a lump sum to those claimants who present an acceptable business plan for starting a small business. While this recommendation involves waiving the availability criterion, it is not proposed to provide a lump-sum payment or to treat earnings from self-employment as insurable earnings.

"Allow claimants with accepted business plans to continue to draw Unemployment Insurance benefits. We note that such individuals in effect 'are seeking work'. This measure would particularly benefit those older workers who pursue business activity and who have access to capital." (Canadian Chamber of Commerce, written brief)

"Employment will be found by being self-employed, but there has to be some kind of security provided for those who are willing, not to look for a job, but to create their own employment, to go into some kind of consulting business, to sell their services, and not be on the dole." (Richard Garipey, Vancouver hearings)

---

## Recommendation

**31** Job search and availability for work should continue to be essential elements in the Unemployment Insurance program.

- Criteria regarding what constitutes suitable employment should be made explicit to clients.
  - The kinds of jobs claimants are required to search for should be continuously adjusted in light of the local availability of "suitable" jobs.
  - Job search and availability requirements should be waived in instances of sickness and maternity, temporary layoff with assured recall, jury duty, approved training programs, and approved plans to start a small business.
-

### Conclusion

The current Unemployment Insurance program has several problems which can and should be addressed immediately. These include the treatment of pensions, severance, vacation and lump-sum payments; the treatment of earnings from other work while receiving benefits; the handling of claims involving labour disputes; the penalty for voluntary quits; and the requirements for job search and availability for work. The recommendations for changes outlined in this chapter can and should be implemented as soon as possible, whether or not the overall reforms to the program recommended in Chapter 7 are adopted.

---

## James Corcoran, Fisherman, St. Mary's, Newfoundland



*Mr. Corcoran describes the uncertainty and danger of a fisherman's life and the need for alternative sources of income when fishermen are unable to earn their livelihood at sea.*

I've worked in a factory from eight to four . . . You do your thing, keep everyone happy, and then that's it . . . Fishing's a bit different.

If you're trying to make a living fishing you spend as many hours as you can at sea, so waking up at one or two o'clock in the morning and getting back some time the following night or the next night is normal to me. On the open sea there are always hazards . . . There's ice . . . There's weather conditions that can change in hours . . . You can get winds up to 25, 30 knots and it's nearly impossible to fish.

The other day a wooden 55-foot boat went out but she didn't come back. Luckily, the guys were rescued by a dragger and then flown by helicopter to St. John's.

There are different kinds of fishing. There's deep sea, where they fish for about 12 months a year. There's mid-shore, where they fish about 6 or 7 months. And there's inshore, like me. In the late 1970s we got 10 months' fishing because weather conditions were good and there was no ice. But this year I stopped my cod lines after five weeks. The fish came for five weeks and then the water turned cold, whatever . . . I've got five weeks of cod trap fishing, that's it.

Sometimes I wish I didn't have to depend on Unemployment Insurance. I'd like to work all year round. I'd be delighted if I could step off the boat

and go to work in some other occupation. I think the majority of fishermen would feel the same.

You could be packing anywhere from \$10,000 to \$20,000 worth of gear a year, and with the money we're making, well, you just can't put that out. So the majority of us depend on the people who buy our fish to supply the fuel and our gear . . . which we pay for out of the catch. And they depend on us to catch the fish . . . It might not be a normal relationship, but it certainly is an employee/employer relationship because one depends on the other.

If you work 10 weeks year after year, you have no problem with Unemployment Insurance, it's like clockwork. But to give you an example of what can happen . . . The person you sell your fish to issues your separation slip. Last year they forgot to put my Social Insurance Number on the slip. I waited very patiently, but by the last of November I hadn't heard anything. I was in St. John's, so I dropped into the office to see what the trouble was. I sat in the waiting room for an hour, cooling my heels, watching people drink coffee, walking back and forth. Eventually a lady comes. We went through the whole issue . . . how I qualified . . . 22 weeks insurable earnings . . . everything was fine. But for some reason my SIN was not on the slip. "Oh," I said, "that's no problem, I'll give it to you." "Oh no, sir, it has to come from your employer." "My God, that will take weeks. Go to last year's file." "Oh no, sir, we can't do that. If your SIN is not on the form, we can't process your claim." So I hit the roof, but it probably didn't do any good because my claim was delayed for another four or five weeks.

Still, as a fisherman I wouldn't want to be covered by a separate program. Most of our fish go to the U.S. market. Now the fishermen and the politicians in the U.S. said that Unemployment Insurance was a subsidy to fishermen and wanted countervail duties of something like 20 to 30

percent. But after they investigated, they reached the conclusion that it wasn't a subsidy because it was universal . . . So if some bureaucrat is going to come up with a different program, they are jeopardizing the whole fishery in eastern Canada . . . not only the fishermen, but the workers in the fish plants and spin-off industries . . . in other words, every community, city and town in eastern Canada.

Fishermen should be covered under Unemployment Insurance like everyone else. We should be treated the same as any other worker, but for some reason we're not. We don't draw Unemployment Insurance till the last of October and when the fifteenth of May comes – the place could be black with ice – you are automatically disqualified. It should be the same for us as for any other type of working class. It's supposed to be a democracy.

Unemployment Insurance is a great thing, but people shouldn't have to depend on it, and basically that's what it's coming to now. There must be better ways for the future, for our children. Right now, if we want something we've got to import it through some other province or state or country – cardboard boxes, mattresses . . . If I want to buy a tin of mussels I'd probably have to buy it from Denmark, and here we have them on the shore not even being used!

You know, I left Newfoundland in 1960. I worked and travelled all across Canada. During that time I didn't draw Unemployment Insurance . . . I was a jack-of-all-trades. I lived in Toronto for seven years. All my friends were from eastern Canada. All left home because they couldn't find any work. Now, I don't see why anyone should have to leave Newfoundland, with all the resources we've got. I don't think I'd leave again. We might not have a big limousine to drive in, but I'm sure we'll survive.

---

## The Self-Employed: A Special Case

### Introduction

Insurable employment, as defined in legislation, does not include self-employment. A person is in insurable employment only if he or she works under what is known as a “contract of service.” That is the technical term used to describe the conventional employer-employee relationship. That relationship exists when someone other than the worker controls the terms and conditions of employment, including the hours of work, methods of work, and matters related to discipline, hiring and firing. Self-employed persons are not governed by such a contractual arrangement and are not covered by the current Unemployment Insurance program.

Designing a system of unemployment compensation that would provide fair protection to all categories of the self-employed poses almost insurmountable problems. The self-employed are vital contributors to the economy. Briefs were submitted by artists, truckers, trappers, film technicians and many more. Truckers in particular made a strong and persuasive case for their inclusion in the program (see box). Although all groups concerned raised arguments that were eloquent and convincing, acceding to their requests would create very serious problems for the Unemployment Insurance program. This chapter examines these issues, and the special case of self-employed fishermen.

“Although the UI system is intended to operate on ‘insurance’ principles, it is widely regarded in Atlantic Canada as a social support system. The premiums are far from covering the costs, so substantial federal contributions are required. The special arrangements for fishermen and the regional benefits more closely resemble income support payments than insurance.” (Fishes Council of Canada, written brief)

“Solidarité populaire Québec recommends that self-employed persons and persons who work in businesses belonging to their spouses be eligible for maternity benefits contingent on their making a special payment pro-rated to their contribution to the business.” (Solidarité populaire Québec, written brief)

### The Views of a Trucker

*Excerpt from a letter to the Commission of Inquiry from Lee Silliker, president, Northumberland County Truckers' Association*

“The trucker should have the same equal rights as any other persons in the working industry today. He has an employer-employee relationship. He must be hired on any job to work and he must follow the orders given to him by his superior and is subject to dismissal at any time.

“As an independent trucker in the province of New Brunswick, I most certainly know that 30 percent of my gross pay must go towards my livelihood as wages. I urge you to press towards making certain changes in the UI Act to ensure that at least 30 percent of the trucker's gross be used as a base figure for wages and UI, CPP, and Income Tax deductions. This will ensure that all concerned will have a fair and equal share. It will also provide for the trucker and his family in times of need.

“A person involved in the trucking industry has to equip himself with a piece

of machinery that can cost up towards \$100,000 to try and provide for his family. This person has to endure great hardships at certain times, he has to find work, pay excess taxes and abide by all the different laws of the land. His most important function is to find himself a job to work for someone else. At certain times during the year the trucker finds himself without any income.

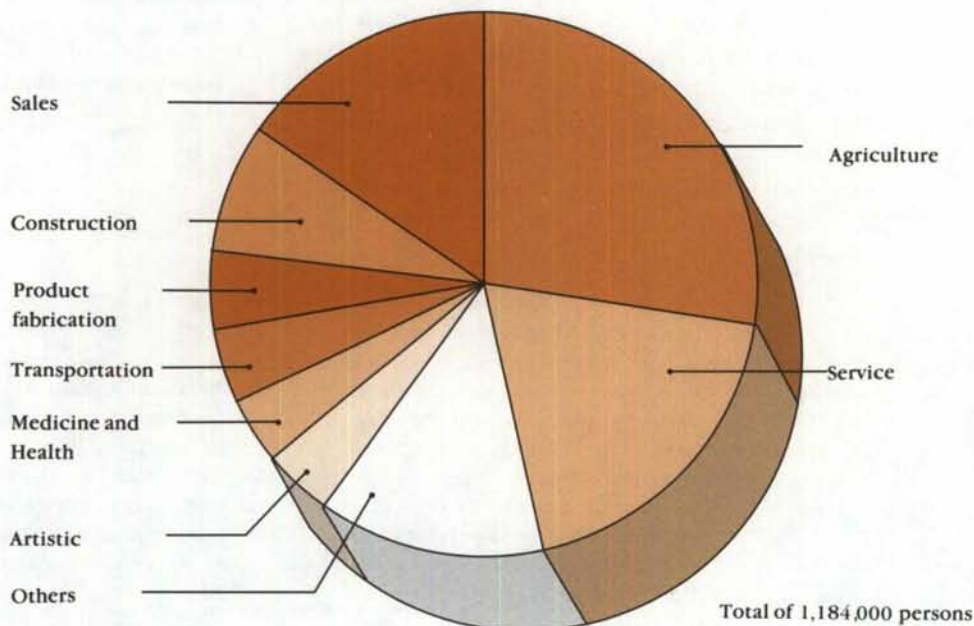
“If the individual had become a fisherman, farmer or woodworker, he would have been able to collect UI benefits. However, because he is a trucker he is unable to pursue this process.”

### The Needs of the Self-Employed

More and more Canadians, prompted by their own imagination and dynamism, or by disappointment in the labour market, are creating their own jobs; 10 percent of the labour force now work for themselves. Since 1976, the number of self-employed persons has increased by 27 percent compared to an overall increase in employment of 19 percent.<sup>1</sup> The self-employed now number approximately 1.2 million. The main groups are listed in Figure 9.1.

Many of these workers are vulnerable to the loss of their livelihood from cyclical, technological or structural causes. Some are hired by employers on a temporary basis and are treated as employees under the Income Tax Act. They find it difficult to understand why they should be denied Unemployment Insurance when others in similar positions, fishermen for example, are entitled to coverage. Impassioned arguments were heard from several quarters in favour of including the self-employed in a new design of Unemployment Insurance.

Figure 9.1  
Self-Employed Workers by Occupation, 1985



Source: Statistics Canada, *The Labour Force, December 1985* (Cat. no. 71-001), 1986.



When the self-employed lose their livelihoods they also lose their assets, and there is no safety net for them other than welfare. Yet the degree of moral hazard presented by the self-employed is incompatible with Unemployment Insurance. Moral hazard is the risk that an individual may create the conditions which permit collection of benefits. All insurance schemes face this risk. It is the basis for the claim that fire insurance encourages fires and that Unemployment Insurance encourages unemployment. Moral hazard can be minimized but not eliminated entirely.

"The self-employed cannot be covered if insurance principles apply, as such an individual has almost complete control over his unemployment." (Canadian Institute of Actuaries, Toronto hearings)

This argument is most readily applied to artists or professionals who may not have a large capital investment. But when a small business fails and is wound up – especially in cases of forced liquidation or bankruptcy – one could argue that the element of self-control is absent and therefore that the argument of moral hazard is invalid. If, however, Unemployment Insurance were to cover only the risk associated with these extreme circumstances and subject the self-employed to the same premiums as everyone else, one form of inequity would be substituted for another. If the premiums were to differ, then the program in question would no longer be Unemployment Insurance but some other, probably optional, program.

Another issue is the exclusion from Unemployment Insurance of salaried persons working for a self-employed spouse. That exclusion is probably rooted in the inconsistency among various legal precedents that partly determine the rights and obligations of spouses of persons who own and operate a business. Under Unemployment Insurance the salaried spouse has traditionally been considered a business partner. In some provinces this view is in advance of family and property laws. From that perspective, if self-employment is not insurable under Unemployment Insurance, neither should spouse-partners be eligible. Now that family and property laws are beginning to recognize the status of the spouse as a business partner, it would be ironic to recommend that the Unemployment Insurance system change in the opposite direction. Naturally, in situations and in jurisdictions where family property laws do not treat the spouse as an equal partner, it is reasonable to treat the salaried spouse in the same way as any other salaried employee for Unemployment Insurance purposes.

---

### Recommendation

- 32** Unemployment Insurance coverage should be extended to persons married to and working for the self-employed, in jurisdictions where under family property law spouses of business owners are not treated as partners in the business and where they are paid a salary subject to income tax.
-

"It is obvious that most individuals working in the performing arts require the protection of Unemployment Insurance coverage, and that the governments of some comparable countries have recognized this need. It is equally obvious that coverage can be provided for, on a basis that disregards common law employment status and takes into account the whole range of contractual arrangements found in some occupational groups, such as barbers, taxi drivers and fishermen . . .

"It would undoubtedly be difficult to draft satisfactory rules covering the wide variety of occupations and work patterns existing in this field. A review undertaken by the Unemployment Insurance Commission in 1973 apparently considered the possibility of treating performing artists as a special group with group premium rates, but no concrete change resulted from this review. It was noted at that time that additional problems must be resolved, such as the question of who would be defined as the employer, the definition of the term 'performing artist' and a rule to define when a performing artist would be considered to be unemployed. Similar difficulties must have been surmounted successfully, however, in connection with the coverage of performing artists in other countries and the coverage of fishermen in Canada. The essential first step was the policy decision by a government to extend eligibility to the occupational group in question." (Canadian Actors' Equity Association, Toronto hearings)

Artists constitute a distinct category of the self-employed. In Canada, they have no special official status which could help them fill the gaps in their earning capacity. Many groups representing artists expressed concern about the difficult circumstances under which their members must work. At the same time, their status as independent contractors for their talents is one that they value. One of the basic problems faced by artists – and many other people who are self-employed – is the instability of their income. An actress, for example, may make a lucrative television commercial that brings in a large lump-sum payment one year, and may earn a fraction of that amount over many months in the theatre the following year. Several groups have suggested Unemployment Insurance as a solution to this instability of income. The Federal Cultural Policy Review Committee,<sup>2</sup> the Parliamentary Subcommittee on the Taxation of Visual and Performing Artists and Writers,<sup>3</sup> and the Task Force on the Status of the Artist<sup>4</sup> have made that recommendation. The Alliance of Canadian Television and Radio Artists (ACTRA) has submitted a detailed proposal for integrating its members into the Unemployment Insurance system.<sup>5</sup> The Alliance believes that if its plan were followed, premiums would probably outweigh claims, so that its suggested plan would be self-financing. L'Union des artistes has indicated that it would be willing to administer an income stabilization fund on behalf of its members, with government inspection of the books.<sup>6</sup>

Not only are the earnings of artists sporadic because of the nature of the work, but this is compounded in many cases by the fact that total earnings are inadequate. Where the need is to find a way to smooth the income flows of these groups, Unemployment Insurance is not the right vehicle. As has been noted often in this report, using Unemployment Insurance for this purpose would supplement incomes rather than stabilize them. Where incomes are inadequate, as has been argued, Unemployment Insurance again is not an appropriate vehicle. The proposals for income supplementation (in Chapter 4) should respond to some of these concerns. To the extent that a program of income stabilization for artists can be devised, the initiative should be encouraged.

A group which deserves special mention is Canada's hunters and trappers who, like fishermen, are dependent on natural resources for their livelihoods. Certainly, it is difficult to justify excluding these workers from Unemployment Insurance coverage when self-employed fishermen are included. Making an exception of self-employed fishermen is a particularly controversial aspect of the current program, and for this reason the remainder of this chapter is devoted to a discussion of fishing benefits.

## Fishermen and Unemployment Insurance

### Fishing and Fishing Incomes

Self-employed fishermen were brought under the umbrella of Unemployment Insurance in 1956. This was essentially a political decision, motivated by social rather than economic considerations. The purpose was to render support to incomes of self-employed fishermen in the inshore fishing industry, particularly on the Atlantic, and to the many coastal communities there that depend upon the fishery for their survival. But the Atlantic fishing industry is very complex and consists of many fisheries: groundfish found near the ocean bottom, such as cod, flounder, redfish and lumpfish; pelagic fish found near the surface, such as herring, salmon and mackerel; and shellfish such as lobster, scallops, shrimp and crab. The industry is notably diverse both across regions and within individual fisheries. Thus, few general observations can be made that are equally applicable to all regions and to all fisheries of Atlantic Canada. A different situation prevails on the Pacific, where salmon and roe herring are the major species fished.

It follows from the diversity of the fishing industry that there are many factors that may profoundly affect the levels and stability of income of fishermen. Geographic and climatic conditions have a fundamental influence, but there are other important factors that cause different levels of income within fisheries and among the different coastal regions, such as:

- The variety of species that the fishermen can harvest and the access to licences to catch them. In a fishery of multiple species, such as that of southern New Brunswick, fishermen with licences for several species may be able to protect themselves against a decline in income because of a poor season for a particular species. Fishermen engaged in catching salmon on the Pacific coast or groundfish off Labrador experience substantial fluctuations in income because of year-to-year changes in the available stock of the single species that they fish and in the prices received.
- The relative value of the species available. The higher-priced lobster and scallop bring higher incomes to fishermen in Nova Scotia than to those in Newfoundland who depend upon groundfish. Similarly, the lucrative salmon and roe herring fisheries on the Pacific generally provide higher incomes than fisheries on the Atlantic.
- The length of the fishing season. This may be influenced substantially by overall climatic conditions such as the prevalence of ice along the Labrador coast and northeast Newfoundland, by particular weather patterns during the year, by the patterns of migration of the species, and by decisions of the Department of Fisheries and Oceans regarding quotas and shortening or closing the season for particular species in order to prevent stock depletion.
- Availability of species for harvesting. Oceanic and other conditions may prevent the cod from coming to shore and may cause catch failure. The lack of a method of allocating quotas to individual vessels rather than to fleets means that some fishermen may be

"Come all ye good people, I'll sing ye a song  
About the poor people, how they get along;  
They fish in the spring, finish up in the fall,  
And when it's all over they have nothing at  
all.

And it's hard, hard times.

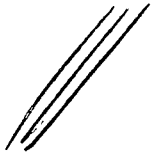
The best thing to do is to work with a will,  
For when it's all over you're hauled on the  
hill,

You're hauled on the hill and laid down in  
the cold,

And when it's all over you're still in the hole,  
And it's hard, hard times." (Newfoundland  
song)

"UI is not a disincentive, it is more like a life-  
support system until the next season rolls  
around." (Maritime Fishermen's Union,  
written brief)

"Much of the difficulty in limiting the  
increases in numbers of licensed fishermen  
and even some of the complexity of the  
system itself are thought to stem from the  
pressure on the Department of Fisheries and  
Oceans to ensure that the industry provides  
the means for earning UI benefit entitlements  
for as many as possible." (Fisheries Council  
of Canada, written brief)



denied fair access to the species because of the greater share of the quota taken by others.

- **Overcapacity.** In the case of some species there are too many fishermen with too many vessels and too much fishing power chasing too few fish. The extent of overcapacity may be such that the quota is caught in a relatively short time. Overcapacity, whether in number of fishermen or in the number and size of vessels, results in poor returns on investment and low net incomes for fishermen. All major fisheries are regulated today by limited entry licences and by restrictions on the number and size of vessels.
- **Market conditions and fishing costs.** The combined effect of an abundant supply of groundfish on the American market and the drop in the value of some European currencies in relation to the Canadian dollar in recent years has meant lower returns to Atlantic fishermen. High debt-servicing costs of investments create acute cash-flow problems in all regions and on both coasts.
- **Availability of supplementary employment.** The situation varies with the region. It would appear that there is a greater opportunity for supplementary employment in the Pacific than in the Atlantic region, and in central and western Nova Scotia and southern New Brunswick than in other parts of the Atlantic region, particularly in Labrador.

### Unemployment Insurance for Fishermen

“What we are really doing in the Maritimes and with fishing people in Manitoba and in selected other areas, is saying that those people have a worthwhile life. We believe it is important to preserve the fisheries. We believe it is important not to uproot those cultures and to force those people to scatter across the country, and therefore there is great social benefit to the country in giving them enough money to maintain them in their current situation.” (Community Unemployed Help Centre, Winnipeg hearings)

A special amendment to the Unemployment Insurance Act in 1956 has made Unemployment Insurance a major factor influencing the incomes of self-employed fishermen. Before that amendment only fishermen working on offshore druggers, who were paid employees, participated in the Unemployment Insurance program like employees in other industries. The purpose of the amendment to the Act was to bring self-employed fishermen, who constitute 90 percent of the total number of fishermen, within the ambit of the Act.

Self-employed fishermen fall into two categories:

- **“Year-round” fishermen.** “Year-round” self-employed fishermen must have 20 weeks of insurable employment. Their last job must have been on a vessel designated by the Canada Employment and Immigration Commission as “year-round,” and they must have demonstrated “year-round” fishing employment. These fishermen are entitled to the full benefits of the regular Unemployment Insurance program, subject to special conditions. Ten percent of fishermen fall into this category.
- **“Seasonal” fishermen.** The length of the season may vary in time from a few hours in the case of some British Columbia herring fisheries up to a virtual year-round fishery for several species in southwest Nova Scotia. A person who fishes full time throughout the fishing season for his region is now defined as a full-time fisherman. Others are part time.

The special fishermen’s Unemployment Insurance program has undergone a series of adaptations over the years to cope with changes in the industry and to provide special rules and regulations for self-

employed fishermen. A week of insurable employment is defined in terms of the net value of the week's catch – that is, the gross value of the catch less operating costs (generally 25 percent) – rather than in terms of hours or days spent fishing. If the net value of the catch in a week is less than the required minimum (\$99.00), that week does not count as an insurable week. A fisherman in the Atlantic region may fish for six months and, for reasons beyond his control, may be unable to obtain the required ten weeks of insurable earnings to qualify for Unemployment Insurance. Furthermore, if a fisherman fails to obtain 6 weeks of insurable employment, none of these weeks of fishing can be added to weeks of work in other employment in order to qualify him for Unemployment Insurance.

Regionally extended benefits are available for those “seasonal” fishermen who qualify for Unemployment Insurance, but the period for regular and extended benefits is generally limited to 25 weeks – November 1 to May 15 for “summer” fishermen, and May 1 to November 15 for “winter” fishermen. In 1983, provision was made to base benefits on the 10 best weeks for fishermen who had a minimum of 15 weeks of insurable employment. The purpose was to encourage fishermen to continue fishing during the latter part of the season when the fish may be scarce and the seas rough.

Unemployment Insurance provides an important supplement to the income of fishermen. On average, earnings from fishing account for about 65 percent of total net income, with Unemployment Insurance and earnings from other employment each supplying about half of the remainder. There are, however, wide differences among regions in the relative importance of Unemployment Insurance and other employment as sources of supplementary income. In the Atlantic provinces as a whole, Unemployment Insurance benefits constitute some 20 percent of the total value of Canadian fish landings at dockside. The Unemployment Insurance percentage of net fishing income for an average fisherman varies from a high of about 31 percent in Newfoundland, Quebec and Prince Edward Island to a low of 13 percent in Nova Scotia. Within each province, as well, there is considerable variation between one region and another. By contrast, Unemployment Insurance benefits constitute less than 10 percent of the total net income of inland fishermen and those of British Columbia.<sup>7</sup>

“In an economic climate such as we have in Canada today, it is very difficult for fishermen to find off-season employment and so often they must rely on Unemployment Insurance . . . Fishermen here in British Columbia do have to depend very heavily on nature and the runs of fish. On the east coast of Canada, you have a variety of situations where a fisherman will engage in several fisheries. He may fish lobster and then fish cod inshore in his own boat and maybe fish for herring and other species. And they may have, pretty well, a year-round fishery. There are other fishermen in the Baie des Chaleurs and some areas of Nova Scotia where they are ice-bound for six or seven months of the year and they have a five-month season. So I don't know how you would ever develop some sort of crop insurance for a fisherman.” (United Fishermen and Allied Workers' Union, Local 31, Vancouver hearings)

### Problems with the Program

Problems with the special fishermen's Unemployment Insurance program, as perceived by the different groups involved, stem from the nature of the program, its inherent administrative difficulties, its inadequacies in meeting the needs of those it was intended to serve, and the obstacles that it presents to processors who need a greater supply of fish during the latter part of the season.

The program is manifestly inconsistent with the principles of social insurance in that contributions from participants constitute only a small percentage of the total outlay and therefore substantial funds are needed

“Regional benefits are an all-or-nothing matter. This gives the existing system a much larger impact on work effort than other work-related benefits schemes. For each of the first 9 weeks the employee earns no weeks of benefits. For the tenth week he earns 42 weeks of benefits and for each subsequent week he earns no additional weeks. The system clearly provides a powerful incentive to the employee to work for exactly 10 weeks regardless of the length of the fishing season and the needs of the processor.” (Fisheries Council of Canada, written brief)

"In discussing the impact of Unemployment Insurance, it is useful to make a few basic points about the long-run implications of UI for the fishing industry. The first is that the availability of UI for fishermen keeps a significant number of fishermen in the industry who would otherwise leave the industry in order to seek a higher standard of living elsewhere. This has the effect of reducing the returns from fishing for all fishermen and lowers the earned income of fishermen. The second is that the availability of relatively generous regional benefits for workers in the fish-processing industry helps to maintain a larger pool of workers for the industry. The third is that the combination of fishermen's UI and regional benefits tends to discourage out-migration from Atlantic Canada and thus serves to maintain earned income lower than the national average. The fourth is that these programs impede the internal restructuring of the economies of the Atlantic provinces, thereby hampering the improvement of their efficiency, productivity and, ultimately, living standards." (Fisheries Council of Canada, written brief)

*- true for all of UI*

from general revenue. In recent years over 90 percent of benefits for fishermen have been paid by government out of the Consolidated Revenue Fund. In 1985, for example, premiums paid by fishermen covered only \$13 million of the \$180 million paid to them in benefits.<sup>8</sup>

The fishermen covered under this special program are self-employed and, as discussed earlier, the degree of moral hazard inherent in their occupation is incompatible with Unemployment Insurance. Concern about the fishermen's Unemployment Insurance program goes beyond its abandonment of insurance principles. While the fishermen's program is incorporated in the Unemployment Insurance Act, it is completely distinct and self-contained. This is necessary because the characteristics of employment in the fisheries are fundamentally different from employment in other sectors, as is reflected in such important elements of the program design as calculation of insured earnings, insured weeks and benefit entitlement, all of which differ from the regular program. A more serious matter is that some elements of the fishermen's program contradict the basic principles governing the rest of the Act, such as the requirement that recipients be engaged in job search.

The program has proved to be ineffective and inadequate in terms of its objective of providing support to the incomes of needy fishermen. It does not address the tremendous diversity within the industry and the often inescapable fluctuations in the level of income of fishermen. Fishermen with low insurable earnings receive proportionately low Unemployment Insurance benefits while those with higher incomes receive higher and even maximum benefits. Their higher incomes may be the result of many factors, from the value of species pursued to good luck in finding a large supply. Unemployment Insurance provides no help whatsoever for those most in need – those who cannot attain the required minimum number of weeks of insurable employment because of natural conditions or government regulations – or for the communities in which they live. Others complain that even for those able to qualify, Unemployment Insurance does not stabilize their income, but rather increases its fluctuation. They receive higher benefits in periods of large catches and lower benefits when the opposite conditions prevail.

Furthermore, there is a degree of inequity in that fishermen are included under Unemployment Insurance while others similarly engaged in the exploitation of natural resources and dependent for their incomes on the vagaries of nature and of government regulation, such as hunters and trappers, are not included. Another problem is that because Unemployment Insurance is so important to self-employed fishermen, it has become one of the ways used to regulate aspects of the industry. The rule about basing benefits on the 10 best of 15 insurable weeks was adopted in order to encourage fishermen to extend their fishing season in order to provide processing plants with more fish during the end of the season. The 10-week qualifying period creates pressure for an extension of the fishing season for some species, when biological control objectives dictate otherwise.

Processors have argued for an increase in the minimum qualifying period from 10 to 14 weeks of insurable employment in order to extend the fishing season beyond the time when the fishermen now do not wish

to fish. As a general provision, however, this increase would create serious problems for fishermen in areas where the fishing season is short for climatic or regulatory reasons, where the supply of fish is limited, and where alternative employment is inadequate. Processors have also complained about the difficulty of obtaining desirable quantities of fish during the latter part of the fishing season, when fish become scarcer. Fishermen with less than 15 weeks of insurable employment are understandably reluctant to continue fishing during that period, since their net insurable earnings would be lower and their Unemployment Insurance benefits would therefore be reduced over the entire benefit period of their entitlement.

Some technical shortcomings are also evident in the operation of the program. The program is very difficult to police and relatively easy to exploit. Administrators frequently cannot verify basic information; cheating and fraud may occur. Fishermen and processors may cooperate in juggling their reports of catches for Unemployment Insurance purposes. Catches may, for example, be reported in a week other than the week in which they occurred or they may be shared among several fishermen in order to increase Unemployment Insurance payments. A plant manager, serving in the role of employer under the special Unemployment Insurance plan, pays the same total Unemployment Insurance premium on fish deliveries regardless of who catches the fish. If one fisherman has adequate insured earnings, he may arrange with the plant manager to have his additional earnings recorded in favour of another. The first fisherman may lose nothing, the second gains his Unemployment Insurance benefits, and the plant manager retains a good relationship with both – a matter of vital concern to him in maintaining a secure supply of raw material.

### A Response

It is neither within the mandate nor within the competence of this Commission of Inquiry to find solutions to the many problems in the Canadian fishing industry that affect the level of income of fishermen. Unemployment Insurance was extended to self-employed fishermen not as a form of social insurance but as a means of income supplementation.

The many attempts over the years to stretch and to adapt Unemployment Insurance to meet the special characteristics of the offshore fishermen's occupation, so fundamentally different from other occupations, have led to the evolution of a special fishermen's Unemployment Insurance program that bears little resemblance to the regular program. Such important elements of the program as calculation of insured earnings, entrance requirements, weeks of insurable employment, entitlement to benefits, and job search requirements have been redefined to meet the peculiar circumstances of self-employed fishermen. And yet the program has not met the needs of those it was specifically designed to serve – fishermen with low incomes and with the greatest need, and the communities in which they live. Clearly, Unemployment Insurance is neither an appropriate nor an adequate vehicle for income supplementation of fishermen and should be phased

"In looking at your numbers in any of the five years shown, the maximum income is about \$10,000 average. For a stabilization program to work, there have to be good years and bad years, and there don't seem to be many good years in the numbers." (Maritime Fishermen's Union, Charlottetown hearings)

"One of the things that has been cited as a reason for looking at a catch insurance scheme is the problem of fishermen in Newfoundland – not exclusively in Newfoundland but predominantly in Newfoundland – who, in this past fishing season, were not able to get enough fishing catches to qualify for Unemployment Insurance . . . We cannot recommend any radical change from the existing program for the following reasons: a catch insurance scheme as has been suggested at the First Ministers' Conference would be perceived as an even more direct subsidy of our industry in the view of our American trading partners than the Unemployment Insurance fishing program is now; and a catch stabilization plan would either have to winnow out the least productive fishermen over time or be probably a greater drain on the federal treasury than the present program." (Prince Edward Island Fishermen's Association, Charlottetown hearings)

out as a means of solving the many problems that influence their incomes.

This Commission of Inquiry is not the first to reach that conclusion. Numerous studies and reviews which have subjected the special fishermen's Unemployment Insurance program to searching scrutiny have recommended its replacement over time with a more appropriate mode of providing support to fishermen. It is recognized, however, that the phasing-out of the special Unemployment Insurance program for fishermen would inflict severe hardship unless an alternative program has been adopted and implemented. We recommended in Chapter 4 that income supplementation be a major element in a reformed and improved income security system for the entire country. Some reforms can be introduced, however, without waiting for the implementation of a comprehensive nation-wide program. The financial resources currently devoted to regionally extended benefits and to fishing benefits are substantial in some provinces and could provide the basis for negotiating a program of income supplementation with each of the interested provinces. The resulting income supplementation would not be reserved specifically for fishermen, or even for those engaged in the exploitation of natural resources whose incomes are similarly subjected to the uncontrollable influences of nature, but would be available to all workers in need.

---

### **Recommendation**

- 33** "Part V Fishermen's Regulations" should be amended to establish a five-year maximum deadline for phasing out the eligibility of self-employed fishermen for Unemployment Insurance.
- During this five-year period, eligibility for special fishing benefits should not be extended to any new fishermen. Current Unemployment Insurance beneficiaries should be permitted to elect to receive a weekly payment during their off-season calculated on the basis of their average entitlement over the preceding five years rather than on the current schedule of benefits.
  - Also during this five-year period, the federal and the provincial governments involved in the fishing industry should develop and implement an income supplementation plan for all workers in relation to their need, with resources at least equivalent to those currently available for Unemployment Insurance benefits to self-employed fishermen.
-



## Summary and Conclusions

We listened carefully to the arguments of the self-employed. They too experience the distress of unemployment, but they control their own destinies to a certain degree. Because an Unemployment Insurance program must minimize moral hazard, we have come to the inescapable conclusion that the needs of the self-employed must continue to be met by means other than Unemployment Insurance.

The exception has been self-employed fishermen. The decision to include them in the Unemployment Insurance program was a political one, motivated by social rather than economic reasons. From the beginning, the support provided to fishermen has been income supplementation rather than social insurance. The program has not done enough to alleviate the inadequacy and instability of the incomes of self-employed fishermen and the communities in which they live. One reason is the complexity of the situation – the diversity of the fishing industry and the many factors that can affect income in serious and fundamental ways. Another reason is that Unemployment Insurance is not an appropriate or adequate vehicle for providing income supplementation. We have therefore recommended that the benefits of the special fishermen's Unemployment Insurance program be phased out over a five-year period and that the governments involved adopt and implement a more adequate response to the needs of not only self-employed fishermen but all who are without adequate incomes. What is required is an effective fisheries policy, a genuine income supplementation program and a long-term regional/community development strategy.

"If you should recommend that fishermen or certain classes of fishermen be removed from the benefits of Unemployment Insurance, then you must make that recommendation on the condition that another program is put in place." (Government of New Brunswick, Fredericton hearings)

## Notes

- 1 Statistics Canada, *The Labour Force, December 1985* (Cat. no. 71-001), 1986.
  - 2 Canada, Department of Communications, Federal Cultural Policy Review Committee, *Report* (Ottawa: Minister of Supply and Services Canada, 1982).
  - 3 Canada, House of Commons, Standing Committee on Communications and Culture, *Report of the Subcommittee on the Taxation of Visual and Performing Artists and Writers* (Ottawa: Queen's Printer, 1984).
  - 4 Canada, Department of Communications, Task Force on the Status of the Artist, *The Status of the Artist* (Ottawa: Minister of Supply and Services Canada, 1986).
  - 5 Brief to the Commission of Inquiry on Unemployment Insurance, dated January 29, 1986.
  - 6 Brief to the Commission of Inquiry on Unemployment Insurance, dated January 16, 1986.
  - 7 Canada, Department of Fisheries and Oceans, *Fisheries Atlantic Survey 1984* (Ottawa: The Department, forthcoming).
  - 8 Internal data supplied by CEIC Financial Research, Finance and Administration Branch.
-

## Rosemary Cairns, Public Affairs Officer, Yellowknife, Northwest Territories

*While the specifics of her case are not typical, Ms. Cairns' account of her battle with the Canada Employment and Immigration Commission illustrates the confusion and frustration experienced by many claimants who appeal benefit decisions.*

I recently went through the appeal process, from the Unemployment Insurance officer to the Board of Referees to the Umpire. I had appealed the Unemployment Insurance Commission's classification of the accommodation allowance as earnings, arguing that it represented a way of alleviating the higher cost of living in the Northwest Territories.

I am 35 years old and have been working on a part-time and then a full-time basis since I was 17 and have been contributing to the UI system all that time.

I applied for UI in May of 1983, when I went on maternity leave . . . I was then working for the Government of the NWT. At that time, the only benefit it provided to women who were going on maternity leave was a continuation of the tax-free \$450-per-month accommodation allowance. I assumed that I would be able to receive UIC benefits and the accommodation allowance, because that allowance was tax free.

What actually happened was that UIC deducted the accommodation allowance from the UI maternity leave benefits. I asked at the time about UIC's treatment of the accommodation allowance and got varied answers. My questions actually seemed to slow down the entire process.

I got one payment card, at the end of May, indicating that because of the income I was receiving, I was not entitled to any UI benefits for that period . . . On June 24, I received a cheque for \$161 covering the weeks of May 15 and May 22; the report card I subsequently returned spelled out the various monies I was receiving and asked about the treatment of tax-free allowances by UIC.

I received a phone call from UIC in mid-July asking for explanations of these amounts but heard nothing further until mid-August, when I phoned UIC several times to ask what had happened to my claim . . . Towards the end of August, I went into the UIC office and was asked to fill in report cards covering the period from May 29 on. I did this and,

on September 12, I received six cheques issued one after the other, each for \$78.00. I also received two more report cards, covering the weeks of August 21 and September 4.

On September 14, I received a payment demand from UIC's collection office in Edmonton, indicating that I had been overpaid and demanding that I repay \$161.

At that time, I was in the process of appealing the ruling on the accommodation allowance to the Board of Referees. But when I kept getting computerized letters indicating that my wages would be garnisheed unless I paid, and no response to any letters I wrote, I sent UIC a series of 16 post-dated cheques to cover the amount owing. The last of these was cashed the month before my appeal hearing before the Umpire in Edmonton in May 1985.

Just before Thanksgiving of 1983, I received a notice from UIC indicating that my appeal would be heard in Edmonton the next week. It gave me one business day to visit the UIC office here in Yellowknife to view the CUBS<sup>2</sup> which had been cited by UIC in arguing that my appeal should be rejected.

I was outraged that UIC, which was telling me that I had a right to appeal and a right to appear before the Board of Referees, was now telling me that I had no right to appear before a Board of Referees in the territory in which I lived. All along I had been dealing with the CEC in Yellowknife; now I was expected to get to Edmonton with a small baby in tow in order to exercise that right. So I protested. The compromise was a telephone conference call hearing before the Board of Referees . . . In its decision turning down my appeal, the Board said the appeal hinged around an important fact, but didn't say what that fact was.

The UIC appeal process sets out only three very circumscribed grounds for appealing a Board's decision. I found that my hands were tied in appealing to the Umpire when I did not know the reason for the Board's decision, so I wrote to the chairman of the Board of Referees to ask him to explain it. The letter I got back did not help at all.



So I appealed to the Umpire on all three grounds indicating that because the Board couldn't explain why it had made its decision, I had no other choice.

CEIC in Ottawa sent me a copy of its argument to the Umpire, as it is required to do . . . My confidence in the appeal system wasn't helped when they also sent a copy of a ruling by an Umpire indicating that if there had been *any* evidence *at all* before a Board of Referees which could have led to its decision (whether it had even considered that evidence in its decision or not), the Umpire was not entitled to review the appeal.

Earlier this year, I received a double-registered letter from the Umpire directing me to appear before him in Edmonton in May. UIC had to cover my travel expenses to Edmonton . . . In the end, my travel to the hearing (\$556.00) cost UIC more than it ever paid me during my maternity leave (\$629.00 - \$161.00 = \$468.00).

Although the Umpire's ruling did not reverse the original decision, it did at least provide a clear decision on the points which had confused me. It also suggested that UIC had, in effect, made a mistake and should, by trying to find a way to relent on its demand for repayment, pay for its own errors . . . But that still leaves me wondering what the whole appeal process actually achieves. It is a very limited and bureaucratic process, which doesn't really meet anyone's needs adequately.

I suggest to you that the UIC appeal system has to be overhauled. In the current system, UIC almost

always wins unless a claimant can afford to hire a lawyer familiar with UIC regulations to plead his or her case. The current system is biased against the average claimant because it makes up and follows its own rules, which really are understandable only to experts. What seems reasonable to the average citizen does not seem reasonable to UIC. UIC, to give a small example, says it doesn't care what the Department of National Revenue thinks about what is taxable and what is not taxable. That's not relevant for UIC's purposes, so any argument you might make about what the Department of National Revenue does, even in the case of a Cabinet remission order, is irrelevant to UIC.

UIC does not seem clear on its own mandate. One gets the impression that UIC feels it is dispensing its own money out of the goodness of its own heart, not that this is an insurance scheme from which one is entitled to collect because one has paid premiums. One also does not get any impression from UIC that it thinks it ever makes mistakes . . . No private business' could function for long with that sort of rationale.

I think UIC must be a very difficult, inflexible system to work within, one in which people cannot use common sense. It also does not seem to me, despite all its computers, to be a very well-managed system. I still do not understand, for example, why UIC would send me six numerically sequential cheques and then two days later send me a demand for payment; if they felt I owed it, why not deduct it from the cheques? I don't think that sort of procedure, which seems to demonstrate very clearly that the collections branch does not communicate with the benefits branch, provides for any careful and efficient expenditure of the taxpayer's dollar.

I am fairly articulate, and fairly stubborn. But throughout this whole experience, I kept wondering how I would feel if I was an NWT resident who felt comfortable only in Inuktitut or one of the Dene languages and felt that UIC had been unfair. So I ask you to consider the merit of setting up a Board of Referees in the NWT whose representatives include people whose first language is one of the native languages, as well as people whose first language is English.

---

## The Reform of Program Delivery

### Introduction

Any program, however well designed, is only as good as its system of delivery and administration. Five elements have major influences on program delivery:

- the legal framework, which determines the ultimate power, authority and decision-making processes;
- the financial framework, which determines the resources available;
- the policy and regulatory framework, which translates the legal framework into action;
- the organizational structures and administrative procedures, which define duties and responsibilities within the organization; and
- the staff, who determine the style and interaction between the program and clients.

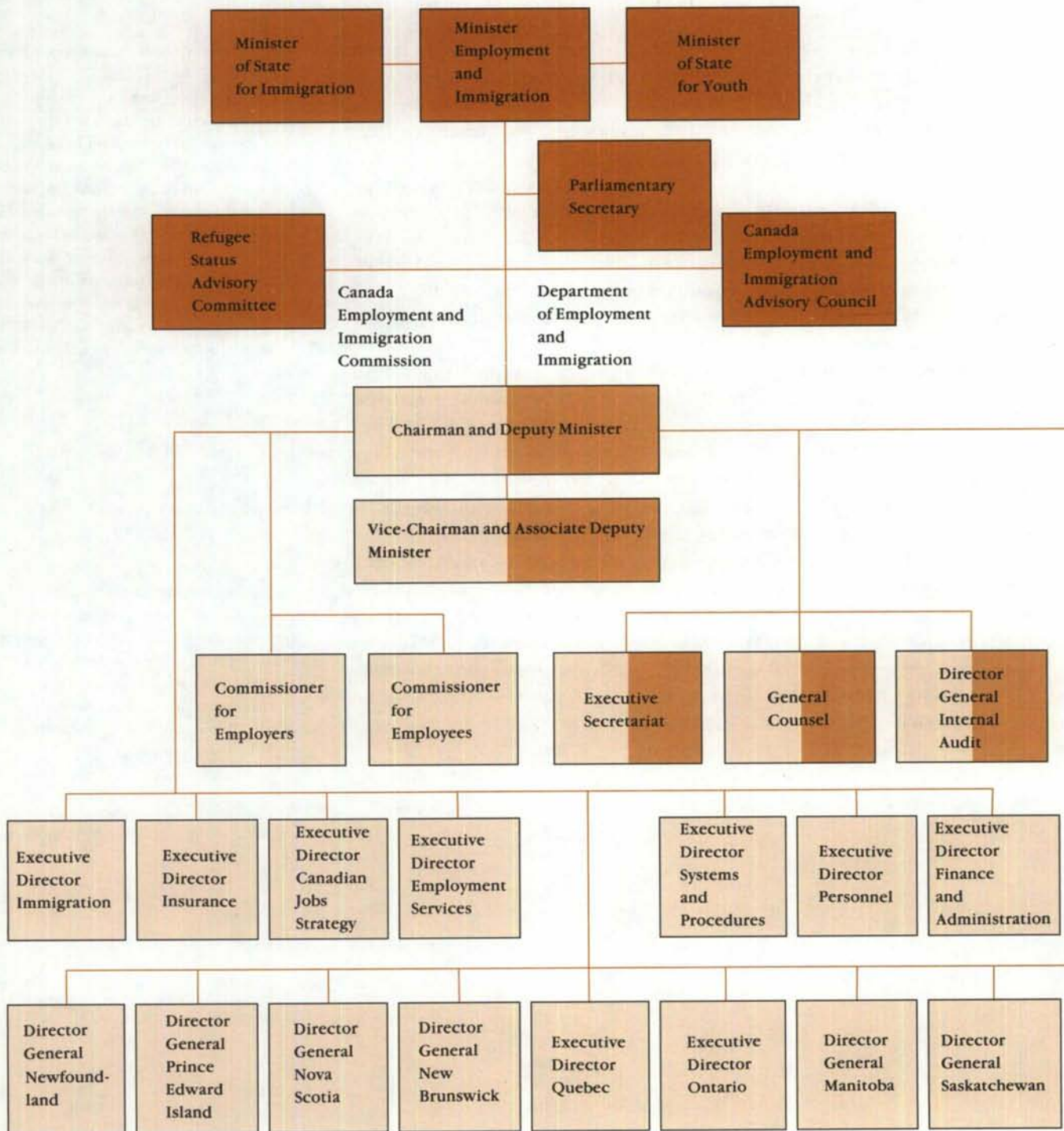
Throughout the hearings and consultations, complaints about services and program delivery were widespread. The problems discussed in this chapter are those brought to our attention most frequently. They should not be viewed, however, as criticism of individual staff members of the Canada Employment and Immigration Commission. Discussions with staff in offices across the country, and the presentations made by their union, were helpful in revealing the problems contained in the Act and in the current systems and procedures. As the comments presented in this report convey, there was a range of experiences and interactions between clients and staff. The staff are perceived to be generally competent but constrained and overwhelmed by a system that has lost its purpose and has become self-serving. The question is not how to make staff more compassionate and considerate, but rather how to provide an organization that will enable the staff to provide service in a way that is sensitive to the situation and needs of individual clients.

“We could spend a lot of time dwelling on the forbidding aspects of any CEC: long line-ups, a lack of equipment for the physically handicapped, confusion between the manpower and the Unemployment Insurance services within the offices, no questionnaire allowing the claimant to evaluate the service and to provide impressions to anybody, a somewhat frosty reception and an attitude that shows that persons who have fallen victim to unemployment are naturally ‘lesser’ people, open office areas where anybody can hear anyone else’s story, etc.” (Confédération des syndicats nationaux (CSN), written brief)

“There are a lot of really good people who work for the Unemployment Insurance Commission. They try very hard in very difficult circumstances. I think the problem has been more with the laws they have to administer and with the nature of the administration that they have to work under.” (Community Unemployed Help Centre, Winnipeg hearings)

---

Figure 10.1  
Organization Structure



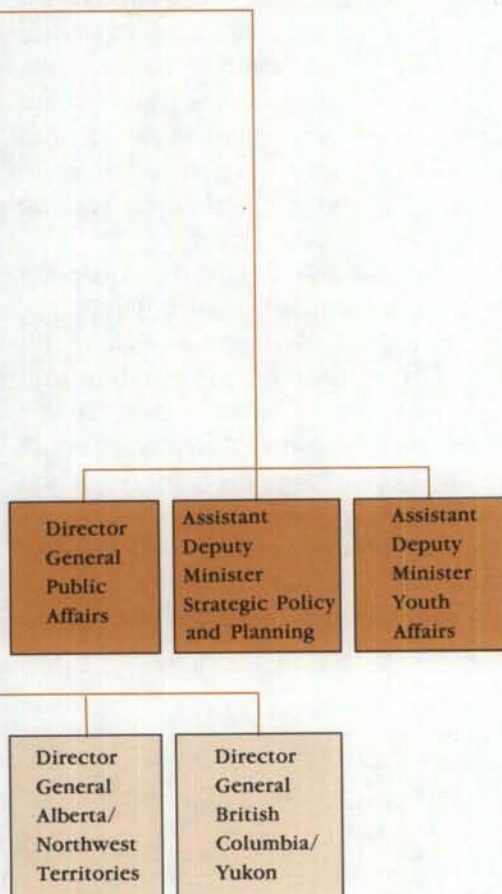
## Power, Authority and Decision Making

The current Canada Employment and Immigration Commission was established in 1977 by integrating the Unemployment Insurance Commission and the Department of Manpower and Immigration. At the same time the Department of Employment and Immigration was created.

This [integration] was of historic importance to the Canadian UI program because it finally buried the 1940 principle that UI should be both "insulated" from political pressure through management by an autonomous Commission, and that employers and employees had a proprietary right to the program and should therefore be represented on the Commission. The principle was eroded in the 1946 amendment . . . and again in 1966 . . . The 1977 amalgamation went much further however, in placing the Deputy Minister in the Chair and reducing the private sector representation . . . The government in effect "expropriated" the UI program.<sup>1</sup>

The structure of the Commission and of the Department is shown in Figure 10.1. The Minister of Employment and Immigration is responsible to Parliament for the direction and management of the Department and for the report of the Commission. The Deputy Minister of the Department serves also as Chairman of the Commission, and the Associate Deputy Minister is its Vice-Chairman. The Executive of the Commission consists,

"What we have now is a skeleton . . . the organization . . . doesn't work as it should. We have tried to amend the system radically by additions and changes, and I think we have already lost a lot by doing that. The legislation is there, but it is very complex and nobody can understand it, let alone use it. At the same time, the government is constantly intervening so that the apparatus is not just politically hobbled, it is no longer capable of functioning." (Canada Employment and Immigration Advisory Council, Ottawa hearings)



in addition, of two commissioners, one representing workers and the other employers. There is an Employment and Immigration Advisory Council appointed by the Governor in Council after consultation with organizations representing workers and employers. The function of the Council is strictly advisory.

The Commission/Department is a massive, geographically dispersed agency that provides service to clients in over 460 Canada Employment Centres and on 572 campus offices, as well as various itinerant services and outreach projects. It employs approximately 28,000 people.<sup>2</sup> Total expenditures of the combined Commission/Department for 1984/85 were approximately \$13.8 billion, of which \$11.7 billion was from the Unemployment Insurance Account.<sup>3</sup>

"I am fully in favour of integration of the departments' co-location because there is no question that those people who apply for Unemployment Insurance should have an employment service accessible to them very quickly. But when they integrated UI with the Canada Manpower Centres, they went so far as to integrate some jobs. One of the job descriptions that came out of this was called the Employment Insurance Officer, commonly referred to as E&IO, which is, in my opinion, a classification nightmare, because it puts together two very complex jobs and is almost impossible for one individual to be able to deliver." (Canada Employment and Immigration Union, Ottawa hearings)

The 1977 integration of the Department and the Commission had several objectives. The principal one was to provide one-stop service to help individuals find employment, improve their employability, and/or receive Unemployment Insurance benefits. It was expected that services to clients would be simplified, that the unemployed would be placed more quickly in jobs or training programs, that administrative overhead would be reduced, and that better administrative control could be exerted over the Unemployment Insurance program.<sup>4</sup> The integration was phased in gradually and by 1979 almost all the offices were co-located.

This current structure provides the federal government with a high profile. Aside from the Post Office, the local Canada Employment Centre is the only major presence that the federal government has in most communities. Unemployment Insurance also provides the federal government with a means to direct money to individuals rather than to provincial governments or organizations. In that regard, it is similar to Family Allowances, the Canada Pension Plan, Old Age Security and the Guaranteed Income Supplement.

These aspects of the current system explain much of the erosion of the independence and autonomy of the Commission since 1940. The understandable desire on the part of the federal government to get credit for its expenditures and to be involved in the local labour market meant that by the 1960s, two parallel structures had developed – Canada Manpower offices and Unemployment Insurance offices – both frequently attempting to serve the same clients, competing for funds and duplicating administrative systems. In that context, integration was a rational move, but it has not resulted in the kind of efficiency or responsiveness that was sought. Moreover, it has brought in its train unintended results that have compromised the independence of the Unemployment Insurance Commission.



### The Need for Reform

The current Commission lacks autonomy, power and authority. Although nominally independent, it operates as a department of government and, as such, is regulated by guidelines of the Treasury Board and the personnel policies of the Public Service Commission. While the Unemployment Insurance program continues to be financed primarily from premiums, only minimal influence is exerted by the two commissioners who represent employers and employees. Indeed, the responsibility of representing the broad range of interests of Canadian employers and employees is an impossible task for only two commissioners. Proper representation of the varying interests within each group requires an increase in the number of commissioners and in their autonomy.

A review of the history of the Unemployment Insurance program reveals that the major influences on its policy since 1940 have been the result not of negotiations between employer and employee interests, but rather of political and bureaucratic interventions.<sup>5</sup> Political direction has been responsive to particular crises and constituency concerns, as might be expected, but the overall size, organizational culture, and program direction have been controlled by the bureaucracy of the department and central agencies.

The labour and business groups that advocated the integration of Unemployment Insurance and employment services before 1977 may have underestimated the size and power that the organization would acquire. They may also have underestimated the bureaucratic tendency to channel a large part of the organization's power into control and other mechanisms to serve the system rather than the clients. Less than 10 years later, frequent complaints are being heard that those who pay the lion's share of the costs do not have a voice in managing the program, and that the delivery of services is not responsive to the needs of the clients. The adoption of an administrative structure that would reflect these legitimate concerns and restore efficient and effective delivery of the program to its proprietors was strongly advocated at the public hearings.

The problem with the present delivery structure is twofold. First of all, the Commission is not directed or controlled by the premium payers. Employers and employees are viewed as special interest groups, not as proprietors of the program. Second, the federal government's responsibilities for immigration, Social Insurance Numbers, job creation, training and labour market intelligence are broader than the functioning of an effective Unemployment Insurance program. Combining all of these services with Unemployment Insurance has made the bureaucracy overly complex and unmanageable.

"We are paying for those services through our deductions. We have a right to decent service. We do not want to go in there to be harassed, to be humiliated, to have our time wasted. It is about time that the Unemployment Insurance Commission started behaving like a public service agency instead of a bunch of little dictators." (Paul Hutcheson, Victoria hearings)

"The bureaucrats and the politicians have made what was initially a simple concept of providing sustenance in cycles when people were not working into one of the most jumbled, complicated, difficult systems to assess in all of Canada's public arena." (British Columbia Government Employees Union, Vancouver hearings)

"Employers and employees should have greater influence in UI policy formulation and fund administration, perhaps by means of a policy board." (Canadian Manufacturers' Association, written brief)

### Recommendation

**34** A new autonomous organization, the Unemployment Insurance Commission, should be established to be the mechanism for delivering Unemployment Insurance and employment services, and it should operate at arm's length from the government.

Throughout this report the need has been stressed for the federal government to assume leadership in establishing a comprehensive

“The government should be directly responsible for the financing of any socially inspired benefits.” (Vancouver Board of Trade, Vancouver hearings)

human resource development strategy. As part of that strategy, a revitalized government department, it is suggested, would maintain the federal government’s responsibility for immigration, training and labour market development. It is envisaged that this department would have a broad mandate for human resource development, encompassing federal responsibilities in all the areas discussed in Part II of this report: employment development, education and training, labour market intelligence, and employment equity. Various elements of that broad mandate are currently housed within other government departments (including Labour, National Health and Welfare, and the Secretary of State). Whether or not all of the functions included in human resource development are moved to one department, coordination of initiatives will be essential.

### The Various Forms of Crown Corporations

Government organizations come in a variety of forms to suit particular needs and circumstances. While the activity itself dictates the general type of organization, the extent of public interest and how it should be exercised determine the organization’s precise shape and relationship to other government bodies. Three types of organizations other than departments are possible under the Financial Administration Act: departmental corporation and two types of parent Crown corporations.

A departmental corporation (listed in Schedule B of the Act), such as the National Research Council, the National Museums, or the current Canada Employment and Immigration Commission, is usually established to perform administrative, research, supervisory, advisory or regulatory functions. The departmental corporation is an integral part of the public service and is dependent on parliamentary appropriations. Its employees either come under public service legislation or are covered by special legislation. The departmental corporation is often created to satisfy one or two specific needs, such as the ability to buy, sell or hold property, or the right to sue and be sued, in the performance of what is otherwise a standard governmental activity.

The parent form of Crown corporations can be of two types, both responsible for the management of trading or service operations on a quasi-commercial basis. Through their minister, both are ultimately accountable to Parliament for

the conduct of their affairs. The Governor in Council may give directives to these Crown corporations which then must be tabled in Parliament. Both types usually have a board of directors appointed by the Governor in Council (consisting of directors, chairperson, and chief executive officer). They both submit an annual corporate plan to the appropriate minister (describing the purpose, objectives and expected performance of the corporation) and an annual capital budget for the approval of Treasury Board (encompassing all businesses, activities, and investments with restrictions on capital expenditures or commitments). The minister tables a report regarding corporate plan, capital budget, and operating budget, as well as an annual report on the operations of the corporation.

The difference between the two types is basically one of appropriations. Parent corporations listed under Part I of Schedule C of the Financial Administration Act, must submit a detailed annual operating budget to Treasury Board each year. Because these corporations use public appropriations, the government maintains close control and supervision over them and demands accountability for their actions. Examples of Part I parent corporations are Canada Post and the National Capital Commission.

Parent Crown corporations of the second type are self-sufficient and enjoy an arm’s-length relationship with the government because their operating budgets are not subject to governmental approval. A Crown corporation is only listed under Part II of Schedule C of the Act if the Governor in Council is satisfied

that it operates in a competitive environment and is not ordinarily dependent on appropriations for operating purposes. Examples of the Part II type are Air Canada and Petro-Canada.

The board of directors and senior officers of the parent Crown corporation under Part II of the Schedule are expected to act as if the firm were privately financed and to generate earnings sufficient for continued growth and development. Should the government request such corporations to undertake specific activities in the public interest, it may pay compensation as to any privately held company. However, all Crown corporations are expected to be sensitive to public policy objectives, economic and non-economic.

While both types of parent Crown corporation combine the goal of public interest with the structure and management methods of private commercial enterprise, the form under Part I is generally used for what are essentially government activities. Personnel are covered by either the Public Service Employment Act or the Canada Labour Code. Part II parent Crown corporations are most often established to manage financial or commercial/industrial operations. They function like private firms, with similar motivations and competitive responses and similar tests of success and failure. Such corporations are free to manage their affairs independently, and public interest is satisfied by the imposition of general policy direction from the government and by the nomination of independent board members.

---

**Recommendation**

- 35** The remaining Department of Employment and Immigration should be revitalized, with a broad mandate for human resource development.

**The Structure of a New Commission**

Various forms of governmental organizations were considered for the proposed autonomous Unemployment Insurance Commission. In order to address the problems inherent in the current structure, the range of organizational structures possible under the Financial Administration Act were examined (see box). A parent Crown corporation which operates with the greatest independence is the preferred form of organization. Admittedly, the new Commission would not meet the criterion of operating in a competitive environment. But the new Unemployment Insurance Act would closely regulate its operations and limit its discretion with respect to the basic features of the Unemployment Insurance program and the appeal process, so that the protection which a competitive environment normally provides the public would be guaranteed by limitations in the Act. The operation of the reformed Unemployment Insurance program would conform to the criterion of not requiring parliamentary appropriations, since it would be wholly financed by premiums.

---

**Recommendation**

- 36** The new Unemployment Insurance Commission should be established as a parent Crown corporation under Schedule C, Part II, of the Financial Administration Act.

In order to increase the involvement and influence of employers and employees in the management of the program, it would be necessary to establish a board of directors with wider representation than at present. This board should be granted overall authority and responsibility for the operations of the Commission. The board should also hire its own staff and manage its own Unemployment Insurance Fund.

The intent of these proposals is to operate the Unemployment Insurance system as a self-supporting activity within a legislative framework that safeguards the public interest. Thus, once the new legislation is in place and the directors are appointed, administration of Unemployment Insurance would be managed at arm's length from the government and would represent and balance the interests of those who pay for the program through their premiums. This reform is deemed essential to restoring the credibility and integrity of the program.

"We urge the Commission to consider a national advisory committee which would be responsive to the needs of the numerous employer groups in Canada and which would be available to assist the Commission employer representative." (Canadian Petroleum Association, Calgary hearings)

"Workers should have more representation in the UI Commission; it should be numerically equal to that of employers and government." (Centrale de l'enseignement du Québec, Montréal hearings)

---

---

## Recommendation

**37** The board of directors of the new Unemployment Insurance Commission should consist of between 13 and 21 members, and a majority of members should be selected equally from labour and from employers.

- These appointments should be made by Order in Council upon consultation with interested groups and for a fixed term of three years, with one-third of the board eligible for replacement and reappointment every year.
  - The board of directors should be responsible for selection of the chairman of the board and of the chief executive officer.
- 

“The administration of UI is a horrible, inscrutable, paperbound bureaucratic mess operated by weary, disinterested, unsympathetic, paperbound bureaucratic servants, who are vaguely guided by a vast tangle of unpredictable rules, lists and procedures. For some people, actually squeezing the first payment out of the system is a bit like persuading Albania to issue a tourist visa.”  
(Benetech Canada Inc., written brief)

“Somebody said to me years ago that you have to look at UI in the perspective of what it is: it is an insurance company, and insurance companies don't like to pay out. If you take that attitude in dealing with the UIC, then you will always be able to cope. Unfortunately, that is the case; you have to take an adversarial relationship with them. They are not there to help. They are there to hinder.”  
(Kamloops Unemployment Guidance Centre, Vancouver hearings)

### Redressing the Unequal Relationship

The proposal to establish an autonomous Commission that would administer a reformed Unemployment Insurance program was motivated by a strong conviction that the administration of the program must be made more responsive to the needs and concerns of both employees and employers. It was also considered necessary to correct the current imbalance between a massive impersonal bureaucracy and the individual claimant. Another factor, though not the dominant one, was the view that the reformed Unemployment Insurance program should be paid for entirely from premiums. It therefore seems reasonable to propose that those who pay for the program should have responsibility for its administration, subject to Parliament, and to assume that this administration will be more sensitive to the needs and concerns of those who contribute to financing the program.

There is, however, a long tradition of administering the program from a different point of view, and there are well-established patterns of behaviour that are based more on administrative convenience and control than on consumer service. Those traditions and patterns will not be easily overcome. The new autonomous Commission will have to address this challenge with dedication, vigour and persistence.

Another approach – namely, to correct the current defects through a series of legislative remedies – was not accepted, not only because it does not attack the root cause of the problem, but because continuous piecemeal adjustment in the past has compounded an already complex situation and is the cause of much of the current confusion. The proposed solution is to establish an agency which will be perceived as credible, sensitive and capable of exercising discretion responsibly.

---

## Recommendation

**38** The legislation enacting the Unemployment Insurance Commission should grant it full authority over the implementation of the program and responsibility for the delivery of services.

---

It would be unfair to give the impression that the proposed structural change will magically solve all of the problems that are specifically addressed in this report. The concerns expressed at the hearings show that the present approach has led to a sense of disequilib-

---

rium and even to a bias in program administration. The unequal relationship between the Canada Employment and Immigration Commission and individual claimants or employers is the result of several factors. The most important ones – apart from the size and monopoly position of the Commission and the compulsory nature of the program – seem to be the following:

- The complexity of the Act and the regulatory process creates an unavoidable disparity between the technical expert who understands the program and the non-expert who has to trust the expert, and between the skilled administrator and the client. This is not an issue that either the present or future agency can eliminate entirely.
- There is a disparity between those who have access to information and those who do not. Information (even about relatively simple rules) is not equally accessible to the administrator and the client. Although this disparity cannot be avoided altogether, more client-oriented administration could significantly alter the balance.
- There is a disparity between those who have discretionary power in implementing the program and those who are subject to their decisions. This is the area where a new and differently constituted Commission could have the greatest impact.

### Information to the Public

There is widespread criticism of the lack of information about the Unemployment Insurance program provided to employers and claimants. Although the Canada Employment and Immigration Commission produces and distributes a wide range of publications, audiovisual programs and advertising, the perception exists that the information supplied is inadequate. At the hearings there was clear evidence of the frustration of the public over such basic problems as insufficient telephone lines. It is difficult to avoid the conclusion that public access has not been given the priority that it deserves.

One strong indication of public frustration is the number of requests and complaints regarding Unemployment Insurance directed to Members of Parliament. The 36 MPs from all parts of the country who attended the hearings all referred to this. One Ottawa-area Member claimed that his constituency office hears “far more complaints about Unemployment Insurance than about any other single government program.” In 1985, 38 percent of requests for his assistance about federal government programs concerned problems with Unemployment Insurance or other Employment and Immigration programs.<sup>6</sup> The responsibility to inform claimants of their rights and of the necessary Unemployment Insurance procedures must rest with the Unemployment Insurance administration. Claimants require better information at initial contact, and assistance to guide them through the complexity of the Act as it applies to their situation. There is a need for services in languages other than English and French, and for sign language for hearing-impaired clients.

Employers and claimants have different information needs. Employers need clear and prompt information about their responsibilities. They need special advisors at Canada Employment Centres who are

“Workers are always being told, ‘You don’t have the right to this, you don’t have the right to that’. But they are rarely told, ‘You could be entitled to this’.” (Société des ressources communautaires de Brandon, Montréal hearings)

“Some of our members who have drawn UI have been penalized or suspended from receiving benefits because they didn’t know the rules.” (Mainland Nova Scotia Building and Construction Trades Council, Halifax hearings)

“As far as pamphlets are concerned, pamphlets are available in all CEIC centres. They deal with a wide variety of subjects, such as bi-weekly report cards, maternity benefits, rules for fishermen, how to look for work. By and large, we don’t feel these materials are adequate. They don’t contain the information that claimants really need to get through the system.” (Vancouver Island Building and Construction Trades Council, Vancouver hearings)

“Every disabled person – just like every woman or native person, or whatever subgroup you would like to refer to – is different. Some people are a little less independent or stubborn than others, and might require more help. In my case, all that I was requesting was that somebody read the information to me.” (Jay Madsen, Toronto hearings)

“It seems to me that I spend a third of my time just filling in forms.” (Anne Parkinson, sawmill owner; CBC/*Venture*, April 27, 1986)

"Access to information about Unemployment Insurance matters is a frustrating process, you know. I've had friends who have waited, tried to get through on the phone for days for information. Approaching employment counsellors is another whole trip. You end up waiting hours in the office in different lines to see people who are overworked." (Arja Lane, Sudbury hearings)

familiar with the problems of employers, especially those in small businesses. They also want simpler forms and a system that allows them access to rulings. Although many publications are provided to help claimants, there are very few sources of printed information for employers other than the complex guide to filling out the Record of Employment. The result is that they often find the Unemployment Insurance system incomprehensible so that the vast majority of employers are unaware of how the Act can affect them. A review of the readability of the guide to the Record of Employment showed that readers must have the educational equivalent of a post-secondary degree to understand it.<sup>7</sup>

## Recommendation

**39** The Unemployment Insurance Commission should do more to inform the public, employers and employees about the program in general; about the requirements of the law, regulations and appeal process; and about the rights and responsibilities of claimants and appellants.

"As a comprehensive income replacement program, a key part of our network of social programs, our Unemployment Insurance system must be humanized and made more accessible with its restrictions and exclusions limited only to preventing abuses and not used to prevent genuinely unemployed workers from obtaining the benefits to which they are entitled." (British Columbia Federation of Labour, written brief)

## Policies and Procedures: The Rules

A distinction must be made between the principles that determine the benefit structure of any Unemployment Insurance program and the rules of implementation that are used to deliver the program. How, for example, does one apply for benefits? What are the criteria used to determine whether unemployment is "involuntary"? What does searching for a job mean in practice? Currently, some rules are found in the Act itself, some in the regulations, some in administrative interpretations, and some are suggested by the decisions of umpires (see box).

### Where to Look to Find out about Eligibility and Coverage

Staff of Canada Employment Centres might have to consult any or all of the following documents when making a decision regarding *eligibility* for benefits.

Not only are there problems in terms of the copious amounts of information the officer must digest; frequently there are inconsistencies from one reference to the next.

- Unemployment Insurance Act;
- Unemployment Insurance Regulations;
- Benefit Manual (explains applications of the Act);
- Benefit Manual Circular (explains Benefit Manual);
- Benefit Manual Bulletins (corrections or updates to Benefit Manual);
- Directives Insurance Services (Regional Headquarters' interpretation and application of Unemployment Insurance Act and jurisprudence);
- General Policy Telex (changes not yet printed in above material);

- Insurance Services Policy Manual (explains Commission's policy);
- Digest (explains jurisprudence from umpires' decisions).

In decisions regarding *coverage*, the officer refers specifically to:

- Unemployment Insurance Act (Part IV, Sections 3 and 4);
- Regulations (Part II, Section 50);
- Benefit Manual (Chapter 4.4.2, 12);
- Insurance Services Policy Manual (Sections 10 and 28);
- Director Benefit Programs and Directives Insurance Services and General Policy Telexes (84-37, 83-77, 85-2A, B, C, D, E, F, G, H, I, General Policy: 85-33, 85-36, Directives Insurance Services: 84-6);
- Benefit Manual Circulars: 84-8, 84-10, Benefit Control Circulars: 84-7, 79-6, 84-11;
- Digest (Chapter 10.12 1-1400).

Wherever rules are to be found, the proposed Unemployment Insurance Commission should have wide discretion and control over the implementation of the Act. It should be the responsibility of the Commission to determine the rules to be adopted in order to deliver the program. This enlarged administrative discretion will give the new Commission its most significant opportunity to reflect an attitude and philosophy more responsive to the needs of clients.

In many cases, present rules and procedures (whatever their legal status) penalize the claimant for lack of information about detailed but non-essential requirements. Ignorance about detailed rules should not be detrimental to a claim. The following are some of the needed reforms.

### ***Deadlines***

The present Act and regulations provide that a claim for a benefit must be made by a claimant within a narrowly defined time period – namely, the day “he was first qualified to make the claim” (Section 20(4)). But the claim can be “antedated” if the claimant had a “good cause for the delay” (Section 39 of the regulations).

Similarly, benefits can be interrupted during a benefit period (a fixed 50-week period after initial qualification) when the claimant finds full-time employment. If that employment is lost before the benefit period has ended, the initial claim can be renewed. The request for renewal, however, is also subject to a filing deadline.

The number of appeals lodged against decisions denying benefits in these circumstances indicates that the filing rules have important implications in terms of lost benefits. Under existing practice, one must fight over what is a “good cause” for delay. There were many suggestions to make existing rules about deadlines better known and to excuse bona fide mistakes about legal requirements. What is required is not more information about bad rules but a critical evaluation of the real justification for these rules. This Commission of Inquiry can see no good reason for not accepting a claim at any time during the period for which the claimant would be eligible for benefits.

### ***The Onus of Proof***

Rather than stating neutrally that under certain circumstances the claimant does or does not have the right to benefits, the Act states that there is no entitlement *until* the claimant *proves* that the qualifying circumstances exist (Section 54). This is an unusual and unnecessarily harsh way of imposing the burden of establishing the claim on the claimant. A claimant who is entitled to benefits has no right to them until he or she “proves” that entitlement. This does not reflect an attitude of service or sensitivity to the needs of the client.

The new Commission should take a critical look at these rules. Claimants should only be expected to show that they have met the basic requirements for entitlement to benefits, and if benefits are denied it should be the Commission’s responsibility to show that its decision is reasonable. Moreover, the new Commission should assist claimants in marshalling the facts necessary to support their claims.

“The system is so complicated that one of the biggest complaints is, ‘If I don’t ask the right question, I don’t get the right answer’.”  
(New Brunswick Federation of Labour, Moncton hearings)

“At no time should people lose this money for whatever reason. Quite often, pride is the roadblock standing in the unemployed person’s way. Most people do not apply for benefits immediately because they honestly believe that a little hard work will find them a job almost immediately. Unfortunately, this is not a reality. The CEIU believes that the criteria for allowing antedated claims should be expanded by giving more credibility to the client for job search and other reasons. The CEIU recommends that claimants should have one month within which to file a claim.”  
(Canada Employment and Immigration Union, written brief)

“The Law Reform Commission Report of the mid-1970s, which examined the Unemployment Insurance Act and regulations, was severely critical of the lack of rights of people at that time, and the situation has not changed . . . The objective should be to ensure that the rights of the unemployed are being protected.” (Brian Krempien, Regina hearings)

“A wrong response to questions can cost people their UI benefits” (Saskatchewan Federation of Labour, Regina hearings)

It would be easier for claimants to understand their rights and responsibilities if the regulations enumerated the basic circumstances under which claims may *not* be recognized and stated that claimants are responsible for presenting the necessary information to support their claims. That would eliminate the need for proof, in the legal sense, as a substantive element of entitlement. A claimant’s only duty would then be to support a claim with prescribed information.

#### ***The Evidence Standard***

The requirements to “provide evidence” or “show cause” are sometimes mysterious for a claimant unfamiliar with the program, since there is no clear indication of the nature of the evidence that is required or of what can qualify as “just cause.” The notion of cause applies not only to those who voluntarily quit a job but to such circumstances as missing a filing deadline. The requirement that a claimant be engaged in job search suggests, at least implicitly, a standard of evidence to determine whether or not that requirement has been met.

“The staff don’t care. They are moles living in caves with a secure job, hiding behind a mass of intricately designed Catch-22 regulations . . . They don’t meet me halfway. I’ve got to reach all the way to them and they sit back and beat my reasoning to death with regulations, under the guise of giving me a ‘fair hearing’.” (Ralph Neumann, written brief)

There are other situations in which the claimant may not have sufficient information to act in his or her own best interest. The problem may be more than mere lack of information. It may be that there is no set evidence standard or objective rule, that the requirement is developed on an ad hoc basis, or is the result of a judgment based on the circumstances of each case. In cases where the decisions of the program administrators are discretionary, the claimant may be at a disadvantage. The greater the room for discretionary adjudication, the less the decisions taken by administrators are open to challenge. The new Commission should carefully identify and make explicit the standards of evidence needed to protect clients from the abuse of discretionary powers.

---

### **Recommendation**

- 40** All rules used to deliver the Unemployment Insurance program, particularly those related to filing deadlines, onus of proof and the standard of evidence, should be evaluated. Claimants should be provided with reasonable assistance in marshalling the facts necessary to support their case.
-



### **The Balance Between Autonomy and Accountability**

Under the proposed reforms, Unemployment Insurance will remain a public and compulsory social insurance program paid for by a payroll levy and subject to parliamentary control. As such, it is answerable to the public at large and to Parliament. Administrative authority may be delegated to an agency that is at arm's length from the government, but this delegation should be done in a framework that reflects and protects the public interest.

There are three broad areas where the public interest should be addressed specifically in a new Act. They are: the scope and nature of the Unemployment Insurance program; the protection of individual rights; and financial accountability.

### **The Scope and Nature of the Unemployment Insurance Program**

The frustrations of so many with regard to the complexity of the current Act demand that legislation establishing a new Unemployment Insurance program and a more autonomous Unemployment Insurance Commission should be stated in clear, simple terms. But what elements should be embodied in legislation and what should be left to the discretion of the new Commission? The purpose of the program and the mandate of the Commission should be clearly identified in the Act, but the legislation should not attempt to define every possible concern or foresee every possible problem. Rather, it must embody broad principles upon which the program is to be based. The mandate should be broad enough to enable the Commission to adjust the program to economic conditions and social trends over the years. The Commission should certainly have greater authority over the delivery of services than over the benefit structure. The principles relating to the role and nature of Unemployment Insurance and the major features of the benefit structure, discussed in Chapters 4, 7 and 8, should be embodied in the Act, but detailed rules of implementation should be left to the discretion of the Commission.

The confusion, misinterpretations and conflict with other laws that have resulted from attempts to define in legislation or regulations such concepts as insurable employment are a powerful argument for restricting the Act to general principles. Rather than pursuing attempts to define insurable employment for purposes of Unemployment Insurance, it would be more in keeping with the purpose of the program – and less confusing – to refer to the concept of a contract of service. That concept embodies the notion of an employer-employee relationship, corresponds with the intended scope of the Unemployment Insurance program, and is well supported by common law jurisprudence. The new Act should neither define insurable employment nor give the Commission the power to do so, but should simply refer to the common law concept. When the implementation of that rule is considered, however, the Commission should have the power to adopt the necessary procedures, as long as the rights of the individual are duly protected.

“They don’t understand the precedents that have been established to allow you to collect UI even though you have quit work: if you have been sexually harassed; if your employer requires you to do work that is illegal; etc. Most people who have quit work accept that penalty because they don’t know what their rights are.” (Brian Krempien, Regina hearings)

“Frequent ad hoc legislative amendments add undue complexity to the program and do not permit employers, unions nor employees to plan for the future with full knowledge of the UI program. The RAC would therefore propose that the Act provide for a formal review procedure, perhaps every five years. The Minister should be required to table such review in the House of Commons, with financial projections for the next five-year period, and recommendations to Parliament as to appropriate strategic initiatives to be undertaken by the Government over this period.” (Railway Association of Canada, written brief)

“We feel that, within the framework of general reform of the UI Act, it is important that the Act, regulations and administration be greatly simplified.” (Commission des services juridiques, Montréal hearings)

In this regard, the present division of authority between the Department of National Revenue and the Canada Employment and Immigration Commission has been the subject of much criticism. The Department of Revenue and the tax courts determine what must be considered insurable employment and what earnings must be assessed for Unemployment Insurance contributions. Contradictions in interpretation and lack of coordination between the Department of Revenue and the Canada Employment and Immigration Commission frustrate claimants, employers and staff. The new Commission should clarify responsibility and ensure accountability to remove this confusion.

---

### Recommendation

**41** The new Unemployment Insurance Act should clearly identify the objectives of the Unemployment Insurance program, its nature and scope. Specific references should be made in the Act to:

- the principles that constitute the basis for setting premium rates and benefit levels;
  - the principles that determine what is unemployment under the Act (including the interruption of earnings);
  - the concept of voluntary and involuntary unemployment (including availability for work);
  - the principles that determine what earnings are insurable; and
  - the rights and obligations of claimants, including the right to appeal.
- 

“Current UI rules and regulations appear far too complicated and costly to administer.”  
(Government of Manitoba, Winnipeg hearings)

“UI absolutely has to be simplified. How many hours of discussion have we employers spent trying to interpret its provisions – vacations, statutory holidays, everything to do with bonus payments? It seems as if we are always getting different interpretations.”  
(New Brunswick International Paper Forest Products Inc. – Dalhousie, Bathurst hearings)

### The Protection of Individual Rights

The new Commission, even under the control of its proprietors (employers and employees) and separated from the government department, will remain a big organization with extensive powers. Because of its size and the obligatory nature of the program that it delivers, it will never entirely escape the evils of any large non-competitive bureaucracy. Individuals need protection from some of the excesses that this kind of organization can occasionally generate.

Safeguards are needed with respect to the complexity of the Act, the program and the regulatory process. Other safeguards reside in an effective appeals process and, finally, in a limitation on the Commission’s powers of enforcement.

---

***The Need for Simplicity***<sup>8</sup>

As expressed by Chief Justice W.R. Jaccett of the Federal Court of Appeal in 1974:

This statute is even more difficult than most modern complicated statutes, in my view, to comprehend. It is replete with special concepts created for the purpose of the statute. Its general scheme is almost completely obscured by being buried in detailed provisions.<sup>9</sup>

The proposed reforms of the Unemployment Insurance program will eliminate much of the complexity in the present Act. Because simplicity should be an overriding objective for those who draft a new Act and regulations or make subsequent amendments, it merits more detailed discussion.

Employers and employees were unanimous in denouncing the current Act as impossible for jurists to understand, let alone clients and employers. It has been suggested that, although ignorance of the law is not normally a justifiable defence, it may be justifiable in relation to certain sections of the present Unemployment Insurance Act. There were frequent complaints about many requirements that are described in the Unemployment Insurance Act in the negative by means of a list of exclusions, and particularly about the definition of insurable employment by the Department of Revenue. The elements of the current program design (the variable entrance requirements and different eligibility requirements for special benefits, for example) are complex, confusing, easily misunderstood, and often lead to inequities.

Simplicity is also required in the regulatory process. Briefs submitted to this Commission of Inquiry referred to the countless changes that have been made by Order in Council, and suggested that a review of regulations at regular intervals would be more reasonable. The effective and efficient delivery of the Unemployment Insurance program requires that it operate with consistency and not be subject to piecemeal adjustments.

Regulatory changes are currently effected by the Governor in Council with immediate force of law. Changes that have financial implications are subject to the prior approval of the Treasury Board, and all changes are subsequently published in the *Canada Gazette*. Few members of the public, however, read that publication. Because changes to Unemployment Insurance can affect the financial security of a large number of Canadians, it seems reasonable to make a greater effort to inform the public about draft regulations and significant policy changes.

"The system seems to be set up primarily to identify potential cheaters and abusers rather than to provide a service to qualified insured participants. The words 'efficient' and 'cost effective' are out of place when dealing with people suffering the trauma of job loss."  
(Canadian Congress for Learning Opportunities for Women, Regina hearings)

"The laws themselves are too difficult to understand. Legislators devise the laws and put them in the hands of lawyers and judges; and it has come to the point today where the judges are contradicting each other."  
(Mathilda Blanchard, Bathurst hearings)

"We recommend that an automatic review of this Act, its objectives, funding and impact be incorporated as a portion of the Act."  
(Winnipeg Chamber of Commerce, Winnipeg hearings)

"Major changes to the UI Act and regulations must be preceded by adequate notification to the public via the news media in an attempt to alleviate public misunderstanding or unawareness of changes in the Act and regulations when they come about." (Canada Employment and Immigration Union, Fredericton hearings)

**Recommendation**

**42** The new Act, in delegating to the Unemployment Insurance Commission the power to issue regulations, should prescribe a manner and schedule for making these changes, so as to limit their frequency. Notice of proposed changes to regulations should be published in the media well in advance of their proposed date of implementation.

"Generally speaking, the major problems appear to be the inflexibility of the system. There are many times when, as we understand it, appeal boards feel that somebody should be able to receive an exemption or an extension of a benefit of some sort, but because of the rigidity of regulations they are not permitted to do so." (Calgary Labour Council, Calgary hearings)

"What I would really like to see is a separate administrative agency set up to take care of boards of referees so that it is not the Canada Employment and Immigration Commission. It looks like stink to have the Canada Employment and Immigration Commission taking care of boards of referees." (Unemployment Insurance Working Group, Vancouver hearings)

"The UI system, as it now operates, tends to be unwieldy, slow and inefficient, impersonal and opaque to individuals attempting to iron out problems that may occur. We recommend that there be an ombudsman or advocate available in each area to help clients resolve problems, and that the availability of this person be made known to UI applicants." (Community College Teachers, Hamilton hearings)

### **The Appeal Process**

In 1985, 12,165 appeals were heard by boards of referees and 1,246 by umpires (see Figure 10.2). The appeal process was a source of frustration for many at the public hearings, more because of the structure and the process than because of the decisions handed down. Canadian law has traditionally had an appeal system that operates on two levels: the first reviews the facts of the case; the second reviews the legal procedures and interpretation. The Unemployment Insurance appeal procedure is even more complex than this (see Figure 10.3). The decision of the higher level of appeal (the umpire) is intended to clarify questions of law and to create greater consistency in the decisions reached at the first level (board of referees). In accordance with the Federal Court Act, the umpire's rulings may be further appealed to the Federal Court of Appeal and to the Supreme Court of Canada. The current process is highly adversarial, yet even at the first level the board of referees acts neither as a court nor as an ombudsman.

Boards of referees are not looked upon as true appeal boards since they are not perceived to function at arm's length from the department, do not always apply standard rules of evidence, and are chaired by persons who may lack the legal training and depth of understanding of the program that is needed. The current internal administrative review is also perceived to be inadequate in that the staff person is not separate from the regular line of authority. A revised appeal system should involve a more independent Unemployment Insurance ombudsman/adjudicator at the first level and should allow a formal appeal to a board of appeal at the second level which would operate in a judicial manner.

**Figure 10.2**  
**Activity Volumes for Boards of Referees, Umpires and the Federal Court, 1981-85**

	1981	1982	1983	1984	1985 <sup>a</sup>
Number of appeals decided by boards of referees	16,221	16,763	17,829	17,599	12,165
Number of appeals sent to umpires	1,241	1,213	1,504	1,400	1,471
Rate of appeals sent to umpires	7.65%	7.23%	8.43%	7.95%	12.0% <sup>b</sup>
Number of appeals decided by umpires	1,313 <sup>c</sup>	965	1,105	1,213	1,246
Number of appeals sent to the Federal Court <sup>d</sup>	57	43	60	74	74
Decisions pending from Federal Court	0	43	60	33	68

<sup>a</sup> To August 31, 1985.

<sup>b</sup> Increases to date are due to large influx of vacation pay appeals.

<sup>c</sup> The higher number of appeals decided than submitted reflects the previous year's backlog.

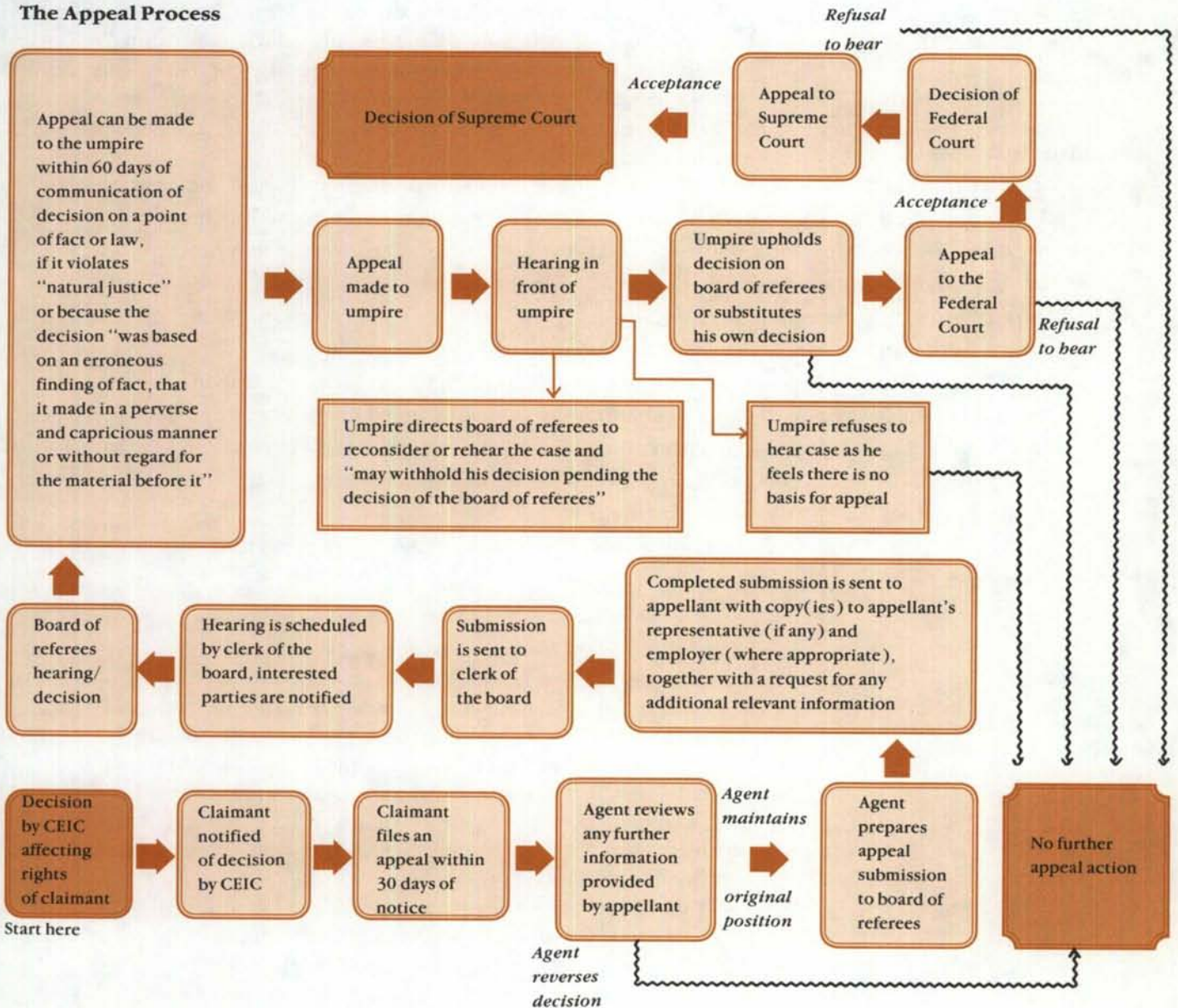
<sup>d</sup> Of these, the Commission initiated 26, 25, 38, and 31 cases in 1982, 1983, 1984 and 1985, respectively.

Source: Calculations prepared by the Commission of Inquiry on Unemployment Insurance.

The ombudsmen/adjudicators should operate in a non-adversarial manner. They should be under an obligation to investigate the case at issue and to return a "motivated" decision (that is, a decision accompanied by reasons) within 30 days. The process should be able to meet the scrutiny of the Federal Court. The review by the adjudicator would include consideration of the nature of the dispute between the client and the Commission and of the informal written report by the claims supervisor. It would provide the Unemployment Insurance Commission with information about policy implementation and would act as an internal monitor of the benefit-award mechanism with respect to its

"This is 1986. I am still fighting a 1984 decision. The information should have been available to me and I should have been told at the time I appealed UI's decision to disqualify me for six weeks." (Randy Overall, Vancouver hearings)

Figure 10.3  
The Appeal Process



"I encourage anybody to appeal everything because I find that they make a lot of mistakes and that when you appeal, somebody else in the system is taking another good look at it because it's going to go before a board of referees and boy, they don't want it to go there and make them look stupid. They take another look and a lot of people win their points." (United Steelworkers of America, Local 8995, Hamilton hearings)

conformity with legal and regulatory rules, and of the uniformity and consistency of administrative interpretation and guidelines. These changes, combined with improved claims processing and simplified legal procedures, would help to reduce the number of appeals to the more formal board of appeal.

The board of appeal should be an administrative tribunal presided over by an experienced lawyer (one deemed qualified for appointment to the judiciary, for example) and two assessors, representing the interests of employers and employees. The board would operate in an adversarial manner, abiding by rules of evidence and calling for expert opinions where necessary. Hearings could be held anywhere in Canada and appellants should be reimbursed for the cost of attending hearings that are more than 30 kilometres from their residence. It is essential that this board of appeal be empowered to review the substance of the cases, as well as the laws governing all cases. The Federal Court of Appeal would continue to fulfil the role of a superior court, controlling excess of jurisdiction, maintaining observance of the rules of natural justice, and reviewing legal interpretations.

---

## Recommendation

**43.1** The current appeal system of a board of referees and umpire should be replaced by an Unemployment Insurance ombudsman/adjudicator's review and a board of appeal.

- The responsibilities, independence and powers of the Unemployment Insurance ombudsman/adjudicator should be specified in the Act and should include the obligation to report annually on problems in implementing the Act and interpreting statutory and regulatory provisions, and to provide pursuant recommendations.
- The board of appeal should be established to hear all first-level appeals and be empowered to review the substance of all cases. It should consist of an experienced lawyer deemed qualified for appointment to the judiciary, as presiding officer, and two assessors representing the interests of employers and employees. The board should function judicially, making full use of the adversary process and abiding by the rules of evidence.
- The function of adjudication review should be clearly separate from claims processing and benefit control.

---

"Another function of the UIC which should be more widely undertaken is that of informing claimants of their rights and obligations before the Law." (Commission des services juridiques, Montréal hearings)

### *Helping Clients to Interpret the Act and Regulations*

Decisions by umpires, rather than those of boards of referees, provide the key cases for precedents in Unemployment Insurance matters and are the ultimate tool for interpreting the Unemployment Insurance Act and regulations. They are collected and published in *Canadian Umpires' Benefit Decisions*, but they need to be more accessible to those involved in the appeal process, since the current Act and regulations are so complex that it is almost impossible for staff to understand, not to mention clients and employers.

Clients are currently provided with a booklet describing their right to appeal and the appeal procedure, but are not informed that they have

---

the right to representation. Presentations on this point were made by several unemployment action centres and other non-profit groups that provide assistance to clients in their dealings with the claims and appeal process. Employers have no organizations comparable to these advocacy groups to assist them in the appeal process. Small businesses in particular suffer from the lack of information, advice and counsel.

"I can't represent my client properly if I don't have access to the information I need. If I bloody well have to make an appointment to get that information, then what the hell happened to 'free access' to information? It doesn't exist." (Kamloops Unemployment Guidance Centre, Vancouver hearings)

---

### Recommendation

- 43.2** Funding should be provided to approved groups, such as unemployment action centres, to assist both employers and employees in the appeal process. These groups and claimants should have ready access to the decisions of umpires in order to prepare for the appeal process.
- 

### *Limiting the Commission's Powers of Enforcement*

As a public agency, the body responsible for administration of Unemployment Insurance has powers that can easily exceed those available to a private insurer. Any insurer can refuse to pay a claim that it considers irregular and can even instigate a criminal prosecution under the criminal code if there is evidence of fraud, but the Commission also has the power to enforce its rulings. Care should be taken to ensure that the Commission is not given extraordinary powers of enforcement unless a very good case can be made that they are necessary.

"The number one interest, which I think we share with anybody who is a recipient of the program, is its viability. A program that goes bankrupt is not going to benefit any unemployed person." (Business Council of British Columbia, Vancouver hearings)

The present Act should be examined carefully from that perspective. Its provisions – for example, the search and seizure provisions of Sections 73 and 112 of the Act – should be consistent with the basic guarantees contained in the Canadian Charter of Rights and Freedoms. At present, if the Commission has assessed an administrative penalty against a person or company, it has the power to lay charges for criminal prosecution. It should proceed either administratively or by criminal prosecution, but not in both ways. The Act should include requirements of notice comparable to those of Section 28 of the Canada Evidence Act, to ensure that a recipient has been given the opportunity to examine documentary evidence assembled by the prosecution. Finally, Section 123 of the Act makes it an offence to violate any provision of the Act or regulation that does not otherwise create an offence. If Parliament wishes to create an offence it should do so explicitly; it should not allow new offences to be created through new regulations.

---

### Recommendation

- 44.1** The Act should narrowly define the powers of enforcement of the Commission consistent with the guarantees prescribed in the Canadian Charter of Rights and Freedoms and ensure that they are necessary to the essential purposes of the program.
-

**Assuring Financial Accountability**

Because Unemployment Insurance is a compulsory program financed by a payroll tax, the public interest requires that the autonomous Commission be financially accountable and that certain rules to that end be specifically laid down in the Act. The Unemployment Insurance Commission would administer a fund and should be required to invest surplus funds in government securities. Its borrowing powers should also be subject to appropriate restrictions. The accumulated rights and benefits of present employees should be protected as part of the transitional provisions to be provided for in the new Act. The scope of its activities should be limited to the administration of Unemployment Insurance and directly related employment services.

As already stated, the Act should spell out the major features of the benefit structures and the nature and scope of the program. This would leave the Commission with relatively little discretion to alter the benefit structure, as opposed to program delivery. The Commission should still have a degree of flexibility, however, to go together with some flexibility in setting premium rates, as will be recommended in a later section. Legislators should be careful to determine which of the several features of the benefit structure could be modified by the Commission and within what statutory limits.

---

**Recommendation**

**44.2** The Act should ensure normal standards of accountability to Parliament for the new Unemployment Insurance Commission. Specific references should be made in the Act to:

- the permissible scope of its activities;
  - the exercise of its power to borrow to finance a deficit in its fund;
  - the investment of surplus funds in government securities;
  - the accumulated rights and benefits of present employees; and
  - the manner in which its power to set premium rates and vary designated features of the benefit structure should be exercised.
-



## Financing the Program

### What the Program Costs and Who Pays

Revenue requirements for the current Unemployment Insurance system are determined by the benefit payments and associated administrative costs. In the 1985 calendar year, total costs to the Unemployment Insurance Account amounted to about \$11.5 billion. Approximately \$8.5 billion were funded through premiums paid by employees and employers, and the remaining \$3 billion were paid by taxpayers. (All costs exclude the cost of the Immigration program.) Figure 10.4 gives a detailed view of the Unemployment Insurance Account from 1979 to 1985. The sharing of funding by employees, employers and the government sets the Canadian Unemployment Insurance program apart from that of most other countries.

Within the Unemployment Insurance program, general revenues of the federal government pay for:

- regionally extended benefits;
- benefits for self-employed fishermen that are in excess of the premiums these fishermen pay; and
- extended benefits for those undertaking approved training or participating in approved work-sharing or job creation projects.

Employer and employee premiums cover the cost of the remaining Unemployment Insurance elements:

- initial and labour force extended benefits;
- sickness and maternity benefits, and the three-week retirement benefit;
- regular work-sharing benefits;
- costs of the National Employment Service; and
- all costs of administration of the Act and of the Unemployment Insurance program.

Other departmental programs – for example, the Canadian Jobs Strategy and Strategic Planning – are paid for by the federal government from general tax revenues.

The allocation of financial responsibility for Unemployment Insurance and the premium schedules are determined by statute. Specifically, Section 62 of the Unemployment Insurance Act provides for the setting of premium rates sufficient to cover the employer-employee costs determined for that year, adjusted to reduce or eliminate any surplus or deficit expected by the end of that year. Section 63 provides a specific definition of employer-employee costs, as well as a prescription for determining the maximum or minimum premium rate (the statutory premium rate) that can be set for any year in the event of an expected surplus or deficit in the Unemployment Insurance Account.

“The reason why you are in a deficit state at the present moment is because of the slipping-in of some of the programs which has taken place over the years, programs which were never intended to come from the employee-employer contributions.” (British Columbia Chamber of Commerce, Vancouver hearings)

“Government’s role in financing the program is diminishing. Employers and workers are seeing their contributions getting bigger. A part of UI, however, is very closely related to certain government policies. A better equilibrium must be reached between what workers pay, what employers pay and what government pays.” (Conseil du patronat du Québec, Montréal hearings)

“On the question of finance, the proposal has been made to harmonize federal and provincial budgets and, consequently, everything regarding employment policies. In other words, when skills training is proposed as a top-priority item, a first-priority service, to unemployed workers who are recognized as having permanently lost their jobs, referrals are not restricted to the UI Account, but current programs in other divisions and other branches of the CEIC are considered as well. This would extend to training budgets that are to be found in different departments. In other words, the financing of different proposals, especially skills training, shouldn’t be limited to the UI Account.” (Centrale des syndicats démocratiques, Montréal hearings)

Figure 10.4  
**Historical Review of the Financial Experience under the Unemployment  
 Insurance Account, 1979–85**  
 (millions of dollars)

	1979	1980	1981	1982	1983	1984	1985
Unemployment rate	7.4%	7.5%	7.5%	11.0%	11.9%	11.3%	10.5%
<b>Program costs</b>							
Regular benefits:							
Initial	2,322	2,737	2,955	5,427	5,618	5,526	5,616
Labour extended	233	272	304	616	927	725	734
Regionally extended	876	739	856	1,601	2,522	2,572	2,623
	3,431	3,748	4,115	7,644	9,067	8,823	8,973
Developmental uses:							
Work sharing	0.2	0	0	83	83	32	25
Job creation	1	0.5	0	24	107	115	133
Training	138	157	165	202	226	227	234
	139	157	165	309	416	374	392
Special benefits:							
Sickness	146	156	165	176	181	207	223
Maternity	208	235	273	316	344	396	433
Adoption	N/A	N/A	N/A	N/A	N/A	3	4
Retirement	15	16	18	18	19	19	22
	369	406	456	510	544	625	682
Fishermen's benefits	71	83	92	112	142	163	179
<b>Gross benefits</b>	4,009	4,394	4,828	8,575	10,169	9,986	10,227
Overpayments and cancelled warrants	-35	-32	-35	-43	-60	-64	-70
Benefit repayments	-27	-30	-36	-78	-46	-62	-39
<b>Net benefits</b>	3,947	4,332	4,757	8,455	10,063	9,859	10,118
<b>Non-program costs:</b>							
Administration	267	490	639	772	818	898	902
Bad debts	7	5	4	-12	5	11	12
Net interest	-25	-12	-26	89	409	453	522
Penalties, Section 47	-4	-4	-4	-6	-10	-12	-14
<b>Total costs</b>	4,192	4,811	5,371	9,297	11,285	11,209	11,540
Government costs <sup>a</sup>	1,295	1,037	1,001	1,784	2,822	2,902	2,974
Employer/employee costs	692,897	743,774	914,369	817,513	918,463	748,307	748,566
Revenue							
Employer/employee premiums	2,812	3,125	4,716	4,793	7,017	7,627	8,753
Fishermen's premiums	-6	-7	-10	-9	-12	-12	-12
<b>Net revenue</b>	2,806	3,118	4,707	4,784	7,005	7,615	8,740
Annual surplus or deficit	-91	-656	337	-2,728	-1,457	-692	174
Cumulative surplus or deficit at calendar year-end	650	-6	331	-2,397	-3,854	-4,546	-4,371

a Before deducting fishermen's premiums.

Note: Totals may not add due to rounding.

Source: CEIC internal data, provided by Canada Employment and Immigration Commission.

Since 1971, employers pay 58.3 percent of the costs of Unemployment Insurance for the private sector, and employees pay the remaining 41.7 percent (employer contributions are 40 percent greater than employee contributions). Schedules of premiums are adjusted annually to ensure that sufficient revenues are collected to enable the Unemployment Insurance Account to break even, at least in the long run. The Unemployment Insurance Account has, in fact, not always broken even (see Figure 10.5).

"We support the gradual elimination of the accumulated deficit in the UI Account over a five- to ten-year period; and the stabilization of premium rates through the adoption of a cap on deficit or surplus amounts; and the establishment of a threshold unemployment level above which the government gives financial assistance to the fund." (Canadian Bankers' Association, written brief)

After several years of deficits, there was a surplus of \$174 million in the Unemployment Insurance Account for 1985, which reduced the cumulative deficit to \$4.4 billion. The improvement is largely attributable to increases in premium revenue. In 1986, with net premium revenue expected to reach \$9.4 billion, the annual surplus could reach \$787 million, reducing the cumulative deficit to about \$3.6 billion by the end of 1986.<sup>10</sup>

"The tripartite system of UI financing should continue, based on the premise that government has considerable control over unemployment. Employees should contribute because they are the direct beneficiaries of the program. Employers should bear some portion of the financing burden because they are members of Canadian society, and not because they carry some responsibility for unemployment." (St. John's Board of Trade, written brief)

Both employee and employer premiums are based on weekly earnings and are tax deductible. In 1986, these rates were \$2.35 per \$100 of weekly earnings for employees and \$3.29 per \$100 for employers. Earnings in excess of a ceiling amount (\$495 per week in 1986) are not subject to premiums.

Figure 10.5  
The Unemployment Insurance Account, 1972-85  
(millions of dollars)

	Employee premium rate	Net premium revenue	Employer/employee share of program costs	Surplus or deficit for that year	Cumulative surplus/deficit at year-end
1972	0.90%	723	1,111	-388	-152 <sup>a</sup>
1973	1.00%	893	1,243	-350	-502
1974	1.40%	1,515	1,430	85	-418
1975	1.40%	1,949	1,627	321	-97
1976	1.65%	2,473	2,172	301	204
1977	1.50%	2,547	2,336	210	414
1978	1.50%	2,834	2,507	327	741
1979	1.35%	2,806	2,897	-91	650
1980	1.35%	3,118	3,774	-656	-6
1981	1.80%	4,707	4,369	337	331
1982	1.65%	4,784	7,513	-2,728	-2,397
1983	2.30%	7,006	8,463	-1,457	-3,854
1984	2.30%	7,615	8,307	-692	-4,546
1985	2.35%	8,740	8,566	174	-4,371

<sup>a</sup> Cumulative surplus at 1971 year-end was \$236 million.  
Source: Internal data provided by Canada Employment and Immigration Commission.

“All other job creation programs – subsidizations, grants, work sharing, Section 38, etc., plus training programs – should be financed in other ways and not from the UI Account.” (Unemployment Help Centre, Kingston, Ottawa hearings)

“Our members who are working – and we believe other union members and employees in this province – are prepared to pay higher premiums, on the assumption that employers would be paying higher premiums as well.” (College-Institute Educators’ Association of British Columbia, Vancouver hearings)

“There are an awful lot of social conscience types of benefits attached to UI now. I am not arguing the legitimacy of that. I am arguing the methodology of funding it. If, in fact, the social conscience is the will of the people of Canada, reflected through their elected representatives, then the people of Canada broadly should pay, not solely employees and employers.” (Regina Chamber of Commerce, Regina hearings)

“When you start mixing contributions with general revenue, you start mixing the support function with the stabilization objective. It’s a nightmare. You can do it, but I think you end up with the kind of nightmare that you have with the pensioners.” (Canadian Council on Social Development, Ottawa hearings)

Reductions in premium rates are allowed to employers with registered wage-loss replacement plans that provide sick pay to employees. These reductions usually amount to about 10 percent of total employer premiums. Employers are required to rebate to their employees 5/12 of any premium reduction that they receive. That provision is intended to retain, at least in principle, the 1.4:1 premium allocation.

Premium schedules are uniform across all industries. No attempt has been made to tie the amount of premiums to unemployment experiences, as is done in the United States. As discussed in Chapter 4, there is wide variation for both industries and provinces or territories in the ratio of benefit costs to premiums paid. In such industries as construction and forestry, Unemployment Insurance claims regularly amount to two or even three times the level of premiums paid, whereas in more stable industries such as public services, finance or real estate, far more is paid in premiums than is received in benefits.

This brief sketch of how Unemployment Insurance is financed raises a number of important policy questions.

- What is the role of premiums and government funding in the Unemployment Insurance program?
- Is the current premium allocation between employees and employers appropriate?
- How should premium rates be determined?

### **The Role of Government in Unemployment Insurance Financing**

The role of premium funding is to finance only those components of the program that are essential to operating an effective insurance service. The current use of government funding for regionally extended benefits, fishing benefits and various labour market programs is in keeping with the larger responsibility of society for those aspects of unemployment that are beyond the control of employers or employees and that reflect the results of economic and social policies, international trade, and other policies.

It is sometimes said that Unemployment Insurance helps to stabilize the economy, because in a recession total benefits increase and premium income remains stable or falls, and the opposite occurs when the economy recovers. That counter-cyclical impact, however, depends entirely on how the government chooses to finance the Unemployment Insurance deficit. Unemployment Insurance can provide the opportunity for stabilization, but so can well-timed public works.

The entire population is affected by unemployment and, correspondingly, the entire population would benefit from successful efforts to reduce unemployment. Unemployment Insurance by itself, however, does not diminish the total cost of unemployment to society. It redistributes more equitably the loss of earnings experienced by those who are unemployed, and spreads it among all employed members of the labour force. In other words, the only beneficiaries of Unemployment Insurance are those who, as paid employees, are in a position to receive

benefits if they should become unemployed. Other members of society benefit only to the extent of their association with an insured employee (in the same household or community, for example). Unemployment Insurance is a means of pooling the risks of the financial loss arising from unemployment. It is therefore appropriate that the program be financed by those sharing in that pool. Financing from general government revenue instead of by premiums would force some taxpayers, such as retired persons, to contribute through their taxes although they do not share in the risk and could never benefit.

“Primarily insurance elements of the program ought to be paid for through premiums. The more social elements of the program should be funded from general revenue in a more specific way.” (Greater Moncton Chamber of Commerce, Moncton hearings)

If Unemployment Insurance is fundamentally a program of insurance against the loss of wage income, the benefits are not a “public good” but the right only of those who are insured. It also follows that the cost of benefits to individuals and the related administrative costs should not be borne by the public purse but entirely by those who are eligible to receive benefits. Financing the program through levies on employers and employees is consistent with the premise that those who are insured should pay the premiums necessary to cover the costs. This method reflects the underlying principle of social insurance by pooling risks of all employees in a common fund financed by all on an equal basis. Furthermore, if the program is financed entirely by premiums, it is possible, as well as desirable, to have a largely autonomous agency delivering the program.

“An insurance fund should be used only for insurance purposes.” (Manitoba Federation of Labour, Winnipeg hearings)

---

### Recommendation

- 45** The reformed Unemployment Insurance program should be financed entirely by premiums. Human resource development programs, earnings supplementation and other labour market programs should be delivered separately from the Unemployment Insurance program and should be financed from general government revenue.
-

"We think it would be acceptable to raise employees' premiums to a level equal with that of employers." (Action chômage Kamouraska inc., Québec hearings)

"When I am working I'll pay \$30 a week Unemployment Insurance premiums. I'll pay \$120 a month, as long as I know it's there when I am unemployed. And as long as I know it's there, there is no stigma attached to being unemployed." (Norman Wilkinson, Vancouver hearings)

### **Premium Allocation Between Employees and Employers**

Before 1971, premiums were allocated between employees and employers on a 50:50 basis. The current allocation was adopted, at least in part, on the basis that workers have less control over unemployment than employers, can less afford its costs, and that when unemployed they bear the full cost of the waiting period before benefits begin.

In terms of economic theory, the allocation of premiums between employers and employees is generally believed to be unimportant and statutory rules on how this total premium cost is allocated have no necessary impact on who ultimately "pays" this cost. Depending on circumstances, the total amount may result in a reduction of income to employees, to employers, and/or to a firm's customers. The mode of allocation serves other purposes, however, which are more psychological than financial. It reminds employers and employees that the Unemployment Insurance system, though indispensable, has a cost, and that each group has a stake in it. There is a certain advantage to an equal allocation because it underlines the equal importance each group has in determining administrative policies. Many presentations at the public hearings called for a return to 50:50 financing. Consistent with the proposal that all benefits be charged to the Unemployment Insurance Account, an equalization of employers' and employees' shares would appear warranted and fair. This equalization should be phased in over a period of years by alternately adjusting employer and employee premiums.

---

### **Recommendation**

**46.1** Unemployment Insurance should gradually move toward allocating premiums to employers and employees on a 50:50 basis.

---

"According to our proposal, the premium for each company would be established based on: value added, payroll, plus social benefits." (Confédération des syndicats nationaux (CSN), written brief)

The proposal to move to a federal transactions or value-added tax, which is currently under consideration, has implications for the mode of allocating premiums because under that system employers' premiums could be assessed on the basis of value added rather than total insurable payroll. This would be an advantage because payroll taxes tend to increase the cost of labour relative to that of capital, whereas taxes based on value added are more neutral. In addition, if a new federal value-added tax were introduced, administrative costs to employers might be reduced if the same base were used for both purposes.

---

### **Recommendation**

**46.2** The calculation of the employer's share of Unemployment Insurance premiums should be reviewed if a value-added tax is introduced.

---

**Premium Rate Setting**

In setting premium rates it is important to examine approaches which contribute to the function of Unemployment Insurance in stabilizing demand – for example, the need to avoid a sudden increase in premiums in times of increasing unemployment, or to raise rates too much during the initial years of recovery. The premium rate is currently set on a three-year moving average of costs and insured earnings. If the rate were formulated on a moving average covering more years (five to eight years, for example), it would have a greater stabilizing impact. Since economic cycles are irregular, however, averaging formulas prescribed by legislation are seldom in tune with reality. It is therefore appropriate to let the new Unemployment Insurance Commission deal with the situation as it presents itself.

---

**Recommendation**

**47** The proposed Unemployment Insurance Commission should be given the power to alter benefit or premium levels within given parameters defined in the new Act.

---

**Bankruptcy Act**

The 1986 Report of the Advisory Committee on Bankruptcy and Insolvency,<sup>11</sup> in its consideration of wage-earner protection, recommended the establishment of a fund to protect the interests of employees in the event of bankruptcy. It also recommended that premiums (in the order of 4 or 5 cents per \$100) be collected and that the fund be administered by the Unemployment Insurance Commission. The proposal that premiums be collected is reasonable, but this Commission of Inquiry does not believe that the new program should be administered along with Unemployment Insurance.

## Administrative Procedures and Organizational Structures

### Functions and Responsibilities

"We envision the UIC offices as being a place where individuals could go to acquire assistance in filling a resumé, obtain information on job vacancies and opportunities for improving their skills, either through training programs or educational facilities, or addressing other concerns that relate to their unemployment. We have to develop an agency that indicates to individuals that it is concerned with their problems and wants to get involved in assuring their re-employment." (United Steelworkers of America, Local 6500, Sudbury hearings)

"We are very critical with respect to government and private placement services . . . There is a costly splitting up of services that perhaps adds to the inefficiency of the placement services in general." (Fédération des travailleurs et travailleuses du Québec, Ottawa hearings)

"We do utilize the Canada Employment Centre. As indicated previously, they do serve the purpose for certain specific positions that are, for the most part, not highly technical or highly professional. One of the difficulties that the Canada Employment Centre has is understanding the various and unique requirements of every organization and industry that they try to cater to." (Calgary Personnel Association, Calgary hearings)

"It is my understanding that the UIC acquires employment opportunities for only 10–15 percent of those actively seeking employment, and if this is an accurate statement, it is a shameful situation." (United Steelworkers of America, Local 6500, Sudbury hearings)

An examination of the functions and responsibilities of the new, autonomous Unemployment Insurance Commission must, of necessity, include the relationship of Unemployment Insurance to job placement services (the labour exchange), counselling and vocational assessment. These services are offered by Employment Services in the Canada Employment and Immigration Commission and are wholly funded by Unemployment Insurance premiums. Historically, employment services and Unemployment Insurance have had an off-and-on relationship, rather like a marriage, divorce and remarriage.

Employment services are offered to the public by way of an extensive network of 460 Canada Employment Centres, 25 specialized offices, 187 itinerant points of service, and over 100 centres located on campus. Some 3,900 person-years are directly allocated to the services of registration, placement, counselling, and employer market development. In 1984/85, 4,936,800 persons were registered for employment at these offices, there were more than 3.5 million referrals for employment, and 1,195,700 workers were placed in employment.<sup>12</sup> At first glance these are impressive statistics. Historical analysis, however, such as that undertaken by the Nielsen Task Force, indicates a relative decline in terms of both registrations and placements.

CEC penetration in private sector placement has declined from approximately 20 per cent in the 1960's to close to 10 per cent today. In 1961, the National Employment Service achieved over 1,000,000 placements, primarily in the private sector. In 1983/84, of the 700,000 placements recorded (in a labour market 2.5 times larger than in 1961) 185,000 were made by CEC's for students, over 200,000 were made on federally funded programs (job creation and industrial training) where employers were obligated to hire through the CEC, and 35,000 were with the federal public service through an exclusive hiring arrangement with the Public Service Commission. This suggests that fewer than 200,000 regular private sector placements were made by CEC's in 1983/84.<sup>13</sup>

The briefs submitted echoed the widespread and pervasive negative public perception of employment services noted by the Nielsen Task Force.

The 1981 report of the Task Force on Labour Market Development in the 1980s (Dodge Report) made a number of recommendations for improving employment services through greater selectivity and better targeting of programs, and through increased automation.<sup>14</sup> The Nielsen Task Force found little evidence of a commitment to implement these recommendations or to enact other reforms to improve the quality of service and to increase its cost effectiveness. Addressing the lack of significant progress, the Nielsen Task Force proposed the following:

If after two years the quality of the [CEC] placement service has not demonstrated significant improvement, the government should eliminate the placement service at that time.<sup>15</sup>



It would be unjust to imply that *all* the employment-related programs offered by Canada Employment Centres are ineffective. Many play an important role in assisting particularly disadvantaged clients to prepare for and obtain suitable and stable jobs. The current "revitalization" project is addressing the issues raised by the Nielsen Task Force, but reforms are proceeding too slowly.

There is no agreement among the Commissioners of this Inquiry on the assessment of employment services. Some believe that the job placement service is ineffective and should simply be eliminated. Others think it serves a useful function in helping individuals who have minimal skills, and in serving small businesses that lack personnel departments. There is, however, agreement that unemployed workers should go to one office for all their services and that this office should provide information regarding the processing of Unemployment Insurance claims and provide assessment and counselling services. It appears to be reasonable to integrate the job-listing and referral system with these services. Canada Employment Centres should continue to have as their objective to find people for jobs and jobs for people, and failing this, to provide temporary financial support where necessary.

These services should be available to all the unemployed, not just to Unemployment Insurance recipients. The vast majority of the unemployed have paid Unemployment Insurance premiums at some time and will again, so it is appropriate to continue to fund these services through premiums. Furthermore, because training, employment equity, mobility, and job creation are closely related to these other services, they should be co-located. Thus the federal department that delivers the Canadian Jobs Strategy and other labour market programs should share offices with the new Unemployment Insurance Commission wherever possible.

"A major philosophical change is required to convert the CEIC into an efficient and aggressive employment agency. This employment agency function should be coupled with the job search responsibilities of the individual claimant to find employment." (Building and Construction Trades Department AFL/CIO, written brief)

"A decentralization of the program would humanize the offices and would make the work of the staff officers easier, with the result that claimants would feel less that they were the target of a negative image often conveyed by public opinion." (Commission des services juridiques, Montréal hearings)

---

### Recommendation

- 48** The new Unemployment Insurance Commission should continue to assume responsibility for employment services (including job placement, assessment and counselling services) for all of those who are unemployed, including those who are not receiving Unemployment Insurance benefits. An evaluation of the placement services should be undertaken and this function should either be revitalized and refocused or be cancelled.

Continuous government reorganizations are admittedly disruptive to clients and staff. While the separation of the Commission and the Department into two units is an essential and fundamental change, the dislocation and potential problems of lack of communication or duplication of services should be minimized.

---

### Recommendation

- 49** Staff of the new Unemployment Insurance Commission and the federal department delivering other human resource development programs should be co-located in the existing network of Canada Employment Centres.
-

"[We propose] decentralizing program administration to ensure greater effectiveness; encouraging better coordination and communication than currently exists between regional offices administering the Unemployment Insurance program; reducing the number of existing Unemployment Insurance administrative regions to a more manageable number; and simplifying the three-phase benefit structure by reducing it to a single phase." (Government of Alberta, written brief)

"It is well known that the administrative structure of the UIC is pretty heavy. We demand that it be reduced at the bureaucratic level; that there be [better] communication with claimants so that unemployed workers receive their indemnity within a reasonable time; and that they cease being considered simply as numbers, as is often the case now." (Office diocésain de pastorale ouvrière et sociale, Montréal hearings)

### Personnel

The sheer size of the headquarters and regional offices was the subject of considerable criticism across the country. The Commission itself was perceived to be too large. The figures on numbers of staff vary according to the source of the information. According to the 1985 report of the Public Service Commission, the Canada Employment and Immigration Commission had 24,446 full-time employees (representing 11 percent of the Public Service). It was the third largest federal organization, exceeded only by the departments of Revenue with 12.1 percent and Defence with 15.2 percent.<sup>16</sup> A review of the number of employees on staff on January 31, 1986 showed that there were 22,238 employees in permanent positions and 5,773 in temporary positions, for a total of 28,011 staff on that date (see Figure 10.6).

The size and levels of the headquarters staff were perceived to be out of proportion to the kind and value of the services that it performs. On January 31, 1986, there were 2,714 staff in national headquarters and 25,297 staff in the regions. Headquarters thus represented 10 percent of total personnel. About 7 percent of the total personnel served in a staff capacity (those in administration, finance, communications, personnel, and specialist positions). Management positions, including senior management positions and those in the program manager classification at the PM3 level and above, represented approximately 14 percent of the total personnel resources (see Figure 10.7). Within the program manager class, 33 percent were at a supervisory level. These figures suggest that there may be more staff than warranted in highly paid specialist and supervisory roles.

The span of control of the Deputy Minister/Chairman was viewed as unreasonable. According to the organizational chart (Figure 10.1), 22 senior officers report directly to the Deputy Minister.

There was concern about Employment and Immigration duplicating services provided by other government departments. The services for employment equity, for example, were generally perceived as duplicat-

Figure 10.6  
Composition of CEIC Staff, January 31, 1986

	Number of staff
National headquarters	2,714
Regional and field offices	25,297
	28,011
Permanent positions	22,238
Term positions	5,773
	28,011

Source: List of staff and classifications supplied by the Canada Employment and Immigration Commission to Arthur Andersen & Co., January 31, 1986.

ing the role and functions of provincial human rights staff and the federal Human Rights Commission.

The proportion of temporary staff used and the overtime requirements of current staff were seen as significant problems. Overtime apparently accounts for approximately 5 percent of Unemployment Insurance staffing and temporary employees constitute from 15 to 18 percent of the work force. Temporary employees give management the flexibility to handle short-term fluctuations in workload without hiring permanent employees. Substantial training, however, is required to make employees fully productive in insurance agent positions. In order to avoid duplication of the training time, the same temporary employees are hired year after year.

The overlap of functions and responsibilities for program planning, monitoring and evaluation was criticized. At both the headquarters and the regional office level, a picture was painted of overly controlled and managed staff, and of a system that serves itself rather than clients. All in all, it would appear that a significant reduction in the number of staff at the headquarters and regional offices of both the Commission and Department is warranted.

"The members of my union who are employed in the Canada Employment Centres are always, and remain totally, cognizant of the fact that they would like to be able to serve their public better. They would like to be able to process the Unemployment Insurance claims in a timely manner. But human resources in the offices have been reduced to the point that that is becoming impossible. There are huge backlogs of claims in almost every CEC. Overtime is being worked in an excessive amount to try to get these claims processed, but people can only do so much." (Canada Employment and Immigration Union, Regina hearings)

## Recommendation

**50** A significant reduction should be made in the number of staff at national and regional headquarters.

Figure 10.7  
Numbers of Canada Employment and Immigration Commission Staff on January 31, 1986 by functions

Group	Number	Percentage of total
Clerical and Secretarial	13,941	50%
Administration and General Service	1,192	3%
Finance	270	1%
Data Processing and Computer	664	2%
Communication and Information	159	1%
Personnel	244	1%
Specialists	484	2%
Program Delivery		
Program Managers 1-2	7,253	
Program Managers 3-7 (supervisory)	3,590	
	10,843	39%
Senior Management	214	1%
Total	28,011	101% <sup>a</sup>

<sup>a</sup> Numbers do not total 100 percent due to rounding.  
Source: Unpublished list of personnel by classifications provided by the Canada Employment and Immigration Commission.

"The claims should be expedited. Now we have people waiting for up to two months even to get cards to start sending in." (Port Alberni and District Labour Council, Victoria hearings)

"I think it is unfair to have to wait for six to eight weeks before you receive any funds. I don't know what the government expects you to do in the meantime if you have to wait that long after working for two or five years in a row in one place. You cannot tell your creditors, 'I'm waiting on UI', because they don't care." (James Earl Jefferson, London hearings)

"When the Commission makes mistakes of sending the client too much money (too many cheques), why is the client penalized by having money deducted from future cheques as overpayment? Overpayments should not be deducted in one lump sum unless the person has agreed to this. At present, it is the opposite, with overpayment being deducted in lump sums unless the person indicates otherwise." (Corporation of the City of North Bay, Department of Social Services, Sudbury hearings)

"The Record of Employment is a very difficult form, and the employers don't understand it. The department has set about conducting employer seminars to help them understand the form, and I think what they have done is help to confuse it further, because it still doesn't seem to do any good. Ninety percent of the Records of Employment that come in to almost all CECs have to be checked up on, and generally there have to be one or two phone calls made to the employer to get something straightened out." (Canada Employment and Immigration Union, written brief)

### Performance Problems

An international consulting company undertook a study of the Unemployment Insurance program administration for this Commission of Inquiry. As part of that review, they compared the Canadian program with those of California and New York State.<sup>17</sup> Their findings indicated that Canada has significantly poorer results with respect to the productivity of the claims-processing function. They reported, for example, that Canada processes over three times as many claims as New York yet requires approximately five times the budget and staff to operate its Unemployment Insurance program. The geographic concentration of population would be expected to provide some economies of scale in California and New York, but the major difference in relative staffing levels is not fully explained by these factors. It appears that the Canadian Unemployment Insurance operation is far more labour intensive than its comparable American counterparts.

Much of the administration of claims involves processes that lend themselves to a high degree of standardization and computerization. Adopting these measures and making them hands-on for front-line officers would save time. At present computers do not seem to be used as an effective aid to the decision-making capacity of agents. As noted in a later section on investigation and control, it is estimated that 20 percent of incorrect payments are the result of clerical errors (representing a cost of \$67 million) and 15 percent are the result of incorrect decisions on the part of agents (representing a cost of \$52 million). Further automation of the claims-processing function could substantially reduce these costs. In addition, control would be improved by the use of automated validation and error-checking routines. The initial processing of non-contentious claims could probably be further automated and, along with the simplified qualification criteria proposed, the changes would enable benefit officers to determine appropriate benefits immediately. Discretionary decisions about benefits would thus be largely eliminated.

As well, the use of electronic funds transfer should be evaluated. This would permit clients' cheques to be deposited automatically in their bank accounts and would provide faster, more consistent payments of claims, while eliminating some paperwork for staff.

### The Record of Employment

The Record of Employment supplied by the employer is the source of information required to determine the appropriate benefit rate and benefit period for a claimant. Errors on this form are the main cause of over- and underpayments of benefits and of delays in determining eligibility and processing the claimant's first benefit cheque.

There are two possible solutions to this problem:

- simplifying the Record of Employment while retaining a wage *request* system such as the current Canadian system; or
- eliminating the Record of Employment entirely and relying on a wage *record* system for reporting employment history, such as that used in California.

The Record of Employment is part of a wage request system in which a claim is initiated by a special form that the employer is requested to submit. The form asks for historical data on employment and wages. A wage record system is one in which wage information about all employees is regularly provided by employers on a monthly or quarterly basis. Thus, the information is already on record and is easily available to the Unemployment Insurance officer. Termination of employment simply triggers access to the existing data base on the claimant.

### **Simplifying the Current Process**

The first option in simplifying the procedure related to the Record of Employment is based on the automation of front-end processing. Under the proposed Annualization system, only two pieces of information are needed: the total number of hours worked and the premiums paid, calculated using the employer's pay period.

The employer submits premiums to the Department of National Revenue on a monthly basis with respect to all his employees. Once a year, employers must reconcile the amount submitted to Revenue with the amount deducted from the employee's remuneration (on the T4 form submitted in April). The premium paid each month is calculated with the use of a standard table which takes the maximum insurable earnings into account. Once the premiums paid and the pay period are known, eligible benefits can be computed. Minimum insurable earnings are not an issue, since all employment earnings for which premiums are paid are insurable.

Thus, under Annualization, the Record of Employment would require the employer to record the amount of the premiums submitted by pay period for the previous 52 weeks, as well as the number of hours worked. The rest of the calculations would be made by the Commission's computer.

### **Converting to a Wage Record System**

The option of converting to a wage record system would require all employers to submit payroll data on wages earned and hours worked on a regular monthly or quarterly basis, at the same time that they submit Unemployment Insurance premiums. Data would identify the amount earned by each worker in each pay period in the time specified, plus the beginning and end dates of the period. The computer would calculate benefits using maximum insurable earnings, qualifying time and premiums paid on a rolling 12-month basis. Employers now send in total Unemployment Insurance contributions on a monthly basis but do not indicate which employees are covered. The wage report system requires employers to report by individual employees, not just by total amount.

The information would be in the computer and would be directly accessible to the Commission for processing claims. Mechanisms could be established to investigate and correct disputes or errors. Since the information needed to calculate benefits would be available on a routine, ongoing basis, employers would only have to add the information

"The hidden costs to the employer to administer the program should not be overlooked. These include time-consuming processes such as: preparation of Record of Employment forms and their replacement when lost; insurance of forms for UI sickness benefits; completion of Form 2656 (Benefit Control); UI garnishees; correct appearances; hiring reports; telephone inquiries; multiple RCT tax numbers, remittances and T4-T4R reporting as a result of UI premium reduction." (Canadian Shipbuilding and Ship Repairing Association, Ottawa hearings)

"Completing a record of employment is a nightmare for any small business. The follow-up and the requests for further information from CEIC offices have more than doubled recently. The cost of administering the system keeps increasing. Let's turn to simpler computerized input data." (Sudbury and District Chamber of Commerce, Sudbury hearings)

"The administration of this program would fall to the Unemployment Insurance Commission. Recipients should be required to file quarterly statements of income. Overpayments could be collected through the income tax system, or through reducing subsequent benefit payments under the program." (William M. Mercer Limited, written brief)

"Is this a temporary layoff? Yes. What do we pay him and when? We paid him vacation; he had two weeks in advance. Is that insurable? Maybe. Is there a statutory holiday? Yes. Is that insurable? Perhaps. When? Well, I'll put it this way: if the standard vacation falls within a normal week, as ascribed by the Act, a normal week being Saturday and Sunday, whatever, and it has been assured, therefore, it can be used for a topping-up position, provided it is a permanent layoff and not a temporary layoff. . . . So you get into this great morass of saying, 'Now wait a minute, guys. Do you have to have a pink suit on with a blue shoe and a red shoe facing the east at 6 o'clock at night to collect your UI?' This is where we are at right now." (Canadian Payroll Association, Toronto hearings)

confirming the worker's separation. Preliminary determination of the benefit level could be made when the client applies for benefits, and fewer client queries would result.

This system would ensure greater accuracy, in that it could easily be integrated on all automated payroll systems. The reduction in labour required to locate and correct errors, as well as any resultant over- and underpayments, would reduce administrative costs for employers and for the Commission, with fewer delays and more accurate benefit payments. Error-detection systems could be integrated to increase control of incorrect payments, and a post-audit could be done on all clients to ensure that their claim was discontinued the week they resumed working. Small businesses could use a telephone reporting system. Employers without automated payroll systems would probably have greater administrative costs, because they would need to list individual employees when submitting their premiums.

For clients, a wage record system would mean that applications for benefit could be processed more quickly. In addition, clients could be given a preliminary estimate of their benefits when they apply for Unemployment Insurance. The major problems with a wage record system are the increased administrative workload for employers without automated payroll systems and the delay due to the need to update the data base with the claimant's most recent earnings.

---

## Recommendation

**51** The Unemployment Insurance Commission should investigate the use of a simplified wage request or wage record system to replace the current Record of Employment system.

---

"In 1983-84 only about 3 out of every 100 claimants were penalized under Section 47 of the Act for providing false or misleading information, and only about 2 out of every 1,000 claimants were successfully prosecuted for defrauding the program. In 1983, when the unemployment rate peaked at 11.9 percent, 2 out of 3 UI claimants ended their claim without exhausting it." (Canadian Labour Congress, written brief)

### Benefit Control

There were 1.1 million "investigations" in 1984 - a year when there were 3.5 million claims. These investigations were essentially a quick clerical verification, and roughly one-third of them resulted in the identification of an overpayment. Seventy-five percent of these investigations are currently automated. The return on investigation and control is approximately three dollars for every dollar invested. Mechanized systems for investigation purposes provide a ten-to-one payback ratio.

Currently an automated comprehensive tracking system monitors the magnitude and causes of over- and underpayments. This system identified the value of incorrect benefit payments paid from July 1984 to June 1985 as \$341 million, or 3.3 percent of the total of \$10.3 billion, but, as it uses the Canada Employment and Immigration Commission figures, it may understate the problem. The comprehensive tracking system divides this total into categories, as shown in Figure 10.8.

---

Current comprehensive tracking systems are designed more to determine the probability of fraud than to identify individual cases. The difficulty with benefit control is compounded by the relative ease of access to Social Insurance Numbers and Employer Numbers. As was recently demonstrated by a case of fraud prosecuted in Quebec involving over \$800,000, a systematic application of controls is essential.<sup>18</sup> It should incorporate methods to recover overpayments, cross-check Department of Revenue files, and audit employer files without harassing the client.

The Canada Employment and Immigration Commission solicits employers for a voluntary program to report new hirings. These reports are cross-matched with the files of claimants to identify over- and underpayments. In addition, the Record of Employment submitted by the claimant is matched by computer with a copy of the Record of Employment sent directly from the employer.

The potential benefits of cross-matching files from clients with those of other government bodies are significant but must be considered in the light of the Privacy Act. Other countries have benefitted from a greater sharing of information. The Internal Revenue Service of the United States, for example, is launching a program involving cooperation with state and local officials in identifying those who abuse the welfare system. One possible way to handle the access-to-information problem is to require a written consent from clients to permit the Unemployment Insurance Commission to have access to relevant information on file with other government departments. The procedure would be similar to that used in applying for credit and permitting the credit card company access to one's Credit Bureau records.

"There is no doubt that some people do in fact abuse their rights and defraud the Commission. At the same time, though . . . there have been some studies in Canada that have indicated that companies are just as guilty as the private citizen, if not more so, in terms of taking money from the Unemployment Insurance Commission. As it indicates, for every dollar a claimant has defrauded the UIC, there are three dollars that employers have not contributed." (Fredericton Anti-Poverty Organization, Fredericton hearings)

"As far as fraud is concerned, this continues to be the exception and occurs far less frequently than errors made by Unemployment Insurance staff resulting in overpayments that have to be reimbursed by the claimants." (Commission des services juridiques, written brief)

Figure 10.8  
Net Value of Incorrect Benefit Payments

	Value (\$ millions)	Percent of errors	Percent of total benefits
Unreported earnings	73	21%	0.70%
Clerical errors	67	20%	0.65%
Incorrect employer data	66	19%	0.64%
Record of employment errors not followed up	59	17%	0.58%
Incorrect agent decisions	52	15%	0.51%
Other	24	9%	0.23%
<b>Total errors</b>	<b>341</b>	<b>100%</b>	<b>3.31%</b>

Source: Comprehensive Tracking System of the Canada Employment and Immigration Commission.

Cross-matching could cover data on payments such as social assistance and Workers' Compensation, and could identify persons who are not eligible due to attendance at university or college. For it to be economical, the effort should be coordinated with other social service agencies. Existing laws and relationships between agencies must be evaluated, however, and negotiations should be started between provincial agencies and federal departments.

---

**Recommendation**

- 52** Benefit control systems should be established which cross-check data on claimants with data in other relevant government files. The Unemployment Insurance Act should be amended to permit overpayments to be recovered through offsets against other amounts owing to claimants from the government (e.g., income tax refunds).
- 

"We recommend . . . that controls be instituted to eliminate the practice of clandestine work and that the penalties for fraud or abuse be much higher for claimants/businesses." (Comité socio-économique des Îles-de-la-Madeleine, written brief)

**Investigative Services**

At present, investigation of errors and abuse is limited and there is no coordinated policy of control and accountability. The current method of evaluating the efficiency of investigative activity (that is, investigations completed per person-year) encourages investigators to complete as many investigations as possible, rather than concentrating on the dollar value of overpayments. Evaluating results by quantity rather than quality may encourage investigators to forgo time-consuming cases. The roles and relationships between investigators and insurance agents were described as confused and frequently in conflict. This Commission of Inquiry can do little more than suggest that there is a need to address this problem.

---

**Recommendation**

- 53** The investigative effort of the Unemployment Insurance Commission should be focussed and improved, and cases of organized fraud should be given more attention. Performance measurement in this area should be based on dollar values in addition to the number of cases.
-



## Summary and Conclusions

This chapter has dealt in some detail with all aspects of the delivery of Unemployment Insurance and related programs which are currently the responsibility of the Commission and the Department of Employment and Immigration. A great deal of attention was devoted to delivery, because no matter how well a program is designed, it is only as good as the treatment that it gives to each client. The current program fails on both counts. As earlier chapters made clear, it is not well designed. As this chapter demonstrates, it is not well delivered.

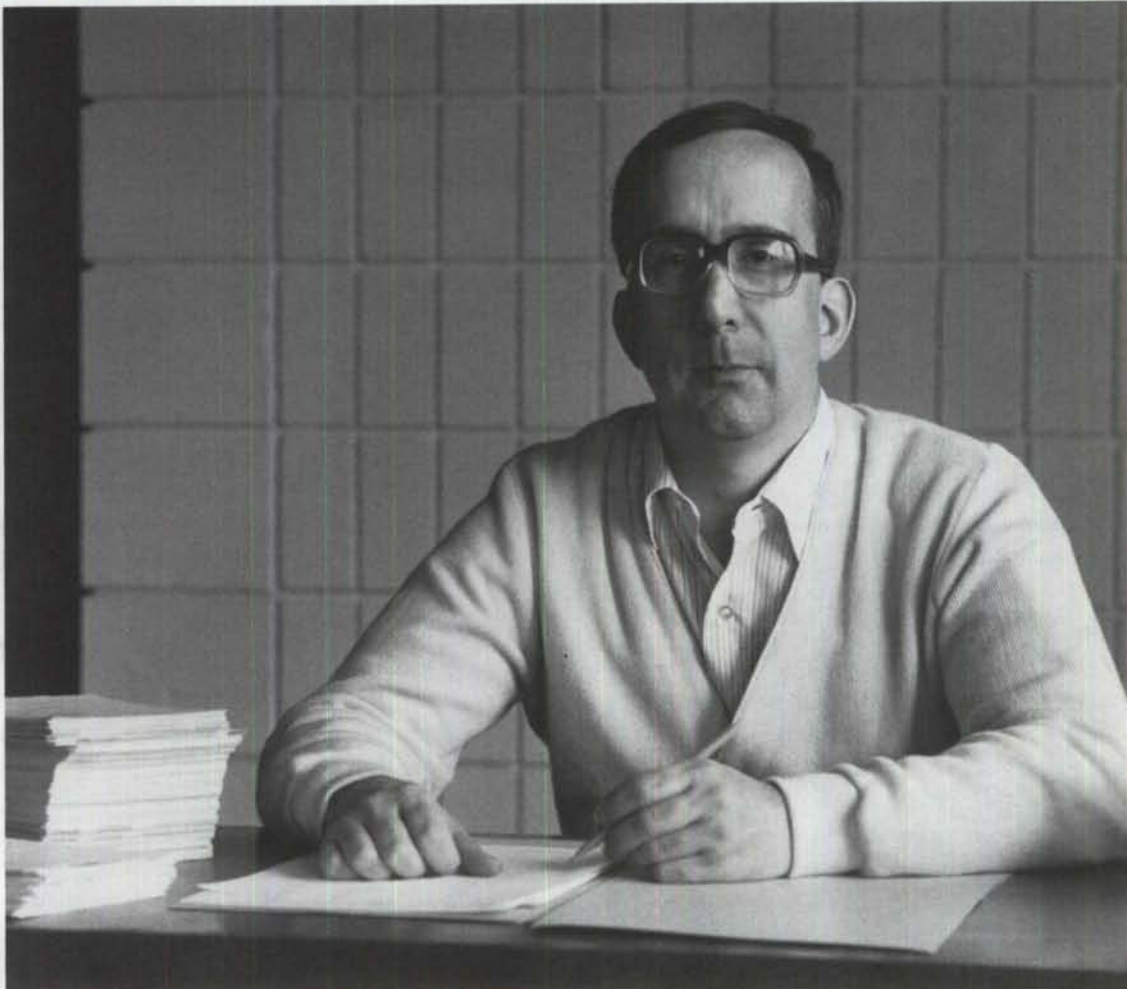
To rectify the delivery problems, major changes are suggested in organizational structure, program financing, the legal framework (in particular the appeal process) and administrative practices.

"It used to be that we spent 70 percent of our time serving clients and 30 percent of our time serving headquarters and the regional office. Now it is the reverse. We spend 70 to 80 percent of our time feeding the system!"  
(Informal round-table discussions with CEIC staff)

## Notes

- 1 Leslie A. Pal, "State, Class and Bureaucracy: Canadian Unemployment Insurance 1940-1981" (forthcoming).
- 2 The actual number of staff employed by CEIC is a difficult number to identify. The Public Service Commission Annual Report for 1984-1985 lists 24,466 full-time employees. The Arthur Andersen & Co. figures based on 1986/87 Operational Plans give 24,904, and the January 31, 1986 departmental printout lists 28,011. The discrepancy is explained by the difference in reporting methods and the difference between permanent and temporary positions, approved person-years and actual numbers of people.
- 3 Canada, *Department of Employment and Immigration, Annual Report 1984-1985* (Ottawa: Minister of Supply and Services Canada, 1985).
- 4 L. St. Laurent, "Organization Review Report," internal CEIC report, November 1981.
- 5 Pal, "State, Class and Bureaucracy."
- 6 Michael Cassidy, MP, Commission of Inquiry on Unemployment Insurance, Hearings held in Ottawa, February 13, 1986, Vol. 38.
- 7 Arthur Andersen & Co., "Administrative Effectiveness and Efficiency Review," research study prepared for the Commission of Inquiry on Unemployment Insurance, 1986 (unpublished).
- 8 Two detailed analyses of the current act and regulations were undertaken for the Commission of Inquiry on Unemployment Insurance: Robert G. St-Louis and Lucie Lamarche, "Critical Review of the Organization and Administration of the Unemployment Insurance Act: The Claimant's Point of View," 1986 (unpublished); and Pierre Dufour, "Analysis of Problematic Legal Aspects of the Unemployment Insurance Act," 1986 (unpublished). Both studies make many detailed recommendations regarding specific aspects of the current legislation.
- 9 Cited in St-Louis and Lamarche, "Critical Review," p. 31.
- 10 Canada, Department of Employment and Immigration, *Estimates 1986-1987* (Ottawa: Minister of Supply and Services Canada, 1986), p. 5-5.
- 11 Canada, Department of Consumer and Corporate Affairs, Advisory Committee on Bankruptcy and Insolvency, *Proposed Bankruptcy Act Amendments: Report* (Ottawa: Minister of Supply and Services Canada, 1986).
- 12 Department of Employment and Immigration, *Annual Report 1984-1985*, p. 9.
- 13 Canada, Task Force on Program Review (Nielsen Task Force), *Job Creation, Training and Employment Services* (Ottawa: Minister of Supply and Services Canada, 1986), p. 79.
- 14 Canada, Task Force on Labour Market Development, *Labour Market Development in the 1980s* (Ottawa: Minister of Supply and Services Canada, 1981).
- 15 Task Force on Program Review, *Job Creation*, p. 82.
- 16 Canada, Public Service Commission, *Annual Report 1985* (Ottawa: Minister of Supply and Services Canada, 1986), p. 56.
- 17 Arthur Andersen & Co., "Administrative Effectiveness and Efficiency Review," pp. 7, 10.
- 18 "Accountant jailed 4 years for UIC fraud," *Montreal Gazette*, September 26, 1986, p. A-3.

**Noel Buxton, Canada Employment Centre Staff Member,  
Winnipeg, Manitoba**



*Mr. Buxton discusses the tension and difficulties of working on the front desk of a Canada Employment Centre.*

I've been working with CEIC for four years, most of it at the front desk, where you're dealing with clients pretty well the whole day. We talk to them and handle their paperwork at the same time. I would say on average we spend four or five minutes with each client, much less if everything

goes smoothly and all the forms are completed perfectly, which very rarely happens, because the forms are very complicated for most people. A lot of people haven't learned English that well, can't read properly, or can't speak the language. In fact people who have been through our school system to grade seven or eight – even teachers with a Bachelor of Education – can't complete the forms properly.

It can be a very tough job, very frustrating. There are so many people to deal with and you have such a short time to deal with them. If someone asks if they're going to qualify, we can't answer, even if through our experience we know they won't, because everybody is entitled to complete an application and then it's only fair that somebody spends the time to make sure that everything is covered. So the application goes from the front desk to assessors who notify claimants as to whether they're entitled to benefits . . . That takes from two to four weeks. Before we had the computer terminals, it was horrendous. You couldn't answer most of the questions because the files were kept in the back. Or you had to write up an inquiry and someone else would phone the person back.

There is no privacy, so at least half-a-dozen people are going to hear a person's inquiry or complaint. If they start getting very irate, it's rough, because we've got to be very patient. I've had a few clients laid off with maybe 20 years' experience, and they're depressed, they don't know what to do. We have a needs determination officer who discusses their problems and refers them to an employment counsellor for other counselling if they need it.

Some of the companies shut down for a couple of weeks for preventive maintenance, and all their people can establish claims. To me these short-term layoffs are an abuse of the original intent of UI. Now it's subsidizing short-term layoffs. Seasonal workers, school divisions, school bus drivers . . . you have the feeling that no way are they looking for work during the summer . . . They're down at the lake. But they establish claims. Then

there are people who actually develop false Records of Employment. The most common form of abuse, though, is people on claim who go to work and don't report their earnings. Usually we would never know, but sometimes I get anonymous calls, somebody saying – I know so-and-so is working and they're on UI. Then I give the information to an investigation officer.

The UI Act isn't really that thick, but you've got volumes and volumes of manuals and circulars with different interpretations. For instance, you almost have to be a lawyer to see whether holiday pay should be exempt or not.

Head office tries to help out. They're sending bulletins all the time . . . But when you're assessing claims, you're working to a quota, and it seems like every day you're getting another circular. Sure it helps, when you have the time to read it, but you've got to remember where you saw this and that and the other, and try and keep it all upstairs.

They might look at incorporating the Records of Employment with T4s . . . That would help employers because they'd only have to issue one piece of paper when the person left them and that would be it. Right now, most Records of Employment are completed incorrectly . . . There's so much for the employer to know. There's a several-page book explaining what they have to do, how they have to complete it. That could be made a lot simpler.

Working with the regulations is really an administrative nightmare for us. The whole thing is too complex . . . It could use the old "KISS" principle.

a "Keep it simple, stupid."

---

Part IV

---

**Summary and Conclusions**



## Summary and Conclusions

**C**anadians want changes in their Unemployment Insurance program. They see unemployment as a continuing threat and insurance against loss of earnings as a continuing need. But they also see many serious flaws in the present system, and they want initiatives that go beyond Unemployment Insurance itself and tackle the problems that bring about high and pervasive unemployment.

This report is a response to both areas of concern. It proposes specific changes and fundamental reforms of the current Unemployment Insurance system to make it more equitable, effective and efficient. It also looks at Unemployment Insurance in the context of changing economic conditions and within the framework of income security programs, and proposes a human resource development strategy aimed at reducing the threat of long-term unemployment.

### **The Impetus for Change**

The public hearings held across the country brought home how deeply Canadians feel about Unemployment Insurance. This report reflects the views of many Canadians – it responds to their perception of inequities, and to the grievances and frustrated hopes that they expressed in public hearings, work-site visits, consultations and in hundreds of briefs.

Everyone recognizes that unemployment is a tragedy for those directly involved and that it represents a loss to society as a whole. In a time when Canada is feeling the pressures of economic and technological change, many believe that the Unemployment Insurance program and the essential social policies related to it are inadequate. The widespread criticisms that we heard about all aspects of the Unemployment Insurance program underscore the need for fundamental reforms. Many provisions of the program are considered unfair – the different treatments of workers whose circumstances are similar, the weak relationship between the amount of time spent in insurable employment and the amount of benefits received. Other major concerns included legislative complexity, compounded by inefficient delivery and unresponsive administration. These observations were supported by research which revealed flaws in design that make it virtually impossible to administer the program fairly and well.

Many were also concerned about the insensitivity of the administration to their feelings and needs. Individuals, families and small communities have been left with a sense of powerlessness under the heavy hand of a bureaucracy operating with a “take-it-or-leave-it” approach. Their encounters with the bureaucracy left them angry and hurt, and left us feeling that nothing short of fundamental change could get at the root of some problems.

These strong emotions need to be tempered by reason. The existing policies and programs are not without merit. How else can one account for the widespread desire to preserve the essential features of the Unemployment Insurance program? "What would the country have done without UI?" is more than a rhetorical question. The program is here and will stay. The real issue is, "Can a better program be designed?"

### **The Difficult Choices**

Public policy is not a field that lends itself to mathematical proof. Even when we were dealing with well-known facts, the interpretation of those facts left room for judgment and disagreement. Such is the nature of human affairs that conclusions must be drawn and actions taken on the basis of imperfect knowledge. This Commission of Inquiry was faced with many difficult choices. The views and opinions of individuals and groups in our consultations did not merely differ – at times they contradicted each other. The Commissioners also brought different perspectives and interpretations to our Inquiry. Sometimes we agreed, sometimes we compromised, and sometimes we agreed to differ – and wrote dissenting opinions.

The need for reform is evident and must not be obscured in the debate that will follow the release of the report. The sound and fury, as views and interests clash, should not paralyze action. Canada cannot afford to continue to suffer the inequities and inefficiencies of its present system. Change can be traumatic and can have complex effects. There are those who benefit and those who suffer from it. What we have tried to indicate throughout this report is that reforms should be comprehensive enough so that a loss from one aspect of change can be compensated for by a gain from another program or policy.

### **The Need for Comprehensive Reform**

While, for the most part, our recommendations are closely interrelated, some involve specific changes which can be considered in their own right. In either case, a comprehensive framework for reform is essential even though the proposals themselves need not be implemented en bloc.

We do not believe, for example, that regionally extended benefits can be phased out without federal-provincial consultation and agreements for some form of income or earnings supplementation to replace these benefits. The recommendations for changes to the Unemployment Insurance program itself, however, are more technical in nature and more interdependent. Adopting some while rejecting others may have unanticipated consequences. In our recommendations we have sought consistency. It is a delicate balance. There is no better proof of the need for balance than the situation of the past fifteen years, in which a succession of piecemeal changes have seriously compromised the equity, integrity, simplicity and cost effectiveness of the Unemployment Insurance program.

Some elements of Unemployment Insurance reform make sense only in a wider context. We have outlined the important ingredients of a

---



human resource development policy, and have tried to show that Unemployment Insurance is only one part – but a pivotal part – of this country's income security system. Fundamental reform of Unemployment Insurance is only possible when associated changes take place in these two larger and interlocking areas, but the precise balance of all of these components leaves much room for political choice, and consequently for public debate. It is through public debate that the relative importance of educational training or income supplementation (both competing for public funds) must be clarified. We have redefined the role of Unemployment Insurance. We provide no detailed blueprint for change; we merely show the nature and direction of the changes required.

### **An Overall Strategy**

Canada has an enviable record of employment growth, but the growth achieved has not reduced unemployment significantly nor diminished the importance of Unemployment Insurance for two main reasons. First, employment growth has taken place in a period of intense economic transformation. New jobs are being created, but others vanish. The relative importance of entire industries has shifted and technological changes have made products, processes and skills obsolete. It follows that even established workers may experience the need to retrain or relocate, and that no one, whatever his position in the company, is safe from the risk of unemployment. All may experience first hand the value of Unemployment Insurance.

The second reason why employment growth has not reduced unemployment is that the increase in participation in the labour force has been greater than the increase in jobs. In a competitive economy, heavily dependent on international trade, the labour market itself has become increasingly competitive. Many factors can make it more difficult to find and keep a job, including lack of experience, inadequate education and family responsibilities. Unemployment Insurance alone cannot provide all the answers. What Canada needs is a comprehensive human resources development strategy. Quite simply, Canada must invest in people. The unemployed need jobs, money, skills and a broader set of options.

Before identifying the specific reforms needed in the Unemployment Insurance program, we examined the elements of a human resource development strategy. Our objective was to distinguish the legitimate role of Unemployment Insurance from the roles of other parts of the social security and economic development systems.

### **Growth, Full Employment and Jobs**

What the unemployed need most are jobs. To create more jobs, there must be a renewed and strengthened commitment to economic growth and full employment. Nothing else can succeed – including Unemployment Insurance reform – unless there is continued economic growth. Bureaucratically constrained “job creation programs” cannot fill the vacuum. What is needed is strong determination and effective policies to replace current pessimism with creative optimism.

*relo. in eda - must pay for this investment*

) Q

### Money

There is widespread uneasiness and some outspoken disagreement about almost every program in the income security system. Fear of the consequences of any change within the network of income security programs explains in part the resistance to the reform of any single element, whether it be Family Allowances, Old Age Security, pensions, social assistance, or Unemployment Insurance. We are convinced, however, that no agenda for reform of social security can succeed without the reform of Unemployment Insurance. Reform of Unemployment Insurance is not necessarily the first step, but few changes in other programs should be designed unless they are consistent with the direction in which Unemployment Insurance will evolve.

A majority of this Commission of Inquiry believe that the integrity of Unemployment Insurance as a program of social insurance must be restored. The program must focus consistently on replacing some portion of earned income for workers during periods of unemployment. It should not be used to supplement inadequate incomes, but rather to provide protection to workers against specific risks – protection for which they have paid premiums.

Since regionally extended benefits and the largest portion of fishing benefits are not financed by premiums, but by general government revenue and are essentially income supplements, a majority of Commissioners believe that they do not belong in the Unemployment Insurance system because these benefits create inequities and inappropriate incentives. We recognize that these recommendations would of themselves have a serious impact upon particular regions of the country – especially Atlantic Canada. We therefore recommend that there be no loss of support to these regions and that the money saved from regionally extended and fishing benefits be used for programs that are better designed to provide the needed assistance.

Returning the Unemployment Insurance program to a program of social insurance, and removing all income supplementation elements, has serious implications for other elements of Canada's income security network. Canada lacks a consistent and comprehensive system for supplementing the earnings of low-income families. Only Saskatchewan, Manitoba, Ontario and Quebec now have such systems. Our review of these provincial programs and of the guaranteed income concept proposed by the Macdonald Royal Commission suggests that a program which would assist families and individuals with low earnings is possible and should be introduced through a series of federal-provincial agreements.

If Unemployment Insurance is no longer used as an instrument of income supplementation, its role as a social insurance program can be clarified and strengthened. Eligibility for Unemployment Insurance benefits is triggered not only by job loss but also by a number of situations where the employment contract continues. Risks are pooled widely and a broad range of benefits exists for temporary interruption of earnings due to sickness, maternity, parental leave, short-term and seasonal layoffs. Other countries sometimes cover these situations in different ways and

*should not pay for training*

*not what's required*

*if all savings from cuts to UI go to supplementation, no mpp for new LTD, for new*

their systems were carefully considered, but in the end it was decided to continue with the traditional Canadian approach.

### **Education and Training**

Technological change and changing trade patterns have reduced the importance of Canada's natural resources as a source of wealth and economic growth. People – with the education, skills and abilities that they have or can develop – have now become the main source of Canada's future prosperity. Canada must invest more in many ways, but particularly in "human capital." For individuals as well as for the country, the relationship between unemployment and a low level of education and skills is too important to be ignored. On this basis we propose a comprehensive human resource development strategy aimed at raising the general level of education of Canada's youth; eradicating functional illiteracy among the adult population; providing special opportunities for youth and young adults who experience the greatest difficulty in adjusting to the world of work; redirecting training efforts toward greater emphasis on development of basic skills; and separating training opportunities from Unemployment Insurance so that these opportunities are not limited to Unemployment Insurance recipients.

### **Flexible Responses to Change**

The need to change and to adapt is a challenge faced by those individuals who must retrain or move to an unfamiliar location. But it must also be recognized as a challenge to institutions and to society as a whole. Government aid to individuals and business enterprises in the form of financial assistance for training, industrial development and mobility must be less arbitrary and should be consolidated. A wider range of options could be offered through more flexible work arrangements. The need for greater flexibility is particularly reflected in two important recommendations about Unemployment Insurance coverage: more generous treatment of part-time work and the removal of the 65-year age limit on Unemployment Insurance eligibility.

### **The New Unemployment Insurance Program**

After concluding our public hearings, we set about the task of creating a program of changes to Unemployment Insurance that would respond to the several challenges that we had been given. We might have been justified in believing that the mission was impossible. We were expected to redress the many inequities of the present program, to remove undesirable incentives, to return Unemployment Insurance to a social insurance program and to design a system that would be clear and relatively simple to administer.

We believe that the new Unemployment Insurance program outlined here goes a long way to achieving all of these objectives. Nothing short of fundamental change is needed, and that is indeed what we recommend. The proposed Unemployment Insurance program has occupied the greatest share of our energies, fed the most substantial part of our debates, and is likely to generate the most interest in our report and the

---

most controversy. We are convinced that its implementation would constitute a great step forward. Although all of the recommended features are interrelated, they have to be explained one by one.

First, we want to sweep away the present variations that plague the system and produce both inequity and complexity. There should be only one entrance requirement, one benefit phase, and one maximum duration of regular benefits. The present system makes distinctions among claimants whose economic circumstances are essentially the same. This is expensive because it is complicated to administer and creates a plethora of appeals. It is also confusing to staff and clientele alike and is basically unjust.

Secondly, we want to base the entire system on a strengthened link between insurable earnings and eligible benefits. This is what an insurance program should do, and it is also what equity demands. Workers paying similiar premiums on their earnings should be entitled to similar benefits. This change is simple but fundamental, and it has far-reaching implications.

The purpose of the program is to replace a part of the money that would have been earned, if employment had not been interrupted. Time is a factor, because what is insured is money earned over a given period – but what is this period of time? We recommend an annualized program in which the period of time over which insurable earnings are calculated is equal to the period of time over which benefits are payable – a year for a year. The purpose of Unemployment Insurance therefore becomes simple and easy to understand. In the event of unemployment, two-thirds of the claimant's earned income over the preceding year would be replaced, and this insurance would be provided over a period of one year.

The present system provides benefits for up to a year for income earned over as little as 10 weeks. Benefits are based on weekly earnings which also may be earned over as little as 10 weeks. There is no justification for using the same period both as a minimum entrance requirement and as the accounting period over which insurable earnings are determined. Under Annualization, the minimum entrance requirement would be 350 hours (approximately equal to 10 weeks), and the determination of the benefit level would be based on average earnings over the previous 52 weeks.

We propose that Annualization be phased in gradually in four stages. In the third phase of implementation, the rate at which earnings are insured would increase from 60 to 66⅔ percent. This reduces the adverse effect on part-year employees of calculating insurable earnings over 52 weeks instead of 10 to 20 weeks. We also believe that raising the benefits-to-earnings replacement ratio is a preferable alternative to increasing maximum insurable earnings, which are now set at about the average industrial wage. Increasing the maximum raises benefits only for claimants with above-average earnings. Increasing the replacement ratio raises benefits for everyone.

The distribution of benefits will become materially different under the new program. More benefits will be directed to claimants who have

*Order does not apply to any type of insurance.*

*is what is this maximum of a welfare program?*



detail and be made widely known. There are many cases, however, where judgment must be applied. Regulations should therefore be worded to allow flexibility, while avoiding the pitfall of discretionary and arbitrary interpretation – a difficult challenge for those who frame legislation.

### **Self-Employment and Fishing Benefits**

The question of moral hazard – of bringing about the events which allow one to collect benefits – has particular relevance for the self-employed. The self-employed can become unemployed involuntarily, but because of the nature of self-employment it is difficult to determine whether unemployment is voluntary or involuntary. Although we recognize the hardships that they face, we regret that we have been unable to recommend inclusion of the self-employed among the insured population. In some cases, their needs could be better met by an income supplementation program such as the one we recommend.

The obvious anomaly in this general exclusion is the treatment of self-employed fishermen. Currently, they are entitled to benefits that are paid out according to special rules and that are largely funded from general revenue. We have recommended that this program be phased out over a five-year period. We recognize the severe financial needs of many fishermen who eke out a subsistence living in an occupation that is dependent upon the vagaries of nature and government regulations. The attempt to adapt Unemployment Insurance to fit their situation is futile, however; what most of these fishermen need is not to stabilize their income but to augment it – a task which Unemployment Insurance is not designed to do and could never do well.

Under our proposal, those currently entitled to benefits would retain their entitlement, but within simplified and less constraining transitional arrangements. The five-year phase-out period should be sufficient for interested federal and provincial governments to determine jointly how to redirect the funds that are currently used for regionally extended and fishing benefits to set up federal-provincial income supplementation schemes, which should be open to other occupations and better targetted to the needy.

### **Unemployment Insurance Administration**

Because employers and employees pay premiums, they naturally feel a proprietary interest in the program and its administration. Big government, however, is not particularly notable for its “user-friendliness” and there was ample evidence of that in the views that we heard. At times it seemed that, if only the quality of administration and style of delivery could be improved, everything would be well with Unemployment Insurance. But upon further examination of the causes of the frustration and bitterness directed at the bureaucracy, we understood that staff and administrators were sometimes the scapegoats of a program too complex and too ill conceived to generate anything but discontent. And we were often impressed by the patience and dedication of staff of the Canada Employment and Immigration Commission.

---

Nonetheless, the need for a major shake-up and reorganization of the system appeared obvious and urgent. Program administration should be returned to its proprietors – the employers and employees who now contribute to its funding – and should be financed entirely by their contributions. Our other recommendations are consistent with this reform.

When the government is present through its representatives and its financial contributions, it effectively dominates the operation. Unemployment Insurance principles, benefit structure, and appeals procedures should be set down in legislation, but the Act should leave room for employers and employees jointly to adjust certain elements of the program. Most importantly, within broadly defined guidelines, the new Unemployment Insurance Commission should be allowed as much discretion as possible to run its own affairs. This does not mean that it should be allowed to manage the program in an arbitrary way. The new Commission should be under an obligation to adopt and publicize clear rules, and its decisions should be subject to appeals according to a streamlined and more effective process.

### **Getting from Here to There**

To coordinate and effect all the changes that we recommend is, quite simply, a monumental task. It will require commitment, persistence, and time. It was not possible within the time allotted to us to examine in detail all of the implications of our proposals, nor to consult as widely as we would have wished about some of these implications. More consultation is needed as these proposals will affect many Canadians in a variety of ways. Time is also needed to understand, to anticipate the changes, and to adapt. In some cases we make detailed recommendations for gradually phasing in changes, such as those relating to Annualization, pensions, and fishing benefits.

A phasing-in process has been proposed for those recommendations that necessitate legislation or that must await federal-provincial agreements and the formulation of alternative or supplementary programs. Our proposed human resource development strategy involves concerted action by several departments and levels of government. This effort should be a country-wide concern.

Finally, leadership will be essential for the success of all of these recommendations, as it is for any major social endeavour. Objections, delays, obstacles and complications will abound and must be overcome, if Canada is to ensure a working future for its citizens.

---