

REPORT

of the

COMMITTEE OF INQUIRY

into the

**UNEMPLOYMENT
INSURANCE ACT**

**NOVEMBER
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INSURANCE ACT**

NOVEMBER 1962

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To His Excellency the Governor General in Council

MAY IT PLEASE YOUR EXCELLENCY,

We, the Commissioners appointed under the terms of an Order in Council dated July 17, 1961, to inquire into and report upon the basic principles and provisions of the Unemployment Insurance Act and the Regulations thereunder and the manner of operating thereunder,

BEG TO SUBMIT TO YOUR EXCELLENCY THE FOLLOWING REPORT.

THE COMMITTEE OF INQUIRY

COMMISSIONERS

Ernest C. Gill (Chairman)

Étienne Crevier

John J. Deutsch

J. Richards Petrie

SECRETARY AND DIRECTOR OF RESEARCH

Richard Humphrys, F.S.A.

COUNSEL

Thomas R. Walsh, Q.C.

PREFACE

By Order in Council P.C. 1961-1040, July 17, 1961, we were appointed Commissioners under the Inquiries Act to inquire into the Unemployment Insurance Act and operations thereunder. Our terms of reference were specified by the Order in Council, a complete text of which is shown in Appendix I. Early in August 1961, the organizational meeting was held and the designation "Committee of Inquiry into the Unemployment Insurance Act" was adopted.

Mr. Richard Humphrys, F.S.A., was appointed Secretary and Director of Research and Mr. T. R. Walsh, Q.C., was appointed Counsel to the Committee.

On August 31, 1961, a notice was published in daily newspapers across Canada inviting organizations, associations and individuals to submit information, proposals and opinions relating to the work of the Committee. We received many formal briefs and a considerable number of less formal recommendations and expressions of opinion. All received our full consideration. In November and December 1961, public sittings were held in Ottawa to receive the submissions of those who had expressed a desire to be heard.

We wish to express our sincere appreciation to all those who aided us in our work by submissions of views on the problems referred to us. We acknowledge with gratitude that we received the utmost co-operation and assistance from the Unemployment Insurance Commission and its staff. We similarly acknowledge the help received from others inside the Government Service and outside having special knowledge of the matters referred to us for consideration.

We are particularly indebted to Mr. Richard Humphrys and Mr. T. R. Walsh for their indefatigable efforts in conducting the basic research and in the preparation of drafts of the Report resulting from that research. Their broad experience in the field of unemployment insurance proved invaluable.

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ERRATA

Page 39, par. 61, line 6 —for 1960 read 1961.

Page 39, par. 62, line 7 }
Page 40, par. 63, line 2 } —for 362 read 368.
Page 171, par. 229, line 6 }

CHAPTER ONE

INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

I. INTRODUCTION

1. Twenty-one years have passed since the Unemployment Insurance Act came into effect. Over that period, many important changes have been made in the Act and the Regulations, nearly all in the direction of broadening the coverage, extending the benefit payments and reducing the qualification requirements. The balance in the Unemployment Insurance Fund rose almost steadily, year by year, from the time the plan was started to a peak of \$927 million at December 31, 1956; since then, it has declined steeply to a low of \$20 million at May 31, 1962. This period of twenty-one years has been a period of profound change in the economic climate. The high levels of employment and rapid economic growth that followed the termination of the war have in more recent years given way to a period in which unemployment has become a serious problem and the rate of economic growth has become slower.

2. It is apparent that the many changes that have been effected in the plan over its history have led to a gradual dissipation of the sound actuarial basis on which the original plan was founded. This, together with the change in the economic climate, has resulted in the virtual bankruptcy of the Fund. The acute financial difficulties have arisen largely because of these underlying circumstances but these difficulties have been accentuated in some degree by a growing number and variety of abuses and misuses.

3. Many examples of abuses were placed before us in submissions and in testimony at our public hearings in 1961. Some of these abuses constitute fraud, but, in a formal sense, most are legal under the

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existing system, though morally questionable and socially undesirable. It is common knowledge that some employers and employees "work the fund" and that benefits are drawn by persons who should not be entitled to them either in terms of need or eligibility under a proper insurance system. The abuses and misuses have not been subjected to as close a check by administrative authorities as might have been made and, probably as a result of the departure from a true insurance scheme, there has been a tendency towards less strict determination of entitlement to benefit and less strict application of conditions to be fulfilled for the continuation of benefit.

4. The problems associated with breaches in the letter and spirit of the Act have been aggravated by developments in certain public attitudes that have become more prominent in recent years. These attitudes have been influenced unquestionably by the changes that have been made in the Act and its use for purposes inconsistent with the proper operation of an unemployment insurance plan. The distorted views regarding the purposes of an unemployment insurance plan have compounded abuses, and many individuals have come to consider it a vested right to recover their contributions, in whole or in part, regardless of the true intent of the system.

5. Our studies have shown that the system of unemployment insurance in Canada as it now operates will not and cannot meet the problems and requirements of either today or tomorrow. We are living in an era of extraordinarily rapid change. Revolutionary advances in technology; new conditions of foreign trade and a continued marked expansion of the labour force will have far-reaching effects on the operation of the economy and on the occupational structure of the population. In these circumstances it is obvious that there is an urgent need to re-examine the procedures of the past and to devise new approaches commensurate with the realities of the future.

6. In developing our recommendations we have sought to devise a program of support for the unemployed that will be economically and financially sound and at the same time deal adequately with the social problems that lie ahead. First and foremost, we place great emphasis on the positive solutions to the problem of unemployment. There is no system of unemployment insurance that can cope with heavy and prolonged unemployment in a manner that is at the same time financially practicable and socially defensible. Insofar as this vital but larger matter comes within our terms of reference we are proposing a basic re-organization in the role and operations of the National Employment

INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

Service. In our view it is essential that this Service be used more effectively, as part of a comprehensive and forward-looking manpower policy, to expand employment opportunities and to assist individuals to make the best use of their skills and abilities. Such a re-orientation, along with the pursuit of a positive concept in respect of emerging employment and manpower problems, is the foundation stone upon which a program of support for the unemployed should be built. The development of adequate opportunities for employment and the fullest use of human resources is a prime concern of the community; support for the unemployed when work is not available is a necessary and important social obligation, but it is never an end in itself.

II. OUTLINE OF A PROGRAM—BASIC PRINCIPLES

7. We are satisfied that in any comprehensive program of support for the unemployed, a plan of unemployment insurance based on insurance principles appropriate to such a plan should occupy the first and probably the principal place. We recognize that these principles will not in all respects correspond to insurance principles appropriate to a commercial insurance enterprise. Nevertheless, there are a number of basic principles that must be adhered to if a plan is to be an insurance plan in anything more than name. These will be referred to subsequently.

8. Our views in this respect have been reached after a careful consideration of the opinions placed before us in briefs and at our public hearings, an examination of programs in a number of other countries, and our consideration of the problem generally. An insurance approach to this problem permits benefit to be paid as a matter of right to persons who have complied with the prescribed qualifying conditions. The amount and duration of benefit are determined in accordance with prescribed rules rather than on the basis of administrative discretion. We believe that the insurance approach thus carries a substantial advantage in terms of personal dignity and freedom. We consider also that this approach, based upon contributions by and in respect of those covered by the plan, permits an orderly system of financing free from circumstances and pressures that surround the determination of government budgetary programs.

9. We are glad to note that there is widespread support for this view. Many of the organizations that presented views to us expressed themselves as being in favour of an unemployment insurance scheme based

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upon insurance principles, and we find that this view is frequently expressed in discussions of the problem, both editorial and other.

10. We recognize that some organizations that presented views recommended the abandonment of the insurance approach to the problem and the substitution of a tax-supported program of income payments to persons who are without work and seeking work, the idea being that these payments would continue without limit as to duration until the claimant obtained a suitable job. An approach of this kind, while apparently solving some of the difficulties that beset the present plan, would, in our opinion, create other problems and difficulties that are so overwhelming that we find it impossible to accept this view. We believe that to no small extent recommendations of this type have their origin in the difficulties that have resulted from attempts to stretch the existing insurance plan beyond its capacity. We believe that the program that we are recommending will solve most of these difficulties in a different way.

11. Although, as we have noted, we are convinced that a soundly conceived insurance plan has a prominent place in a program of support for the unemployed, we are equally convinced that an insurance plan cannot deal with the whole problem. Any attempt to make it do so forces such distortions that basic insurance principles cannot be maintained and the plan is pushed from amendment to amendment without any sound guiding principles on which decisions can be based.

12. We believe that a certain minimum amount of frictional unemployment is to be expected in a free economic system. This degree of unemployment is, we think, closely linked with the maintenance of freedom in the economic system; freedom of the worker to change his job, to change his occupation, to change his place of residence; freedom of the employer to launch new business enterprises, to design new products, to adopt new methods; freedom of the consumer to buy freely where he wishes and when he wishes. We believe that this minimum degree of unemployment could be avoided only by a regimentation of industry, workers and consumers that would be out of keeping with the basic philosophy on which our system rests.

13. Past experience shows that even when the economy is in a condition of "full employment" it still exhibits a certain amount of frictional and short-term unemployment. The proportion of the civilian labour force shown as unemployed in the periodic Labour Force Surveys has never dropped below 1.3 per cent since 1941. This minimum figure was

INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

exhibited in June 1944, and shows that even under the tight labour conditions of a wartime economy there is still some unemployment. Even in the years of highest employment subsequent to the war the proportion of the civilian labour force shown as unemployed never dropped much below 2 per cent in the peak employment months of the best years. It appears, then, that a certain minimum amount of frictional unemployment is to be expected in the economic system even under the best conditions.

14. It is this basic minimum amount of unemployment, normally thrown up by the operation of the economic system, that can best be dealt with on an insurance basis. This consists of frictional unemployment, and short-term unemployment generally, caused by the never ceasing changes in ideas, in products, in methods, in buying habits and in personal employment patterns. The amount of this unemployment is likely to vary from year to year but in the absence of important other influences or trends is not likely to assume major proportions. We believe that it is appropriate that those who suffer the impact of this type of unemployment be indemnified for a substantial proportion of their lost wages on the basis of an insurance plan, the cost of which is borne by those who draw their livelihood from enterprises involving an employer-employee relationship. In any such plan we believe that all employees should be covered. There is no logical basis for any exceptions, whether by reason of occupation or earnings, other than such exceptions as are dictated by administrative problems.

15. There are, however, types of unemployment other than frictional and short-term; these include the longer term unemployment resulting from economic recessions that occur during the business cycle, the pockets of prolonged unemployment that may result from the closing down of an industry in an area that lives by that industry alone, and unemployment arising from changes in methods and products that has continued beyond a short period. We believe that these types of unemployment are more deeply rooted than the frictional or short-term unemployment appearing in the ordinary functioning of the economic system, and generally require the application of methods and procedures for their solution that would not be appropriate or even feasible in the short run. In such cases, income maintenance is only one of the tools to be used in coping with the problem and we think it would be quite improper to rely on this tool alone. It is also to be noted that some individuals may suffer more or less chronic unemployment not connected with any particular feature of the economic system but rather

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as a result of personal difficulties such as lack of education, lack of technical training or personality problems.

16. We recognize that unemployment of these types cannot always be sharply and clearly distinguished from the more or less normal frictional and short-term unemployment appearing in the economic system, and perhaps the best guide to distinguish between the two general types is the duration of the unemployment falling upon any individual in the light of his previous employment record. However, to avoid the difficulty of trying to distinguish between the various types of unemployment in their early phase, we believe that the unemployment insurance plan should absorb the first impact of unemployment, whatever the type. Unemployment that has continued beyond a relatively short period can, in general, be considered as arising from other than normal causes. Our view is, therefore, that a plan of extended benefits should be instituted under which benefit payments will be continued for a further period to any individual who has exhausted his entitlement to insurance benefit. The payment of these extended benefits should, we believe, be accompanied by a vigorous attack on the conditions that have caused the persons concerned to remain unemployed beyond the duration of their insurance benefits. This vigorous attack would include monetary and fiscal policies, trade policies, retraining and relocation of workers, development of resources and industries, development of winter works, examination of particular employment problems of individuals and all other tools available in a comprehensive employment and manpower problem.

17. In such a concept, income maintenance occupies only one place. Since the unemployment in question would usually stem from problems that affect the economy as a whole, or the economy of large regions, rather than from the normal operation of a free employer-employee relationship, we believe that the responsibility for meeting the cost of these extended benefits should rest upon the taxpayers as a whole as part of the general taxation system, and they should not be financed on the basis of specific contributions from the persons concerned or their employers.

18. We do not believe that a plan of extended benefits should provide benefit for an indefinite period to any individual. We suggest instead, as will be described in further detail subsequently, a period of extended benefits that will be related in broad terms to the claimant's employment record, and we think that the amount of benefit should also be related to the claimant's normal earnings.

INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

19. In reaching this view we have in mind that the labour force in Canada is not a closed or homogeneous group. Instead, there is an active movement of individuals into the labour force and out of it. Some persons wish full-time work, others wish only part-time work. It is not possible to determine, in every case, whether a claimant genuinely desires employment or not. In many cases of low employability it may be extremely difficult to find a suitable job, and the problems of retraining or relocation may be impossible where the individuals concerned are not in fact eagerly seeking work. A benefit of unlimited duration would, in such cases, not be appropriate in the light of the plan that we have in mind. Further, we think it would be repugnant to the public generally to keep persons on benefit at the taxpayers' expense for an indefinite period without examining their actual needs. We believe also that an indefinite period of benefit payment would tend to create a hard core of unemployment, would lead to debilitation and degradation of the individuals concerned and would tend to obscure the need for a different type of treatment of their problems.

20. When unemployment for any individual has gone on for a long period—beyond the period contemplated by us as appropriate for an insurance benefit together with an extended benefit—we believe that it would be wholly reasonable to look to a plan of general assistance based on a test of need to take up the case. Benefits determined in accordance with a set of rules and in accordance with some previous employment record are based, in effect, on an average need. After unemployment has continued for a long period we think that it is socially desirable that the individual case be examined to determine the actual needs, not only to determine whether the general taxpayer should continue to provide assistance but also to determine the amount of assistance required in the light of those needs. Also, individual treatment would determine whether any special procedures are indicated that go beyond the more general procedures of a national employment and manpower program. Thus a different type of administration is needed. Trained social workers would be required and decisions would depend not only on an individual's personal needs and circumstances but also on local conditions.

21. Thus we think that a general assistance plan based on a test of need should be relied upon to assume the problem of the residual unemployment. The assistance plan would take care of the cases for whom it has not been possible to provide other solutions during the time that they have received benefits under the preceding plans. The assistance plan would apply to persons who are demonstrably in need and who

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have been unable to qualify for insurance benefit or extended benefits or, having qualified, have exhausted such benefits.

22. In summary, we believe that a program of support for the unemployed should consist of three parts. The first part would be an insurance plan founded on insurance principles and supported by contributions by and on behalf of the persons concerned; this would take the first impact of unemployment but only for a limited time. The second part would be a plan of extended benefits payable to those who have exhausted their insurance benefits and, subject to certain conditions, to those whose unemployment follows a seasonal pattern, to be supported from general taxation revenues. The third part would be an assistance plan to deal with residual unemployment applied on a needs-test basis and administered by local or regional authorities in the light of local circumstances. These three parts of the general program will be discussed in greater detail in Chapter Four.

23. In the course of our study of the problems placed before us, we have had in mind constantly the question of abuses under the present system and several specific recommendations are made designed to cure or at least to lessen the possibility of abuses. Legislation is, however, only one factor in controlling abuses. Equally important is a competent and dedicated administration to enforce the system with fairness, vigour and imagination. Any failure to maintain an administrative staff of the necessary extent and quality cannot but have the most unfortunate effects on the operation of plans as widespread as those designed to deal with financial support for the unemployed. Inadequate administration will inevitably open the door again to abuses and to the discrediting of the whole plan. The work of the administrative staff must, of course, be encouraged and supported at all levels on the basis of a clear idea of the intentions of the whole program, not only within the permanent administration but also reaching out to the legislators and the community itself.

24. We feel that it is important from this aspect of the matter to carry on a regular educational program through the press and other media to create a proper public image of unemployment insurance. The rights and responsibilities of employees and employers should be made clear. A proper understanding of the nature of unemployment insurance should go a long way towards building a better public attitude. Such educational efforts will produce results however only when the public becomes convinced that the legislation is administered fairly and impartially for the purpose for which it was designed and when the legislation is changed

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to block some of the more apparent misuses of the plan. When the widespread idea that the Unemployment Insurance Fund is used as a convenient device to deal with problems not intended to be handled under the unemployment insurance plan is dispelled, public confidence should be restored and better co-operation secured.

25. To conclude this statement of general philosophy, we wish to emphasize that our recommendations are closely interwoven, one with the other, and it should not be assumed that we should be in favour of the adoption of any particular recommendation or any group of recommendations regardless of what action is taken with respect to the others. We think that the recommendations should be considered as a whole. Great care must be taken in selecting amongst them because, to select some and not others, might have the effect of destroying the comprehensive program we have attempted to design and might make matters worse than they are now instead of better.

26. A summary of our recommendations now follows. Further detail and discussion concerning them will be found in Chapter Four.

III. SUMMARY OF RECOMMENDATIONS

27. (Further details in connection with each item will be found in the paragraphs referred to at the end of the item.)

(1) That a program of support for the unemployed be adopted consisting of three parts as follows: the first part to be an insurance plan, supported by contributions from employees and employers, to take the first impact of unemployment but only for a limited time; the second part to be a plan, supported from general taxation revenues, to provide extended benefits payable to persons who have exhausted their insurance benefits, and, subject to certain conditions, to persons whose unemployment follows a seasonal pattern; and the third part to be an assistance plan to take care of residual unemployment, applied on a needs-test basis and administered by local or regional authorities in the light of local circumstances; (Ch. One, par. 7 to 22).

(2) That the unemployment insurance plan be based on insurance principles appropriate to such a social insurance plan (Ch. Four, par. 1 to 10).

(3) That coverage under the unemployment insurance plan apply to all persons over the age of 18 occupying the employee side of an

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employee-employer relationship, subject to exceptions only because of administrative problems (Ch. Four, par. 11 to 32).

More specifically, and with reference to coverage under the existing plan, our recommendations under this head are:

- (a) that coverage be extended to
 - (i) government employees, federal, provincial and municipal (subject to the consent of the province in the case of provincial employees) (Ch. Four, par. 12 to 14),
 - (ii) employees earning more than \$5460 annually (Ch. Four, par. 16 to 19),
 - (iii) employees of hospitals and charitable institutions (Ch. Four, par. 24),
 - (iv) teachers (Ch. Four, par. 12, 13, 15);
- (b) that coverage be withdrawn from
 - (i) self-employed fishermen (See Recommendation 45 concerning the establishment of a separate plan for this group.) (Ch. Four, par. 26),
 - (ii) persons under the age of 18 (Ch. Four, par. 27);
- (c) that the existing exception relating to employees in agriculture and domestic service be continued by reason of administrative problems but that efforts be made to solve these problems and extend the coverage within these classes if and when appropriate procedures can be devised (Ch. Four, par. 20 to 22);
- (d) that existing exceptions founded on the dangers of abuse be continued (Ch. Four, par. 25) and expanded to except all family employment, whether paid or unpaid (Ch. Four, par. 28), employees hired together with major equipment owned by the employee (Ch. Four, par. 29), casual employment (Ch. Four, par. 30), officers and directors of corporations where the Unemployment Insurance Commission is satisfied that the employment is substantially self-employment (Ch. Four, par. 32);
- (e) that the existing exceptions relating to members of the armed forces and members of the Royal Canadian Mounted Police be continued (Ch. Four, par. 23).

(4) That, with the exception of administrative expenses, the unemployment insurance plan be financed by contributions shared equally between employees and employers with no contribution from

INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

the government (except in its capacity as an employer) and that the administrative expenses arising in connection with the plan be met by the government from general taxation revenues (Ch. Four, par. 33 to 39).

(5) That the contribution system and qualification requirements for benefit be revised to provide that where an employee works for a particular employer for less than a full working week, the earnings class be determined on the basis of the employee's rate of earnings for a full working week and the contribution required be one-fifth of a full week's contribution in that earnings class for each day worked; that the contribution record for each insured person show the number of days worked in any week where the insured person worked for less than a full working week; that the record of attachment to insured employment required to enable an insured person to qualify for benefit be expressed in terms of full weeks of employment or contribution, with partial weeks being converted to full weeks at the rate of five days equalling one week; and that the rate of benefit be based upon the average contribution per full working week over the 20 most recent full weeks of contribution (or the equivalent in broken weeks at the rate of five days equalling one week); (Ch. Four, par. 40 to 53).

(6) That the existing methods of collecting and recording contributions be retained but that the Unemployment Insurance Commission continue its efforts to extend the bulk-pay system as far as it can be extended in an efficient and useful manner (Ch. Four, par. 54 to 59).

(7) That the existing practice of a general pooling of the risk be continued and that plans of merit or experience rating not be adopted (Ch. Four, par. 134 to 138).

(8) That existing contribution rates be continued subject to the adoption of an appropriate comparable rate for the new top class, until a suitable reserve fund has been established and until experience shows that a reduction in rates is possible without threat to the financial solvency of the plan (Ch. Four, par. 154 to 163).

(9) That the record of attachment to insured employment required for the establishment of a benefit period be at least 30 full weeks of employment in insured employment in the two years preceding the claim of which at least 20 weeks have occurred in the one year preceding the claim and also since the beginning of the last preceding

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benefit period, if any; and that for the purpose of this test, partial weeks of employment be converted to full weeks at the rate of five days equalling one week; (Ch. Four, par. 60 to 70).

(10) That the maximum benefit available in any benefit period be one full week of benefit for each two full weeks of contribution that have occurred in the one year preceding the claim and also since the beginning of the last preceding benefit period, if any; and that, for this purpose, partial weeks of contribution be converted to full weeks on the basis of five days equalling one week; (Ch. Four, par. 71 to 76).

(11) That an additional earnings class be added to include all employees who are earning \$80.00 a week or more and that the two lowest earnings classes be combined into one (Ch. Four, par. 81, 82, 85).

(12) That the rates of benefit be raised to approximately 60 per cent of earnings for claimants with a dependent and to approximately 45 per cent of earnings for claimants without a dependent, in the upper earnings classes, and to a somewhat higher proportion of earnings in the lower earnings classes (Ch. Four, par. 77 to 80, 83 to 85).

(13) That allowable earnings be reduced to represent approximately one-quarter of the weekly rate of benefit in each class (Ch. Four, par. 86 to 88).

(14) That Seasonal Benefit in its present form be withdrawn and that seasonal regulations be enacted whereby insurance benefit would not be paid during any period of unemployment that, on the basis of the claimant's personal employment record, is shown to be of a repetitive seasonal character (Ch. Four, par. 89 to 103).

(15) That no special regulations be enacted relating to married women as such, but that a program be adopted providing more active claims supervision and more vigorous follow-up of cases where referrals to job opportunities have been made without successful placement, in order to reduce the abuse of the plan on the part of persons who are not genuinely seeking employment (Ch. Four, par. 105, 106, 108 to 110).

(16) That a woman whose employment terminates by reason of pregnancy be considered as unavailable for employment until eight weeks after confinement; and that, if her employment terminates for

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any other reason, a woman who is pregnant be considered unavailable for employment for eight weeks before and eight weeks after confinement (Ch. Four, par. 107, 111, 112).

(17) That a woman who has children below school age in her care be considered unavailable for employment unless she can prove to the satisfaction of the Unemployment Insurance Commission that she has made satisfactory arrangements for the care of the children should she receive an offer of employment (Ch. Four, par. 111, 112).

(18) That the pension received on retirement under an employer-employee pension plan and income payments given as indemnity for a temporary period for lost wages under Workmen's Compensation plans or employer-employee sickness or disability plans be treated as earnings for purposes of determining benefit payments under the unemployment insurance plan (Ch. Four, par. 113 to 121).

(19) That payments made to employees on termination of employment, such as bonuses, gratuities, severance pay, holiday pay, or other credits, be treated as earnings for purposes of determining the benefit payments under the unemployment insurance plan (Ch. Four, par. 130 to 132).

(20) That efforts be made to increase the extent of post-auditing procedures in connection with claims, to bring to light possible concealment of earnings (Ch. Four, par. 123 to 125).

(21) That efforts be continued to improve interviewing techniques and procedures as a means of determining the true facts concerning availability for employment (Ch. Four, par. 126).

(22) That where a claimant is disqualified by reason of voluntary termination of employment without just cause, or by reason of a refusal to accept an offer of suitable employment, the disqualification result in a reduction of benefit entitlement equal to the period of disqualification rather than merely a delay in receipt of benefit (Ch. Four, par. 139 to 141).

(23) That the Unemployment Insurance Commission undertake a vigorous campaign of education aimed at demonstrating to employers the importance of accurate reporting of reasons for termination, and use the power now available to prosecute employers who can be shown to have supplied false information (Ch. Four, par. 127 to 129).

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(24) That where a claimant is entitled to supplemental unemployment benefit payments under a plan established by his employer, these payments be treated as though they were earnings for purposes of computing benefit payable under the unemployment insurance plan, except that, for claimants in the top earnings class, the benefit payable under the unemployment insurance plan be the smaller of (a) the amount payable under the insurance plan apart from the supplemental unemployment benefit plan, or (b) the amount required to bring the income of the claimant for the week from earnings, supplemental unemployment benefit and unemployment insurance benefit combined, up to 75 per cent of his normal weekly earnings if he has a dependent or 56½ per cent of his normal weekly earnings if he has no dependent (Ch. Four, par. 142 to 148).

(25) That where a claimant is directed to a training course, the unemployment insurance benefit be terminated and a training allowance be granted in lieu thereof under the general vocational training program (Ch. Four, par. 149 to 150.)

(26) That refusal to cross picket lines in connection with a labour dispute be considered as evidence of taking part in a labour dispute regardless of the reason given for such refusal (Ch. Four, par. 151).

(27) That where workers of a given grade or class participate in a labour dispute at a particular premises by refusing to cross picket lines, such refusal be considered as constituting participation in that dispute by all workers of that grade or class throughout the area covered by the agreements that have given rise to the original dispute (Ch. Four, par. 152, 153).

(28) That the balance in the Unemployment Insurance Fund not required to meet current benefit payments be invested from time to time in securities especially issued for the purpose by the government of Canada, such securities being redeemable at par, subject to 30 days' notice, and carrying a rate of interest approximately equal to the market rate at date of issue on a three-year government security (Ch. Four, par. 164 to 173).

(29) That the Unemployment Insurance Commission be required to prepare an annual financial statement showing the condition of the Fund at the end of each fiscal year and the income and expenditure occurring during the year; that this statement be audited by the Auditor General; that the audited statement be laid before

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Parliament at the earliest opportunity; and that the existing requirement calling for a statement by the Minister of Finance be repealed; (Ch. Four, par. 172).

(30) That a plan of extended benefits be adopted to pay benefits for a limited period to persons who have exhausted their unemployment insurance benefits and, subject to certain conditions, to persons who are ineligible for unemployment insurance benefits by reason of the seasonal regulations, the cost of such extended benefits to be met by the federal government from its general sources of revenue (Ch. Four, par. 174 to 207).

(31) That eligibility for extended benefits be limited to persons who have recently established a benefit period under the unemployment insurance plan and have either exhausted their insurance benefit or have been disqualified by reason of the seasonal regulations, but that no benefits be payable under this plan to persons aged 70 or over who are in receipt of a pension under the Old Age Security Act, to persons under age 18 or to married women who are not the sole support of their household (Ch. Four, par. 179 to 185).

(32) That the maximum period of extended benefits be one and one-half times the period of insurance benefit to which the claimant was entitled in his last preceding benefit period; that eligibility for extended benefits commence immediately on the termination of a benefit period under the insurance plan; and that such eligibility expire at the end of a further period of time equal to the maximum period of entitlement to extended benefits applicable in the particular case; (Ch. Four, par. 186 to 188).

(33) That the rate of benefit payable under the extended benefits plan be the same as the rate of benefit to which the claimant was entitled under the insurance plan in his last preceding benefit period (Ch. Four, par. 189).

(34) That claimants under the unemployment insurance plan who are disqualified by reason of the seasonal regulations be enabled to draw extended benefits during the off season subject to all the other rules applying to extended benefits, and to the further rule that no extended benefits be paid to any such person who had a record of 40 or more full weeks of insured employment during the 52 weeks preceding the claim (Ch. Four, par. 191 to 197).

(35) That the operation of the plan of extended benefits be accompanied by increased emphasis on the vigorous development of

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the National Employment Service, on the problem of adjustment to technological changes, on retraining programs, and on problems of occupational and industrial shifts and on all other matters falling within a comprehensive national employment program (Ch. Four, par. 200 to 202).

(36) That a claimant under the extended benefits plan be required to accept employment of which he is reasonably capable, whether it is the same as his customary employment or not, or be disqualified for benefit (Ch. Four, par. 203 to 205).

(37) That claimants under the extended benefits plan have the right to appeal decisions of the administration to the Chairman of the local Board of Referees established under the unemployment insurance plan (Ch. Four, par. 207).

(38) That efforts be continued to improve and develop existing assistance plans operated on a needs-test basis to enable them to deal effectively with residual unemployment (Ch. Four, par. 208, 209).

(39) That the National Employment Service be transferred to the Department of Labour as a necessary move to co-ordinate efforts relating to manpower policy and employment programs and that the National Employment Service, through its local offices, perform an administrative function for the Unemployment Insurance Commission on an agency basis (Ch. Four, par. 210 to 220, 222).

(40) That the Unemployment Insurance Commission have the responsibility for the administration of the unemployment insurance plan and the extended benefits plan in all respects, subject to an agency arrangement with the National Employment Service at the local office level, and for the appointing of Chairmen of Boards of Referees (Ch. Four, par. 221 to 224).

(41) That power be restored to the Unemployment Insurance Commission to prosecute employers for default in payment of contributions required by the Unemployment Insurance Act (Ch. Four, par. 229).

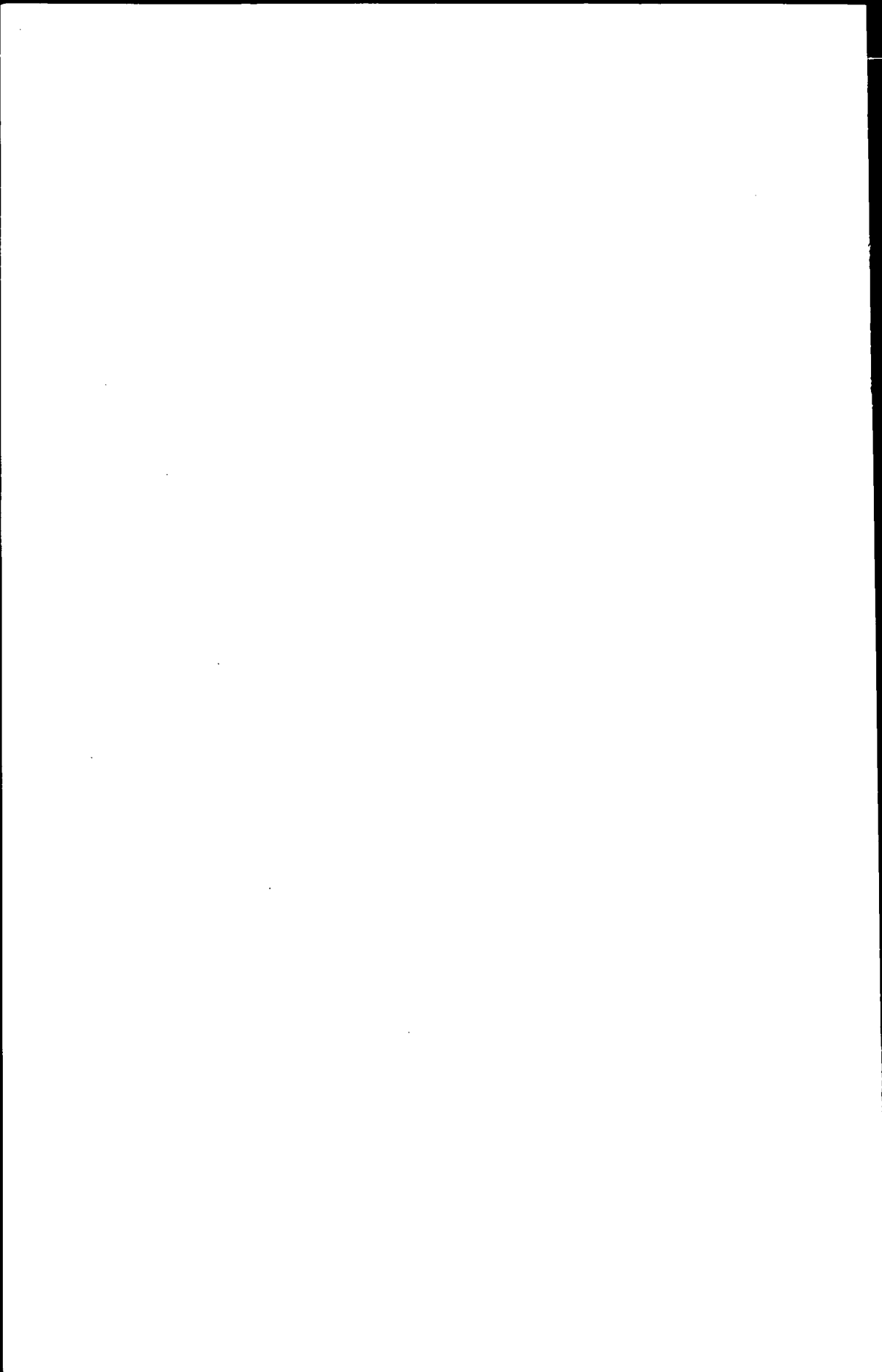
(42) That steps be taken to raise the standard of education, training and salary in order to improve the quality of the staff of the Unemployment Insurance Commission and of the National Employment Service and that, in particular, the staff of claims investigators and auditors be increased (Ch. Four, par. 226 to 230, 232, 233).

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(43) That the physical facilities of the local offices of the National Employment Service be improved (Ch. Four, par. 231).

(44) That an Advisory Committee be continued with the responsibility for watching over the financial solvency of the plan; that the Advisory Committee be made up of representatives of employers and employees appointed by the government from panels nominated for the purpose by interested organizations, and possibly supplemented by members representing the public at large; and that recommendations of the Advisory Committee concerning the financial structure of the plan be either accepted by the government, or formally rejected with reasons given; (Ch. Four, par. 234 to 237).

(45) That a separate plan for self-employed fishermen be instituted, designed to be more in accordance with the needs and circumstances of the fishermen than is possible under the general unemployment insurance plan; and that responsibility for the administration of this separate plan rest with the Department of Fisheries; (Ch. Four, par. 238 to 244).



CHAPTER TWO

A BRIEF HISTORY OF THE UNEMPLOYMENT INSURANCE ACT

I. LEGISLATIVE HISTORY

1. It does not appear necessary to review in any detail the consideration given over many years to the desirability of a scheme of insurance against unemployment. An Act was passed by Parliament in 1935 to provide such insurance but was subsequently held *ultra vires*. After the constitutional difficulties had been cleared away the Unemployment Insurance Act of 1940 was assented to on August 7, 1940. Although changed in many important respects, the basic scheme adopted in 1940 is the plan of insurance against unemployment still in effect.

A. Plan Based on Insurance Principles

2. It would also seem unnecessary to devote much space to establish the fact that the plan adopted was an insurance plan and not a plan of unemployment assistance or other form of social welfare. The word "Insurance" in the title of the Act was not used carelessly; it was the carefully considered description of the nature of the plan. The Canadian Act was modeled largely on the British Act which had been in force for several years, and to a lesser degree on the Unemployment Insurance Acts in the United States which had been in operation for a shorter time. Both the British and American schemes were based on insurance principles. In considering the application of insurance principles it should be kept in mind that unemployment insurance is social insurance as distinguished from commercial insurance, and some departures from principles that would be regarded as essential in commercial insurance do not make the unemployment insurance plan any less an insurance plan.

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3. Over the years a great deal has been written on the meaning of insurance principles as applied to unemployment insurance. It is not proposed to repeat here what has already been said on this subject or to attempt a better statement. However, to consider how these principles were embodied in the Act as originally enacted, and how they have fared over the intervening years, it may be useful to set out a very concise statement of the principles as enunciated by the Unemployment Insurance Commission several years ago:

A plan of insurance must have an actuarial basis. There must be a definition of the risk insured against and the conditions under which indemnity will be paid; the area of insurance must be limited to contingencies, not situations that are certain to occur; there must be some possibility of estimating the rate of occurrence of the contingency; the amount of the indemnity (under unemployment insurance, the rate and duration of payment) must be determined; and the premium or contribution must be calculated which is needed to provide a fund sufficient to meet all probable claims.

For an unemployment insurance plan to be genuine insurance, it follows that (1) the insured person, to have an insurable interest, must be subject to the risk of losing something of real value; (2) the actual occurrence of this contingency must be easy of verification and of proof that it falls within the scope of the insurance contract.

Under unemployment insurance, as regards (1), the contingency is loss of employment and the earnings therefrom. A person who is not normally in insurable employment to a substantial extent and within a recent period of time has nothing of substantial value to lose and cannot have an insurable interest. As regards (2), there must be a ready means of determining when an insured person is unemployed and whether he meets the minimum conditions for the receipt of benefit.

The above is a brief statement of what is meant by "insurance principles" as that expression is used in connection with unemployment insurance. A scheme of cash relief for the unemployed which does not adhere to these principles is not insurance.

B. The 1940 Act

(a) Coverage

4. The record seems clear that the primary purpose of the Unemployment Insurance Act of 1940 was the positive one of establishing and maintaining an effective National Employment Service. The insurance feature was coupled with the employment feature to provide insurance against the loss suffered as a result of temporary loss of employment. The plan was compulsory; i.e., subject to the exceptions noted below every person employed under a contract of service was insured and was required to contribute as was his employer and the federal government.

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Excepted Employments:

1. Agriculture, horticulture and forestry.
2. Fishing.
3. Lumbering and logging, exclusive of wood-processing mills and plants in operation more than 30 weeks in a year.
4. Hunting and trapping.
5. Transportation by water or by air, and stevedoring.
6. Domestic service in a private home.
7. Employment in a hospital or charitable institution not carried on for gain.
8. Professional nursing for the sick or as a nurse-probationer.
9. Teaching, including teachers of music and dancing.
10. Service in the armed forces or in a public police force.
11. Employment in the government service of Canada for employees appointed under the Civil Service Act or certified as permanent.
12. Employment in the government service of any province unless the government of the province agrees.
13. Employment by any municipal authority if the municipal authority certifies that the employment is permanent.
14. Employment as an agent paid by commission, fees, or share of profits, if this is not the main means of livelihood and if the employee is not under a contract of service giving the employer control over the manner and time in which the service is to be performed.
15. Employment at a rate of remuneration exceeding \$2,000 a year.
16. Casual employment, otherwise than for the employer's regular business.
17. Subsidiary employment, not the main means of livelihood.
18. Employment where the employed person is in the service of his or her spouse.
19. Employment where no wages are paid and the employee is the child of the employer.
20. Employment where wages are paid for playing any game.
21. Any employment—
 - (a) that ordinarily lasts for less than four hours a day, or
 - (b) that is ordinarily by more than one employer but less than four hours a day for any one of them, or
 - (c) where the employee is only available for insured employment for not more than two days in any week.

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5. The administration of the Act was entrusted to a commission composed of a chief commissioner, a commissioner representing employers and a commissioner representing employees, rather than to a department of government. The Commission was responsible to Parliament reporting through the Minister of Labour. For the purpose of advising and assisting the Commission in carrying out the function of the Employment Service, the Commission was required to establish a "National Employment Committee" and such other committees as the Commission considered desirable. It was provided that the National Employment Committee would be made up of members chosen after consultation with organizations representing workers and an equal number of members chosen after consultation with organizations representing employers.

6. On the insurance side, provision was made for the establishment of a committee called the "Unemployment Insurance Advisory Committee". It was provided that at least one of the members of the Advisory Committee, other than the chairman, should be appointed after consultation with organizations representing workers and an equal number after consultation with organizations representing employers. This provision of the Act did not apparently contemplate that the Committee would be composed solely of representatives of employees and representatives of employers as was the case in the composition of the National Employment Committee. However, in practice, the membership of the Committee, apart from the chairman, has been made up equally of representatives of employers and representatives of employees. The Committee, appointed by the Governor in Council, was required to advise and assist the Unemployment Insurance Commission, report on the condition of the Insurance Fund and make recommendation if the Fund was, or was likely to become, insufficient to discharge its liabilities. The Committee was also empowered to make recommendations with respect to the coverage of persons not insured under the Act.

(b) The Unemployment Insurance Fund and the Investment Committee

7. Contributions under the Act commenced as of July 1, 1941. All contributions under the Act were credited to a special fund called the Unemployment Insurance Fund in the Consolidated Revenue Fund. In addition to the contributions of employer and employee, the government made an additional contribution equal to one-fifth of the aggregate of the employer-employee contributions. In addition, the government

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paid the entire cost of administration. Withdrawals from the Fund could be made only for the purpose of payment of benefits and refund of contributions. It was provided that when there were amounts standing to the credit of the Unemployment Insurance Fund not currently required for the purposes of the Act, the Minister of Finance, on the requisition of the Commission, was required to purchase obligations of or guaranteed by the government of Canada. However, all such investments could be made only on the authorization of the Investment Committee consisting of one member nominated by the Minister of Labour, one member nominated by the Minister of Finance, and the Governor of the Bank of Canada or, in his absence, his deputy.

8. Generally, contributions were made by the affixing of unemployment insurance stamps in an insurance book issued to each covered employee, for each day of insured employment. Payment by means of a stamp metering device was also provided for, and, later, provision was made for payment in bulk.

(c) Entitlement to Benefit

9. In order to establish a claim for benefits, the claimant was required to show:

- (i) that contributions had been made in respect of him while employed in insured employment for not less than 180 days during the two years immediately preceding the date on which a claim for benefit was made;
- (ii) that he had made application for insurance benefit in the prescribed manner, and proved that he was unemployed on each day on which he claimed to have been unemployed;
- (iii) that he was capable of and available for work but unable to obtain suitable employment; and
- (iv) that he either duly attended or had good cause for not attending any course of instruction or training approved by the Commission that he may have been directed to attend by the Commission for the purpose of becoming or keeping fit for entry into or return to employment.

10. In applying the contribution test described in item (i) of paragraph 9, the concept of a "benefit year" was used. This concept is explained in paragraphs 74 to 78 of Chapter Three. After the termination of a benefit year, the claimant, to establish a further claim, was required to show, not only that he had made at least 180 daily contributions in the two years preceding the claim, but also that at

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least 60 of these contributions had been made since the last day of benefit in the preceding benefit year.

11. An insured person was disqualified for benefit if participating in, financing, or directly interested in a stoppage of work due to a labour dispute. He was also disqualified for a period not exceeding six weeks—

- (i) if he had been discharged for misconduct;
- (ii) if he had refused to accept suitable employment without just cause;
- (iii) if he had voluntarily left employment without just cause.

12. The Act gave a claimant whose claim had been disallowed by an insurance officer the right of appeal to a Court of Referees. The Court of Referees was composed of a chairman appointed by the Governor in Council, a number of persons representing employers and an equal number representing employees. A further appeal to an Umpire was provided for. The Umpire was chosen from the judges of the Exchequer Court and of the Superior Courts of the provinces.

(d) Amount and Duration of Benefit

13. Originally the amount of benefit was 34 times the employee's average contribution made within the previous two years for a claimant without a dependent, and 40 times for a claimant with a dependent. No benefit was payable for the first nine days of employment in a benefit year (the "waiting period"), nor for the first day of unemployment in a week (the "non-compensable day") unless the claimant was unemployed all of that week or the first day of unemployment followed a period of continuous unemployment of not less than a week. The waiting period was based partly on grounds of administrative convenience and partly on grounds of cost; i.e., short periods of unemployment each year were regarded as a near certainty for the great majority of persons in insured employment. This safeguard was regarded as comparable to the deductible feature in automobile insurance. The maximum duration of benefit was one day of benefit for each five daily contributions made in the previous five years, less one day for each three days of benefit received in the previous three years.

C. Coverage of and Claims by Older Persons

14. In June 1941, the Unemployment Insurance Advisory Committee held its first meeting. At the Advisory Committee meeting in December 1941, the Unemployment Insurance Commission submitted

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a series of suggested amendments to the Act. Not too surprisingly, a number of practical problems in the administration of the Act had been encountered in the short time it had been in operation. Many of the recommendations of the Commission were concurred in by the Committee and led to legislative action in 1943. The Commission also recommended the inclusion of lumbering and logging and stevedoring as insured employments. Action on this recommendation was deferred. It is also interesting to note that although payment of benefits had not yet commenced there was considerable discussion of anticipated problems in connection with coverage of older persons and benefit claims by persons in receipt of pension. With the commencement of benefit payments the anticipated problem regarding older insured persons became real and became the subject of frequent discussion by the Advisory Committee. A variety of solutions to the problem were considered but none was adopted. The nature of the problem as seen by the Unemployment Insurance Commission is summarized in the following comment of the Commission:

Throughout the last 15 years the claims statistics and the information derived by the Commission from its experience in administering both the unemployment insurance scheme and the National Employment Service have steadily indicated that the group 65 years of age and over draw benefit in a far higher ratio than that which their own numbers bear to the rest of the insured population. The differential is so substantial that the inference can only be that many of these older persons have retired from the labour market and are drawing benefit as a supplement to or substitute for a pension.

It is to be expected that the impact of claims from the older group should be somewhat heavier, as these persons find it harder to get employment than younger persons. The impact is likely to be heavier both in regard to the percentage making claims and in regard to the length of time they stay on benefit. For example, a ratio higher than the average by say 50% or 75% would not be surprising. In fact, however, it is about 250% as regards the number of claims and about 300% as regards the amount of benefit drawn.¹

15. The problem still remains unresolved.

D. Wartime Changes in Administration of the Act

16. In September 1942, an important but temporary change in the administration of the Unemployment Insurance Act was made by Order in Council P.C. 7994 dated September 4, 1942. The effect of that Order was to make the administration of the Unemployment Insurance Act

¹ Letter from Unemployment Insurance Commission to Committee of Inquiry, August 16, 1962.

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a branch of the Department of Labour. The substance of the change in administration is contained in the following extract from the Order in Council:

The control and supervision of the officers, clerks and employees of the Unemployment Insurance Commission as well as the several premises occupied by the Commission are hereby placed at the disposal of the Minister of Labour for a period which shall end on a day fixed by a proclamation issued under section two of the War Measures Act to the effect that the war no longer exists or on such earlier day as may be fixed by Order in Council and the Minister of Labour may utilize such personnel and premises for the administration of the National Selective Service Regulations, 1942, and, without prejudice to the autonomy and continuity of the Unemployment Insurance Commission, shall in cooperation with the Unemployment Insurance Commissioners administer the Unemployment Insurance Act, 1940, along with the administration of the National Selective Service Regulations, 1942, aforesaid, and, in that behalf, may exercise the rights, powers, duties and functions of the Unemployment Insurance Commission, which rights, powers, duties and functions are hereby extended to the Minister of Labour for the period aforesaid.

E. Amendments, 1943

17. Pursuant to the discussions that had gone on since the inception of the Act in 1941, the Act was first amended in July 1943, the amendments being effective September 1, 1943. The most important change was an increase from \$2,000 to \$2,400 in the wage ceiling of insured employment. The \$2,400 ceiling applied only to those paid on a semi-monthly, monthly, or commission basis. Others were covered regardless of earnings. Provision was made for the extension of coverage to public utilities and provision also was made for the voluntary coverage of employees of hospitals and charitable institutions with the consent of the Commission. It was also provided that employees of the federal government would be covered unless certified as permanent employees. The requirements in connection with a subsequent benefit year were also changed. Originally the requirement was that there be at least 60 daily contributions since the last day the claimant drew benefits in the previous benefit year. The new requirement was at least 60 daily contributions after commencement of the previous benefit year.

F. Proposals for Extension of Coverage, 1944 to 1945

18. Throughout 1944 the Commission made extensive reports and recommendations to the Unemployment Insurance Advisory Committee relating to extension of coverage to excepted employments. By Order

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in Council P.C. 4773 of June 26, 1944, the Advisory Committee was informed by the Government "that it is deemed desirable and expedient to extend provisions of the Unemployment Insurance Act, 1940, to . . . lumbering and logging, certain types of employment carried on in connection with agriculture and horticulture, in hospitals and charitable institutions, as a professional nurse except private duty nurses and probationers, in the public service of Canada or by municipal authority". The Committee was directed "to investigate and report upon the provision of unemployment insurance for these employments now excepted from the operation of Part II of the Act . . .".

19. In May 1945, after extensive investigations and receipt of representations from employers and employees in lumbering and logging, the Committee reported that it saw no difficulty whatsoever in extending the coverage of the plan to include employment in hospitals and charitable institutions, in the public service of Canada or by municipal authority; it declined, however, to take any position on the question of policy involved. As to employment as a professional nurse and certain types of employment related to agriculture and horticulture, the Committee reported that it would join with the Unemployment Insurance Commission in making a recommendation for coverage of those employments. With respect to lumbering and logging, the Committee pointed out that there were considerable practical difficulties involved, but that employment in the industry should be brought under unemployment insurance as rapidly as possible. It therefore advised that it would join the Unemployment Insurance Commission in so recommending to the Governor in Council. Its recommendation, however, would be that extension of coverage to lumbering and logging should be on a regional basis and subject to the establishment of special regulations designed to fit the circumstances existing in particular areas. The Committee indicated that the power of the Commission to impose seasonal regulations should be clarified and strengthened in order to provide proper coverage of employment in lumbering and logging.

20. The Act was not amended in 1945, but following on the earlier discussion in regard to extension of coverage, certain changes in coverage were made pursuant to authority contained in the Act. Employment of nurses other than those engaged in private duty nursing and employment in transportation by air were made insured employments.

21. By provisions in the Veterans' Rehabilitation Act passed in 1945, a veteran who completed 15 weeks in insured employment was deemed to have been in insured employment during the period of his services in the Armed Forces. Payment of employee and employer shares of

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contributions for such "employment" was provided out of moneys appropriated by Parliament and credited to the Unemployment Insurance Fund. Protection against adverse effects on the Fund was given in a provision of the Act that directed the Unemployment Insurance Advisory Committee to report to the Governor in Council any such adverse effects so that remedial action could be taken. If there were adverse effects on the Fund there is no evidence that they were of important proportions.

G. Amendments, 1946

22. Amendments effective October 1, 1946, made transportation by water an insured employment. The amount that a claimant could earn without affecting benefit rights was increased from \$1.00 to \$1.50 per day. Such allowable earnings were permissible only if earned in an occupation that could be carried on in addition to and outside the hours of his normal occupation. The 1946 amendments also provided that in respect of the administration of the Employment Service, the Commission "shall be responsible to the Minister"; i.e., the Minister of Labour. In 1946, pursuant to authority contained in the Act, coverage was extended to lumbering and logging in British Columbia.

23. The provisions for veterans in the Veterans' Rehabilitation Act were transferred over to and made part of the Unemployment Insurance Act. For the purposes of those provisions merchant seamen were deemed to be veterans. The 1946 amendments also gave power to the Unemployment Insurance Commission to include in insured employment any group or class of persons not employed under a contract of service where their exclusion resulted in anomalies or injustices because of the similarity of their employment to that of insured persons.

H. Seasonal Regulations

24. The year 1946 saw the introduction of seasonal regulations related to the new coverage of persons employed in transportation by water. The intent of the regulations was to bar the payment of benefits during periods when the claimant was not normally engaged in employment. The regulations were framed on an industry basis; i.e., the Commission determined which industries would be considered as seasonal for the purposes of the application of the regulations. Subject to exceptions in specified circumstances, a claimant was classified as a seasonal worker if during a period preceding his claim he was employed in a seasonal industry for a specified portion of the period. The off-season for inland transportation

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by water was, for the purposes of the regulations, designated to be January 1 to March 31. In 1948 seasonal regulations were applied to employment in stevedoring at designated ports and in 1949 to lumbering and logging east of the Rocky Mountains.

25. The introduction of Supplementary Benefit in 1950 led ultimately to the revocation of the seasonal regulations. Persons eligible for Supplementary Benefit were exempted from disqualification under the seasonal regulations during the Supplementary Benefit period (then January 1 to March 31). Further modifications made the regulations almost ineffective. At the time of general revision of the Act in 1955 an attempt was made to restore some effectiveness to the seasonal regulations. The new regulations were to have come into effect in October 1955, but application of the regulations was postponed for a year and they were then revoked, never having been in force. Since that time, seasonal regulations have not been applied to any industry. The text of the seasonal regulations that were in effect from 1953 to 1955, and the text of the seasonal regulations that were adopted in 1955 but, as already indicated, never became operative, are shown in Appendix IV.

I. Amendments, 1948

26. Amendments to the Act, effective October 4, 1948, brought about the first increase in benefit rates. The maximum benefit for a person with a dependent then became \$18.30 per week as contrasted with the previous \$14.40. The earnings ceiling for insured employment was raised from \$2,400 to \$3,120.

J. Amendments, 1950 — Supplementary Benefit

27. Amendments to the Act that became effective February 28, 1950, introduced a new element into the Act which was to have far-reaching consequences. Supplementary Benefit, referred to briefly in connection with seasonal regulations, became payable to persons unable to qualify for regular insurance benefit and

- (a) whose benefit rights had been exhausted since the preceding March 31; or
- (b) who had at least 90 daily contributions since the preceding March 31.

28. Supplementary Benefit at approximately 80 per cent of the regular rate was payable in the period January 1 to March 31 (in 1950 between

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March 1 and April 15). To provide for the cost of Supplementary Benefit, contribution rates were raised by one cent per day for employer and employee and by 20 per cent of these additional contributions for the government. There was also a temporary guarantee that if the additional contribution proved insufficient to pay for Supplementary Benefit the government would make up any deficit.

29. Other amendments to the Act took effect in July 1950. The earnings ceiling was lifted from \$3,120 to \$4,800. The maximum benefit for persons without a dependent was increased from \$14.40 to \$16.20 per week, and for persons with a dependent from \$18.30 to \$21.00 per week. The schedule of contributions was revised; the number of contribution classes was reduced; employer and employee shares of contributions were made equal. The amount of allowable earnings was increased from \$1.50 to \$2.00 per day. In addition, the special contribution requirement applying to a second or subsequent benefit year was modified. Before the amendment this requirement was 60 or more daily contributions since the previous benefit year began. Under the amendment the requirement became either at least 60 daily contributions in the period of one year preceding the claim or in the period since the previous benefit year began, whichever is the shorter period, or at least 45 contributions in the period of six months preceding the claim or in the period since the previous benefit year began, whichever is the shorter period. Coverage of lumbering and logging was extended to all of Canada outside of British Columbia (it had been made an insured employment in British Columbia in 1946).

K. Married Women

30. The 1950 amendments to the Act authorized the Commission to make regulations regarding benefit claims by married women. The Commission was of the opinion that many married women were obtaining benefit while not genuinely unemployed and not really available for employment. Regulations were made in November 1950, requiring married women who claimed benefit within two years following marriage to fulfil certain conditions in addition to those required of all claimants in order to qualify for benefit. The regulation applied only in cases of voluntary termination of employment and required a woman who claimed benefit within two years of her marriage to show by her employment record that she had not left the labour market as a consequence of marriage. This could be done by showing that she had been in insured employment for a specified number of weeks after marriage (originally 15, later 10) or after her first separation from employment

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following marriage. The regulations were amended in 1951, 1952 and 1955, each of the amendments being designed to ease the additional requirements applicable to married women so that the regulations as amended were not particularly onerous.

31. While the regulations were in effect, some 12,000 to 14,000 recently married women were disqualified annually under the regulations at a saving to the Fund estimated by the Unemployment Insurance Commission at \$2,500,000 per year. The regulation was revoked in November 1957, and the revocation was followed by a sharp increase in payment to married women as compared with single women. In 1958, benefit payments to single women rose 60 per cent from \$15 million in 1957 to \$24 million in 1958 and then decreased. At the same time, benefit payments to married women increased by 80 per cent from \$27 million to \$47 million and continued to increase although at the time married women constituted less than one-half of the women in the work force.

L. Changes in the First 10 Years

32. Although some brief references to events occurring after 1950 have been made, this may be an appropriate point to review the changes that had taken place in the first 10 years of operation of the Unemployment Insurance Act. Over those years the scheme had not undergone any basic change, with the possible exception of the introduction of Supplementary Benefit. From the commencement of operations, the Unemployment Insurance Commission had devoted almost continuous study in consultation with the Advisory Committee to the extension of coverage to employments originally excluded. The original exclusions were largely by reason of the anticipated and very real difficulties in the application of the plan to certain industries and occupations. Those difficulties could only be resolved as the Commission gained actual experience in the administration of the Act.

33. During the 10 years, coverage was extended to transportation by air, transportation by water, stevedoring, lumbering and logging, professional nursing, public utilities, hospitals and charitable institutions (on an optional basis). During the same period, in keeping with the times, the earnings ceiling of insured employment was progressively raised from \$2,000 to \$4,800 not without some opposition on each successive increase. (For more detail on the increases in the ceiling see Table 1 in Chapter Three.)

M. Amendments, 1951 to 1954

34. In 1952 there were further modifications of benefits. The maximum rate of benefit for a claimant with a dependent was increased from \$21.00 a week to \$24.00 a week. The waiting days, which had been reduced from nine to eight in 1950, were further reduced to five, and provision was made for postponement of waiting days in some circumstances on a second or subsequent claim. A more significant change in that year was an extension of the Supplementary Benefit period by two weeks; i.e., the period was extended to April 15.

35. Effective August 3, 1953, there was one change which may not have been of major proportions, but nevertheless was a departure from a principle contained in the original Act. The amendment provided for the continuation of benefit payments to persons who became ill after having left employment. This was in contrast with the original rule that a claimant must be capable of employment. As a practical matter, the amendment was probably to some extent simply legalizing what was happening in any event.

N. Revision of the Act, 1955

36. In 1955, subject to necessary transitional provisions, the Unemployment Insurance Act, 1940, was repealed and replaced by the Unemployment Insurance Act, a complete revision of the old Act, effective October 2, 1955.

37. While in broad terms the 1955 Act was a continuation of the basic plan adopted in 1940, the changes were of a major character. Contributions were placed upon a weekly rather than on a daily basis. The scale of contributions was revised so that the contributions were a closer approximation to the same percentage of wages in each earnings class. Three new earnings classes were added at the upper level to provide for higher benefits to employees in the higher earnings classes. The change from a daily to a weekly contribution basis undoubtedly solved some problems but it also created new ones.

38. In regard to benefits, major changes were also made—generally designed to make it easier for the claimant to obtain benefit. Before the 1955 amendments the claimant had to establish that he had paid at least 180 daily contributions during the two years preceding the date of claim for benefit of which either:

- (a) at least 60 were paid during the 52 weeks preceding the claim (or since the commencement of the immediately preceding benefit year, if less), or

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- (b) at least 45 were paid during the 26 weeks preceding the claim for benefit (or since the commencement of the immediately preceding benefit year, if less).

39. There was provision for extension of these periods for persons who were incapacitated for work, were in business on their own account, or were in uninsured employment.

40. Under the new Act the claimant had to show that he was unemployed during the week for which he claimed benefit; he was disqualified for receiving benefit for a day for which he failed to prove that he was capable of and available for work and unable to obtain suitable employment. However, the qualifying contributions were related to the number of contribution weeks rather than the number of daily contributions. The new minimum qualifying conditions for benefit were that contributions had been paid in each of 30 weeks during the two years preceding the date of claim, and that at least eight of these 30 weeks were in the year immediately preceding the claim. This entitled the claimant to a basic minimum period of benefit of 15 weeks. Each additional two weeks of contributions in the two years preceding the claim entitled him to a further week of benefit up to a maximum of 36 weeks in all. Previous to the 1955 amendments the maximum was 51 weeks. Under the Act as revised the claimant must show at least 30 weeks for which contributions had been made, but full employment in those weeks was not required. The previous requirement of 180 daily contributions was the equivalent of 30 complete weeks of employment. Under the revision as little as one day of employment in each of 30 weeks might suffice. The rate of benefit would obviously be less but the entitlement to benefit easier to establish.

41. An illustration of the different approach is the following. Before the revision, if a person ordinarily working on a five-day week went on short time of four days a week, under the daily stamp system he received four daily stamps. Over a three-month period this would give him credit for 52 days, or eight and one-half weeks. Under the revision he would be credited with 13 contribution weeks. The conditions for requalifying for benefit were also substantially modified. Before the revision the requirement was 60 days during the last year, or 45 during the last half year or, in each case, since the beginning of the last preceding benefit year, if less. Under the revision the claimant only had to build up a credit of eight additional contribution weeks in the past year or since the beginning of his previous benefit period, if less. He also had to show that contributions were made in each of at least 30 weeks in the two

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years preceding the date of his claim. One safeguard was inserted providing that any contribution weeks that preceded a previous claim could be used on a new claim only if they were within one year of the commencement of the new claim. This was designed to prevent a claimant using the same contributions over and over for benefit without having obtained any further insurable employment.

42. The maximum rate of weekly benefit for a person without a dependent was increased from \$17.10 to \$23.00, and the maximum rate for a person with a dependent from \$24.00 to \$30.00.

43. The basis for determining duration of benefit was substantially changed. The original scheme provided for one day's benefit for each five daily contributions in the preceding five years, less one-third of the benefit days taken in the preceding three years. This resulted in a maximum benefit period of 51 weeks; the minimum was arbitrarily set at six weeks. Under the revision, the minimum duration was changed from six weeks to 15 weeks, and the maximum duration reduced from 51 weeks to 36 weeks. Under the original Act, to obtain the maximum benefits of 51 weeks, the claimant would have to show full employment for a five-year period and no claims; i.e., an unbroken period of employment of 260 weeks. Under the revision he qualified for maximum benefit with contributions for 72 weeks within the two years preceding his claim and would be entitled to benefits for 36 weeks. Previously, contributions for 72 weeks gave benefits for less than 15 weeks. Furthermore, he need not show anything like full employment during the 72 contribution weeks.

44. The rules with regard to allowable earnings were also greatly modified. Before the revision a claimant could earn up to \$2.00 per day without affecting benefit if the earnings were in an occupation that could be carried on in addition to and outside of the ordinary working hours of his usual employment. Under the revision a scale of allowable earnings related to earnings classes was established. If earnings exceeded this scale, benefit was not denied, but instead, was reduced by the excess of earnings over the allowable amount. The conditions as to the time and manner of obtaining such earnings were eliminated.

45. What was formerly described as Supplementary Benefit was replaced by Seasonal Benefit—an expression destined to lead to confusion. Seasonal Benefit was payable during the period January 1 to April 15. The rates of Supplementary Benefit were 80 per cent or less of the rates of regular benefit; under the revision, the rates of Seasonal Benefit

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became the same as the rates of regular benefit. The conditions for receipt of Supplementary Benefit were:

- (a) at least fifteen weekly contributions since the preceding March 31; or
- (b) a regular benefit period for the claimant terminated after April 15 preceding the date of his claim for Seasonal Benefit.

46. Claimants who qualified for Seasonal Benefit under the condition in paragraph (a) became entitled to two weeks of benefit for each three weeks of contributions since the preceding March 31 subject to the general stipulation that Seasonal Benefit would not in any case extend beyond April 15. For cases not cut off by the termination of the Seasonal Benefit period this meant a minimum of 10 weeks and a maximum of 16 weeks, the whole duration of the Seasonal Benefit period. Claimants who qualified under the condition in paragraph (b) became entitled to Seasonal Benefit equal to the balance of the Seasonal Benefit period.

47. Before the revision there was a waiting period of five days plus the first non-compensable day on each claim. Under the revision this was changed to a waiting period of six days and the non-compensable day was removed. Before the revision the Commission had power to prescribe conditions under which the waiting period could be deferred when a new benefit period began. Under the revision the Commission was given power to waive the waiting period entirely in certain circumstances instead of merely postponing it.

O. Extension of Coverage by Regulation, 1955

48. In addition to the amendments to the Act, there were several extensions of coverage by regulation. The extensions included:

- (a) employment in those parts of agriculture concerned with the raising of poultry and egg grading, and the raising of race horses, saddle horses or light harness horses;
- (b) employment in horticulture, except certain employments connected with general agriculture or performed in a nursery or greenhouse;
- (c) employment in forestry, with the exception of certain casual or temporary employments;
- (d) employment as a member of a municipal police force if employment began after December 31, 1955, subject to the consent of the municipality and the concurrence of the Commission.

P. Amendments, 1956

49. Amendments to the Act effective September 30, 1956, provided for the making of regulations for the coverage of fishermen. Fishermen were covered as of April 1, 1957. The conditions for qualifying for benefit on a second or subsequent claim were eased. Before the amendment one of the requirements was at least 30 contribution weeks in the preceding 52 weeks or since the beginning of the last preceding benefit period if that occurred more than 52 weeks before the claim. Under the amendment, this requirement was modified by changing the 30 weeks to 24 weeks.

Q. Amendments, 1957 to 1959

50. Amendments to the Act in November 1957, and May 1958, related to the then well-entrenched Seasonal Benefit. In 1957 the Seasonal Benefit period was extended by one month at each end; i.e., to run from December 1 to May 15. The minimum duration was increased from 10 to 13 weeks for cases not cut off by the termination of the Seasonal Benefit period, and the maximum was increased from 16 to 24 weeks. In 1958, for that year only, there was an extension of the Seasonal Benefit period to June 28, 1958. One other change about that time was the revocation of the married women's regulations at the end of 1957.

51. Amendments to the Act effective September 27, 1959, added two benefit classes. The maximum weekly benefit for a person without a dependent was raised from \$23.00 to \$27.00, and the maximum for a person with a dependent was raised from \$30.00 to \$36.00. The maximum duration of benefits was increased from 36 to 52 weeks. Contributions were increased by 30 per cent and the earnings ceiling for coverage was raised from \$4,800 to \$5,460. Another amendment provided that on a second claim within 104 weeks of a previous claim the benefit rate was not allowed to drop more than one class. This would not at first glance appear to have been a substantial change, but it has, in fact, proved to be a costly provision. Allowable earnings were increased to one-half of the weekly benefit rate.

R. The Act as Amended over 20 Years

52. At this point a comparison of some of the principal features of the Act in its original form and the Act as amended over a period of 20 years is of interest. The basic scheme of the Act as amended

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remained the same as that of the original Act, but the series of amendments did introduce significant changes in particular aspects of the plan.

53. As was contemplated in the original Act, coverage was gradually extended to occupations originally excluded as administrative problems were solved. The extensions of coverage brought in transportation by air and by water; stevedoring; lumbering and logging; nursing other than private duty nursing; public utilities; hospitals and charitable institutions (on an optional basis); some parts of agriculture, horticulture and forestry; fishing; provincial employees (on a optional basis); and temporary employees of the federal government.

54. The rules as to entitlement to benefit have undergone a major change. Under the 1940 Act, on a first claim the claimant had to show at least 180 daily contributions in the two years preceding the claim, and on a subsequent claim had to show in addition that at least 60 of these daily contributions had occurred since the last benefit day in the previous benefit year. Under the revised Act the rules are that if a claimant has had no previous benefit period established in the 104 weeks preceding his new claim, he must have at least 30 contribution weeks in the last 104 weeks, eight of which contribution weeks must be in the last 52 weeks; and if the claimant has had a previous benefit period established in the 104 weeks preceding his new claim, he must have at least 30 contribution weeks in the last 104 weeks, 24 of which contribution weeks must be in the last 52 weeks or since his last benefit period began, whichever period is longer, and eight of which contribution weeks must be in the last 52 weeks or since the last benefit period began, whichever period is shorter.

55. The provisions as to duration of benefit have similarly undergone a major change. Under the 1940 Act the claimant was entitled to benefits for a period equal to one-fifth of the contribution days in the five years preceding the claim, less one-third of the benefit days in the three years preceding the claim. The maximum was 51 weeks but this could be attained only if the claimant had an uninterrupted five-year contribution record with no claims in the five years preceding the claim. Under the Act as revised a claimant who has had no claim established in the 104 weeks preceding his new claim is entitled to one week's benefit for every two weekly contributions with a maximum duration of 52 weeks. As he must always have at least 30 weekly contributions in the last 104 weeks in order to qualify at all, the minimum duration is 15 weeks. A claimant who has had a claim established in the 104 weeks prior to his new claim is entitled to one week's benefit

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for every two weekly contributions since the date of establishment of his previous claim, again with a maximum of 52 weeks. As he must have at least 24 weekly contributions in this period in order to qualify at all, his minimum duration is 12 weeks.

56. Rate and duration of benefit are now determined on a weekly basis, as are contributions, so that in the extreme case a person can be entitled to benefits on the basis of one day of employment in each of 30 weeks in the 104 weeks preceding the claim. The maximum duration of benefit was reduced to 36 weeks in 1955 but later was restored to 52 weeks. However, a claimant can qualify for the maximum duration now much more easily than under the original Act. The maximum duration of benefits just referred to can now be extended by establishment of a claim for Seasonal Benefit.

57. The preceding paragraphs have touched on some of the important changes relating to coverage, contributions, entitlement to and rate and duration of benefits. There have, of course, been many other changes of minor importance. Under the 1940 Act the first day of unemployment on each claim was a non-compensable day but this rule has now been dropped. Originally there were nine waiting days before payment of benefit commenced; this is now reduced to six. The rules as to allowable earnings have been greatly modified. At the beginning, a claimant was permitted to earn \$1.00 per day without affecting his benefit rights but only in an occupation that could be carried on in addition to and outside of the working hours of his ordinary employment. Earnings beyond this amount disentitled the claimant to benefits. Now there is a scale of allowable earnings related to earnings classes and running up to \$18.00 per week. If earnings exceed this scale, benefit is not denied; it is reduced to the extent of the excess. Incapacity or unavailability for employment arising out of illness having its onset after commencement of benefit does not now disentitle the claimant as it previously did.

II. ABUSES AND MISUSES

58. Having summarized very briefly some of the principal features of the Act and the regulations from the beginning of the scheme to the present time, some indication of the abuses and misuses that developed over the years will now be given.

59. The wide-spread concern over the dwindling Insurance Fund has quite naturally focused considerable attention on alleged or real contraventions of the letter and spirit of the Act. There is wide-spread

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belief that millions of dollars have been paid out of the Fund in circumstances where it was not intended by the framers of the Act that benefit payments would be made. It is intended here to set out some of the facts related to this belief that there have been extensive improper inroads on the Fund.

A. Non-compliance by Employers

60. Before attempting an analysis of unjustified claims upon the Fund it might be worthwhile to refer briefly to the failure of some employers to make the payments to the Fund required by the Act. This too has its effect on the state of the Fund even though of lesser proportion than improper claims. In the early stages of the administration of the Act prosecutions of employers for non-compliance with the Act constituted a relatively large part of the enforcement activities. For example, in 1944-45 there were 109 prosecutions of employers as contrasted with 67 prosecutions of claimants.

61. Some degree of non-compliance with the contribution requirements of the Act in the early stages of its administration is not too surprising, but such non-compliance has been persistent. That the problem continues to be of important proportions is indicated by the following extract from the report of the Unemployment Insurance Commission for the year ending March 31, 1960:

The incidence of employer delinquency continued at a high level. In the case of 55,845 audits (being 29.6 per cent of the audits completed), arrears were established totalling \$2,437,256.09. When an employer has been delinquent on two successive occasions, a 10 per cent penalty is applied and this occurred in 10,891 cases with the levy amounting to \$69,001.63. In an effort to keep the outstanding accounts at a minimum, auditors are instructed to make every effort to obtain payment while still at the employer's premises. When the audit division cannot collect an amount of overdue contributions, the case is referred to the enforcement division for Exchequer Court or garnishment action. The overdue contributions outstanding at the end of the year totalled \$383,589.43, an increase of \$101,426.00 from the previous year end. Of the outstanding accounts, almost half related to bankruptcy cases.

62. The same report contains the following comments:

The number of registered employers subject to audit continued to rise and reached 398,604 at the year end, an increase of 10,944 over the previous year and an increase of 172,047 since 1951. Notwithstanding the large increase in the number of employers over the past decade, the field audit staff in the same period has increased only slightly from 351 to 362.

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63. In the ten-year period the number of registered employers almost doubled and yet the field audit staff increased only from 351 to 362. Even allowing for improved techniques, it is still difficult to understand how an audit staff of almost unchanged size could be expected to handle a job almost doubled in size.

64. Under the 1940 Act the only action available against employers failing or refusing to make the required contributions was prosecution. In the 1955 revision, the provision for prosecution was discontinued and in its place officials of the Commission were given power to impose penalties. At the same time, a fairly simple garnishment and Exchequer Court proceedings were provided. As indicated in the foregoing extract from the Unemployment Insurance Commission's report, much of the enforcement activity with respect to contribution is now based upon the imposition of penalties by officials of the Commission. Over all, the new approach to enforcement of the contribution aspect of the Act seems to have worked well but there would still appear to be some need for provisions permitting prosecutions in glaring cases where the more moderate approach is insufficiently persuasive.

65. The major area of non-compliance by employers is failure to make contributions as required. However, there are other areas where prosecution is provided for under the Act and found necessary. These breaches of the Act have to do with registration as an employer, maintenance and production of records, making returns, etc. In 1960-61 there were 496 prosecutions of employers for infractions in these areas. It appears clear that prosecution for such infractions is used only as a last resort where no other action produces results.

B. Improper Claims, Fraudulent or Otherwise

66. Having referred even though briefly to some problems related to the flow of money into the Fund, attention can now be turned to the rather more difficult problems involved in the flow of money out of the Fund in circumstances where the payment is contrary to the express letter of the Act or its clear intent. The conditions under which a claimant is entitled to receive benefit are clearly set out in the Act and the intent is clear that where those conditions do not exist there is no right to benefit.

67. Nevertheless, it is an established fact that many hundreds of thousands of dollars are paid out of the Fund every year as a result of fraud in varying degrees, and in circumstances where the claimant well

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knows that the payment he receives is one not contemplated by the Act. One cannot state the total dollar figure involved with any certainty, but some figures are known and one is free to draw conclusions. It is entirely possible that by reason of public discussion the size of the problem, expressed in dollars, has been magnified out of its true proportions. Even if that be so, it is of sufficient dimensions to cause concern.

68. According to figures provided by the Unemployment Insurance Commission for the year ended March 31, 1961, demonstrably fraudulent claims amounted to \$2,268,464. In relation to total claim payments of \$514 million, this figure may not appear too startling but it is not a total figure—it is fraud detected and takes no account of undiscovered fraud or payments in circumstances that could not be classed as fraudulent and yet where the payment is contrary to the spirit of the Act.

69. What then are the basic conditions entitling a claimant to benefit? They are:

- (1) that he is unemployed,
- (2) that he is capable of and available for work, and
- (3) that he is unable to obtain suitable employment.

It sounds simple—in practice it is not. Is he in fact unemployed? Is he capable of work? Is he truly available for work? What is suitable employment?

70. A claimant otherwise apparently entitled to benefit is disqualified if he, without good cause,

- (1) refuses or fails to apply for or to accept suitable employment,
- (2) neglects to avail himself of an opportunity for suitable employment,
- (3) fails to carry out written directions of the Commission issued for the purpose of assisting him to find suitable employment,
- (4) fails to attend a course of instruction that the Commission had instructed him to attend.

71. The Act does not specify what is suitable employment but does describe certain employments as not suitable, including

- (1) work at a plant at which there is a stoppage of work because of a labour dispute,
- (2) work in the claimant's usual occupation at wages less than the prevailing rate, or in less favourable conditions than are generally existing,

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- (3) work in an occupation other than his usual occupation at a lower rate of earnings, or in less favourable conditions than those existing in his usual occupation.

72. The Act goes on to provide that after a reasonable lapse of time, work in another occupation is suitable provided that it is at the prevailing rate for that occupation and the conditions of work are not less favourable than those provided by union agreement or by good employers.

73. A claimant is also disqualified if he loses his job for misconduct, or voluntarily leaves his job without just cause. The disqualification is for a period not exceeding six weeks. In addition to this general rule, providing disqualification for a period not exceeding six weeks (which frequently results only in a delay in receipt of benefits—a very mild penalty), there is a more severe penalty provided under section 65 of the Act where a person makes a false statement or representation in connection with his claim for benefit. In this case he may be penalized up to a maximum of six weeks benefit. This is an actual loss of benefit rather than only a delay in receipt. A claimant disqualified for benefit by an insurance officer for any reason has a right of appeal to a Board of Referees.

C. Claims Procedure

74. Having noted the basic conditions for entitlement to benefit, the basis for disqualification and the right of appeal, attention can now be directed to what actually happens when the insured worker becomes unemployed. He obtains his insurance book from his employer and presents himself at the local Unemployment Insurance Commission office primarily to seek new employment, and, if none is available, to record his claim for benefit. At this point one of the most important controls in the system should operate; that is, the interview to determine employment history, reasons for separation from employment, capability of and availability for employment, and the availability of suitable employment.

75. To check on one of the possible bases for disqualification, an inquiry is sent to the last employer to verify the reason for separation from employment stated by the claimant. The response of employers to this inquiry is generally good but the practice is to process the claim at the expiration of eight days notwithstanding a failure by the employer to confirm the stated reason for separation. A more vigorous follow-up on the request for confirmation of reasons for separation might well result in disclosing more cases of voluntary separation. There is

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some evidence of collusion on the part of employers in aiding employees to establish a claim for benefit notwithstanding that the separation from employment was voluntary. The reasons are various. In some cases the employer accepts a pattern of employment chosen by the employee and convenient to the employer. In other cases the employer fears the possibility of libel action if he discloses the true reason for dismissing the employee.

76. It has not been the policy or practice of the Unemployment Insurance Commission to take a very vigorous stand against an employer collaborating with an employee in false statements as to the reasons for separation from employment. The Commission has not prosecuted employers for such activities. The theory appears to be that they should not expose the employer to the possibility of libel actions by former employees. In part the attitude of the Commission may also be based on its desire to maintain the good will of the employers so that job vacancies will be recorded with the employment office.

77. In the year ended March 31, 1961, disqualifications were imposed in 83,809 cases for voluntarily leaving employment. This raises the question whether the penalty is sufficient to accomplish its purpose. Frequently, the disqualification results only in delay in receipt of benefit without decrease in the amount of benefit ultimately paid.

D. Capability of and Availability for Employment

78. Assuming that the question of reason for termination of employment is resolved, what of capability of and availability for work? In times of high employment and low claims load the interview at the employment office can accomplish its purpose with reasonable effectiveness. Conversely, when job vacancies are few and claims are many, the interview tends to lose its effectiveness as a control. There is a natural urge on the part of all concerned to speed up the process and eliminate the formation of queues. The lack of job opportunities makes it more difficult to test in any effective way the genuineness of the availability and desire for employment. The result is that the employment interview quickly becomes simply the recording of a claim for benefit.

79. The personal interview does give a reasonable check on capability, but the reality of the availability for employment is much more difficult to establish. The most effective test is obviously referral to employment but at times when few vacancies are recorded with the local office the problem becomes one of determining a state of mind. In such circumstances the benefit of any doubt must, of course, be given to the person

stating that he is capable of and available for work but unable to obtain suitable employment.

E. Suitable Employment

80. If the local office is in the position of being able to offer employment to the claimant, the question arises: Is the employment "suitable"? The claimant is entitled in the first instance to reject an offer of employment that is not suitable. The Act does describe certain conditions which make the employment not suitable; it does not and probably could not define what employment is suitable.

81. The principle contained in the Unemployment Insurance Act that a worker on becoming unemployed should not immediately be disqualified for receipt of benefit if he refuses an offer of employment that is not suitable, is well established in the unemployment insurance laws of most countries. This safeguard is a reasonable one but it is also open to abuse by persons not genuinely seeking employment. In the year ended March 31, 1961, disqualifications were imposed in 23,056 cases for refusal to apply for employment offered. That the insurance officers imposing the disqualifications were exercising their discretion in a reasonable manner is demonstrated by the fact that of some 3,900 appeals by claimants to Boards of Referees, about 3,600 were disallowed.

82. The Act also provides that after a reasonable interval from the date on which an insured person becomes unemployed, employment is not unsuitable by reason only of the fact that it is at a lower rate of earnings or on conditions less favourable than in the claimant's usual occupation, if it is work at the prevailing rate for the occupation and the conditions of work are not less favourable than those provided by union agreement or by good employers. When vacancies listed with the local employment office are few, it is, of course, difficult to establish whether in fact the applicant is willing to accept suitable employment either in his usual occupation or another occupation. Considerable jurisprudence on the question of suitable employment has been developed over the years in the decisions of the Umpires. The recent trend appears to have been toward giving the benefit of any doubt to the claimant.

F. Disqualifications

83. It is interesting to note the number and type of disqualifications imposed in the year ended March 31, 1961. Of these disqualifications: 87,271 claimants were not available for work; 83,809 left their

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employment voluntarily without just cause; 28,135 were disqualified by reason of false statements or misrepresentation; 23,056 refused offers of suitable work; 14,592 lost their employment due to misconduct. In the same period 15,524 claimants appealed the insurance officer's decision to a Board of Referees. The decision of the insurance officer was upheld in 87.7 per cent of the appeals. It is impossible, of course, to determine how many more disqualifications there would have been had all of the facts been known. For example, 28,135 were disqualified for false statements or misrepresentation. How many more instances were there where a false statement or misrepresentation was not discovered?

84. Having reviewed some of the areas where fraudulent or at least improper claims against the Fund are known to exist, it may be well to consider the efforts of the Unemployment Insurance Commission to minimize unjust claims. When the insured worker is registered for employment or benefit, an attempt is made in the interview to determine all of the relevant facts. On each return visit to the office some effort is made to determine that the conditions of entitlement to benefit continue to exist. The extent of the effort depends to some extent on the circumstances existing at the time. If the claim load is heavy the questioning becomes rather perfunctory—the main effort being to speed up the payment of benefit. The activities of the insurance officers in satisfying themselves that the claimant is entitled to benefit are indicated in the disqualifications imposed.

G. The Investigation Division

85. At this point the work of the Investigation Division of the Commission becomes relevant. Before 1955 the enforcement work of the Commission was handled by the Legal Branch. The maximum number of investigating officers up to that time was less than 50, and the number of prosecutions of employers and employees was relatively small. The tempo gradually increased. In 1942-43 there were 20 prosecutions of claimants, and in 1960-61 there were more than 2,000. In 1961 the investigating staff was increased to 122 and further additions are planned. The total number of investigations completed by the Investigation Division in 1960-61 was 72,000, of which some 36,000 were cases of suspected fraud. The estimated figures for 1961-62 are 110,000 investigations including 40,000 cases of suspected fraud. Arising out of the 72,000 investigations in 1960-61, there were 2,522 prosecutions, 1,290 garnishees and 116 Exchequer Court judgments—these figures bearing out the Commission's stated policy of resorting to legal

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action only in the more flagrant cases of contravention of the Act. Notwithstanding this policy, in 1960-61 there was an increase of approximately 35 per cent in the prosecution of claimants, perhaps as a result of adding 44 field investigators to the staff.

86. In addition to the legal actions instituted, effective use has been made of Section 65 of the Act which permits the imposition of punitive disqualification when a person makes a false statement or misrepresentation. The penalty is a maximum of six weeks benefits. In 1957-58 such disqualifications were imposed in 8,565 cases disentitling claimants to benefit payments of \$236,767. In 1960-61 disqualifications were imposed in 30,044 cases involving \$574,450.

87. The Investigation Division follows two principal approaches—spot checking, and formal investigation. Spot check investigations are made of active claimants selected either at random or by a specific employment or geographical category. Formal investigations are made where there is evidence or suspicion of fraud. Of the 34,253 spot checks made in 1960-61, 4.1 per cent resulted in disqualifications, and 19.1 per cent led to formal investigations. Of the formal investigations, 44 per cent resulted in the imposition of a penalty under section 65, 5.5 per cent resulted in prosecution, and 20 per cent in warning letters. Comparatively recently the Division extended its activities to interviewing employers as to the reasons for termination of the claimant's employment. This activity is of too recent origin to indicate positive results.

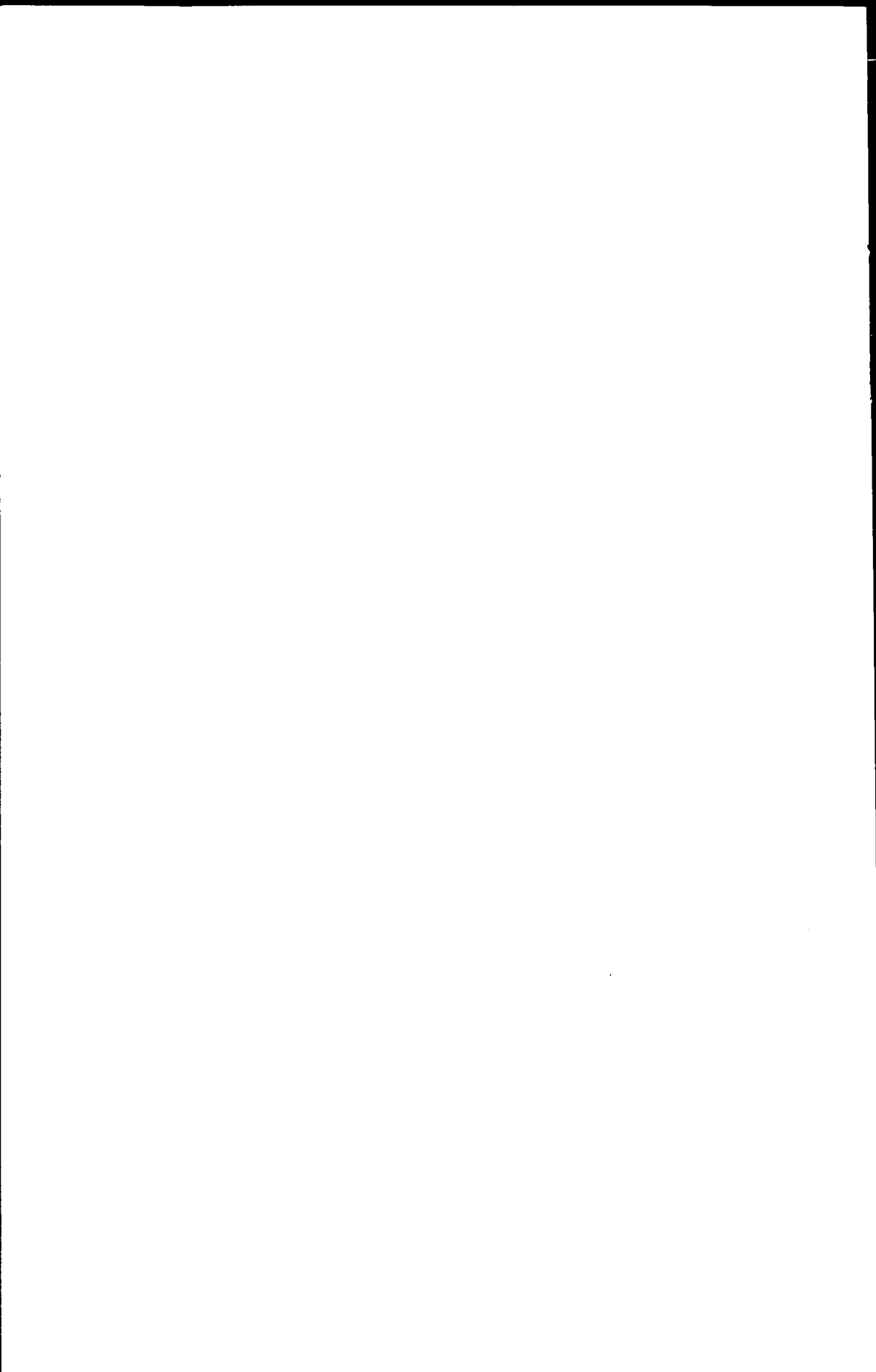
88. The recent doubling of the investigation staff would suggest that until comparatively recently there was a lack of recognition of the size of the problem, or a policy of not enforcing the provisions of the Act with real vigor. It is now evident that the public and the courts are very conscious of the problem and that there is a strong feeling against improper claims against the Fund. This reaction against improper claims relates both to the clearly fraudulent claims and to those where there is a serious doubt as to the reality of the unemployed status and the desire for work, or of the availability for work. It is this latter category of apparent compliance with the letter of the Act but doubtful compliance with its spirit that presents the more difficult problems of enforcement.

89. Of all of the provable fraudulent claims against the Fund, some 80 per cent are based on failure to disclose earnings. The extent of the attempts to defraud the Fund through this device suggests that the problem requires some special action. This is not to suggest that the

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Commission, through its Investigation Division, is not trying to discover cases of failure to disclose earnings and to deal adequately with them; it does raise the question whether some further action is required. This would seem to be an area where efforts might be expended more usefully on prevention of fraud than on prosecution.

90. It is an established fact that the Insurance Fund has been persistently subjected to fraudulent claims and claims bordering on fraud. Some indication of the extent of the problem is available in the most obvious type of fraud; e.g., failure to disclose earnings. The extent of the inroads on the Fund in the other category where the problem is largely one of determining a state of mind, can only be a matter of conjecture. Is the claimant really seeking and unable to obtain employment? Is he really capable of and available for employment? These questions are much more difficult to cope with than the more obvious false representations, and in at least certain respects are more serious.



CHAPTER THREE

ANALYSIS OF FINANCIAL OPERATION OF THE UNEMPLOYMENT INSURANCE ACT

1. An analysis of the operation of the unemployment insurance plan is, essentially, a history of the revenue and the benefit payments. These will be examined separately, noting changes in the plan that had a significant effect on them and also touching briefly on the effect of economic and employment trends. Revenue and benefit payments will then be compared on the basis, not only of absolute amounts, but also on the basis of some significant indexes.

I. REVENUE

2. Revenue of the plan comes from four sources (ignoring fines and penalties):

- A. Contributions by insured persons.
- B. Contributions by employers of insured persons.
- C. Contributions by the federal government.
- D. Interest earnings on the Unemployment Insurance Fund.

A. Contributions by Insured Persons

3. Under the plan, each insured person is required to contribute in respect of each week in which he performs any insured employment. The amount of the contribution required depends upon his earnings class for the week. Under the original plan, if a person worked for only part of a week he was required to contribute one-sixth of the weekly contribution for each day worked, the earnings class being determined on the basis of his weekly rate of earnings for full-time

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Table 1
WEEKLY EARNINGS CLASSES AND WEEKLY CONTRIBUTION RATES FOR EMPLOYEES

Period July 1, 1941—Oct. 3, 1948		Period Oct. 4, 1948—July 2, 1950		Period July 3, 1950—Oct. 1, 1955		Period Oct. 2, 1955—Sept. 26, 1959		Period Sept. 27, 1959 to date	
Earnings Class	Weekly Contrib.	Earnings Class	Weekly Contrib.	Earnings Class	Weekly Contrib.*	Earnings Class	Weekly Contrib.	Earnings Class	Weekly Contrib.
\$	¢	\$	¢	\$	¢	\$	¢	\$	¢
0- 5.40	9	0- 5.40	9						
5.40- 7.50	12	5.40- 7.50	12						
7.50- 9.60	15	7.50- 9.60	15	0- 9.00	18	0- 9.00	8	0- 9.00	10
9.60-12.00	18	9.60-12.00	18						
12.00-15.00	21	12.00-15.00	21	9.00-15.00	24	9.00-15.00	16	9.00-15.00	20
15.00-20.00	24	15.00-20.00	24	15.00-21.00	30	15.00-21.00	24	15.00-21.00	30
20.00-26.00	30	20.00-26.00	30	21.00-27.00	36	21.00-27.00	30	21.00-27.00	38
26.00 and up (46.15)**	36	26.00-34.00	36	27.00-34.00	42	27.00-33.00	36	27.00-33.00	46
		34.00 and up (60.00)**	42	34.00-48.00	48	33.00-39.00	42	33.00-39.00	54
						39.00-45.00	48	39.00-45.00	60
				48.00 and up (92.31)**	54	45.00-51.00	52	45.00-51.00	66
						51.00-57.00	56	51.00-57.00	72
						57.00 and up (92.31)**	60	57.00-63.00	78
								63.00-69.00	86
								69.00 and up (105.00)**	94

*Includes 6¢ weekly for Supplementary Benefit

**Earnings ceiling for coverage for all employees other than those paid on a daily, hourly or piece-work basis

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employment; i.e., six times his earnings for the day. Under the plan as it is now, and has been since October 2, 1955, a person who works for only part of a week is required to make a full week's contribution but the earnings class is determined on the basis of his actual earnings in the week rather than his weekly rate of earnings for full-time employment.

4. The earnings classes and the contribution rates have changed from time to time over the years as a result of amendments to the Act, the changes being due principally to changes in the wage levels of the insured population. Table 1 shows the earnings classes that have been in effect from time to time since the start of the plan, together with the weekly contribution required from employees in each class.

5. The main points brought out by this table are the addition of new classes at the upper end from time to time, the increase in contributions in 1950 by reason of the introduction of Supplementary Benefit, the decrease in contributions in 1955 for the lower earnings classes at the time of the general revision of the plan, and the increase for all classes in 1959. The contrast of twelve classes at the present time with eight in 1941 and seven from 1950 to 1955 is also notable.

6. The annual revenue of the plan arising from contributions by insured persons depends upon the following factors:

- (a) the weekly contribution required in each wage class, and
- (b) the total number of weeks of contribution made during the year in each class.

The first factor is, of course, fixed by the terms of the plan; the second depends upon the number of contributors in each class and the average number of weeks of contribution per person per year in each class. These factors vary by reason of economic conditions and by reason of the employment characteristics of the insured population. Economic conditions affect the availability and duration of jobs and the rates of pay. The employment characteristics of the insured population are such factors as: the extent of the movement into and out of insured employment during the year (partly caused by seasonal influences); the fact that some persons seek part-time employment only; the fact that some persons take holidays or are unavailable for work for certain periods.

7. It is apparent that in Canada a large proportion of those who have some contact with insured employment during the year do not make insured employment their sole way of earning a living. They spend considerable periods in uninsured employment or in own-account work,

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Table 2
DISTRIBUTION (%) OF CONTRIBUTORS BY WEEKLY EARNINGS CLASS: ILLUSTRATIVE YEARS

Earnings Class	Fiscal Years			Earnings Class	Fiscal Years		Earnings Class	Calendar Years		
	1943-44	1946-47	1949-50		1951-52	1954-55		1956	1958	1960
	%	%	%		%	%		%	%	%
\$				\$			\$			
0- 5.40 } 5.40- 7.50 } 7.50- 9.60 }	5.1	2.3	1.1	0- 9.00	0.2	0.1				
9.60-12.00	3.3	1.8	0.7				0- 9.00 } 9.00-15.00 }	1.4	1.2	1.3
12.00-15.00	7.0	4.5	1.8	9.00-15.00	1.3	0.6				
15.00-20.00	13.5	12.3	6.0	15.00-21.00	5.2	3.1	15.00-21.00	3.7	3.1	2.6
20.00-26.00	19.2	19.0	13.0	21.00-27.00	8.3	5.8	21.00-27.00	5.9	5.2	5.1
26.00-34.00 } 34.00 and up }	51.9	60.1	17.7 59.7	27.00-34.00 34.00-48.00	12.2 28.7	9.5 23.8	27.00-33.00 33.00-39.00 39.00-45.00	7.8 9.6 10.6	7.1 8.5 9.6	6.3 7.0 7.6
				48.00 and up	44.1	57.1	45.00-51.00	11.5	10.9	8.2
							51.00-57.00	15.7	15.3	7.8
							57.00-63.00 } 63.00-69.00 }			9.5 12.6
							69.00 and up }	33.8	39.1	32.0

or simply withdraw from the labour force. Examples are the farmer who gets some work as a logger in the winter, the housewife who works in insured employment two or three days a week, or two or three months in a year, the pensioner who takes the odd piece of work as the opportunity offers and the student who works only a few weeks in the summer. These characteristics all affect the extent of the contribution under unemployment insurance; they are to a large extent, but not completely, independent of short-term variation in economic conditions.

8. Table 2 shows, for specimen years, the proportion of the total number of contributors in each earnings class.

9. The period since the inception of the plan in 1941 has been, in general, a period of rising wages. The illustrative figures in Table 2 reflect this fact in the decreasing proportion of contributors in the lower earnings classes, the increasing proportion in the top class and the addition of new classes from time to time. The proportion of contributors in the top class is also influenced by the existence of an earnings ceiling for coverage; i.e., the excepting from compulsory coverage of all persons whose earnings exceed a specified annual rate (the "earnings ceiling").

10. From the start of the plan in 1941, until 1948, the top earnings class was "\$26.00 and up". The proportion of contributors in that class rose from 36 per cent in the fiscal year 1941-42 to 68 per cent in 1947-48. In 1948, a new class was added comprising all those earning \$34.00 weekly and up; the proportion of the total number of contributors in this class in 1949-50 was 60 per cent. The classes were revised again in 1950, the new top class being "\$48.00 and up". In 1951-52, 44 per cent of the contributors were in this class and the proportion rose to 57 per cent in 1954-55. A further change was made in 1955 adopting "\$57.00 and up" as the top class. There were 34 per cent of the contributors in this class in 1956, rising to 51 per cent in 1959. A change in 1959 made the new top class "\$69.00 and up" which included 32 per cent of the contributors in 1960.

11. The earnings ceiling was set at \$2,000 a year (\$38.46 weekly) when the plan came into effect in 1941. Thus the top class comprised only persons earning between \$26.00 and \$38.46 a week. In January 1942, coverage was extended to persons whose earnings exceeded that ceiling by reason of war work. Also, all hourly-paid workers were included if their basic rate of pay did not exceed 90¢ an hour.

12. In September 1943, the earnings ceiling was raised to \$2,400 (\$46.15 weekly) for salaried workers and was removed entirely for

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Table 3
AVERAGE ANNUAL NUMBER OF WEEKS OF CONTRIBUTION PER CONTRIBUTOR
IN EACH WEEKLY EARNINGS CLASS: ILLUSTRATIVE YEARS

Earnings Class	Fiscal Years			Earnings Class	Fiscal Years		Earnings Class	Calendar Years		
	1943-44	1946-47	1949-50		1951-52	1954-55		1956	1958	1960
\$	Wks.	Wks.	Wks.	\$	Wks.	Wks.	\$	Wks.	Wks.	Wks.
0- 5.40										
5.40- 7.50	21.7	20.5	22.1	0- 9.00	22.6	26.9				
7.50- 9.60										
9.60-12.00	28.2	26.4	27.6				0- 9.00	12.5	12.9	11.4
12.00-15.00	31.1	28.6	24.9	9.00-15.00	25.7	26.6	9.00-15.00			
15.00-20.00	34.7	31.5	29.4	15.00-21.00	27.3	27.8	15.00-21.00	22.0	21.4	20.2
20.00-26.00	37.1	35.4	33.8	21.00-27.00	30.4	29.5	21.00-27.00	26.8	25.9	25.2
26.00-34.00				27.00-34.00	33.7	32.5	27.00-33.00	30.1	29.1	30.3
34.00 and up	40.4	38.9	40.6	34.00-48.00	35.8	35.4	33.00-39.00	32.9	31.6	32.6
							39.00-45.00	35.5	33.9	33.8
				48.00 and up	40.9	40.4	45.00-51.00	37.7	36.1	36.1
							51.00-57.00	39.3	37.5	37.7
							57.00-63.00			40.0
							63.00-69.00	45.3	44.9	39.5
							69.00 and up			44.6

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persons paid on an hourly, daily, weekly, piece or mileage basis. In October 1946, a ceiling was reimposed for persons paid on a weekly basis; this was set at \$3,120 a year (\$60.00 weekly).

13. In January 1948, the earnings ceiling was raised to \$3,120 for salaried workers; in July 1950, it was raised to \$4,800 a year (\$92.31 weekly) for salaried workers and weekly wage earners; and in September 1959, to \$5,460 a year (\$105.00 weekly).

14. The existence of an earnings ceiling caused persons to move out of the plan when they reached the ceiling; this tended to reduce the concentration in the top class. On the other hand, each increase of the earnings ceiling had the effect of bringing under the plan additional persons in the top earnings class, thus reversing the earlier effect. The concentration of contributors in the top class, as it existed from time to time, was thus influenced strongly by the earnings ceiling on coverage as well as by the upward movement from lower classes resulting from wage increases. The concentration was reduced from time to time by the adoption of new earnings classes—usually at the same time as the adoption of a higher earnings ceiling. Had there been no earnings ceiling in effect, the concentration of contributors in the top class would have come about more rapidly than it did, possibly leading to new earnings classes at an earlier date.

15. Although there has been an earnings ceiling for coverage since the plan has been in effect, there has also been a provision enabling a person to elect to continue to be covered and to make contributions after his earnings exceed the ceiling. In 1941, such election could be made by a person who had a record of at least 260 daily contributions as an insured person. In 1946, this requirement was reduced to 200 daily contributions within the five years preceding the time that the earnings rise above the ceiling. In 1950, the requirement was reduced to 180 days of contribution in the two years preceding the time that earnings first rise above the ceiling; it continues in approximately the same terms to the present time.

16. Table 3 shows, for the same specimen years used in Table 2, the average number of weeks of contribution per contributor per year for each earnings class.

17. This table shows that there is a strong correlation between the earnings class and the average number of weeks of contribution per year. In 1943-44, the average ranged from 21.7 weeks in the lowest three classes to 40.4 in the top class (then "\$26.00 and up"). In 1949-50, the range was similar: from 22.1 weeks to 40.6 weeks. In 1960, the

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average ranged from 11.4 weeks in the lowest class to 44.6 weeks in the top class. The pattern after October 1955, is influenced by the change in contribution system; this is commented on later.

18. Taking the contributors as a whole, the average number of weeks of contribution per person per year has remained remarkably stable. This is illustrated by Table 4.

Table 4
AVERAGE ANNUAL NUMBER OF WEEKS OF CONTRIBUTION
PER CONTRIBUTOR

Year	Average Number of Weeks of Contribution
1943-44	37.0
1947-48	36.4
1951-52	36.7
1954-55	37.3
1957	37.5
1958	37.4
1959	37.0
1960	37.7

19. The fact that the average number of weeks of contribution is only about 37 a year illustrates the fluidity of the insured population. The average does not seem to be much influenced by wide swings in unemployment, so the rather low figure must be due to the movement of workers into and out of insured employment during the year. This could result from the seasonal influences and also from the movement of some groups into and out of the labour force; for example, students, married women, retired persons.

20. Looking only at male renewal insured persons (i.e., male insured persons who had some record of insured employment prior to the year in question), Table 5 shows a classification according to the annual number of weeks of contribution in five illustrative years.

21. This table, being confined to renewal insured persons, eliminates the effect of those who enter insured employment for the first time during the year. Also, since it relates to men only, it illustrates the contribution pattern of the most stable group of the labour force. Only

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Table 5

DISTRIBUTION OF MALE RENEWAL INSURED PERSONS BY NUMBER OF WEEKS OF CONTRIBUTION

Annual No. of Weeks of Contribution	Proportion (%) of Male Renewal Insured Persons				
	Fiscal Year			Calendar Year	
	1946-47	1949-50	1953-54	1956	1958
	%	%	%	%	%
0	2.97	4.17	2.45	1.92	3.00
1-12	10.12	9.69	9.61	8.15	9.16
13-24	9.30	8.93	9.98	10.47	12.17
25-36	12.43	11.18	13.03	12.94	12.87
37-48	25.57	20.68	23.93	17.04	16.22
49-52	39.61	45.35	41.00	49.48	46.58
	100.00	100.00	100.00	100.00	100.00

about 40 per cent had a full year's employment (49 to 52 weeks of contribution) in 1946-47; the proportion was 45 per cent in 1949-50 and 41 per cent in 1953-54. The corresponding proportion was somewhat higher in 1956 and 1958 but this was due in part, at least, to the change made in 1955 whereby a "week of contribution" is evidence of some work in insured employment but not necessarily a full week. About two-thirds of the male renewal insured persons contribute for 37 weeks a year or more; this proportion has remained fairly constant over the years.

22. The fact that less than half of the insured population works for the full year, even in times of high employment, further illustrates the fluidity of the insured population. A very large proportion must depend on activities other than insured employment as part of their working pattern.

23. The amendment of October 1955, put into effect a system of contribution on a weekly basis in place of the former system which was essentially on a daily basis. As mentioned earlier, under the plan as it existed before October 1955—

- (a) the earnings class was determined on the basis of the weekly rate of earnings for full time employment, and
- (b) the contribution required for part of a week was one-sixth of a full weekly contribution for each day worked.

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As the plan was revised in 1955—

- (a) the earnings class was determined on the basis of the actual earnings in the week, and
- (b) a full weekly contribution was required for each week in which there was any insured employment.

24. The distribution of contributors by earnings class was considerably affected by this change, although it would affect only weeks in which an insured person works less than a full working week. For example, as a result of the change, an employee who is paid at the rate of \$15.00 daily would be classed in the top wage class if he worked for a full week; however, if he worked only two days, his earnings would be \$30.00 and he would make a full week's contribution for the class \$27.00-\$33.00 weekly rather than two-sixths of a full week's contribution in the top class as formerly. Under current rates of contribution this means a contribution of 46¢ as compared with a contribution of 31¢ (two-sixths of 94¢). Thus a higher contribution would result but it would carry with it credit for a full week of contribution rather than two days, thus easing the qualification rules, particularly for those on the fringe of the labour market.

25. As a result there is a tendency for the distribution of contributors by earnings classes to show higher proportions in the lower classes than was the case prior to 1955 and for the average number of weeks of contribution to rise. The figures reflect this change; however, other influences were at work and it is not possible to isolate the effect of any single cause.

26. So far as contributions by insured persons are concerned, the history of the plan shows the following main features:

- (a) Rising wage levels and a steady movement upwards through the earnings classes. This led to a larger and larger proportion of the insured population being concentrated in the top class and to the addition of new classes from time to time to subdivide the top class.
- (b) Increases in the earnings ceiling for coverage, also a result of the trend in (a).
- (c) Strong positive correlation between earnings class and number of contributions per year.
- (d) Extensive movement into and out of insured employment with less than half the number of contributors making contributions for a full year.

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- (e) The change from a daily basis of contribution to a weekly basis in 1955.
- (f) Little change from year to year in the average number of weeks of contribution per person per year.

B. Contributions by Employers of Insured Persons

27. Throughout the history of the plan, employers have been required to contribute at the same time but not always in the same amount as their employees. In the original Act of 1940, employers had only four different rates of contribution compared with eight for employees. The rate was 18¢ for the lowest class; 21¢ for the second class; 25¢ for the third, fourth and fifth classes; and 27¢ for the remaining three classes. The employer's contribution was lower than that of employees in the top two classes but was higher than the employee's contribution for the other classes.

28. The result of this particular contribution pattern for employers (having in mind that in the lowest class the employer was required to pay not only 18¢ on his own behalf but also the 9¢ required of employees) was that the employer's contribution was very nearly uniform for all classes. This plan was adopted, we understand, as compared with a graded contribution, to remove what might otherwise have been an obstacle, although a minor one, to the grant of wage increases by employers. An increase in wages would have but little effect on the unemployment insurance contribution the employer was required to pay.

29. The particular rates were set with the intention of having the employers' contribution equal, in total, the employees' contribution. This required some assumption to be made concerning the distribution of the contributors by earnings class and the number of contributions to be expected in each class. To the extent that the actual distribution differed from the original assumptions, the total employers' contribution would, of course, fail to match the total employees' contribution.

30. The fact that the employers may have contributed more or less than the employees in a particular earnings class does not, of course, affect the general pattern of financing so long as the total contribution by employers as a group is equal to the total contribution by employees, and so long as the benefit rates are determined only by reference to the employees' contributions. It was not necessary for contribution revenue to match benefit payments class by class. However, for a particular employer having most of his employees in the upper wage classes, the total contribution required under this system would be less than under a

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system requiring the employer to match his employees' contributions class by class.

31. As experience developed in the early years of operation, the top earnings class showed a proportion of the insured population and a proportion of the total number of weeks of contribution that considerably exceeded the original assumptions. The result was that, from the outset, the total employers' contribution fell short of matching the total employees' contribution. By March 31, 1945, it was estimated that the revenue of the Fund was some 6.1 per cent lower than it would have been had the employer contributions been equal class by class to those specified for employees. Further, it was estimated that by March 31, 1947, there would have been an additional \$29 million in the Fund had the employers been required to contribute equally, class by class, with employees.

32. An amendment, effective October 1948, raised the employer's rates of contribution in the top three classes to make them equal to the employee's rates, though for the lower earnings classes the employer's contribution was still in excess of that required from employees. The revision in 1950 made the employer's rate equal to the employee's in each class, and this is still the case.

33. So far as the revenue from employers' contributions is concerned, although it is affected by the same influences noted for employees' contributions, the following special features are notable:

- (a) Before 1948, the employer's contribution was less than the employee's contribution in the top two classes. By reason of the unexpected concentration of the insured population in these classes, the employers' contribution in total fell short of matching the employees' contribution. Had the employer's rates of contribution been the same as the rates prescribed by the Act for employees, the Fund would have been some \$29 million larger by March 31, 1947.
- (b) The original pattern of employer's contribution avoided any significant increase in the contribution consequent upon an increase in wage rates.
- (c) It was not essential that contribution revenue balance the benefit payment, class by class; consequently the fact that the contribution pattern for employers differed from that for employees was of no significance to employees, so long as the total employers' contribution was equal to the total employees' contribution.

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C. Contributions by the Federal Government

34. The government contribution to the plan has been of four kinds. The first is the regular contribution in an amount equal to one-fifth of the combined employer-employee contributions. This has applied throughout the history of the plan and requires no special comment. It would be affected by all the factors that influence the employees' and employers' contributions.

35. The second kind of contribution by the government related to the Armed Forces. As part of the rehabilitation program for members of the Armed Forces, provision was made for permitting military service to count as insured employment for each veteran who obtained insured employment beyond a specified minimum amount after his discharge. For each such case the government made a contribution to the plan equal to the total employer-employee contribution that would have been made, had the veteran's period of military service subsequent to July 1, 1941, been insured. These contributions were substantial over the years. None have been made with respect to military service subsequent to 1955. Table 6 shows the year by year contribution under this head.

Table 6
SPECIAL CONTRIBUTIONS BY GOVERNMENT IN RESPECT OF
MILITARY SERVICE

Fiscal Year	Contribution
	\$'000
1943-44	87
44-45	562
45-46	1,923
46-47	9,767
47-48	20,751
48-49	18,465
49-50	5,876
1950-51	3,837
51-52	2,283
52-53	2,276
53-54	1,142
54-55	2,386
55-56	1,495
56-57	720
57-58	558
58-59	58

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36. The special contributions shown in the table are, of course, of the same character as employer-employee contributions so far as the plan is concerned; they are noted here only by reason of the distorting effect that they might have on the year-by-year revenue.

37. The third type of contribution by the government relates to Supplementary Benefit as adopted in 1950. Supplementary Benefit was provided in four different classes (see par. 84). A special contribution was required from employees and employers with respect to Classes 1 and 2. The government undertook to contribute one-fifth the sum of such employer-employee contributions and, in addition, to bear the cost of the benefit in these two classes, paid prior to March 31, 1952, to the extent that the contributions otherwise required should prove to be insufficient. There is no indication in the statute to the effect that this guarantee would have been extended beyond March 31, 1952, if required. It seems likely that the guarantee was provided until some experience had developed to enable one to judge the adequacy of the special contribution. There was, in fact, no guarantee with respect to Supplementary Benefit paid after March 31, 1952. In actual experience, no contribution was required from the government in respect of the guarantee.

38. The full cost of Supplementary Benefit for Classes 3 and 4 was to fall on the government and Table 7 shows the amounts contributed by the government for this purpose during the years that Classes 3 and 4 were in effect.

Table 7
GOVERNMENT CONTRIBUTION FOR SUPPLEMENTARY BENEFIT
CLASSES 3 AND 4

Fiscal Year	Contribution
	\$
1949-50	Nil
50-51	1,791,484
51-52	37,150
52-53	800
53-54	673
54-55	321

39. The fourth type of government contribution to the plan is under the head of administrative expenses. From the outset of the plan, the full amount of administrative expenses has been met by the govern-

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ment from its general sources of revenue, and no part of this expense has been charged to the Unemployment Insurance Fund. Table 8 shows the annual expenditure in respect of the administrative costs of the Unemployment Insurance Commission. This includes, after 1946-47, the cost of operating the National Employment Service.

Table 8
ADMINISTRATIVE EXPENSES
UNEMPLOYMENT INSURANCE COMMISSION

Fiscal Year	Expenses
	\$'000
1941-42	2,344
42-43	4,657
43-44	5,171
44-45	5,113
45-46	6,185
46-47	7,496
47-48	17,640
48-49	18,965
49-50	20,386
1950-51	21,905
51-52	23,520
52-53	24,955
53-54	26,097
54-55	28,269
55-56	26,622
56-57	28,983
57-58	32,444
58-59	35,290
59-60	35,869
1960-61	42,112
61-62	45,935

40. A comparison of these figures with the normal revenue from contributions, including the special contributions for Supplementary Benefit year by year, shows that if the administrative expenses were to be paid from the Unemployment Insurance Fund, the amount required would represent about 13 per cent of the normal contribution revenue.

41. So far as government contributions are concerned, the principal points are:

- (a) The government has contributed an amount equal to one-fifth of the employer-employee contributions.

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- (b) The government has borne the full cost of Supplementary Benefit, Classes 3 and 4.
- (c) Until March 31, 1952, the government guaranteed to contribute the excess of the cost of Supplementary Benefit, Classes 1 and 2 over the special contribution revenue provided for that benefit. (No payment needed.)
- (d) The government has borne the full cost of administration of the plan.
- (e) In respect of certain military service, the government has contributed an amount equal to the employer-employee contribution that would have been made had the service been insured. Such contributions were sometimes in large lump sums covering several past years. There is, therefore, some distortion in the revenue figures for a few years following World War II.

D. Interest on the Fund

42. When the plan was put into effect in 1941, it was expected that a fund would be built up initially even if unemployment experience were closely parallel to that used as a basis for the original financial structure. The plan required an insured person to have a minimum of 180 days of contribution before he could qualify for benefits. Thus, contributions having commenced in July 1941, no one could possibly qualify for benefit until early in 1942. By that time the Fund would have accumulated more than six months of contribution. Further, the benefit formula provided benefit for a period equal to one-fifth of the number of days of contribution in the preceding five years less one-third of the number of days of benefit in the preceding three years. Thus an insured person could not qualify for maximum benefit until he had contributed for at least five years. In general, this formula would have the effect of causing the potential liability in the early years of operation to be somewhat less than it would be when the plan fully matured. It was also expected that there would always be some assets remaining in the Fund and thus some interest revenue would be expected every year.

43. In the original financial structure, an allowance was made for investment income equal to the revenue produced by a 2 per cent increase in the average number of weeks of contribution per annum per person. The actual investment income, year by year, is shown in Table 10 on page 67, in comparison with the total contribution revenue.

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44. By reason of the rapid growth of the Fund, the investment income has been a much more important factor in revenues than was originally expected, rising to as much as 14 per cent of the ordinary revenue. Over the history of the Fund to March 31, 1961, interest has been about 8½ per cent of the contribution revenue. This compares with the 2 per cent allowed originally.

45. In summary, interest revenue has been more important than expected in the financial history of the Fund, due to the long period of growth in the Fund's assets.

E. Total Revenue

46. Tables 9 and 10 show, year by year, the total revenue from the main sources discussed above. These figures are greatly influenced by the normal growth in the insured population. So far as the financial structure of the plan is concerned, however, the important thing is the expected annual revenue per insured person as compared with the expected annual benefit cost per insured person. If these are in proper relationship the financial structure will be sound regardless of growth or shrinkage in the insured population, so long as that growth or shrinkage does not alter the contribution and claim pattern.

47. In developing an index of revenue per person it is necessary to determine the number of persons to be used. The following groups must be considered:

- (a) Persons who contributed during the year.
- (b) Persons who drew benefit or served some of the waiting period during the year but did not contribute.
- (c) Persons who did not contribute, draw benefit or serve any part of the waiting period during the year but who retain some potential rights under the plan on the basis of past contributions.

48. As a practical matter, those under item (c) must be ignored. They include all those who have withdrawn from the labour market permanently, those who are engaged in own-account work or uninsured employment and those who are unemployed and have exhausted their benefit rights. No way is open to obtain a count of those who will return to insured employment in the future and get the benefit of past contributions. We must, therefore, confine attention to those under items (a) and (b). This group is made up of all those who have had financial contact with the plan during the year and for convenience will be referred to as the "contact population". It includes persons who are

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Table 9

CONTRIBUTION REVENUE AND ADMINISTRATIVE EXPENSES UNDER
UNEMPLOYMENT INSURANCE ACT

Fiscal Year	Contributions by Employers and Employees ^a	Contributions by Government		Administrative Expenses ^c
		Special ^b	Col. (2)+Col. (3)	
			5	
	\$'000	\$'000	\$'000	\$'000
1941-42	36,436	—	7,287	2,344
42-43	57,435	—	11,487	4,657
43-44	61,649	72	12,344	5,171
44-45	62,321	1,408	12,746	5,113
45-46	60,965	1,602	12,513	6,185
46-47	67,876	8,139	15,203	7,496
47-48	66,239	17,292	16,706	17,640
48-49	84,201	15,387	19,918	18,965
49-50	98,809	4,897	20,741	20,386
1950-51	125,586	3,198	25,757	21,905
51-52	152,009	1,903	30,782	23,520
52-53	153,288	1,897	31,037	24,955
53-54	157,723	951	31,735	26,097
54-55	156,871	1,988	31,772	28,269
55-56	168,484	1,245	33,946	26,622
56-57	187,390	600	37,598	28,983
57-58	191,935	465	38,480	32,444
58-59	185,439	49	37,097	35,290
59-60	228,616	^d	45,723	35,869
1960-61	275,273	—	55,055	42,112
61-62	277,789	—	55,558	45,935

^aFines and penalties not included; includes contributions of 2¢ a day for Supplementary Benefit starting in 1950.

^bPaid by government in respect of certain service in Armed Forces; includes \$940,000 arrears of contribution paid by government in respect of certain government employees in 1944.

^cExpenses of administering National Employment Service included only after 1946-47.

^dLess than \$500.

very near to group (c); e.g., a person may have drawn only a few days of benefit in the year before dropping out of the plan. It also includes "new entrants"; i.e., those who have entered the plan during the year for the first time. The "contact population" can be determined from the "actuarial sample"—a continuous 5 per cent sample of insurance books issued.

49. At any particular time, the number of persons covered by unemployment insurance is made up of those in insured employment at that time together with those who are drawing benefit at that time

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Table 10

CONTRIBUTIONS, NET INVESTMENT INCOME AND OTHER REVENUE: UNDER UNEMPLOYMENT INSURANCE ACT

Fiscal Year	Contribution Revenue, Employer, Employee, Government	Net Investment Income	Fines and Penalties	Total	Ratio of Net Investment Income to Normal Contribution Revenue*
	\$'000	\$'000	\$'000	\$'000	%
1941-42	43,723	269	—	43,992	0.6
42-43	68,922	1,840	1	70,763	2.7
43-44	74,065	3,972	1	78,039	5.4
44-45	76,475	6,196	2	82,673	8.3
45-46	75,080	6,117	2	81,199	8.4
46-47	91,218	7,530	4	98,752	9.2
47-48	100,237	9,561	5	109,803	12.0
48-49	119,506	12,113	8	131,627	12.0
49-50	124,447	14,391	18	138,856	12.1
1950-51	154,541	15,631	35	170,206	10.4
51-52	184,694	19,047	33	203,773	10.4
52-53	186,221	22,951	36	209,208	12.5
53-54	190,409	26,095	37	216,540	13.8
54-55	190,632	26,378	37	217,047	14.0
55-56	203,676	25,005	31	228,712	12.4
56-57	225,589	26,039	44	251,672	11.6
57-58	230,880	23,776	47	254,702	10.3
58-59	222,584	11,610	48	234,242	5.2
59-60	274,339	6,925	52	281,315	2.5
1960-61	330,328	2,308	63	332,698	0.7
61-62	333,347	3,216	90	336,653	1.0

*Normal Contribution Revenue is that shown in the second column less 120 per cent of special government contribution as shown in the third column of Table 9.

(including those serving the waiting period). This may be called the "covered population". The covered population is determined in June of each year when all insurance books are renewed and is estimated month by month thereafter to the next book renewal date on the basis of counts of the claimants and estimates of the number at work. An average of the monthly figures gives the average covered population for the year.

50. The "contact population" will always exceed the "covered population". In the former figure, a person is included if he is within the plan at any time during the year, whether for the full year or only

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part of the year. In the latter figure, a person who is within the plan for, say, six months, would be counted as one-half. Two persons working half the year in insured employment and half the year in uninsured employment would appear as two in the contact population but only as one in the covered population.

51. The difference between the two figures is to some extent a measure of the movement into and out of insured employment on the part of the labour force. It is also a function of the terms of the plan and the economic conditions. Persons who have exhausted their benefits but are unable to obtain employment will disappear from the covered population even though they may desire to remain in insured employment. They will be included in the contact population until they have been without insured employment or benefit for a full calendar year.

52. In studying figures showing the revenue from year to year, the best basis of comparison is achieved by eliminating so far as possible special or unusual items of revenue. The "normal contribution revenue", as referred to herein, is intended to represent the revenue arising from contributions by employers, employees and the government exclusive of—

- (a) Special government contributions in respect of military service.
- (b) A special government contribution in 1944 in respect of certain government employees.
- (c) Special government contributions in respect of Supplementary Benefit, Classes 3 and 4.
- (d) Fines and penalties.

53. The government contributions for military service, although generally of the nature of employer-employee contribution, require special treatment since they were concentrated in certain years although applying in fact to a period of several years.

54. Table 11 compares the contact population and the covered population year by year and also shows the normal contribution revenue per person per year in the insured population.

55. Looking first at the population figures, one interesting feature is the narrowing spread between the covered population and the contact population year by year. In the 1940's, the contact population was of the order of 30 per cent to 40 per cent larger than the covered population. Starting in 1950, the ratio of contact population to covered

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Table 11

INSURED POPULATION AND NORMAL CONTRIBUTION REVENUE
PER INSURED PERSON PER YEAR

Fiscal Year	Covered ^b Population	Contact ^b Population	Ratio Col. (3) to Col. (2)	Normal Contribution Revenue ^a		
				Total	Per Insured Person in	
					Covered ^b Population	Contact ^b Population
	'000	'000		\$'000	\$	\$
1942-43	2,037	2,652	1.30	68,922	33.84	25.99
43-44	2,142	2,763	1.30	73,978	34.54	26.77
44-45	2,226	2,775	1.25	74,785	33.60	26.95
45-46	2,134	3,020	1.42	73,158	34.28	24.23
46-47	2,194	3,050	1.39	81,451	37.12	26.70
47-48	2,324	3,261	1.40	79,487	34.20	24.37
48-49	2,480	3,239	1.31	101,041	40.74	31.20
49-50	2,592	3,168	1.22	118,571	45.74	37.43
1950-51	2,808	3,563	1.27	150,704	53.67	42.30
51-52	3,073	3,740	1.22	182,411	59.36	48.77
52-53	3,138	3,762	1.20	183,945	58.62	48.90
53-54	3,218	3,922	1.23	189,268	58.82	48.26
54-55	3,318	3,919	1.18	188,246	56.73	48.03
55-56	3,482	4,153	1.19	202,181	58.06	48.68
56-57	3,819	4,456	1.17	224,869	58.88	50.46
57-58	4,038	4,527	1.12	230,322	57.04	50.88
58-59	4,116	4,510	1.10	222,526	54.06	49.34
59-60	4,125	°		274,339	66.51	°
1960-61	4,120	°		330,328	80.18	°
61-62	4,032	°		333,347	82.68	°

^aNormal Contribution Revenue excludes: (1) government contributions for military service; (2) arrears re certain government employees in 1944; (3) fines and penalties; (4) special contribution for Supplementary Benefit, Classes 3 and 4.

^bFor definitions of covered population and contact population see paragraphs 48 and 49.

^cNot available.

population began to fall. It hovered around 123 per cent for five years, 1950-54, and then began to fall again, dropping steadily to 110 per cent in 1959.

56. The very high ratio in the 1940's was a reflection of the high employment conditions and the extensive movement into and out of the insured population. It would also be influenced by the rising wage levels, causing persons to drop out of the plan on reaching the ceiling.

57. The narrowing gap in more recent years may be caused by the easier qualifications for benefit. This enables a part-time worker to

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qualify for benefit and then be counted in the covered population where formerly he might have been unable to qualify and so would drop out of the count when his work was finished. It may also reflect the tighter employment conditions in the late 1950's. This would have an effect on the movement into and out of the insured population.

58. Whatever the causes, it appears that there is a much greater tendency in recent years for persons to remain within the ambit of the plan for the entire year than was formerly the case.

59. With respect to the average contribution per person per year, the more significant figures are those relating to contact population. Those relating to covered population are included principally to project the trend over periods for which there are no available figures relating to contact population.

60. There is no clear trend in the early years. The period was one of rising wages and full employment. Several changes were made in coverage; the changes relating to the earnings ceiling would be particularly significant. Moreover, the post-war years were years of active movement into and out of insured employment (the ratio of contact population to covered population is at a peak in those years). These factors would all affect the average annual contribution but apparently they were largely offsetting.

61. In 1948, the ceiling for coverage was raised from \$2,400 to \$3,120 and a new earnings class was added. The effect on the average revenue per person is immediately apparent in the figures for 1948-49. Since the new class came into effect in October 1948, its effect would be only partially apparent in 1948-49 and would carry through to produce a further rise in 1949-50 when the new class would affect the revenue for a full year rather than only for half a year.

62. The further rise in 1950-51 was due in part to the revisions of contribution classes in July 1950, but principally to the addition of 1¢ daily to the contribution by employers and employees in respect of Supplementary Benefit. Apart from the Supplementary Benefit contributions, the average revenue would have shown only a slight rise to \$38.28 per person in the contact population.

63. The effect of the additional Supplementary Benefit contribution shows up further in 1951-52 as the new rates have a chance to affect the contributions for a full year. There is but little change for two years but a slight drop shows up in 1954-55. This reflects the recession of that year. The further declines in 1957-58 and 1958-59 are no

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doubt also due to the recession. The rise in 1959-60 and in 1960-61 is a reflection of the revision of classes and the increase in contribution rates in September 1959.

64. When Supplementary Benefit was introduced in 1950, a special contribution of 1¢ per day was levied on employees and an equal contribution on employers to cover the cost. In addition, the government contributed the usual one-fifth of the employees' and employers' contributions. The revenue from this special contribution was accounted for separately from the time it started, July 1, 1950, to May 31, 1955. After the amendments of October 1955, there was no special earmarking of part of the contribution to cover the cost of "Seasonal Benefit", the successor to Supplementary Benefit.

65. In actual experience, the special contribution proved to be more than adequate to cover the costs of Supplementary Benefit, at least until the Act was changed in October 1955. As a result of this, together with the large balance in the Fund in the early 1950's, a substantial increase in benefit rates was made in 1952. It was considered that 30 per cent of the extra contribution would suffice to cover the cost of Supplementary Benefit and the remainder would be available to apply against the cost of the increased benefit rates.

66. Table 12 shows the revenue arising from the special contribution of 2.4¢ a day during the period July 1, 1950, to May 31, 1955, the portion informally earmarked for Supplementary Benefit (30 per cent

Table 12
SPECIAL CONTRIBUTION FOR SUPPLEMENTARY BENEFIT

Fiscal Year	Total Revenue from Special Contribution	Portion Earmarked for Supplementary Benefit	Revenue per Person in			
			Covered Population		Contact Population	
			Total	Earmarked	Total	Earmarked
	\$'000	\$'000	\$	\$	\$	\$
1950-51 ^a	14,303	14,303	5.06	5.06	4.01	4.01
51-52	21,664	21,664	7.09	7.09	5.79	5.79
52-53	22,691	11,994	7.27	3.84	6.03	3.19
53-54	23,042	6,913	7.20	2.16	5.88	1.76
54-55	22,800	6,840	6.85	2.05	5.82	1.75
55-56 ^b	3,638	1,091	1.04	0.31	0.88	0.26

^aFrom July 1, 1950.

^bTo May 31, 1955.

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of the total after August 1, 1952) and the amount per person in the insured population. The figures in Tables 9, 10 and 11 include revenue from this special contribution.

II. BENEFIT

67. The principal factor affecting the amount of benefit paid out is, of course, the amount of unemployment. Figures drawn from the regular labour force surveys are probably the best material to show the economic environment in which the plan has operated. Table 13 shows the ratio of the number of persons without work and seeking work (the "unemployed") to the total civilian labour force.

Table 13
RATIO (%) OF NUMBER UNEMPLOYED TO THE
TOTAL CIVILIAN LABOUR FORCE*

Year	Month											
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1941						4.4						
42						3.0						
43						1.7						
44						1.3						
45						1.6					4.3	
46		5.3				2.9		2.6			2.9	
47			3.4		2.0			1.6			2.0	
48		3.6				1.9			1.4		2.2	
49			4.3			2.1		2.0		3.0		
1950			6.8			3.1		2.1			2.6	
51			3.9			1.8		1.7			2.3	
52			5.0		2.3			1.9			2.5	3.0
53	4.5	4.4	4.1	3.7	2.4	1.9	1.8	2.0	1.8	2.3	3.4	4.1
54	5.8	6.4	6.5	6.1	4.2	3.5	3.3	3.4	3.2	3.5	4.2	4.9
55	7.2	7.4	7.7	6.2	4.0	3.0	2.7	2.4	2.6	2.7	3.1	3.9
56	5.6	6.1	5.7	4.8	3.0	2.2	1.9	1.9	2.0	1.9	2.5	3.6
57	5.7	6.1	6.5	5.7	3.5	2.9	2.9	3.1	3.5	3.7	5.2	7.0
58	9.7	10.1	10.6	9.1	6.4	5.5	4.9	5.0	4.6	5.3	6.2	7.6
59	9.5	9.4	9.1	7.6	5.7	4.0	3.7	4.0	3.6	4.0	5.1	6.5
1960	8.8	9.6	9.8	8.8	6.6	4.9	5.0	5.3	5.1	5.7	6.6	8.2
61	10.8	11.3	11.1	9.7	7.0	5.6	5.2	4.8	4.7	4.9	5.4	6.4
62	8.5	9.1	8.7	7.5	5.1	4.5	4.5	4.1	3.9			

*For years 1941 to 1952 inclusive, labour force surveys were not made monthly; figures shown are the only figures available.

SOURCE: *Labour Force Surveys*, Dominion Bureau of Statistics.

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68. The figures in this table give a general picture of the trend in unemployment over the duration of the plan. A brief examination of these figures shows that unemployment was really very low for most of the history of the plan. There was a slight up-turn following the war and another in 1949 and 1950. There was a considerable rise, starting in the fall of 1953 and running through to the spring of 1955, followed by an improvement in the rest of 1955 and in 1956. About mid-1957 the figures began to rise again and unemployment seemed to move on to a new level, higher than the norm in earlier years. There are signs of an improved trend starting in the summer of 1961.

69. The figures show also the well known seasonal trend. Unemployment declines to a low point in the summer months and rises to a peak in February and March.

70. The effect of any given level of unemployment on the unemployment insurance plan depends upon the extent and nature of the coverage and upon the benefit provisions of the plan. These will be discussed under the following heads:

- A. Coverage.
- B. Qualifying Rules.
- C. Benefit Formula.
- D. Rate of Benefit.

A. Coverage

71. The following is a summary of the principal changes in coverage under the plan:

- January 7, 1942: Coverage continued for insured persons whose earnings rise above \$2,000 a year for reasons due to the war; coverage extended to hourly-paid workers if their basic rate of pay does not exceed 90¢ an hour. Formerly persons whose earnings exceeded \$2,000 a year were excepted.
- November 21, 1942: Insurance agents excepted from coverage.
- September 1, 1943: Earnings ceiling removed for persons paid on an hourly, daily, weekly, piece or mileage rate, and raised to \$2,400 a year for persons on salary or commission.
- September 1, 1943: Coverage extended to all employees of the federal government unless certified as permanent. Formerly such employees were excepted if appointed under the Civil Service Act.

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- September 1, 1943: Coverage extended to employment in connection with a public utility, whether or not municipally owned or operated, regardless of the permanency of the employment. Formerly, this type of employment, if operated in connection with a municipality was excepted when certified as permanent.
- September 1, 1943: Coverage extended to employees of hospitals and charitable institutions (formerly excepted entirely) or to certain groups or classes of such employees, on the voluntary election of the hospital or institution, subject to the concurrence of the Unemployment Insurance Commission.
- September 1, 1943: Coverage extended to the employees in Canada of any foreign or Commonwealth government on election by that government, subject to the concurrence of the Unemployment Insurance Commission.
- December 11, 1943: Truck drivers who own their trucks excepted from coverage.
- August 1, 1945: Coverage extended to employment in transportation by air.
- September 3, 1945: Coverage extended to professional nurses other than private duty nurses.
- August 1, 1946: Coverage extended to employment in lumbering and logging in British Columbia.
- October 1, 1946: Coverage extended to employment in inland transportation by water.
- October 1, 1946: Insured persons paid on a weekly-wage basis excepted from coverage if earnings exceed the rate of \$3,120 a year.
- January 1, 1948: Earnings ceiling raised from \$2,400 a year to \$3,120 a year for persons on salary or commission.
- April 1, 1948: Coverage extended to stevedoring.
- January 12, 1949: Real estate agents paid solely by commission excepted from coverage.

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- April 1, 1949: Coverage extended to employees in Newfoundland.
- December 28, 1949: Coverage extended compulsorily to temporary construction workers employed by hospitals and charitable institutions.
- April 1, 1950: Coverage extended to employment in lumbering and logging elsewhere than British Columbia.
- July 3, 1950: Earnings ceiling raised to \$4,800 a year.
- July 1, 1951: Security salesmen paid solely by commission excepted from coverage.
- August 1, 1953: Earnings ceiling removed for printing tradesmen paid by week if below rank of foreman.
- March 1, 1954: Coverage extended to employment connected with landscape gardening unless employed in nurseries.
- January 1, 1956: Earnings ceiling removed for persons employed in transportation by water on the Great Lakes and contiguous waters.
- January 1, 1956: Coverage extended to (a) employment in those parts of agriculture concerned with the raising of poultry and egg grading and the raising of race horses, saddle horses or light harness horses; (b) employment in horticulture except certain employments connected with general agriculture or performed in a nursery or greenhouse; (c) employment in forestry with the exception of certain casual or temporary employments; (d) employment as a member of a municipal police force if employment began after December 31, 1955, subject to the consent of the municipality and the concurrence of the Commission.
- April 1, 1957: Coverage extended to fishermen.
- September 27, 1959: Earnings ceiling raised to \$5,460 a year.

72. The principal extensions, apart from increases in the earnings ceiling, that had a significant effect on the finances of the plan were those affecting lumbering and logging, stevedoring, inland transportation by water and fishing.

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B. Qualifying Rules

73. The qualifying rules for regular benefit insofar as they relate to contribution record are summarized below.

To qualify for benefit an insured person must have:

- July 1, 1941: (a) at least 180 days of contribution in the two years preceding the establishment of the benefit year, and
(b) at least 60 days of contribution since the last day of benefit in the last preceding benefit year.
- September 1, 1943: (a) as above in (a), and
(b) at least 60 days of contribution since the beginning of the last preceding benefit year.
- July 3, 1950: (a) as above in (a), and
(b) at least 60 days of contribution in the period of 12 months preceding the establishment of the benefit year or in the period since the commencement of the last preceding benefit year, whichever period is shorter; *or* at least 45 days of contribution in the period of six months preceding the establishment of the benefit year or in the period since the commencement of the last preceding benefit year, whichever period is shorter.
- October 2, 1955: (a) at least 30 weeks of contribution in the two years preceding the establishment of the benefit year, and
(b) at least 30 weeks of contribution in the period of 52 weeks preceding the establishment of the benefit year or in the period since the commencement of the last preceding benefit year, whichever period is longer, and
(c) at least eight weeks of contribution in the period of 52 weeks preceding the establishment of the benefit year or in the period since the commencement of the last preceding benefit year, whichever period is shorter.

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September 30, 1956: (a) as above in (a) for October 1955, and
(b) as above in (b) for October 1955, but
replacing 30 weeks by 24 weeks, and
(c) as above in (c) for October, 1955.

74. The above items refer, in a number of places, to a "benefit year". This term will be used frequently in the following paragraphs and will, therefore, be explained at this point.

75. When an insured person first files a claim and meets the qualifying conditions, a "benefit year" is established for him and an entitlement to benefit is determined. This entitlement involves a maximum weekly rate of benefit and a maximum duration or amount.

76. The insured person may then draw benefit against this entitlement at any time during the benefit year so long as he is able to show that he is unemployed and is capable of and available for work. He does not have to prove compliance with the contribution conditions again during the continuance of the benefit year. The benefit year continues for a period of 12 months or until the whole benefit entitlement is used up, whichever occurs first. Benefit years that terminate at the end of 12 months without exhaustion of benefit entitlement are said to terminate by "lapse"; benefit years that terminate upon the exhaustion of benefit entitlement are said to terminate by "exhaustion". After October 1955, the term "benefit period" is used in the Act rather than "benefit year" but the terms are synonymous.

77. When an insured person submits a claim that leads to the establishment of a benefit year for him, that claim is referred to as an "initial" claim; any subsequent claim made during the existence of that benefit year is referred to as a "renewal" claim. When a benefit year has terminated, the insured person cannot receive benefit on his next claim unless he again meets the contribution conditions; if he does, another benefit year is established for him and a new entitlement determined.

78. The concept of a "benefit year" or "benefit period" is an administrative device only. It avoids the necessity of applying all the contribution tests every time an insured person claims benefit. In theory it would be perfectly in order to apply all the tests in respect of each initial and renewal claim but the delay and administrative cost would increase greatly.

79. The most important change in the qualifying conditions occurred in 1955, not only because of the rules themselves but because, after that time, the rules were applied in terms of weeks of contribution

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instead of days. The 1955 amendments required a full week's contribution for even one day of work done in a week; consequently it was easier to accumulate 30 weeks of contribution after 1955 than 180 days of contribution prior to that time. However, the other conditions established in 1955 were more restrictive. The second condition provided, in effect, that a contribution could not be "used" twice if it was more than a year old, "used" in this sense meaning to be taken into account for qualifying purposes. This condition was eased in 1956 to allow up to six contributions to be "used" twice even if more than a year old (but not if more than two years old).

80. The changes in the qualifying conditions in 1943 and 1950 were important to individuals but were not of such extensive application as to have an important effect on the finances of the plan.

81. The above rules relate to the qualification for regular benefit. Effective February 28, 1950, an additional type of benefit was introduced, known then as Supplementary Benefit and, after October 1955, as Seasonal Benefit. The term "Supplementary Benefit" will be used herein to refer to both types of benefit.

82. Supplementary Benefit was payable only during the winter and the qualification rules were different from those for regular benefit. The periods during which Supplementary Benefit could be paid were changed from time to time; they are set forth in the following summary:

Winter period	Period during which Supplementary Benefit could be paid		Duration
1949-50	February 28	– April 15	7 weeks
50-51	January 1	– March 31	13 weeks
51-52	January 1	– March 31	13 weeks
52-53	January 1	– April 15	15 weeks
53-54	January 1	– April 15	15 weeks
54-55	January 1	– April 15	15 weeks
1955-56*	January 1	– April 15	16 weeks
56-57	January 1	– April 15	16 weeks
57-58	December 1	– June 28	30 weeks
58-59	December 1	– May 15	24 weeks
59-60	December 1	– May 15	25 weeks
1960-61	December 1	– May 15	25 weeks
61-62	December 1	– May 15	25 weeks

* For this and subsequent winters, Supplementary Benefit was payable on a weekly basis beginning with the calendar week in which the first date falls and ending with the calendar week in which the second date falls.

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83. Just as for regular benefit, the concept of a "benefit period" is used in connection with Supplementary Benefit. A claimant who meets the qualifying conditions has a Supplementary Benefit period established for him with a maximum weekly rate of benefit and a maximum benefit entitlement. He may draw against this entitlement each week in which he suffers unemployment until the entitlement is exhausted or until the end of the time prescribed by the Act during which Supplementary Benefit may be paid. He does not again have to show compliance with the qualifying conditions during the currency of the benefit period.

84. The qualifying rules for Supplementary Benefit are summarized below:

February 28, 1950: Unemployed persons unable to qualify for regular benefit might qualify for Supplementary Benefit in one of four classes. Class 1 required a record of termination of a regular benefit year subsequent to the March 31 preceding the claim. Class 2 required a record of at least 90 days of contribution since the March 31 preceding the claim. Class 3 related to work in lumbering and logging and disappeared after March 31, 1951; it required at least 90 days of work in any period of 12 months ended within six months preceding the claim, in lumbering and logging that was not insured employment prior to January 1, 1950, or in a combination of that employment and insured employment. Class 4 related to newly covered employments generally and, in practice, was virtually ineffective after March 31, 1952; it required at least 90 days of employment since the March 31 preceding the claim in employment that was made insurable within 12 months preceding the claim, or partly in that employment and partly in other insured employment.

October 3, 1955: Unemployed persons unable to qualify for regular benefit might qualify in one of two classes. Class A (formerly Class 2) required a record of at least 15 weeks of contribution since the preceding March 31 instead of 90 days as formerly; Class B (formerly Class 1) required a record of termi-

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nation of a regular benefit period subsequent to the preceding April 15 rather than March 31 as before.

November 28, 1957: Class B benefit payable only if previous regular benefit period terminated after May 15 preceding rather than April 15 as before, but this change was effective only for 1958-59 and subsequent years.

85. The above rules, and the changes from time to time, determine the extent of claim in the insured population consequent upon any particular level and type of unemployment. An index of the impact of unemployment on the plan is given by computing the ratio of the average number of persons on benefit each month to the average insured population for that month. These ratios are shown in Table 14.

Table 14

RATIO (%) OF AVERAGE NUMBER OF BENEFICIARIES EACH MONTH
TO AVERAGE INSURED POPULATION FOR THE MONTH

Year	Month											
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1944	*	*	*	0.6	0.6	0.4	0.2	0.2	0.2	0.3	0.3	0.5
45	0.7	1.1	1.5	1.1	1.0	0.8	0.8	0.9	1.2	2.1	2.9	3.8
46	4.9	6.6	7.4	7.4	6.0	4.8	3.9	3.4	3.4	3.0	2.7	3.0
47	4.1	4.6	4.8	4.4	3.7	2.7	2.2	1.8	1.7	1.8	1.9	2.9
48	4.6	6.0	6.7	6.0	4.5	3.1	2.6	2.2	2.0	2.0	2.6	3.9
49	6.4	8.2	9.2	7.4	5.9	4.3	2.5	2.4	2.5	2.8	4.0	4.8
1950	8.4	9.0	9.7	7.1	5.0	3.4	2.8	2.4	2.2	2.3	2.7	3.5
51	5.7	6.2	6.2	3.6	2.5	1.9	1.9	2.0	2.1	2.3	3.1	4.8
52	7.6	8.3	8.4	6.4	4.3	2.7	2.8	2.6	2.4	2.5	3.6	5.1
53	8.2	9.3	8.4	6.2	4.0	2.9	2.8	2.7	2.9	3.7	5.5	6.6
54	11.7	12.9	13.2	13.9	7.6	5.2	5.0	4.7	4.8	5.3	6.3	8.0
55	13.1	14.1	14.8	14.8	8.3	5.1	3.9	3.2	3.2	3.2	3.4	4.6
56	8.7	11.4	12.3	11.4	6.2	3.4	2.8	2.7	2.6	2.5	2.8	4.0
57	9.2	11.5	12.5	12.3	8.1	4.5	3.9	3.9	4.2	4.5	5.7	8.9
58	15.2	17.5	19.1	17.7	14.3	10.4	7.2	5.6	5.6	5.5	6.5	8.9
59	15.3	15.8	18.0	15.3	11.8	4.9	4.1	3.9	3.9	4.0	5.1	8.6
1960	14.4	15.7	17.0	17.2	13.5	6.8	5.6	5.3	5.6	5.6	6.7	9.6
61	15.8	17.4	19.1	17.0	13.8	6.3	4.9	4.8	4.4	4.4	5.3	7.8
62	13.5	14.2	15.4	13.6	10.8							

*Not available.

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86. It can be seen that these ratios, although they follow the same trend as those in Table 13, are considerably higher. It is to be kept in mind that the ratios in Table 13 are ratios of unemployed to total labour force rather than to paid workers; also there are a considerable number of unemployed persons who are not covered by unemployment insurance or, if covered, do not qualify for benefit. On the other hand, the beneficiaries taken into account for Table 14 may include a considerable number who would not report themselves as unemployed except for benefit purposes—they are not seeking employment.

87. It is notable that the excess of the beneficiary ratios (Table 14) over the unemployment ratios (Table 13) is greater in the winter months at the start of each year than in the late summer and fall months, the difference reaching a peak in April and May. This suggests that a good many people may go on benefit during the winter but do not regard themselves as "unemployed" for purposes of the labour force survey. This is probably one of the effects of the seasonal employment pattern in Canada and of the existence of Supplementary Benefit.

88. The beneficiary ratios are much closer to the unemployment ratios in the last two or three years than formerly. Whereas they were from 50 to 100 per cent larger than the unemployment ratios in 1954 and 1955, they now range from 0 to 50 per cent larger. This suggests that as unemployment rises, a larger proportion of those on claim are genuinely unemployed and so report in the labour force surveys. In fact, when the beneficiary ratios decline to less than the unemployment ratios, as they did in the late summer and fall of 1961, the implication is that there is a growing number of the unemployed who have exhausted their unemployment insurance benefits.

89. Changes in the rules of the unemployment insurance plan may have a sharp effect on the beneficiary ratios. For example, in 1958, Supplementary Benefit was extended to the end of June for that year only. In 1957, it ended on April 15, and in 1959, on May 15. Thus, it appears many people stayed on benefit in May and June 1958, who, but for the special extension, would have gone to work or dropped out of the labour force.

90. Another measure of the impact of unemployment on the insurance plan is given by the number of persons establishing benefit years each year. These data are published regularly by the Dominion Bureau of Statistics. Table 15 shows the number of benefit years established each year and the ratio to the average insured population for the year.

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These figures are significant because they give an indication of the number of different persons who suffer unemployment during the year, file an initial claim and qualify for benefit. The monthly count of beneficiaries, on which Table 14 is based, does not indicate how many different persons are involved during the year.

Table 15
NUMBER OF BENEFIT PERIODS ESTABLISHED AND RATIO (%) TO
INSURED POPULATION

Year	Regular Benefit Periods			Supplementary Benefit Periods				
	Number Estab- lished	Ratio to		Number Established			Ratio to	
		Covered Popu- lation	Contact Popu- lation	Class 2 Class A	Class 1 Class B	Total	Covered Popu- lation	Contact Popu- lation
	'000	%	%	'000	'000	'000	%	%
1942	17.2	0.7	0.6					
43	19.6	1.0	0.7					
44	66.9	3.0	2.4					
45	223.3	10.3	7.5					
46	304.7	14.1	10.0					
47	265.1	11.5	8.2					
48	392.1	16.2	12.1					
49	556.1	21.5	17.6					
1950	593.3	21.9	17.1	*	*	113.7	4.2	3.6
51	617.7	20.4	16.6	35.5	53.0	88.5	2.9	2.5
52	731.0	23.4	19.5	34.9	61.1	96.0	3.1	2.6
53	852.6	26.7	21.9	39.9	109.4	149.3	4.7	4.0
54	984.8	30.0	25.2	51.5	159.2	210.7	6.4	5.4
55	849.4	24.8	20.9	55.9	194.1	250.0	7.3	6.4
56	834.4	22.4	19.0	101.1	154.6	255.7	6.9	6.2
57	1086.2	27.4	24.0	144.0	64.8	208.8	5.3	4.7
58	1091.5	26.6	24.3	220.8	249.7	470.5	11.7	10.4
59	985.1	24.0	21.1	256.0	188.3	444.3	10.8	9.9
1960	1065.8	25.8	*	284.7	159.1	443.8	10.8	*
61	967.7	23.9	*	278.1	187.7	465.8	11.5	*

*Not available.

91. In considering this table, it should be noted that the payments of regular benefit in any calendar year are made not only to persons who have established a benefit year in that calendar year, but also to persons who have carried over a benefit year from the preceding calendar year. Also, the figures shown for Supplementary Benefit periods established

in 1957 exclude the number of Supplementary Benefit periods established in December of that year. For later years, the figures shown for a particular year include the number of Supplementary Benefit periods established in December of the preceding year and exclude those established in December of the year in question.

92. There was an increase in unemployment following the war as a consequence of readjustment of industry and of the labour force. This accounts for the rise in benefit years established in calendar years 1945 and 1946.

93. Although persons employed in lumbering and logging in British Columbia, and in transportation by water were brought under the Act in 1946, it is unlikely that they would have accumulated enough contributions to have much impact on the claims in 1947. The rise in the figures for 1948 as compared with 1947 was due to some extent to claims from this group. However, the numbers involved were not such as to have a major effect on the claims picture.

94. The entry of Newfoundland into Confederation in 1949 had only a slight effect in 1950.

95. Unemployment rose in the fiscal year 1949-1950 and the effect shows in both the 1949 and the 1950 figures in Table 15. Seasonal regulations were relaxed in 1950 and this affected the subsequent years. The rise in 1952 and 1953 was, to a substantial extent, linked to coverage for lumbering and logging elsewhere than in British Columbia. This extension of coverage was made in 1950. The high figure for 1954 reflects the recession of that year.

96. The drop in 1956 is partly due to the impact of the new rules for qualification adopted with effect from October 2, 1955. These were eased late in 1956 and this accounts, in part, for the increase in the benefit periods established in 1957. However, employment conditions became more difficult in 1957 and this was the principal cause of the increase for that year.

97. For 1958 and 1959, the interesting feature is the sharp rise in the number of Supplementary Benefit periods established. This was caused in part by the amendments lengthening the period during which Supplementary Benefit could be paid but also, and principally, by the more difficult employment conditions of those years. Evidently many insured persons were able to get enough work to qualify for Supplementary Benefit but not for regular benefit; moreover, the rise in the number of Supplementary Benefit periods, Class B, shows that many insured persons had exhausted their regular benefit and were unable to requalify.

C. Benefit Formula

98. The amount of benefit paid to those who qualify depends not only upon the extent of the unemployment but also upon the benefit formula and the rate of benefit.

99. The benefit formula in the original Act remained unchanged until 1955 except as respects the introduction of Supplementary Benefit in 1950. Under that formula, the maximum duration of benefit in any benefit entitlement was a number of days equal to one-fifth of the number of days of contribution made by the claimant in the five years immediately preceding the establishment of the benefit year less one-third of the number of days of benefit drawn by the claimant in the three years immediately preceding the establishment of the benefit year. The maximum period was, therefore, one full year (less the waiting period) for a person with a five-year record of continuous employment.

100. The deductive factor in the formula had the broad effect of reducing the potential benefit entitlement for persons who claim frequently as compared with the entitlement for persons having a comparable contribution record but little in the way of claim.

101. For persons who contributed under the plan an average of 15 to 33 weeks a year and drew the maximum benefit to which they were entitled, this formula provided one day of benefit for each two days of annual average contributions after a record of some years had been built up. Thus if a person averaged 20 weeks of contribution a year he would ultimately have been entitled to an average of 10 weeks of benefit a year. In the early years of coverage for any insured person, however, the benefit provided would be much less—more nearly one week of benefit for five weeks of contribution.

102. In October 1955, the benefit formula was changed to a rule that provided, in effect, one week of benefit for each two weeks of contributions in the two years preceding the start of the benefit year, subject to the stipulation that a week of contribution could not be taken into account for the purpose of a particular benefit year if it had already been counted for a previous benefit year and was more than a year old. The maximum duration of benefit was set at 36 weeks. For persons who claim every year on a more-or-less uniform pattern, this formula provides one week of benefit for each two weeks of contribution in the year preceding the start of the benefit year. A claimant would need 72 weeks of contribution within two years and since the beginning of the last preceding benefit year to qualify for the maximum benefit of 36 weeks.

103. The maximum duration of benefit was increased to 52 weeks in September 1959. To qualify for the maximum entitlement, a claimant would require 104 weeks of contribution in the two years preceding the claim and no benefit year established in that two-year period. It is to be noted that this requirement does not necessarily mean full employment for that period, nor does it mean that no benefit was drawn in the two years. A given week might be both a contribution week and a claim week, and benefit might be paid under a benefit year established before the two-year period began.

104. The payment of benefit in any benefit year is subject to a waiting period and, before October 1955, payment was subject to a rule relating to the first day of unemployment in any spell of continuous unemployment. Under the original Act the waiting period was nine days; no benefit was payable for the first nine days of unemployment in any benefit year. In addition to the waiting period, the first day of unemployment in any calendar week was regarded as a "non-compensable" day and did not rank for benefit unless the unemployment lasted the full week or unless the first day immediately followed a period of continuous unemployment lasting a week or more. These rules remained unchanged until 1950. At that time the waiting period was dropped to eight days and the non-compensable day was applied at the start of each spell of unemployment subject to the rules that (a) not more than one non-compensable day would be applied in any week, and (b) the non-compensable day would not be applied at the start of a spell of unemployment that was separated from a previous spell by employment lasting three days or less. In 1952, the waiting period was reduced to five days.

105. In 1955, by reason of the change to a weekly basis for contribution and benefit, the waiting period could not be applied in terms of days. Instead, the rule was adopted that at the start of each benefit period a waiting period would be imposed during which benefit that would otherwise accrue would be withheld until the total amount so withheld equalled one full week of benefit. For continuous unemployment lasting a week or more, this has the effect of applying a waiting period of one week. The old rule relating to the non-compensable day disappeared.

106. Another important change of concept in 1955 related to "allowable earnings". Previous to 1955, benefit was payable (subject to the rules relating to qualification and entitlement) for each day of unemployment. If a person worked on a particular day he would not rank for benefit for that day; he was not unemployed. An exception was

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made, however, with respect to subsidiary employment carried on outside of the claimant's regular working hours. Such employment was not considered to remove the claimant from the unemployed category so long as his earnings did not exceed a specified amount per day. This amount was fixed at \$1.00 in 1941, raised to \$1.50 in 1946 and to \$2.00 in 1950.

107. Under the revised plan adopted in 1955, benefit was payable for each week during which a claimant suffered unemployment (again subject to the rules relating to qualification and entitlement). If he was unemployed for the full week he received a full week's benefit; if he worked at any time during the week, a deduction was made from the benefit otherwise payable equal to the excess of his earnings during the week over a fixed amount of "allowable earnings". The allowable earnings set by the Act were graded in accordance with the earnings class and dependency status. Table 16 shows the amounts in 1955 and as changed subsequently.

Table 16

ALLOWABLE EARNINGS UNDER THE UNEMPLOYMENT INSURANCE ACT

Claimants Without a Dependent			Claimants With a Dependent		
Weekly Benefit	Allowable Earnings		Weekly Benefit	Allowable Earnings	
	Oct. 1955 to Oct. 1959	Oct. 1959 to date		Oct. 1955 to Oct. 1959	Oct. 1959 to date
\$	\$	\$	\$	\$	\$
6.00	2.00	3.00	8.00	2.00	4.00
9.00	3.00	5.00	12.00	3.00	6.00
11.00	4.00	6.00	15.00	4.00	8.00
13.00	5.00	7.00	18.00	5.00	9.00
15.00	6.00	8.00	21.00	6.00	11.00
17.00	7.00	9.00	24.00	7.00	12.00
19.00	9.00	10.00	26.00	9.00	13.00
21.00	11.00	11.00	28.00	11.00	14.00
23.00	13.00	12.00	30.00	13.00	15.00
25.00		13.00	33.00		17.00
27.00		14.00	36.00		18.00

108. The operation of the allowable earnings rule was such as to take the place, to some extent, of the former "non-compensable" day. A person becoming unemployed during a calendar week would have his benefit reduced to the extent that his earnings for the week exceeded the allowable earnings for his class.

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109. In actual practice, under the 1955 rule, the benefit entitlement is established in terms of dollars, the amount being the product of a number of weeks determined as already described, and the prescribed rate of benefit determined in accordance with the claimant's average earnings class. By reason of the operation of rules relating to the waiting period and to allowable earnings, the benefit paid in a week may be less than the prescribed rate; where this occurs the benefit entitlement may be paid out over a longer period than the number of weeks determined by the formula.

110. As respects Supplementary Benefit, the formulas in effect from time to time are described below. In each case the maximum duration of benefit is limited to the time remaining in the period during which Supplementary Benefit could be paid, if less than the maximum obtained by the formula.

February 28, 1950: Class 1—Number of days authorized in last preceding regular benefit year.

Class 2—One-fifth of the number of days of contribution subsequent to the preceding March 31.

January 1, 1955: Class A (formerly Class 2)—Two weeks of benefit for each three weeks of contribution since preceding March 31. (This provided a minimum of 10 weeks.)

Class B (formerly Class 1)—Benefit payable for full number of weeks in Supplementary Benefit period. (The 1955 amendment was such that the minimum duration of regular benefit in any benefit year was 15 weeks; the length of the Supplementary Benefit period was 16 weeks; hence, although the same principle was being followed as for Class 1 above, it was unnecessary to prescribe the rule in those terms.)

September 30, 1956: Class A—Greater of (a) 10 weeks or (b) one week of benefit for each two weeks of contribution since preceding March 31.

Class B—Number of weeks authorized in last preceding regular benefit period. (The 1956 amendment made it possible to

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have a regular benefit period established with only 12 weeks of entitlement; hence, to preserve the principle of paying no more Class B benefit than that authorized in the preceding regular benefit period, the rule had to be rewritten.)

November 28, 1957: Class A—Greater of (a) 13 weeks or (b) five weeks of benefit for each six weeks of contribution since preceding March 31.

Class B—As above for September 1956.

111. The result of these various rules, combined with the extent of unemployment, is reflected in the actual duration of benefit payments. Table 17 shows the number of benefit periods terminated in each year and the average number of weeks of benefit paid in those benefit periods. In computing weeks of benefit, any partial weeks are converted to full weeks on a proportionate basis.

112. Table 17 relates to benefit periods terminated in the calendar year shown. Some of the benefit payments in such benefit periods would take place in the previous calendar year since many benefit periods terminated in a particular year would have been established in the preceding calendar year. Thus the figures shown opposite a particular calendar year in the table are affected by the conditions of both that and the preceding year.

113. The average number of weeks of benefit paid in a benefit period shows some variation but perhaps not as much as one would expect. An increase from 10.0 to 10.9 between 1949 and 1950 reflects the recession extending through the winter of 1949-50. The waiting period was reduced by three days in 1952; this accounts for the increase between 1952 and 1953 and perhaps part of the increase from 1953 to 1954.

114. Although the maximum duration of benefit in a benefit period was decreased from 51 to 36 weeks by the amendments of October 1955, there is little evidence of the change in Table 17. The full effect would show up first in the benefit periods terminated in 1957 but it is obscured by other factors, particularly rising unemployment. The impact of the heavier unemployment in 1958 and subsequent years is clearly reflected in the figures for those years. The increase in the maximum duration of benefit in 1959 would tend to increase the average benefit drawn in benefit periods terminated in 1960 and 1961.

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Table 17

BENEFIT PERIODS TERMINATED EACH YEAR SHOWING AVERAGE
NUMBER OF WEEKS OF BENEFIT PAID, PROPORTION DRAWING
NO BENEFIT, AND PROPORTION WHO EXHAUST BENEFIT
ENTITLEMENT

Year	Regular Benefit Periods				Supplementary Benefit Periods	
	Number Terminated	Average Weeks Paid	Proportion Drawing No Benefit	Proportion Exhausting Benefit	Number Terminated	Average Weeks Paid
	'000		%	%	'000	
1942	1.8		*	*		
43	16.3		*	*		
44	25.8		*	*		
45	58.8		*	*		
46	239.2		*	*		
47	292.0		*	*		
48	288.7	10.2	16.3	19.8		
49	410.8	10.0	15.2	21.6		
1950	578.1	10.9	12.2	26.8	113.7	3.5
51	590.7	9.2	16.1	20.7	88.5	3.8
52	660.4	9.2	13.9	28.1	96.0	3.9
53	770.7	9.6	11.8	31.4	149.3	4.8
54	917.7	11.4	7.7	37.6	210.7	5.1
55	977.9	11.5	8.3	32.7	250.0	6.5
56	801.3	11.0	11.0	17.2	255.7	7.9
57	890.2	12.0	11.1	25.8	208.8	7.1
58	1,121.7	14.3	6.9	32.4	470.5	11.2
59	1,046.0	13.5	6.5	29.3	444.3	10.5
1960	1,190.3	13.9	6.7	33.8	443.8	10.4
61	1,066.4	14.3	6.8	31.3	465.8	10.5

*Not available.

115. The proportion of benefit periods that did not result in any benefit payment falls sharply as unemployment conditions become more severe. The cases concerned are those where a benefit period is established but the claimant goes back to work before the waiting period has been served.

116. The proportion of benefit periods terminated by exhaustion of benefit does not show any clear trend. The high figures in relatively good years suggest that a high proportion of the cases concerned were on their way out of the labour market. The proportion is influenced by the severity of the employment conditions, the rules of the plan, and the contribution record of those who suffer unemployment. The last factor is significant because claimants with a poor record would have a

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low entitlement and so would be more likely to exhaust the entitlement than those who have a better record.

117. As respects Supplementary Benefit, the period during which this benefit could be paid was lengthened in 1953 and this shows up in the increase from 3.9 to 4.8 weeks in the average duration of benefits in 1953. The similar extension of Supplementary Benefit in 1958 accounts for the rise in that year. A decrease would be expected in 1959, since the period during which Supplementary Benefit could be paid was reduced by about six weeks from 1958, still, however, leaving it about 50 per cent longer than it had been in 1956-57.

118. Further information in this connection is given in Table 18 showing the total number of weeks of benefit paid each fiscal year and the average number per year per person in the insured population.

Table 18

ANNUAL NUMBER OF WEEKS OF REGULAR AND SUPPLEMENTARY
BENEFIT PAID, AND ANNUAL AVERAGE NUMBER OF WEEKS OF
BENEFIT PER PERSON IN THE INSURED POPULATION

Fiscal Year	No. of Weeks of Benefit Paid	Average No. of Weeks per Person in	
		Covered Population	Contact Population
	'000		
1942-43	65	0.03	0.02
43-44	152	0.07	0.06
44-45	428	0.19	0.15
45-46	2,402	1.13	0.80
46-47	3,874	1.77	1.27
47-48	3,019	1.30	0.93
48-49	3,980	1.60	1.23
49-50	6,148	2.37	1.94
1950-51	6,303	2.24	1.77
51-52	5,875	1.91	1.57
52-53	7,751	2.47	2.06
53-54	10,265	3.19	2.62
54-55	13,791	4.16	3.52
55-56	11,735	3.37	2.83
56-57	11,601	3.04	2.60
57-58	18,169	4.50	4.01
58-59	22,513	5.47	4.99
59-60	19,377	4.70	*
1960-61	22,230	5.40	*
61-62	18,935	4.69	*

*Not available.

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119. This table shows the effect of the introduction of Supplementary Benefit in 1950 and possibly the change in the waiting period in 1952. The effect of heavier unemployment in recent years is also clearly shown, combined with the effect of lengthening the period for Supplementary Benefit.

D. Rate of Benefit

120. The remaining factor to consider is the rate of benefit. This has been changed from time to time by amendment to the plan. Further, the average rate of benefit payable under the plan is affected by the proportion of claimants in each earnings class and the proportion of claimants qualifying for the higher "with dependent" benefit.

121. Concerning the provisions of the plan, the general principle followed throughout has been to maintain approximately a fixed ratio between the benefit rate for a claimant and his average contribution rate, but using one ratio for persons with dependents and a different ratio for persons without dependents.

122. Under the original plan the daily rate of benefit for a particular benefit year was determined on the basis of the earnings class of the claimant as revealed by the average daily rate of contribution over the two years preceding the establishment of the benefit year. The weekly rate was taken as six times the daily rate. For claimants having a dependent, the weekly rate of benefit was fixed at 40 times the average weekly contribution; for claimants without a dependent, the rate was 34 times the average weekly contribution.

123. In 1948, the daily benefit rates were revised for claimants with a dependent by raising the daily rate to 45 times the average daily contribution and deducting 10¢ from the product. The deduction of 10¢ daily was for the purpose of preventing the new rate of benefit from exceeding average earnings in the lower earnings classes.

124. When Supplementary Benefit was introduced in 1950, the classes were revised and the rates of contribution for employees and employers were increased by 1¢ a day each, but this was ignored in computing average contribution rates for benefit purposes. The multipliers remained unchanged.

125. In 1952, the benefit rates were increased and became 50 times the average contribution rate (ignoring the contribution for Supplementary Benefit) for claimants with a dependent, and approximately 36 times the average contribution rate (ignoring the contribution for Supplementary Benefit) for claimants without a dependent. These ratios were scaled down slightly in the lower classes to keep the benefit

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rate below the normal earnings. This change was made without increase in contributions but it was well in mind that up to that time Class 1 and Class 2 Supplementary Benefit had cost little more than 25 per cent of the revenue derived from the special contributions.

126. In 1955, the whole pattern of earnings classes, contribution rates, and benefit rates was revised. The weekly benefit rates adopted in 1955 were 50 times the average weekly employee contribution for claimants with a dependent, and approximately 36 times for claimants without a dependent.

127. The multipliers quoted in the preceding paragraph, although approximately the same as those relating to the 1952 amendment, are in terms of the total employee contribution rather than only the employee contribution for regular benefit. These ratios should be compared with the ratios of the 1952 benefit rates to the total contribution, including the contribution for Supplementary Benefit; namely, about 40 times for claimants with a dependent and slightly over 30 times for claimants without a dependent. However, the 1955 amendments reduced the contribution rates in the lower earnings classes and as a consequence the rate of benefit remained approximately the same as before in absolute amount, except as respects the new classes added at that time.

128. In October 1959, the contribution rates were raised approximately 30 per cent without change in the benefit rates except as respects the addition of two new classes. The ratio of benefit to average contribution was thus substantially changed; the new ratios are approximately 38 times for claimants with a dependent, and 28 times for claimants without a dependent.

129. Until 1948, the rate of benefit was determined on the basis of the average rate of contribution during the two years preceding the start of the benefit year. In 1948, this was changed to the average over the preceding 180 days. This had the effect of raising the average benefit since wages and salaries were rising rapidly during these years and the insured population was moving up through the earnings classes. The average of the most recent 180 days would thus be higher than the average of the most recent two years. After October 1955, the rate of benefit is based on the average weekly contribution rate over the 30 most recent weeks taken into account in establishing the benefit period.

130. Table 19 shows the rates of benefit that have been in effect from time to time over the history of the plan together with the ratio of the benefit to the extremes of the relative earnings classes.

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Table 19

WEEKLY RATES OF BENEFIT AND RATIO OF BENEFIT TO EARNINGS

Earnings Class	Weekly Benefit		Ratio of Weekly Benefit to Earnings			
	Without Dependent	With Dependent	Without Dependent		With Dependent	
			Bottom of Class	Top of Class	Bottom of Class	Top of Class
\$	\$	\$	%	%	%	%
July 1, 1941—October 3, 1948						
0- 5.40	—	—	—	—	—	—
5.40- 7.50	4.08	4.80	76	54	89	64
7.50- 9.60	5.10	6.00	68	53	80	62
9.60-12.00	6.12	7.20	64	51	75	60
12.00-15.00	7.14	8.40	60	48	70	56
15.00-20.00	8.16	9.60	54	41	64	48
20.00-26.00	10.20	12.00	51	39	60	46
26.00 and up	12.24	14.40	47	—	55	—
October 4, 1948—July 2, 1950						
0- 5.40	—	—	—	—	—	—
5.40- 7.50	4.20	4.80	78	56	89	64
7.50- 9.60	5.10	6.30	68	53	84	66
9.60-12.00	6.00	7.50	62	50	78	62
12.00-15.00	7.20	9.00	60	48	75	60
15.00-20.00	8.10	10.20	54	40	68	51
20.00-26.00	10.20	12.90	51	39	64	50
26.00-34.00	12.30	15.60	47	36	60	46
34.00 and up	14.40	18.30	42	—	54	—
July 3, 1950—July 3, 1952						
0- 9.00	4.20	4.80	—	47	—	53
9.00-15.00	6.00	7.50	67	40	83	50
15.00-21.00	8.10	10.20	54	39	68	49
21.00-27.00	10.20	12.90	49	38	61	48
27.00-34.00	12.30	15.60	46	36	58	46
34.00-48.00	14.40	18.30	42	30	54	38
48.00 and up	16.20	21.00	34	—	44	—
July 4, 1952—October 1, 1955						
0- 9.00	4.20	4.80	—	47	—	53
9.00-15.00	6.00	7.50	67	40	83	50
15.00-21.00	8.70	12.00	58	41	80	57
21.00-27.00	10.80	15.00	51	40	71	56
27.00-34.00	12.90	18.00	48	38	67	53
34.00-48.00	15.00	21.00	44	31	62	44
48.00 and up	17.10	24.00	36	—	50	—
October 2, 1955 to date						
0- 9.00	6.00	8.00	—	67	—	89
9.00-15.00	6.00	8.00	67	40	89	53
15.00-21.00	9.00	12.00	60	43	80	57
21.00-27.00	11.00	15.00	52	41	71	56
27.00-33.00	13.00	18.00	48	39	67	55
33.00-39.00	15.00	21.00	45	38	64	54
39.00-45.00	17.00	24.00	44	38	62	53
45.00-51.00	19.00	26.00	42	37	58	51
51.00-57.00	21.00	28.00	41	37	55	49
*57.00-63.00	23.00	30.00	40	36	53	48
63.00-69.00	25.00	33.00	40	36	52	48
69.00 and up	27.00	36.00	39	—	52	—

*Until September 27, 1959, top class was \$57.00 and up.

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131. The standard of benefit aimed at by the existing plan, as revealed by Table 19, seems to be about 50 per cent of earnings in the higher classes for claimants with a dependent and a little over 40 per cent for claimants without a dependent. The ratio of benefit to earnings in the low earnings classes is somewhat higher. This general standard seems to have been in effect over the history of the plan except possibly during the period from July 3, 1950 to July 3, 1952, when the ratios were lower than at other times. Before 1950, the benefit standard was a little higher than at present but still not far from 50 per cent for claimants with a dependent.

Table 20
BENEFIT PAYMENTS, WEEKS COMPENSATED AND AVERAGE
BENEFIT PER WEEK

Fiscal Year	Regular Benefit			Supplementary Benefit		
	Amount Paid	Average Benefit per Week	Weeks Compensated	Amount Paid	Average Benefit per Week	Weeks Compensated
	\$'000	\$	'000	\$'000	\$	'000
1941-42	28	10.92	3			
42-43	716	11.02	65			
43-44	1,722	11.33	152			
44-45	4,966	11.60	428			
45-46	31,993	13.32	2,402			
46-47	43,114	11.13	3,874			
47-48	34,947	11.58	3,019			
48-49	49,827	12.52	3,980			
49-50	85,006	14.01	6,069	738	9.34	79
1950-51	83,082	14.50	5,730	5,191	9.06	573
51-52	85,560	15.42	5,549	4,595	14.10	326
52-53	128,814	17.74	7,260	7,008	14.27	491
53-54	174,620	18.72	9,328	12,232	13.05	937
54-55	232,758	18.89	12,323	24,871	16.94	1,468
55-56	180,038	18.36*	9,818	35,167	**	1,917
56-57	201,196	19.96*	10,091	30,100	**	1,510
57-58	327,908	21.21*	15,472	57,169	**	2,697
58-59	362,156	21.28*	17,035	116,475	**	5,478
59-60	320,970	21.43*	14,978	94,264	**	4,399
1960-61	406,728	23.12*	17,594	107,178	**	4,636
61-62	352,328	24.02*	14,670	102,411	**	4,265

*Average for Regular and Supplementary Benefit combined.

**Not available.

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132. The rate for Supplementary Benefit, Class 1, was set at 80 per cent of the rate of regular benefit paid in the preceding regular benefit year; for Class 2 the rate was taken as 80 per cent of the rate determined in the usual way on the basis of the average of the 90 most recent daily contributions since the preceding March 31. The rate of Supplementary Benefit was not raised in 1952 when regular benefit rates were raised, and as a consequence it fell to less than 80 per cent of regular rates. In January 1955, the rate of Supplementary Benefit was raised to equal the rate of regular benefit, and it so continues.

133. Table 20 shows the total benefit paid each year (regular and Supplementary), the number of weeks compensated, and the average weekly benefit.

134. The effect of the addition of new benefit classes does not show up immediately. By reason of the fact that benefit rates are based on average weekly contribution, an insured person must contribute for some time in a new class before becoming entitled to the higher rate of benefit. The effect of the 1948 amendments would show up in 1949 and 1950. The changes in 1950 would begin to take effect in 1951. The increase in benefit rates in 1952 would, however, have an immediate effect as shown by the rise in the average for 1952-53. The effect of the 1955 amendments does not show up clearly. For 1955-56 and subsequent years, the average rate of benefit is computed for regular and Supplementary Benefit combined.

III. Comparison of Revenue and Benefit Payments

135. Table 21 brings together, for comparison, figures shown in earlier tables relating to revenue and benefit payments.

136. As shown in this table, until 1957-58, revenue exceeded benefit in each year of the history of the plan except for the one year 1954-55. However, in 1957-58, and in each subsequent year, the benefit payments have exceeded revenue. The greatest deficiency occurred in 1958-59, when the benefit payments were more than twice the revenue, including interest revenue. Over the history of the plan to March 31, 1962, revenues have very slightly exceeded benefits, the balance at that date being \$67 million compared with total revenue of \$3,772 million and benefit payments of \$3,706 million.

137. To eliminate the effect of changing population it is useful to compare revenue and benefit per person as shown in Table 22.

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Table 21

SUMMARY OF REVENUE AND BENEFIT

Fiscal Year	Revenue			Benefit			Gain or Loss
	Contribution Revenue	Investment and Other Revenue	Total Revenue	Regular Benefit	Supplementary Benefit	Total Benefit	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
1941-42	43,723	269	43,992	28		28	43,964
42-43	68,922	1,841	70,763	716		716	70,047
43-44	74,065	3,973	78,039	1,722		1,722	76,317
44-45	76,475	6,198	82,673	4,966		4,966	77,707
45-46	75,080	6,119	81,199	31,993		31,993	49,206
46-47	91,218	7,534	98,752	43,114		43,114	55,638
47-48	100,237	9,566	109,803	34,947		34,947	74,856
48-49	119,506	12,122	131,627	49,827		49,827	81,800
49-50	124,447	14,409	138,856	85,006	738	85,744	53,112
1950-51	154,541	15,666	170,206	83,082	5,191	88,273	81,933
51-52	184,694	19,080	203,773	85,560	4,595	90,154	113,619
52-53	186,221	22,987	209,208	128,814	7,008	135,822	73,386
53-54	190,409	26,131	216,540	174,620	12,232	186,852	29,689
54-55	190,632	26,415	217,047	232,758	24,871	257,629	-40,582
55-56	203,676	25,036	228,712	180,038	35,167	215,206	13,506
56-57	225,589	26,083	251,672	201,196	30,100	231,296	20,376
57-58	230,880	23,822	254,702	327,908	57,169	385,076	-130,375
58-59	222,584	11,658	234,242	362,156	116,475	478,631	-244,389
59-60	274,339	6,976	281,315	320,970	94,264	415,234	-133,919
1960-61	330,328	2,371	332,698	406,728	107,178	513,906	-181,207
61-62	333,347	3,306	336,653	352,328	102,411	454,739	-118,086

138. In the original calculation, provision was made for 3.10 weeks of benefit per person per year. In the calculations relating to the 1955 amendment, provision was made for 2.2 weeks of benefit per person per year. It can be seen from Table 22 that, on the basis of the actual experience relating to contribution revenue and average rate of benefit, the contributions would have supported only about 2.3 weeks of benefit per person per year in the early years of the plan. The average number of weeks of contribution per person per year was lower than expected and the average rate of benefit was somewhat higher. Unemployment experience was favourable, however, and as a consequence the plan was called on to support only about one week of benefit per person per year after it began to show some maturity in 1945-46 and subsequent years.

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Table 22

COMPARISON OF REVENUE AND BENEFIT PER PERSON IN THE
CONTACT INSURED POPULATION

Fiscal Year	Normal* Contri- bution Revenue	Benefit Payment			Average Weekly Benefit	Number of Weeks of Benefit Paid	Weeks of Benefit per Person Supported by Con- tribution
		Regular Benefit	Supple- mentary Benefit	Total Benefit			
	\$	\$	\$	\$	\$		
1942-43	25.99	0.27		0.27	11.02	0.02	2.36
43-44	26.77	0.62		0.62	11.33	0.06	2.36
44-45	26.95	1.79		1.79	11.60	0.15	2.32
45-46	24.23	10.59		10.59	13.32	0.80	1.82
46-47	26.70	14.14		14.14	11.13	1.27	2.40
47-48	24.37	10.72		10.72	11.58	0.93	2.10
48-49	31.20	15.38		15.38	12.52	1.23	2.49
49-50	37.43	26.83	0.23	27.06	13.95	1.94	2.68
1950-51	42.30	23.31	1.46	24.77	14.00	1.77	3.02
51-52	48.77	22.88	1.23	24.11	15.35	1.57	3.18
52-53	48.90	34.25	1.86	36.11	17.52	2.06	2.79
53-54	48.26	44.53	3.12	47.65	18.20	2.62	2.65
54-55	48.03	59.39	6.35	65.74	18.68	3.52	2.57
55-56	48.68	43.35	8.47	51.82	18.36	2.83	2.65
56-57	50.46	45.15	6.76	51.91	19.96	2.60	2.53
57-58	50.88	72.44	12.63	85.07	21.21	4.01	2.40
58-59	49.34	80.30	25.83	106.13	21.28	4.99	2.32
59-60	**	**	**	**	21.43	**	**
1960-61	**	**	**	**	23.12	**	**
61-62	**	**	**	**	24.02	**	**

*For definition of Normal Contribution Revenue see footnote to Table 11.

**Not available.

139. The new contribution classes adopted in 1950 put the plan in a stronger position having in mind the average rate of benefit then being paid but the amendments of 1952, increasing the benefit rates, reduced the amount of unemployment that could be supported by the contributions. The actual experience remained well within the supportable figure although the influence of Supplementary Benefit is apparent.

140. The rising average rate of benefit in 1956-57 and 1957-58 caused the number of weeks supportable to drop off further until the change in contribution rates in 1959. Approximate figures indicate that this restored the number to about the same as 1952-53.

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141. In 1955, it was estimated that, on the basis of previous experience, the plan would be called on to bear about 2.2 weeks of benefit per person per year for a cost of \$47.71. This proved to be far too optimistic as matters turned out. Also, revenue was expected to run at \$46.32 per person per year, apart from investment income. Actual experience showed higher contributions than expected and lower average weekly benefit, thus enabling the plan to carry more weeks of benefit than expected but not nearly so many as actually emerged.

142. To show the strength of the reserve fund from time to time, Table 23 shows the balance in the Unemployment Insurance Fund at the end of each fiscal year since the plan began and, also, the amount of the Fund per person in the covered population.

Table 23

BALANCE IN UNEMPLOYMENT INSURANCE FUND AND AMOUNT OF FUND PER INSURED PERSON

End of Fiscal Year	Balance in Fund	Balance in Fund per Insured Person	Balance per Person in terms of Weeks of Benefit at Average Rate
	\$'000	\$	Wks.
1941-42	43,964	19
42-43	114,011	57	5.20
43-44	190,328	86	7.60
44-45	268,034	122	10.53
45-46	317,241	149	11.19
46-47	372,879	164	14.73
47-48	447,735	195	16.82
48-49	529,535	203	16.18
49-50	582,647	222	15.95
1950-51	664,580	221	15.78
51-52	778,199	250	16.35
52-53	851,585	270	15.43
53-54	881,274	273	14.99
54-55	840,692	242	12.97
55-56	854,199	232	12.66
56-57	874,575	221	11.06
57-58	744,200	177	8.34
58-59	499,811	118	5.54
59-60	365,892	85	3.96
1960-61	184,685	44	1.90
61-62	66,598	16	0.67

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143. Generally, the financial history of the plan is summed up in Tables 22 and 23. Experience was good until 1954-55 followed by rising unemployment and virtual exhaustion of reserves.

144. The amount of the reserve fund has been reduced from a maximum of \$273 per insured person at the end of the fiscal year 1953-54 to only \$16 per insured person at the end of 1961-62. Whereas at one time the Fund could have provided more than 16 weeks of benefit for each insured person, by the end of 1961-62 it could provide less than one week. Table 21 shows that the absolute amount of the Fund began to decrease seriously only in 1957-58 but from Table 23 it can be seen that the weakening of the reserve began considerably earlier. There has been a steady fall since 1951-52 in number of weeks of benefit per person represented by the balance in the Fund and a steady fall since 1953-54 in the amount of the Fund per person.

145. It seems to have been generally thought that in the early 1950's the Fund was unnecessarily large and concern was expressed at its continued growth. The amendments made in 1952 and in 1955 evidently stopped the growth in strength but not the growth in amount. However, the principal declines took place in 1954-55 and in 1957-58 and subsequent years.

146. The impact of the high unemployment has been much increased by amendments made from time to time. Of these, the most important was the introduction of Supplementary Benefit in 1950, continued as Seasonal Benefit after 1955. The additional contributions levied to cover the cost of this benefit proved to be more than sufficient to meet the costs before 1955. As a result, regular benefits were increased on the strength of these additional contributions and the government guarantee to pay the excess of the costs of Supplementary Benefit over the revenue derived from the special contribution was abandoned.

147. When the general revision of the plan was made in 1955, the estimated costs of Seasonal Benefit were included in the general contribution structure, but without any government guarantee as a protection against excess costs. In Tables 20, 21 and 22, the effect of Supplementary or Seasonal Benefit can be observed in increasing the benefit payments.

148. The very large amounts of benefit paid out in years of virtually full employment are worthy of note. A year such as 1952-53 which gave rise to an average rate of unemployment of less than 3 per cent never-

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theless showed total benefit payments of \$136 million, or more than two weeks of benefit for every person who had any contact with the plan in that year (Table 22). The large benefit payments in years of high employment are, to a large extent, the consequence of seasonal unemployment. Even from the outset, the plan covered large numbers of seasonal workers (for example, the construction industry) and amendments made from time to time to bring in additional highly seasonal employments aggravated the effect. The abandonment of seasonal regulations further increased the impact of seasonal unemployment.

149. Apart from seasonal unemployment, the high benefit payments in years of low unemployment must be evidence of an extensive movement into and out of the insured population. No doubt most of this movement is the result of frictional unemployment and is the legitimate concern of unemployment insurance; however, some may be due to the easing of qualifying conditions that has taken place from time to time and to the fact that the maximum duration of benefit payments has been quite long for most of the history of the plan. Persons on the fringe of the labour force have thereby been permitted to draw more benefit than would otherwise have been possible. In addition, there is unquestionably some abuse of the plan on the part of persons who are drawing benefit but do not in fact desire employment.

150. It does not appear that serious financial problems have resulted from undue increases in benefit rates. The relationship between contribution rates and benefit rates has been maintained in such a way that changes in benefit rates from time to time and the addition of new earnings classes have not resulted in more than temporary financial strain, and have sometimes resulted in a strengthening of the financial structure.

151. The existence of an earnings ceiling has, over the years, tended to permit the withdrawal from coverage of employees who, on the average, have relatively stable employment; this tends to weaken the financial structure. It is true that the ceiling for coverage has been raised from time to time in an attempt to extend coverage to about the same segment of the employee group as was covered in the early years. However, such changes could not recapture the lost revenue in the years intervening since the previous adjustment to the ceiling; and because the period since 1941 has been a period of rising wages, the process started again immediately after each increase in the earnings ceiling.

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152. It appears that, apart from the general matter of the level of unemployment, the main aspects of the unemployment insurance plan that require attention to strengthen the financial structure are matters of coverage, qualifying conditions for benefit, duration of benefit payments, and payment of benefit to the seasonally unemployed. Abuse of the plan by individuals drawing benefit, although not seeking or intending to accept employment, requires constant attention and has undoubtedly cost a considerable amount over the years but such costs are not identifiable in the statistical tables. It has been very serious not only because of the cost but because such abuse puts the plan in disrepute and tends to grow if not checked. More detailed reference to the problem of abuses is found on pages 38 to 47 in Chapter Two.