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An Assessment of the Government's Cost Estimate of a 360-hour National Standard for Employment Insurance (EI) Eligibility

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The *Federal Accountability Act* mandates the Parliamentary Budget Officer (PBO) to provide independent analysis to the Senate and House of Commons on the state of the nation's finances, government estimates and trends in the national economy.

This report is in response to the August 20, 2009 request that the PBO "conduct an independent analysis of the Government's costing of the Liberal Party of Canada's proposal for a temporary national standard for eligibility for Employment Insurance (EI)."

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Key Points

On August 6 and August 14, 2009 the Government of Canada provided cost estimates of a 360-hour national standard for Employment Insurance (EI) eligibility to the Employment Insurance Working Group (EIWG). These estimates included both static (i.e., assuming no behavioural responses) and dynamic costs (i.e., including impacts arising from behavioural responses).

One of the cost estimates provided by the Government on August 14 appears to be consistent with the Liberal Party of Canada's proposed 360-hour national standard. That is, it is a temporary, one-year program and that special beneficiaries, new entrants and re-entrants to the labour force would not qualify. As a result, PBO based its analysis on this estimate.

PBO's analysis of the Government's cost estimates of a 360-hour national standard for EI eligibility was limited by the fact that, prior to the completion of its analysis, PBO had not received any additional information regarding the underlying data or methodology from Human Resources and Skills Development Canada (HRSDC).¹ As a result, PBO was unable to provide the most complete assessment possible of the Government's costing.

The Government's total cost estimate, including static and dynamic costs, presented to the EIWG on August 14 of \$2.425 billion overstates the cost of the proposed 360-hour national standard of EI eligibility as:

- PBO believes that the Government's dynamic cost estimate is flawed; and,
- More important, PBO also believes that only the static cost should be considered in costing the proposal, given the structure of the program and since the proposed change to the EI system is in effect for one year only.

Based on the material presented to the EIWG, PBO calculations show that the Government's own estimate of the static cost of the proposed 360-hour national standard is \$1.148 billion (including administrative costs). In the opinion of the PBO, the \$1.148 billion static cost estimate is a reasonable estimate of the cost of the proposed 360-hour national standard of EI eligibility.

Lastly, the Government's total cost estimate in excess of \$4 billion (presented on August 6) is not consistent with the proposed 360-hour national standard as it includes unemployed individuals not covered by the proposal (i.e., special beneficiaries, new entrants and re-entrants to the labour force).

¹ On August 20, 2009 PBO requested from the Deputy Minister and Senior Associate Deputy Minister of HRSDC information pertinent to the August 20, 2009 request for this analysis (to be completed by August 28, 2009) by the Member of Parliament for Dartmouth—Cole Harbour. PBO completed its analysis on September 3, 2009 and received information from HRSDC on September 4, 2009 at 12:21pm EDT. The information provided by HRSDC on September 4 indicates a static cost of \$1.136 billion (excluding administrative costs) and does not affect the conclusions of PBO's analysis of the Government's costing of the 360-hour national standard for EI eligibility.

Proposed 360-hour National Standard for EI Eligibility²

The proposal put forth by the Liberal Party of Canada is for a temporary change to the EI system. Information provided to the PBO states that for the purposes of this assessment the policy change: 1) can be assumed to last one year; 2) applies to regular EI benefits only; and, 3) the rules for new-entrants and re-entrants to the labour force are unchanged (i.e., a minimum of 910 hours of work in the qualifying period is still required).

Qualifying

Under the proposed changes, the required number of insurable hours would be lowered to 360 hours for all 58 economic regions (Table 1); however, new entrants and re-entrants to the labour force would still be required to have a minimum of 910 insurable hours in the qualifying period. For example, in economic regions with unemployment less than 6 per cent, this would mean that the minimum number of insurable hours required would decrease from 700 hours to 360 hours, and for regions with unemployment greater than 13 per cent, the decrease would be from 420 hours to 360 hours.

Benefit Duration

The duration of weekly benefits for persons qualified under the 360-hour threshold would depend on the unemployment rate in the economic region. For example, in regions with less than 6 per cent unemployment, qualified persons with 360 insurable hours would be eligible for 14 weeks of benefits; in regions with unemployment greater than 16 per cent a person with 360 insurable hours would be eligible for 36 weeks. The detailed table of the insurable-hours requirement and benefit duration by regional unemployment rate is presented in Annex B (as provided by the Liberal Party of Canada).

² Annex A provides a description of the existing EI program for regular beneficiaries.

Table 1

Proposed 360-hour National Standard EI Eligibility Threshold and Benefit Duration

Regional rate of unemployment	Min. hours	Benefit weeks
6% and under	360	14-18
More than 6% but not more than 7%	360	16-20
More than 7% but not more than 8%	360	18-21
More than 8% but not more than 9%	360	20-23
More than 9% but not more than 10%	360	22-24
More than 10% but not more than 11%	360	24-26
More than 11% but not more than 12%	360	26-27
More than 12% but not more than 13%	360	28-29
More than 13% but not more than 14%	360	30-36
More than 14% but not more than 15%	360	32-36
More than 15% but not more than 16%	360	34-36
More than 16%	360	36

Source: Liberal Party of Canada.

Notes: 'Min. hours' refers to the minimum required number of insurable hours. 'Benefit weeks' refers to the respective minimum and maximum number of weeks of benefits payable up to the qualifying threshold under the existing EI program.

Amount of Weekly Benefit

The benefit formula under the existing EI program (i.e., payable at a rate of 55 per cent of weekly insurable earnings, up to a maximum of \$447/week for 2009) would remain unchanged under the proposal.

The Government's Cost Estimates of a 360-hour National Standard for EI Eligibility

PBO has analysed the Government's cost estimates of a 360-hour national standard for EI eligibility that were provided to the EIWG on August 6 and August 14 (see Annex C). However, the scope of this analysis was limited by the fact that PBO had not received any additional information regarding the underlying data or methodology from HRSDC prior to the completion of its analysis. As a result PBO was unable to provide the most complete assessment possible of the Government's costing

of the 360-hour national standard for EI eligibility. That being said, the information provided by HRSDC on September 4, 2009 does not affect the conclusions of PBO's analysis.

Given the limited information provided, in order to analyze the reasonableness of the Government's estimates, PBO has attempted to look at the three key parameters underlying the Government's cost estimates: 1) the number of new beneficiaries resulting from the proposed change to the program; 2) the average duration of benefits received by new beneficiaries; and, 3) the average weekly benefit that new beneficiaries would collect.

Summary of the Government's Cost Estimates

The Government's first set of cost estimates was presented to the EIWG on August 6. These estimates included four separate options for the 360-hour national standard (Annex C), of which Option 4 – Extend Current Formula is the closest to the Liberal Party of Canada's proposal in terms of the hours entrance requirement and benefit duration. There is, however, one key difference between Option 4 and the Liberal Party of Canada's proposal. Under Option 4 (presented on

August 6), the program was assumed to include special, regular, new entrant and re-entrant benefits, which is significantly more expansive than the proposed 360-hour national standard for EI eligibility.

Table 2 below summarizes the results provided to the EIWG under Option 4, which reported two sets of results. Cost Estimate 1 presented a one-year cost of \$2.295 billion for the 360-hour entrance requirement and was constructed using a static model (i.e., assuming no behavioural changes). The distributed material also presented a cost estimate – exceeding \$4 billion – that was based on the combined static cost and a dynamic cost, reflecting an assumed behavioral response by labour market participants. Based on the information provided to the EIWG, PBO calculates the average static cost per claimant, including administrative costs, at \$6,901 for Cost Estimate 1.³ The second set of cost estimates and client impacts was presented to the EIWG on August 14 and included the same four options, but adapted to align with the Liberal Party of Canada's proposed claimant coverage.

Table 2

Estimated Client Impact and Cost of a 360-hour National Standard for EI Eligibility

	Beneficiaries Included	Type of Cost Presented	Cost Per Year (\$ billions)	Number of New Claimants	Average Cost Per New Claimant (\$)
Cost Estimate 1 (August 6)	Special, Regular, New-entrants and Re-entrants	Static	2.295	332,580	6,901
Cost Estimate 2 (August 6)	Special, Regular, New-entrants and Re-entrants	Static and Dynamic	+4.0	--	--
Cost Estimate 3 (August 14)	Regular only	Static and Dynamic	2.425	166,300	--

Sources: Office of the Parliamentary Budget Officer; HRSDC.

Note: Average cost per new claimant is based on PBO calculations (\$2.295 billion divided by 332,580 claimants).

³ Earlier work produced by HRSDC shows that the average cost for special and regular claimants is about 92 per cent of the average cost for all claimants. Lowering the average cost per claimant in the Government's static cost estimate to factor in this difference would reduce the average cost per claimant to \$6,373.

Specifically, the proposed program change included only regular beneficiaries and therefore excluded special beneficiaries, new and re-entrants to the labour force. Moreover, only one set of results was presented in the August 14 submission as opposed to the two sets presented earlier (i.e., static cost and combined static and dynamic costs). Cost Estimate 3 (Table 2) presented a one-year cost of \$2.425 billion for the 360-hour national standard for EI eligibility, which included both static and dynamic costs. The client impact i.e., the number of new regular beneficiaries, was estimated at 166,300⁴ – 50 per cent of the estimated (static) client impact in Cost Estimate 1. The dynamic cost in Cost Estimate 3 was “assumed to be 75 per cent of the cost when applied to all claimants”.

Analysis of Cost Estimate 3

PBO analysis focuses on Cost Estimate 3 as PBO believes it most closely aligns with the proposal made by the Liberal Party of Canada.

Although the EIWG was not provided with an explicit breakdown of the Government's estimate of the static and dynamic costs of the program under Cost Estimate 3, the Government does indicate that the “behavioural response of regular claimants [is] assumed to be 75 per cent of the cost when applied to all claimants”. Although this statement is somewhat difficult to decipher, and the 75 per cent assumption was not supported in the material provided to the EIWG, PBO believes that this statement refers to the dynamic cost identified under Cost Estimate 2 given that ‘all’ claimants likely refers to regular, special, new entrant and re-entrant claimants. Indeed, PBO calculations support this interpretation.

Table 3

Decomposing the Government's Cost Estimates

	Beneficiaries Included	Type of Cost Presented	Number of New Claimants	Cost Per Year (\$ billions)
Cost Estimate 1	Special, Regular, New-entrants and Re-entrants	Static	332,580	2.295 (A)
Cost Estimate 2	Special, Regular, New-entrants and Re-entrants	Static and Dynamic		4.0 (B)
<i>Implied dynamic cost</i>				<i>1.705 (C=B-A)</i>
Cost Estimate 3	Regular Only	Static	166,300	1.148 (D)
	Regular Only	Dynamic		1.279 (E=0.75*C)
Total of Cost Estimate 3	Regular Only	Static and Dynamic		2.426 (F=D+E)

Sources: Office of the Parliamentary Budget Officer; HRSDC.

Notes: Average cost per new claimant is based on PBO calculations assuming an unchanged average cost per new claimant.

HRSDC analysis stated that “Behavioral response of regular claimants assumed to be 75 per cent of the cost when applied to all claimants”.

⁴ Information provided by HRSDC on September 4 indicates that the client impact would be 184,464, approximately 11 per cent higher than the estimate of 166,300 provided to the EIWG on August 14.

Table 3 shows that the dynamic cost of Cost Estimate 2 is approximately \$1.7 billion⁵ (the total cost of \$4 billion minus the static cost of \$2.295 billion). PBO calculates that this would imply a dynamic cost of about \$1.3 billion (i.e., 75 per cent of \$1.7 billion) for Cost Estimate 3. PBO has further assumed that the static cost of Cost Estimate 3 can be calculated by multiplying the number of new regular claimants (166,330) by the average cost per claimant (including regular and special beneficiaries and new entrants/re-entrants) from Cost Estimate 1 (\$6,901), which produces a static cost of \$1.148 billion.⁶ PBO adds the static and dynamic costs calculated using the assumptions to arrive at a total cost of \$2.426 billion, almost identical to the Government's \$2.425 billion for Cost Estimate 3. The fact that PBO is able to reproduce the value of Cost Estimate 3 (to a degree of rounding) supports the view that the assumptions listed above are consistent with those used by the Government to construct Cost Estimate 3.

Therefore, based on the Government's own estimates, the static cost of the proposed 360-hour national standard would in fact be \$1.148 billion.

PBO believes that only the static costs associated with the program change should be considered in costing the proposal since: 1) the proposed change to the EI system is temporary and set to be in effect for one year only; 2) targeted to regular beneficiaries only; and, 3) the structure of the current EI system is more restrictive than in the past (e.g., no voluntary quits are eligible).

Further, PBO believes that the Government's estimate of the dynamic cost of the 360-hour national standard (i.e., \$1.7 billion) is overstated. The Government's estimated dynamic cost is based on economists' estimates of the impact on the unemployment rate of reforms to Unemployment Insurance (UI) in the early 1970s. This event-based estimate is problematic. First, these UI reforms

were implemented when workers who voluntarily quit their jobs were eligible to collect UI benefits and this is no longer the case. Second, these reforms were implemented as permanent changes to the UI system. Using the impacts of permanent UI reforms to gauge the impact of the proposed temporary change to EI is not appropriate as behavioural changes typically depend on the nature i.e., permanent versus temporary, of the policy or legislative change (see Annex D for a more detailed discussion).

If the proposed 360-hour national standard for EI eligibility were to become permanent, the static cost (at \$1.148 billion) would likely underestimate the total cost of the program. That being said, PBO believes that the total cost (static and dynamic) would likely be markedly lower than the Government's estimate of \$2.425 billion for the reasons discussed above.

The following section assesses the Government's estimate of the client impact of the proposed change to the EI program (166,300) and its static cost of \$1.148 billion, based on the Government's estimates provided to the EIWG.

Assessment of the \$1.148 billion Static Cost Estimate

As noted earlier, three key parameters underlie the Government's cost estimates: 1) the number of new beneficiaries resulting from the proposed change to the program; 2) the average duration of benefits received by new beneficiaries; and, 3) the average weekly benefit that new beneficiaries would collect. In this section we assess the reasonableness of the Government's estimates for these key parameters by examining how they compare with publicly available data and also examine the sensitivity of their estimates.

Assessing the Government's Estimate of the Number of New Regular Claimants

Prior to the completion of its analysis, PBO had not received information regarding the data and methodology used to construct the Government's

⁵ Information provided by HRSDC on September 4 confirms that the dynamic cost is in fact \$1.7 billion.

⁶ Information provided by HRSDC on September 4 indicates a static cost of \$1.136 billion (excluding administrative costs).

cost estimates. Thus in order to assess the reasonableness of the number of new claimants, PBO has had to rely on publicly available data, in particular the Employment Insurance Coverage Survey (EICS). The EICS is prepared by Statistics Canada, on behalf of HRSDC, and is administered using a sub-sample of the Labour Force Survey (LFS) four times a year. The most recent EICS was published on July 23, 2009 and examined EI coverage in 2008.

The EICS, however, does have some limitations that make providing a detailed estimate of the number of potential new claimants from a reduction in required insurable hours to qualify for EI benefits challenging. First, the EICS provides only a measure of the *stock* of individuals in a given state at a specific point in time and not the *flow* over the period.⁷ Second, the most recent EICS only covers up to 2008, a year in which the unemployment rate averaged 6.1 per cent; significantly below the Government's assumption of 8.8 per cent for 2009-10.⁸ As a consequence, using the figures from 2008 would significantly underestimate the number of people in a similar circumstance in 2009. Third, the data typically available from the EICS with respect to those who were potentially eligible to receive benefits but had not accumulated enough hours to be eligible to receive benefits includes those who self-report that they did not have enough hours to qualify and those who worked under 700 hours and did not report collecting EI benefits. However, since the proposal only covers those who worked a minimum of 360 hours the data that is typically⁹ available from the EICS would not help to identify

the per cent of individuals likely to be impacted by the proposed change.

The PBO has used the EICS and the LFS to construct a methodology to estimate the number of potential new claimants to the EI system from the proposed change. In order to construct an estimate PBO needs three key parameters: 1) the total number of unemployed in each month; 2) the probability that someone exits unemployment in a given month; and 3) the proportion of the unemployed who will have worked between 360 and 700 hours and not collected EI benefits. The first parameter can be inferred from the Government's assumption that the unemployment rate will average 8.8 per cent in 2009-10. The second parameter, the exit probability from unemployment, can be calculated using the flow into unemployment from the LFS.¹⁰ Understanding flows into and out of unemployment is required since the level of unemployment reported in the LFS is a stock, while what we require to measure the total number of new claimants is the flow into unemployment. Finally, the third parameter, the proportion of the newly unemployed who worked between 360 and 700 hours, interacts with the first two parameters to calculate the number of individuals who will be affected by the proposed change.

i) Total unemployment in 2009-10

PBO has used the Government's annual unemployment rate assumption of 8.8 per cent for 2009-10. PBO then combines this assumption with the labour force projection from our July 2009 Economic and Fiscal Assessment to calculate that a total of 1.622 million individuals, on average, will be unemployed in 2009-10. Since the LFS unemployment data are available up until July, PBO calculates that the total stock of unemployed will have to increase by 17,000 in each of the remaining eight months of 2009-10 in order to

⁷ For example, in 2008 the EICS reports 102,000 individuals on average who were potentially eligible to receive benefits but had not accumulated enough hours to be eligible to receive benefits and not the total number of individuals that fit this description throughout the year, which would likely be significantly higher.

⁸ This figure is marginally higher than the PBO June Private Sector Survey of 8.7 per cent in 2009.

⁹ Upon request the PBO was also supplied with detailed individual-level public-use surveys (LFS microdata file and the EICS microdata file). We thank Statistics Canada for their assistance in providing data access (specifically Geoff Bowby and Scott Perrie), noting the following disclaimer: "This analysis uses Statistics Canada's Labour Force Survey and Employment Insurance Coverage Survey public use microdata files, which contains anonymized data collected in the 1976-2008 period."

¹⁰ The exit probability (x) can be determined using the following equation: $U_t = (1-x_t)U_{t-1} + IN_t$; where U represents the stock of unemployment and IN represents the flow into unemployment defined as the number of individuals unemployed for 4 weeks or less.

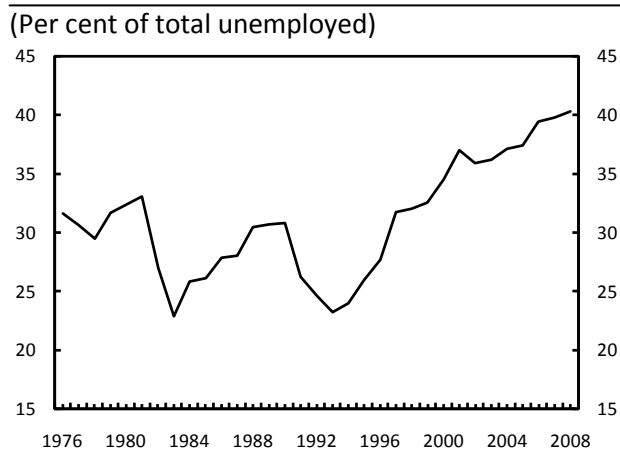
have the average number of unemployed in the year equal to the 1.622 million calculated above.

ii) The probability that someone exits unemployment in a given month

Because it is the *flow* and not the *stock* of individuals into and out of unemployment that will influence the potential number of EI beneficiaries, knowing the total stock of the unemployed at any given point in time is not a sufficient amount of information to produce a satisfactory estimate of potential EI beneficiaries. In fact, knowing the stock of the unemployed is only useful in the first month that the program is implemented since a portion of individuals in the current stock will become eligible for EI benefits when they otherwise would have been ineligible.

In order to get a sense of the flow of individuals into and out of unemployment in the remaining 11 months of the program, PBO has used information from the LFS on the number of individuals who have been unemployed for 4 weeks or less as a rough estimate of the number of new entrants into the stock of unemployed (Figure 1).

Figure 1
Individuals Who Have Been Unemployed for 4 Weeks or Less



Sources: Office of the Parliamentary Budget Officer; Statistics Canada; Haver Analytics.

Note: The figures represent the total number of individuals who have been unemployed for 4 weeks or less as a fraction of total unemployed.

Figure 1 illustrates that the number of people entering unemployment relative to the number of unemployed declines substantially in recessions as the stock of the unemployed rises as the exit probability from unemployment declines. As a consequence, it is very likely that this ratio will fall in 2009, which, all else equal, will reduce the estimate of the total number of people entering unemployment. PBO has, in assessing the Government's estimates, assumed that this ratio will decline by 5.3 percentage points to 35 per cent in 2009. The 5.3-percentage point reduction is consistent with the decline in the first year of the 1981-82 and 1990-91 recessions.

iii) The proportion of the unemployed who have worked between 360 and 700 hours and have not collected EI benefits

Finally, it is imperative to have an estimate of the proportion of the starting stock and flow of the unemployed in the following 11 months that would fall within the new hours threshold, i.e., were eligible to receive EI benefits, had worked between 360 and 700 hours in the previous 52 weeks and had not collected EI benefits. PBO has used the EICS to calculate an estimate of this probability given publicly available data, as well as a number of special runs that Statistics Canada provided.

The combination of this data permitted PBO to separate those who were eligible but had not worked enough hours to collect EI benefits (EIB) into three groups: 1) those who self-reported that they did not collect EIB due to insufficient hours, 2) individuals who had worked less than 360 hours, and 3) those who had worked between 360 and 700 hours and had not collected benefits. PBO calculations suggest that of the (approximate) 101,800 individuals who were eligible but had not worked enough hours to collect EI benefits in 2008, equivalent to 9.3 per cent of total unemployed, that roughly 60 per cent had reported having worked between 0 and 360 hours; 17 per cent reported having worked between 360 and 700 hours; and, the remaining 23 per cent had self-reported. Because there is no information on hours worked for the self-reported (i.e., the people

who report that they had insufficient hours to qualify do not provide their number of hours worked), some assumption is required to distribute them across the different hours groups. PBO has decided to use the shares for those who did report hours in 2008 to distribute the self-reporters as a baseline assumption, but has also tested its sensitivity. Finally, it is important to note that these three groups also potentially include new entrants and re-entrants to the labour force and these individuals would still be required to have 910 insurable hours to receive benefits.

Once the three key parameters are combined, PBO's calculations suggest that the number of potential new claimants is in line with the Government's estimate of 166,300. After testing the sensitivity of the number of claimants to realistic values of key parameters, PBO concluded that the Government's estimate of 166,300 potential new EI beneficiaries under the proposed change was reasonable.¹¹

Assessing the Government's Estimate of the Average Cost per New Claimant

As discussed above, PBO calculates that the Government's estimated average cost per new claimant (including administrative costs) resulting from the implementation of the proposed 360-hour national standard to be \$6,901, based on the Government's August 6 cost estimate.

In order to assess the reasonableness of this estimate, PBO has broken down the average cost per new claimant (excluding administrative costs¹²) into two components: the average weekly benefit (reported in dollars per week); and, the average duration of benefits (reported in weeks). Since

¹¹ Information provided by HRSDC on September 4 indicates a client impact of 184,464, which is well within a reasonable range of estimates after factoring in the uncertainty around key parameters.

¹² PBO has estimated that administrative costs would amount to approximately \$155 million of the \$1.148 billion static cost estimate. This amount is based on an estimate of the average administrative cost per claimant in 2007-08 of \$931 multiplied by the Government's estimate of 166,300 new claimants. HRSDC indicates that there were 1.8 million claimants in 2007-08 and administrative costs were \$1.676 billion in 2007 which result in an average administrative cost of \$931 per claimant.

each of these components vary by region, new claimants (totalling 166,300) have been assigned to prospective provinces using each province's 2009 year-to-date (as of June) share of total regular beneficiaries. Table 4 provides the breakdown of the maximum and minimum weeks available under the proposed 360-hour national standard by province, given each province's projected unemployment rate, as well as each province's proportion of total EI beneficiaries. The number of weeks a new claimant, would be eligible for EI under the proposal ranges from a high of 36 weeks for Newfoundland and Labrador and to a low of 14 weeks in Manitoba and Saskatchewan (Table 4).

Table 4
Key Provincial Parameters

Province	UR	Weeks		% of EIB
		Max.	Min.	
Canada	8.8	23	20	100.0
Newfoundland and Labrador	17.0	36	36	5.7
Prince Edward Island	12.9	29	28	1.2
Nova Scotia	9.6	24	22	4.6
New Brunswick	9.7	24	22	4.9
Quebec	9.1	24	22	28.2
Ontario	9.6	24	22	33.8
Manitoba	5.3	18	14	2.1
Saskatchewan	5.0	18	14	1.8
Alberta	6.9	20	16	6.5
British Columbia	7.9	21	18	11.3

Sources: Office of the Parliamentary Budget Officer; Statistics Canada.
Notes: 'UR' refers to the unemployment rate in per cent. 'Weeks' refers to the duration of weekly benefits and '% of EIB' refers to the proportion of total regular EI beneficiaries.

Some assumptions are required to convert a forecast for the national unemployment rate into a detailed provincial breakdown. Our assumptions produce provincial unemployment rate projections that are broadly in line with the provincial unemployment rates in the August LFS which reported a national unemployment rate of 8.7 per cent, marginally lower than the 8.8 per cent assumption used by the Government (see Annex C).

The estimate of average weekly benefits used in PBO's reasonableness test is the 2007-08 average weekly benefit by province increased by the EI Chief Actuary's projected growth in average weekly earnings over 2008 and 2009. Table 5 provides

details of the 2009-10 projected weekly benefit as well as historical average weekly benefits by province.

Table 5
Provincial Average Weekly Benefit per week (\$)

Province	2007-08	2008-09	2009-10
Canada	345	354	363
Newfoundland and Labrador	343	352	361
Prince Edward Island	346	355	364
Nova Scotia	334	343	351
New Brunswick	335	344	352
Quebec	339	348	357
Ontario	349	358	367
Manitoba	329	338	346
Saskatchewan	342	351	360
Alberta	368	378	387
British Columbia	350	359	368

Source: HRSDC; Office of the Parliamentary Budget Office.
Note: Figures presented for 2007-08 are from HRSDC's "EI Monitoring and Assessment Report 2008".

An estimate of expected duration by region requires additional assumptions. In order to assess the Government's estimate, PBO applied an assumption regarding the average length of the maximum entitlement that new claimants qualified for by province. That is, the potential cost of the program was evaluated assuming that new claimants use between 60 per cent and 100 per cent of the maximum duration provided under the proposed program. PBO selected 60 per cent as a lower bound based on the historical proportion of entitlements used by regular claimants, which has held steady at around 60 per cent for the past decade (Table 6) and given that in a recession the proportion of entitlements exhausted is likely to increase.

Table 6
Proportion of Entitlement Used by Regular Claimants

Year	Proportion (%)
1997-98	59.2
1998-99	59.2
1999-00	60.2
2000-01	59.6
2001-02	61.0
2002-03	61.3
2003-04	60.9
2004-05	59.8
2005-06	59.8
2006-07	59.7
Average	60.1

Source: HRSDC
Note: Figures presented are from HRSDC's "EI Monitoring and Assessment Report 2008".

The static cost estimate of the proposed 360-hour national standard for EI eligibility is \$1.148 billion based on the Government's estimates. Table 7 below summarizes PBO's assessment of the reasonableness of this estimate. The table details the average weekly benefit assumption and the proportion of maximum entitlements used to obtain the static cost estimate of \$1.148 billion, given the Government's estimate of the number of new EI claimants under the proposal (166,300). To illustrate, assuming on average new claimants use 70 per cent of the maximum benefit for which they are entitled, recipients would on average need to receive \$357 per week in benefits for the static cost of the program to be \$1.148 billion.

Table 7 also highlights two realistic estimates for each of the components: a weighted average weekly benefit of \$363 (see Table 5); and, the historical average of the proportion of entitlements used by regular claimants (60.1 per cent - see Table 6).

Based on the analysis above, PBO believes that the Government's static estimate results in values for these components that are within a reasonable range of these amounts and, therefore, that the static estimate of \$1.148 billion is a reasonable cost estimate of the proposed 360-hour national standard for EI eligibility.

Table 7

Proportion of Entitlements Used and Average Weekly Benefits that result in a Static Cost of \$1.148 billion

Proportion of Entitlements Used by Regular Claimants	Average Weekly Benefits (\$)	Static Cost (\$ billions)
60%	416	1.148
70%	357	1.148
80%	312	1.148
90%	277	1.148
100%	250	1.148
60.1%*	363**	

Source: Office of the Parliamentary Budget Officer.

Notes: * denotes the average of the proportion of entitlements used by regular claimants over 1997-98 to 2006-07.

** denotes PBO's projected average weekly benefit for 2009-10.

Annex A – Regular Employment Insurance Benefits (Existing Program)¹³

Under the existing Employment Insurance (EI) program, regular benefits are paid to persons who, through no fault of their own, lose their job and have been without work and without pay for at least seven consecutive days; and, have worked for the required number of insurable hours during the qualifying period. Since 1993, workers who voluntarily leave their employment are not eligible to collect regular benefits. Workers who are terminated from their employment as a result of their own misconduct are also not eligible to collect regular benefits. The qualifying period is the 52-week period prior to the start of the EI claim or, if shorter, the period since the start of the previous EI claim (if started during the 52-week period). The required number of insurable hours depends on the unemployment rate in the economic region in which the person lives, as well as their labour force status. At present, most people would require between 420 and 700 insurable hours of work (Table A1), depending on their economic region, of which there are 58 regions in total. However, if a person is entering the labour force for the first time or is re-entering the labour force after a two-year absence, a minimum of 910 hours of work in the qualifying period is required.

Benefit Duration

Weekly EI benefits are payable for a maximum number of weeks depending on the economic region and the number of insurable hours. For example, Table A1 shows that in regions with unemployment of 6 per cent or less, the number of weeks ranges from 19 to 41, depending on the number of insurable hours (700 hours to 1820+ hours, respectively); and in regions with unemployment of 13 per cent or more, the number of weeks ranges from 31 to 50 again depending on

the number of insurable hours (420 hours to 1575+ hours, respectively). Annex B provides the detailed number of insurable hours required in the qualifying period and the weeks of benefit by regional rate of unemployment (including the 5-week benefit extension introduced in Budget 2009).

Table A1
Entrance Requirements and Benefit Duration of Existing EI Program

Regional rate of unemployment	Min. hours	Benefit weeks
6% and under	700	19-41
More than 6% but not more than 7%	665	20-43
More than 7% but not more than 8%	630	22-45
More than 8% but not more than 9%	595	23-47
More than 9% but not more than 10%	560	25-49
More than 10% but not more than 11%	525	26-50
More than 11% but not more than 12%	490	28-50
More than 12% but not more than 13%	455	29-50
More than 13%	420	31-50

Source: Employment Insurance Act.

Notes: 'Min. hours' refers to the minimum required number of insurable hours. 'Benefit weeks' refers to the respective minimum and maximum number of weeks of benefits payable which depends on the number of insurable hours.

Amount of Weekly Benefit

Weekly benefits are payable at a rate of 55 per cent of weekly insurable earnings, up to a maximum of \$447/week for 2009. Weekly insurable earnings are calculated as total earnings (before deductions but including tips and commissions) in the last 26 weeks divided by the number of weeks worked in the last 26 weeks or, if greater, the number ranging from 22 weeks for regions with less than 6 per cent unemployment to 14 weeks for regions with unemployment greater than 13 per cent. The latter is referred to as the 'minimum divisor' and attempts to encourage claimants to accumulate as much work as possible.

¹³ This material draws from the Employment Insurance Act http://www.servicecanada.gc.ca/eng/ei/legislation/eia_e.pdf and the 2009 Report of the Chief Actuary to the EI Commission http://www.hrsdc.gc.ca/eng/employment/ei/premium_rate/2009/tranf/ei-ae_2009.pdf.

Annex B – Insurable Hours Requirements and Benefit Durations

Insurable Hours Requirement and Maximum Benefit Duration under the Current EI Program

Number of hours of insurable employment in qualifying period	6% and under	More than 6% but not more than 7%	More than 7% but not more than 8%	More than 8% but not more than 9%	More than 9% but not more than 10%	More than 10% but not more than 11%	More than 11% but not more than 12%	More than 12% but not more than 13%	More than 13% but not more than 14%	More than 14% but not more than 15%	More than 15% but not more than 16%	More than 16%
		7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	
360-384												
385-419												
420-454									31	33	35	37
455-489								29	31	33	35	37
490-524							28	30	32	34	36	38
525-559						26	28	30	32	34	36	38
560-594					25	27	29	31	33	35	37	39
595-629				23	25	27	29	31	33	35	37	39
630-664			22	24	26	28	30	32	34	36	38	40
665-699		20	22	24	26	28	30	32	34	36	38	40
700-734	19	21	23	25	27	29	31	33	35	37	39	41
735-769	19	21	23	25	27	29	31	33	35	37	39	41
770-804	20	22	24	26	28	30	32	34	36	38	40	42
805-839	20	22	24	26	28	30	32	34	36	38	40	42
840-874	21	23	25	27	29	31	33	35	37	39	41	43
875-909	21	23	25	27	29	31	33	35	37	39	41	43
910-944	22	24	26	28	30	32	34	36	38	40	42	44
945-979	22	24	26	28	30	32	34	36	38	40	42	44
980-1014	23	25	27	29	31	33	35	37	39	41	43	45
1015-1049	23	25	27	29	31	33	35	37	39	41	43	45
1050-1084	24	26	28	30	32	34	36	38	40	42	44	46
1085-1119	24	26	28	30	32	34	36	38	40	42	44	46
1120-1154	25	27	29	31	33	35	37	39	41	43	45	47
1155-1189	25	27	29	31	33	35	37	39	41	43	45	47
1190-1224	26	28	30	32	34	36	38	40	42	44	46	48
1225-1259	26	28	30	32	34	36	38	40	42	44	46	48
1260-1294	27	29	31	33	35	37	39	41	43	45	47	49
1295-1329	27	29	31	33	35	37	39	41	43	45	47	49
1330-1364	28	30	32	34	36	38	40	42	44	46	48	50
1365-1399	28	30	32	34	36	38	40	42	44	46	48	50
1400-1434	29	31	33	35	37	39	41	43	45	47	49	50
1435-1469	30	32	34	36	38	40	42	44	46	48	50	50
1470-1504	31	33	35	37	39	41	43	45	47	49	50	50
1505-1539	32	34	36	38	40	42	44	46	48	50	50	50
1540-1574	33	35	37	39	41	43	45	47	49	50	50	50
1575-1609	34	36	38	40	42	44	47	48	50	50	50	50
1610-1644	35	37	39	41	43	45	47	49	50	50	50	50
1645-1679	36	38	40	42	44	46	48	50	50	50	50	50
1680-1714	37	39	41	43	45	47	49	50	50	50	50	50
1715-1749	38	40	42	44	46	48	50	50	50	50	50	50
1750-1784	39	41	43	45	47	49	50	50	50	50	50	50
1785-1819	40	42	44	46	48	50	50	50	50	50	50	50
1820-	41	43	45	47	49	50	50	50	50	50	50	50

Sources: Office of the Parliamentary Budget Officer; HRSDC.

Note: The maximum durations in this table have been adjusted to factor in the 5-week extension introduced in Budget 2009.

Insurable Hours Requirement and Maximum Benefit Duration under the Proposed EI Program

Number of hours of insurable employment in qualifying period	6% and under	More than 6% but not more than 7%	More than 7% but not more than 8%	More than 8% but not more than 9%	More than 9% but not more than 10%	More than 10% but not more than 11%	More than 11% but not more than 12%	More than 12% but not more than 13%	More than 13% but not more than 14%	More than 14% but not more than 15%	More than 15% but not more than 16%	More than 16%
		7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	
360-384	14	16	18	20	22	24	26	28	30	32	34	36
385-419	14	16	18	20	22	24	26	28	30	32	34	36
420-454	15	17	19	21	23	25	27	29	31	33	35	37
455-489	15	17	19	21	23	25	27	29	31	33	35	37
490-524	16	18	20	22	24	26	28	30	32	34	36	38
525-559	16	18	20	22	24	26	28	30	32	34	36	38
560-594	17	19	21	23	25	27	29	31	33	35	37	39
595-629	17	19	21	23	25	27	29	31	33	35	37	39
630-664	18	20	22	24	26	28	30	32	34	36	38	40
665-699	18	20	22	24	26	28	30	32	34	36	38	40
700-734	19	21	23	25	27	29	31	33	35	37	39	41
735-769	19	21	23	25	27	29	31	33	35	37	39	41
770-804	20	22	24	26	28	30	32	34	36	38	40	42
805-839	20	22	24	26	28	30	32	34	36	38	40	42
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980-1014	23	25	27	29	31	33	35	37	39	41	43	45
1015-1049	23	25	27	29	31	33	35	37	39	41	43	45
1050-1084	24	26	28	30	32	34	36	38	40	42	44	46
1085-1119	24	26	28	30	32	34	36	38	40	42	44	46
1120-1154	25	27	29	31	33	35	37	39	41	43	45	47
1155-1189	25	27	29	31	33	35	37	39	41	43	45	47
1190-1224	26	28	30	32	34	36	38	40	42	44	46	48
1225-1259	26	28	30	32	34	36	38	40	42	44	46	48
1260-1294	27	29	31	33	35	37	39	41	43	45	47	49
1295-1329	27	29	31	33	35	37	39	41	43	45	47	49
1330-1364	28	30	32	34	36	38	40	42	44	46	48	50
1365-1399	28	30	32	34	36	38	40	42	44	46	48	50
1400-1434	29	31	33	35	37	39	41	43	45	47	49	50
1435-1469	30	32	34	36	38	40	42	44	46	48	50	50
1470-1504	31	33	35	37	39	41	43	45	47	49	50	50
1505-1539	32	34	36	38	40	42	44	46	48	50	50	50
1540-1574	33	35	37	39	41	43	45	47	49	50	50	50
1575-1609	34	36	38	40	42	44	47	48	50	50	50	50
1610-1644	35	37	39	41	43	45	47	49	50	50	50	50
1645-1679	36	38	40	42	44	46	48	50	50	50	50	50
1680-1714	37	39	41	43	45	47	49	50	50	50	50	50
1715-1749	38	40	42	44	46	48	50	50	50	50	50	50
1750-1784	39	41	43	45	47	49	50	50	50	50	50	50
1785-1819	40	42	44	46	48	50	50	50	50	50	50	50
1820-	41	43	45	47	49	50	50	50	50	50	50	50

Source: Liberal Party of Canada.

Note: The maximum durations in this table have been adjusted to factor in the 5-week extension introduced in Budget 2009.

Annex C – The Government's Cost Estimates Submitted to the EI Working Group

August 6 Submission to the EI Working Group

**Summary Table
Options for a 360 Hour Flat Entrance Requirement
Estimated Client Impact and Cost**

Option	Estimated Client Impact	Estimated Cost* (\$ million)
Option 1 : 19 weeks below current VER	332,580	2,260^t
Option 2 : extend minimum duration of the column below current VER	332,580	2,375^t
Option 3 : Extend current formula but not lower than 19 weeks	332,580	2,335^t
Option 4 : Extend current formula	332,580	2,295^t

Estimates for costs and claimants are based on 2006 data, and have been adjusted to reflect wage growth between 2006 and 2009. Estimates have also been adjusted to reflect an 8.8 per cent unemployment rate forecast for 2009/10.

* Assumes flat entrance for all EI Benefits. The cost estimates also include ongoing administration costs.

^t Including potential labour market impacts, total increase in the cost to the EI program would exceed \$4 billion.

Note: 'VER' refers to Voluntary Entrance Requirement.

August 14 Submission to the EI Working Group

A. What would be the total incremental costs and estimated impacts of having a 360 hour national standard for eligibility?

Methodology based on same approach as used for August 6 response, except that the 360 hour measure applies only to regular claimants (excluding NEREs and Special Benefits). Behavioural response of regular claimants assumed to be 75% of the cost when applied to all claimants.

Option	Estimated Client Impact	Estimated Total Cost excluding NEREs and Special Benefits (\$ million)
Option 1 : 19 weeks below current VER	166,300	2,405
Option 2 : extend minimum duration of the column below current VER	166,300	2,465
Option 3 : Extend current formula but not lower than 19 weeks	166,300	2,445
Option 4 : Extend current formula	166,300	2,425

B. What would be the cost for 385 and 420 hour entrance requirement assuming no NEREs and special benefits?

It is estimated that the cost would be lower by approximately \$400 million assuming 385 hours and approximately \$800 million assuming 420 hours.

Note: 'VER' refers to Voluntary Entrance Requirement.

Annex D – Analysis of the Government's Dynamic Cost Estimate

The cost of the proposed change to the EI program has also been estimated by the Government based on assumed labour market impacts reflecting behavioural changes (i.e., a dynamic impact). The Government bases its dynamic impact on economists' estimates of the impact on the unemployment rate (+2 percentage points) of a similar entrance threshold put in place in the 1970s. Documentation provided to the EI working group, however, did not provide an explicit reference to analyses or studies to support this estimate. The Government estimates that the increase in the cost of the EI program of lowering the entrance requirement to 360 hours – including special benefits and new/re-entrants – would exceed \$4 billion.

The Government's use of the estimated impact of UI reforms in the 1970s to benchmark its dynamic impact of lowering the entrance threshold to 360 hours is flawed. First, the early 1970s saw widespread liberalization of the EI program.¹⁴ Among the reforms, a uniform 8-week entrance requirement was introduced – presumably this is the reform on which the dynamic estimate is based. However, there were other significant reforms in the early 1970s: coverage was extended to the public sector and to anyone employed over 20 hours per week; sickness, maternity and retirement benefits were introduced for workers with at least 20 weeks of insured employment; benefits were extended for regions with high unemployment; and, a benefit rate of 75 per cent was introduced for low-income earners with children. All told, the 1970-1971 reforms significantly increased the generosity of the UI program and it is not clear whether the estimated 2-percentage point increase in the unemployment rate reflects the introduction of the uniform 8-

week entrance requirement or the combined impact of the various reforms. More important, these reforms were also introduced at a time when the UI program covered workers who voluntarily left their employment (this eligibility was revoked in 1993) which would have amplified the impact of these reforms. In addition, given the considerable amount of uncertainty surrounding any estimate of behavioural impacts, a plausible range of estimates should be considered and used to calculate the additional cost of the proposed reform.

Second, the 1970-1971 reforms were legislated as *permanent* changes to the UI program, although entrance requirements, the benefit rate and benefit duration were subsequently changed in the late 1970s in response to concerns that UI was reducing the incentive to work. Notwithstanding the significant structural changes to the Canadian labour market since the early 1970s, using the impacts of permanent reforms to UI to gauge the impact of the proposed temporary reform in 2009-10 is not appropriate as behavioural changes typically depend on the nature i.e., permanent versus temporary, of the policy or legislative change.

Further, the proposed EI reform does not include new entrants or re-entrants to the labour force. This restriction, the temporary nature of the proposed reform and the fact that since 1993 voluntary quits are not eligible for EI, limits the extent to which individuals would change their behaviour in response to a lowering of the entrance threshold. For the number of claimants to increase by the amount of the assumed behavioural impact (i.e., an implicit increase of 247 thousand clients¹⁵) all of the new clients would have to be terminated or laid-off by their employers. For profit-maximizing firms, and given the current economic weakness, it is difficult to see

¹⁴ Appendix VII of the 2009 Report of the Chief Actuary to the EI Commission http://www.hrsdc.gc.ca/eng/employment/ei/premium_rate/2009/tran/f/ei-ae_2009.pdf provides a review of the main legislative and regulatory changes to the EI program, from 1930 to 2007.

¹⁵ Assuming the average client impact of \$6,901 the total number of clients would be approximately 580 thousand (\$4 billion divided by \$6,901), an increase of 247 thousand compared to the static estimate.

why employers would want to shed their payrolls to a greater extent in response to this temporary change to EI knowing that they would incur additional hiring/rehiring costs as the economy recovers. That said, if the proposed EI reform were made permanent, employers and employees could possibly collude, inducing more employers to

layoff/fire and then rehire their workers. Nonetheless, the estimates of the dynamic impact based on the 1970-1971 reforms would not – given the existing structure of the EI program (i.e., no voluntary quits) – provide a useful basis for assessing the potential behavioral impact of such a reform.