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# Evaluation of the Employment Insurance Special Benefits for Self-employed Workers

Final Report  
April 4, 2016



Strategic Policy and Research Branch

SP-1123-06-16E



## **Evaluation of Employment Insurance Special Benefits for Self-Employed Workers**

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***Evaluation of the Employment Insurance  
Special Benefits for Self-employed Workers***

***Final Report***

***Evaluation Directorate  
Strategic Policy and Research Branch  
Employment and Social Development Canada***

***April 4, 2016***

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## *List of Abbreviations*

CPP	Canada Pension Plan
CRA	Canada Revenue Agency
EI	Employment Insurance
ESDC	Employment and Social Development Canada
MSCA	My Service Canada Account
OECD	Organisation for Economic Cooperation and Development
QPIP	Quebec Parental Insurance Plan
SBSE	Employment Insurance Special Benefits for Self-employed Workers

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# *Executive Summary*

Employment Insurance (EI) Special Benefits for Self-employed Workers (SBSE) was introduced in 2010 with the objective of providing income support to the self-employed when they experience a loss of income due to sickness, the birth or adoption of a child, or the need to provide care or support to a gravely ill family member.

This first evaluation is primarily concerned with examining the need for the measure and the issues around take-up and usage. The lines of evidence include a literature review, an international comparison, a survey of self-employed workers, focus groups, key informant interviews and an analysis of administrative data.

## *Overview of the SBSE*

The overall goal of the SBSE measure is to support self-employed workers' efforts to achieve balance between work and life. Historically, only paid employees could receive EI special benefits. Since January 31, 2010, self-employed workers have been able to register voluntarily for the SBSE measure and by doing so, gain access to income support during life changing events. Also eligible for the SBSE are employees of corporations who control more than 40% of the voting shares of the corporation ("employed shareholders"), who are not otherwise eligible for EI. Self-employed workers in Quebec are covered for maternity and parental benefits under the mandatory Quebec Parental Insurance Plan (QPIP) but are eligible for the EI special benefits related to sickness or the need to care for a gravely ill family member.

Participants pay EI premiums at the same rate as employees and there are no employer premium contributions. Benefit level is based on net self-employment income from the previous calendar year and earnings from paid employment may be taken into consideration. The replacement rate (55%) and the number of weeks of income support available through the SBSE are identical to that provided to paid employees.

## *The need for the SBSE measure*

The need for income support for the types of life events covered by the SBSE is underscored by the number of countries that provide such benefits. The international comparison study looked at 34 countries, including the countries in the European Union, the U.K., the U.S, New Zealand and Australia, and found that 30 of those countries provide the self-employed with some form of parental/maternity leave benefits and 26 countries provide short-term sickness benefits. A majority of the countries providing income support for the self-employed did so via general tax revenue or a mandatory contribution program.

Most self-employed workers in Canada do not have private insurance for the types of events covered by the SBSE. Other than the QPIP for Quebec residents and private insurance, there are no other established programs to assist the self-employed during major life events.

Self-employed individuals faced with sickness, the need to care for a gravely ill loved one or the birth or adoption of a child report that they work as much as they can for the duration, use their savings, call on family for assistance, go into debt or leave self-employment.

### ***Take-up***

It was originally estimated that by the end of 2012, 318,900 self-employed workers would have opted into the measure. In fact, as of the end of May 2013, around 13,000 individuals were registered for the SBSE representing approximately 4% of expected participation.

### ***Awareness***

A survey of self-employed people conducted early in 2012 found about one-quarter of self-employed workers had heard of the SBSE measure.

### ***Profile of SBSE participants, claimants and non-participants***

The profile of SBSE participants, especially those who received benefits, is significantly different from the sample of self-employed non-participants. Some of the more striking differences are associated with gender, age and income:

- Gender: around two-thirds of participants are females, while females represent about 43% of the non-participant control group.
- Age: participants were younger: around two-thirds of participants were between the ages of 25 and 44 years, compared to the two-thirds of non-participants who were 45 years of age or older.
- Claimants were mostly female (95%) and between the ages of 25 and 44 years (91.3%), living in an urban area (88.2%), whereas self-employed workers in general are more likely to be older males.
- Income tax data for 2011 show 56.4% of participants with a loss/nil in net income from self-employment compared to 14% of non-participants.

Although the distribution by region shows Quebec with a higher share of participants compared to non-participants, regression results found Quebec residents to be less likely to be SBSE participants once other factors are taken into account.

The difference between participants and non-participants was evident in the focus groups in that participants were amenable to returning to paid employment if necessary but non-participants expressed clear intention to remain self-employed for the rest of their careers. A majority of the focus group participants stated that an important consideration in the decision to register was the likelihood of making a claim, particularly with respect to maternity and parental benefits.

### ***Income and access to SBSE***

About one-third of all self-employed workers in Canada do not have sufficient income from self-employment to access SBSE. Analysis of Canada Revenue Agency (CRA) T1 data found 34.2% of all self-employed taxfilers earned less than the minimum income required (\$6,222) in 2011 to be eligible for benefits in 2012; results are similar for 2010 where 34.4% of self-employed taxfilers earned less than the \$6,000 required for SBSE claims filed in 2011.

### ***Disincentives to participation***

Reasons for non-participation are varied. From the 2012 Survey of Self-employed People, disincentives included: age or earnings-related reasons, no longer being self-employed and other unspecified reasons (29.6%); 22.1% did not need the insurance or they had access to other insurance; another 22.1% of the survey non-participant respondents did not feel they had enough information to decide. For 17.5% of non-participants, the premiums were too high, the benefit amount was too low or participation looked like too much of a hassle. The complications that might arise from using estimated earnings to establish a claim and the rules related to the earnings exemption were not a concern for survey respondents.

A 2006 survey of self-employed individuals found that, at most, two-thirds of respondents who expressed interest in any type of income support were willing to pay premiums for it.

The uncertainty that comes with the variability of income from self-employment was a common concern. Focus groups and key informants agreed that a great disincentive is the requirement to pay premiums on all future income from self-employment once benefits have been received. Some focus group attendees mentioned the rules regarding the earnings exemption as a disincentive, mainly because they expected to have to keep their businesses going at least minimally. It was generally agreed that self-employed individuals cannot be away from their businesses for an extended period.

### ***Claims***

As of June 2013 there were approximately 1,800 paid claims. Claims were mainly for maternity (72.7%), and parental (76.3%) benefits. The average weekly benefits were higher for maternity (\$309) than parental (\$290) or sickness (\$245). Claims paid to wage-earners have higher average weekly benefit rates. For comparison, in fiscal year 2012–13 the rates paid under EI Part I were: maternity (\$394), parental-biological (\$402) and sickness (\$365).

Benefit duration was similar between SBSE and wage-earner claimants. For parental (biological) and sickness benefits in fiscal year 2011–12, SBSE claimants and wage-earners used an average of 30 weeks of parental benefits; on average, 9 weeks of sickness benefits were paid to wage-earners and 10 weeks to SBSE claimants. At 13.7 weeks, the average duration of maternity claims for SBSE participants was shorter than that of wage-earners by about one week.

There was little evidence that claimants are not reducing the time they work at their businesses as stipulated in their agreements. However, the design of the SBSE is such that the onus is on the individual to report earnings as specified in the agreement. The inherent challenge to the integrity of the SBSE is in the nature of self-employment: the self-employed have greater control over their work schedules and they can be better positioned than wage-earners to arrange the timing of their income.

The SBSE had a positive impact on the lives of self-employed people who received benefits through the measure: the focus groups reported that the benefits eased the stress associated with reduced self-employment income, providing a measure of stability over the period of reduced business activity; similarly, 78.9% of 2012 survey respondents with paid claims agreed or strongly agreed that the benefits had a positive effect on the stability of their income.

### ***Costs***

In 2011 – the first year of benefit payments – \$5 million was paid in benefits and \$1.6 million was collected in EI premiums on self-employed earnings. Total premiums collected over tax years 2010 and 2011 are estimated at \$2.7 million. Between January 2, 2011 and March 31, 2013, a total of \$14 million in benefits was paid to claimants.

Administration costs for the first five fiscal years (2009–10 through 2013–14) for ESDC to implement the SBSE measure and support ongoing operations were \$45 million. Costs have decreased since 2010–11: for fiscal year 2013–14, administration costs are estimated at \$8.1 million. That said, administration costs are high relative to the amounts paid in benefits. For example, the \$8.1 million expended for administration costs in fiscal year 2013–14 was close to the \$8.2 million paid in benefits for that year.

### ***Other approaches to income support for the self-employed***

The international comparison found many possible approaches to supporting the self-employed. However, comparator countries that provide the same type of social protection encompassed by the SBSE measure tend to do so under programs financed through general taxation or a mandatory contribution program; the voluntary aspect of the SBSE is observed in very few of the 34 countries studied.

The international comparison suggested that an alternative approach might be a general purpose expense program financed through tax-sheltered savings. Participants could draw on the account under a set of pre-specified conditions that might encourage saving for short-term earnings disruptions and possibly retirement.

Other suggestions included extending the period over which income is calculated for setting the benefit rate, given the variability of income of the self-employed. The study also found the initial 12-month qualifying condition to be longer than many of the programs in the cross-country comparison.

### ***Recommendation***

As a result of the evaluation findings, the recommendation is to continue to develop understanding of the needs of the diverse self-employed population as they relate to:

- The income support provided by the SBSE;
- The design of the measure and other potential approaches; and
- Awareness of the measure.

# *Management Response*

## **Introduction**

While the Employment Insurance (EI) program has long provided some temporary income replacement for salaried workers to cope with major life events such as the birth or adoption of a child or being sick or injured, self-employed workers did not have access to these EI special benefits and generally had little or no income protection for such events.

Through the *Fairness for the Self-Employed Act*, the Government amended the *Employment Insurance Act* to provide access to EI special benefits to the self-employed. The parameters of the special benefits for self-employed workers (SBSE) mirrored the EI special benefits available to salaried workers to the extent possible. A key distinction is that access to the SBSE is voluntary while participation in the EI program is mandatory for salaried workers.

## **Lessons Learned**

While the current evaluation has focused primarily on the need for the measure and the participation in the program, the evaluation findings reveal an information gap regarding self-employed workers and their approach to balancing work-life responsibilities. The findings provide important lessons learned in terms of the perceived relevance of the measure, outcomes, factors that may influence the decision of self-employed workers to opt in, and program delivery.

### *Need for the measure*

The evaluation indicates that the measure is meeting its objective to provide greater income security for individual participants. In addition, the measure is supporting attachment to the workforce as the evaluation notes that the availability of EI benefits was an important factor for some participants to remain self-employed and that all focus group self-employed attendees who received EI benefits said that they returned to self-employment after their claim period.

It is notable that the majority of claims under the SBSE measures are for maternity and parental benefits, and it should be recognized that the access to income support provided through the SBSE is assisting self-employed women to step back from their business responsibilities for pregnancy and assisting self-employed parents to provide care for their newborn or newly adopted child.

### *Participation in the measure*

Management recognizes that participation in the program is lower than originally expected. Projections of the number of self-employed participants as well as corresponding program and administrative cost estimates were subject to considerable uncertainty due to the voluntary nature of the measure. It should also be noted that participation is low despite the fact that self-employed workers are required to contribute only the employee component of EI premiums to participate in the program. In addition, the participants in the SBSE measure have collectively

received more in EI benefits than the premiums they have collectively contributed in the first years of the program. This suggests that self-selection is a factor in relation to program participation as the self-employed may be more inclined to participate when they anticipate receiving more in benefits than they contribute in premiums.

### *Factors influencing the decision to opt in*

The evaluation identifies several issues that may contribute to the low take-up of the measure including: the specific nature of self-employed work, the voluntary nature of the measure, and the specific program parameters.

Firstly, the evaluation findings point to the fact that self-employed workers typically live a different experience than salaried workers due to their business responsibilities and have a range of views with respect to the need for EI income protection. Some self-employed workers may prefer to self-insure by putting money aside for use when required rather than participating in the EI SBSE program.

Secondly, the voluntary nature of the measure creates a situation of self-selection. In other words, the self-employed workers who are more likely to benefit are more likely to enroll in the program. This is consistent with the observation that self-employed women participate to a larger degree than men and that maternity and parental benefits represent the majority of self-employed claims.

Finally, the specific parameters of the EI SBSE program may not provide sufficient incentive for some self-employed workers to participate given the nature of their particular self-employment. These parameters include: premium rates, benefit rates, uncertainty of the benefit amount as self-employed income tends to be more variable year-over-year, the requirement to opt in a year in advance of receiving benefits and the need to continue contributing for as long as self-employment continues after benefits are claimed.

### *Program delivery*

The report identified some awareness issues despite marketing and outreach activities that were undertaken at the start of the initiative such as mail-outs, web posting, videos and print material. Information regarding the SBSE measure is available on Service Canada's main EI webpage and further details are provided on specific special benefits webpages as well as videos and examples of individual situations to help the self-employed determine whether SBSE would address their needs. Even with this information, the report noted that issues remain in understanding the SBSE measure and its parameters.

## **Recommendations and Observations**

### **Recommendation**

Continue to develop understanding of the needs of diverse self-employed population as they relate to:

- 1.The income support provided by the SBSE.
- 2.The design of the measure and other potential approaches.
- 3.Awareness of the measure.

Management agrees to undertake further policy research and analysis to enhance understanding of the population of self-employed workers and to understand their needs when faced with life events that may cause an interruption of earnings.

Management believes that developing a better understanding of the self-employed population will assist analysis of the design of the measure and that additional financial analysis in relation to the self-sufficiency of the measure would also be helpful in assessing the design of the initiative.

# 1. Introduction

## 1.1 Evaluation Goals

Work on the SBSE evaluation started in 2010 and incorporated multiple lines of evidence covering the five core evaluation issues identified in the Treasury Board of Canada Secretariat's Directive on the Evaluation Function.<sup>1</sup> As the SBSE is a new initiative, the evaluation is especially interested in the need for the measure, the take-up and usage. The SBSE logic model and evaluation questions may be found in Appendices 2 and 3.

## 1.2 Lines of Evidence

Six lines of evidence were conducted for this evaluation:

- A *literature review* was conducted in 2011 to examine the work-life balance of self-employed workers.
- An *international comparison* looked at the social benefit programs for the self-employed in other jurisdictions (including countries in the European Union, the U.S., New Zealand and Australia). This 2011 study focused on the other jurisdictions' program rationale, coverage, eligibility criteria and benefit level.
- The *2012 Survey of Self-employed People*, conducted in January and February 2012, provided a profile of SBSE participants and non-participants and explored the issues of awareness, relevance and overall perceptions of the SBSE. The survey analysis was based on responses from 499 participants and 502 non-participants. The participant sample was generated from ESDC administrative files; the non-participant sample used a random digit dialling procedure.
- *Focus groups* were held in Vancouver, Calgary, Ottawa, and Montreal in 2013. A total of 91 individuals attended the groups. Separate sessions were held in each city for:
  - Current participants of the SBSE;
  - Former SBSE participants who cancelled or terminated their agreements;
  - Non-participants (self-employed workers who never registered for the SBSE).
- *Key informant interviews* gathered in-depth information from ESDC and Service Canada staff, and external stakeholders including accountants/financial advisors. The interviews were conducted in 2013.
- A *descriptive analysis* using ESDC administrative data and CRA T1 income tax files<sup>2</sup> was conducted to a) profile SBSE participants and claimants and compare the profile to non-participants, and b) provide information on benefit usage. Administrative data for SBSE

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<sup>1</sup> <http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=15681&section=text#appA>

<sup>2</sup> Most recent year of tax data available for analysis was 2011.

registrations up to May 31, 2013 and CRA T1 files for tax years 2010 and 2011 were used in the analysis.

Two other surveys conducted on behalf of ESDC are referenced in this evaluation:

- i. Employment Insurance (EI) Tracking Survey 2011. This annual survey tracks public attitudes on various aspects and elements of the EI program.
- ii. 2006 Survey of Self-employed Individuals: Perceptions of Benefit Coverage. This survey was commissioned by ESDC to obtain a demographic profile of the self-employed and to determine the views and interest among self-employed workers in gaining access to EI special benefits.

### 1.3 Program Description

One of the most important programs managed by ESDC is Employment Insurance. EI is a program that provides temporary financial assistance for individuals between jobs, who cannot work due to sickness, childbirth or parenting, and for those providing care to a family member who is gravely ill. Special or regular benefits intended for wage earners are governed by Part I of the *Employment Insurance Act*, while the special benefits for the self-employed fall under Part VII.1 of the *Act*. Benefits replace 55% of lost income (up to a maximum amount) for those who have made contributions to the EI program for a specified period. Special benefits recognize individuals as both workers and caregivers, and access to these benefits supports workers' efforts to achieve balance between work and life.

Self-employed individuals represent approximately 15% of the labour force and make significant contributions to the Canadian economy. By providing work to other Canadians, the self-employed also contribute to employment growth and economic wealth. Historically, only paid employees who qualified for benefits through the EI Part I program could receive special benefits. Since the introduction of the SBSE on January 31, 2010, self-employed workers in Canada have had the option of participating in a measure that provides access to income support during periods of life changing events. Also eligible for the SBSE are employees of corporations who control more than 40% of the voting shares of the corporation ("employed shareholders"), who are not otherwise eligible for EI. Residents of Quebec are covered for maternity and parental benefits under the mandatory Quebec Parental Insurance Program (QPIP) but are eligible for the EI special benefits related to sickness or the need to care for a gravely ill family member.

In general, the benefits provided to the self-employed are modelled on the EI special benefits available to paid employees, although some eligibility conditions are specific to this particular population. Participants must enter into an agreement with the Canada EI Commission where they agree to pay EI premiums for at least one year prior to making a claim; and when making a claim for benefits, they must sign an attestation that they have reduced the time normally devoted to their businesses by at least 40%. While there is no minimum in self-employment income required for registration for the SBSE measure, to be eligible for benefits a participant must have earned a minimum amount of net income from self-employment in the previous calendar year: initially \$6,000 in net income from self-employment was required for claims

submitted in 2011; this amount is revised every year and was set at \$6,342 for claims filed in 2013.<sup>3</sup>

The registration process is conducted online via the My Service Canada Account<sup>4</sup> (MSCA) portal. The SBSE agreement may be cancelled within 60 days of registration with no obligation to pay EI premiums. Otherwise, agreements are terminated effective the end of the calendar year (and premiums are payable until the end of the calendar year). Once benefits are paid, participation in the measure lasts indefinitely: participants are obligated to pay premiums for the entire duration of their self-employed careers, regardless of any change in the nature of the self-employment.

Participants pay EI premiums at the same rate as employees, which for 2013 was set at \$1.88 for every \$100 earned to a defined maximum (\$1.52 per \$100 earned for workers in Quebec). Premiums are paid to CRA with the individual's income tax, using CRA Schedule 13<sup>5</sup> to calculate the premiums payable. Under the SBSE measure there are no employer premiums collected.

Self-employed workers are not entitled to receive regular EI benefits. If an individual is self-employed and is also receiving insurable earnings as an employee, they can choose to apply for EI special benefits either as a self-employed person or as an employee. If they apply as a self-employed person, earnings from both self-employment and paid employment will be taken into account in calculating the weekly benefit, although the defined minimum in net income from self-employment is required. The replacement rate (55%) and the number of weeks of income support available through the SBSE are identical to that provided to paid employees:

- Sickness – 15 weeks;
- Maternity – 15 weeks
- Parental – 35 weeks (may be shared)
- Compassionate care – 6 weeks (may be shared)
- Benefits for parents of critically ill children – 35 weeks (may be shared)

Until 2012, the allowable earnings threshold (“earnings exemption”) above which employment earnings were deducted from EI benefits was \$75 or 40% of a claimant's weekly benefit rate. Effective August 5, 2012 until August 6, 2016, a pilot project is in place that changes the way earnings are deducted.<sup>6</sup> Under this pilot, benefits are reduced by a rate of 50% of weekly earnings while on claim starting from the first dollar earned, until claimants earn 90% of their

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<sup>3</sup> Given that the number of hours worked by a self-employed person is not easily verifiable, the initial \$6,000 minimum in earnings from self-employment was set by converting the 600 hour entrance requirement for existing special benefits using a representative minimum wage of \$10 per hour. The minimum earnings requirement is indexed annually to increase at the same rate as the Maximum Insurable Earnings (MIE) set for existing special and regular EI benefits.

<sup>4</sup> My Service Canada Account provides secure access to view and update Employment Insurance, Canada Pension Plan, and Old Age Security information online. The Personal Access Code provided when the MSCA is created is required to register for the SBSE.

<sup>5</sup> CRA Schedule 13 is available here: <http://www.cra-arc.gc.ca/E/pbg/tf/5000-s13/5000-s13-13e.pdf>.

<sup>6</sup> This pilot project does not apply to maternity or sickness benefits.

weekly insurable earnings. Any earnings that exceed the 90% threshold are deducted dollar for dollar from their benefits.

## **1.4 Remarks on Insurance Schemes**

Most individuals are familiar with insurance products and the basic role insurance plays at the individual level by lessening the impact of undesirable and unexpected events. In addition to providing protection to individuals, insurance has a broader social value in the encouragement of entrepreneurial activities and contribution to economic growth.<sup>7</sup>

Fundamental to insurance schemes is risk pooling and diversity in the types of risk covered. Other considerations take the form of adverse selection (where individuals choose insurance coverage in a way that works to the detriment of the insurer) and moral hazard (where insured individuals alter their behaviour with the knowledge that they will not suffer negative consequences). The potential for moral hazard or adverse selection can make a business case unprofitable for a private insurance company.

Much research and discussion has occurred on the topic of insurance models and the importance of adverse selection and moral hazard. Some researchers<sup>8</sup> contend that while adverse selection occurs, its importance may be limited and dependent on the type of insurance. A literature review of social insurance in the U.S.A. done by Chetty and Finkelstein (2012) outlines the theory behind government intervention in the private insurance markets in the presence of adverse selection and discusses recent research including the determinants of take up. They cite evidence that suggests imperfect take up of an insurance product is driven by a mix of factors, including awareness and the ability and inclination of insurable individuals to “optimize” their insurance choices. This observation has some commonality with the findings of the SBSE evaluation.

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<sup>7</sup> Baltensperger, E., Bodmer, F., Zurich Financial Services (2011), “The Social and Economic Value of Insurance: A Primer”.

<sup>8</sup> Cohen, A., Siegelman, P. (2009), National Bureau of Economic Research Working Paper 15586, “Testing for Adverse Selection in Insurance Markets”.

## ***2. Key Findings***

### **2.1 Need for the Program**

***Q-1: Do self-employed workers need and want Employment Insurance to cope with major life events?***

The need for programs that provide maternity and parental benefits, short-term sickness, and compassionate care benefits to the self-employed is underscored by the number of countries that provide such benefits. The international comparison found that most European countries extend, in addition to benefits in kind (e.g. health care coverage), parental and or maternity leave and short-term sickness cash benefits to the self-employed. Among the 34 countries studied (including countries in the European Union, U.K., U.S.A, New Zealand, Australia), 30 of those countries provide some form of maternity/parental leave benefits to the self-employed and 26 countries extend short-term sickness cash benefits. The implementation of the SBSE measure has led to a greater alignment of Canadian social programs with many of the comparator countries.

Results from the 2012 Survey of Self-employed People, conducted between January and February 2012, found that only 25.4% of non-participants were aware of the SBSE prior to the survey interview. That said, less than half (45.7%) of non-participants said they would consider registering for the SBSE. The reasons provided varied greatly: age or earnings-related reasons, access to spousal or other insurance, no need for coverage for the life events provided by the SBSE. One-fifth said they didn't know enough about the SBSE to take a decision.

For the focus groups, major disincentives were related to paying premiums: the one-year qualifying condition and the requirement to pay premiums indefinitely once benefits are paid. In addition, the variability of income of the self-employed was a frequent consideration. Former participants and non-participants felt that only certain types of self-employed workers might find the SBSE appealing. They thought that older self-employed people or those who have been self-employed for a long time would likely have little need for the measure or would have personal resources, including private insurance, to rely upon.

The key informants, a diverse group of federal public service representatives and external stakeholders, agreed that the SBSE would be especially attractive to those wishing to start a family. While a majority of the public service representatives felt that there was a strong need for the income support provided by the SBSE in general, the external stakeholders were less convinced. External stakeholders conceded the need for support but cited pragmatic barriers, such as the difficulty for business owners to take time off.

***Q-2: To what extent do self-employed individuals take time off to cope with life events related to maternity, parental obligations, sickness, or the need to provide compassionate care?***

In a 2006 survey of self-employed individuals,<sup>9</sup> 55% of respondents reported they had never experienced a direct conflict between their work demands and personal or family situations while self-employed. Another 26% experienced only one such incident, while approximately one in five encountered two or more such situations since becoming self-employed. One-quarter (24%) of respondents experiencing such a situation took no time off and 51% took 12 or fewer weeks off.

Only a few of the focus group attendees experienced work disruptions related to maternity, sickness, parental or compassionate care obligations. Both the key informants and the focus group attendees agreed that the self-employed find it difficult, if not impossible, to step away from their businesses for any extended period of time.

***Q-3: What types of alternative arrangements, if any, do self-employed individuals make in order to avoid disruption of work and income during major life events? How satisfactory are these alternative arrangements in terms of the impact on the business or earnings?***

Most self-employed workers do not hold private insurance for the types of life events covered by the SBSE. From the 2012 survey, 83.9% of participants and 67.8% of non-participants reported never holding income insurance. Survey respondents with private insurance were most often covered for short or long-term sickness or disability.

Fees are likely a significant factor in the lack of interest in private insurance coverage: 62% of respondents to the 2006 survey with no coverage of any kind cited cost as the main reason. Pricing for short-term disability insurance is based on multiple factors, including age, gender, smoking status, occupation, and the amount and type of coverage selected. Coverage for income loss related to the birth of a child or caregiving responsibilities is rare outside of plans provided through professional associations.

**Alternative non-insurance arrangements**

One-fifth of the 2012 survey respondents had no alternative non-insurance arrangements to cope with loss of income. Otherwise, respondents most often mentioned savings (33.0%) and family support (39.5%). Other arrangements included sub-contracting and going into debt. Having a spouse in paid employment was suggested as a strategy for ensuring adequate health benefits for a family while running a business. Survey respondents who were non-participants estimated that their alternative arrangements would cover approximately 47.4% of their income needs.

For some attendees of the focus groups a personal savings account was a more attractive option in comparison to the SBSE or private insurance. Contributions to a savings or investment account may be made in proportion to the funds available, there is no paperwork involved and whatever amount is accumulated may be used as required.

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<sup>9</sup> Phoenix Strategic Perspectives Inc. (2006), "2006 Survey of Self-employed Individuals: Perceptions of Benefit Coverage", prepared for ESDC. Percentages are reported in whole numbers throughout this particular paper.

Focus group attendees who did experience a major life event reported that they worked as much as they could for the duration, sought assistance from family, went into debt or left self-employment. They reported that coping with a work disruption was very stressful but necessary to sustain the business.

***Q-4: What other programs exist that support self-employed individuals during these life events?***

Other than the QPIP for Quebec residents and private insurance, there are no established programs to assist the self-employed during major life events.

## **2.2 Alignment with Government Priorities**

***Q-5: To what extent is the SBSE for self-employed individuals in line with government priorities?***

The 2008 Speech from the Throne expressed the Government of Canada's intention to break down barriers that prevent Canadians from reaching their potential: *"Many working-age Canadians are faced with the dual pressure of holding down a job and caring for their family. Increasing numbers of Canadians are taking care of elderly parents while also raising young children. Our Government is committed to supporting working families and helping make ends meet."*

The Government first committed to supporting the self-employed in Canada's Economic Action Plan for the 2009 Budget.<sup>10</sup> The SBSE measure broadens the scope of the support the government provides to workers and, by extension to families and communities, which is in line with government priorities.

***Q-6: To what extent is the SBSE for self-employed individuals in line with departmental strategic outcomes?***

The provision of EI special benefits under Part VII.1-- special benefits for self-employed workers -- supports the following ESDC Strategic Outcome: *A skilled, adaptable and inclusive labour force and an efficient labour market.*

The delivery of SBSE is in line with ESDC's Strategic Outcome 4: Service Excellence to Canadians. Service Canada provides the self-employed access to SBSE via in-person services, on the internet and via mail. The Department works in partnership with CRA to administer these benefits.

The fact is that the self-employed now have an option for income security, which is fully consistent with ESDC's strategic outcomes.

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<sup>10</sup> <http://www.budget.gc.ca/2009/home-accueil-eng.html>

## 2.3 Alignment with Federal Roles and Responsibilities

***Q-7: Is it the role and the responsibility of the federal government to make consequential amendments to the EI Act to mitigate the described risks faced by self-employed individuals?***

The implementation of the SBSE resulted in greater equity in the alignment of Canadian social programs. Prior to the introduction of Bill C-56, *Fairness for the Self-employed Act*, self-employed workers, who make valuable contributions to employment in Canada, had little or no income protection to cope with major life events. The SBSE measure makes use of existing EI program infrastructure to provide the self-employed with access to the same special benefits available to wage-earners in Canada.

## 2.4 Achievement of Expected Outcomes

***Q-8: What is the profile of self-employed individuals with an agreement and self-employed individuals with a claim under SBSE, compared to self-employed individuals who have not signed an agreement?***

***and***

***Q-9: Who is enrolling (age, gender, province, income level etc.) in the program?***

***and***

***Q-10 What are the socio-demographic factors (timing, financial, personal arrangement, sub-contracting issues, age, gender, health status, etc.) affecting the decision to enter into an agreement?***

The profile of participants is significantly different than that observed for self-employed non-participants in almost every observed characteristic. When SBSE participants were compared to a sample of non-participants taken from the CRA T1 file for tax year 2011<sup>11</sup>, participants were found to be predominantly female (66.3%), while females represented 42.6% of non-participants. Participants were younger: 69.0% were between the ages of 25 and 44 years, compared to the 64.5% of non-participants who were 45 years of age or older.

The typical claimant was female (95.0%), between the ages of 25 and 44 years (91.3%), married or in a common-law relationship (90.3%), living in an urban area (88.2%) in Ontario (44.6%). One-quarter of them were supporting children under 18 years of age.

Although Quebec shows a higher share for participants compared to non-participants, regression results (not shown) found Quebec residents to be less likely to be SBSE participants once other factors were taken into account.<sup>12</sup> Similarly, regression results suggested single individuals were less likely to be SBSE participants.

Results of the 2012 survey found that participants tended to have higher levels of education. The proportion of non-participants (26.2%) reporting high school as their highest level of education

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<sup>11</sup> Most recent year of tax data available was 2011.

<sup>12</sup> More recent data show Quebec's share of net enrolment is 22.9% (as of October 11, 2014).

was double the proportion observed for participants (12.9%). Graduate degrees were reported by 14.3% of participants compared to 9% of non-participants.

The 2012 survey also found participants to be less likely to be an employer or have paid help (16.2%) than non-participants (37.3%). Participants reported significantly fewer years of self-employment: 4.8 years for participants compared to 11.7 years for non-participants.

**Table 1: Characteristics of participants, claimants and non-participants**

	Participants n=12,855	Claimants n=1,818	Non- participants T1 Tax Year 2011 n=200,714
<b>Gender</b>	%	%	%
Male	33.7	5.0	57.4
Female	66.3	95.0	42.6
<b>Age</b>			
15-24 Years	10.2	2.2	3.7
25-34 Years	43.6	66.0	12.8
35-44 Years	25.5	25.3	19.0
45-54 Years	11.6	3.4	24.4
55 Years and above	9.1	3.2	40.1
<b>Urban/Rural</b>			
Urban	86.6	88.2	76.2
Suburban/Rural	13.4	11.8	23.8
<b>Marital status</b>			
Unknown	2.4	0.8	0.2
Married	48.1	78.9	60.8
Common-law	12.8	11.4	9.0
Widowed	0.4	0.2	2.6
Divorced	3.3	1.7	4.4
Separated	4.0	1.0	4.5
Single	29.0	5.9	18.5
<b>With children under 18 years of age in 2011</b>	20.3	26.0	16.7
<b>Region</b>			
Unknown	0.0	0.0	0.2
Atlantic	6.2	6.8	4.9
Quebec	25.0	4.0	20.4
Ontario	36.8	44.6	40.2
Manitoba, Saskatchewan, Alberta	15.9	22.6	19.0
British Columbia, Territories	16.0	22.1	15.4

Source: ESDC administrative data, CRA T1 income tax files for 2010 and 2011.

There are striking differences with respect to the distribution of income. The CRA T1 data for 2011 revealed that 56.4% of participants reported nil or losses in net income from self-employment, compared to 14.0% of non-participants.<sup>13</sup> In fact, 50.4% of participants reported no *gross* income<sup>14</sup> from self-employment in 2011 (data not shown). In addition, 62.2% of

<sup>13</sup> In the 2012 survey, the proportion of participants reporting income under \$6,000 was 20.5%.

<sup>14</sup> Reporting self-employment starts with entry of gross income in one or more of five main categories (business, commission, farming, fishing or professional) on the CRA T1 form. Net income from self-employment is

participants had income from paid employment (T4 earnings) in 2011, compared to 28.2% of claimants and 19.9% of non-participants.

Participants and claimants were mostly occupied in business or professional activities.<sup>15</sup> Income for the non-participants was generated from business (69.2%), farming (11.9%) and professional activities (11.3%).

Among claimants, the percentage of individuals with paid employment income in 2011 was 28.2%, and income from paid employment exceeded income from self-employment in 16.1% of cases. Most claimants (78.1%) reported net income from self-employment below \$30,000.

**Table 2: Income profile of participants, claimants and non-participants**

	Participants n=12,855	Claimants n=1,818	Non- participants T1 Tax Year 2011 n=200,714
<b>Net income from self-employment in 2011<sup>1</sup></b>			
Loss and nil	56.4	16.9	14.0
\$2-\$5,999	9.5	13.5	20.2
\$6,000-\$9,999	5.6	9.8	13.1
\$10,000-\$19,999	11.3	24.8	22.1
\$20,000-\$29,999	6.5	13.2	10.6
\$30,000-\$39,999	4.1	8.6	5.5
\$40,000-\$49,999	2.3	5.0	3.5
\$50,000-\$59,999	1.6	3.0	2.3
\$60,000-\$69,999	1.0	1.9	1.6
\$70,000 and above	1.8	3.4	7.1
<b>Self-employment income type in 2011</b>			
Unknown	47.2	9.6	0.0
Business	37.3	63.6	69.2
Commission	5.3	4.4	6.4
Farming	0.4	0.4	11.9
Fishing	0.1	0.0	1.2
Professional	8.8	18.1	11.3
Employed shareholder with no self-employment income	0.9	3.8	n/a
<b>With paid employment income in 2011</b>	<b>62.2</b>	<b>28.2</b>	<b>19.9</b>
<b>Employed shareholders of corporations in 2011</b>	<b>1.3</b>	<b>5.5</b>	<b>n/a</b>

Source: ESDC administrative data, CRA T1 income tax files for 2010 and 2011.

1. Excludes employed shareholders.

The difference between participants and non-participants was quite evident in the focus groups in that participants were amenable to returning to paid employment if necessary but the non-participants expressed clear intentions to remain self-employed for the rest of their careers. Most

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established after deductions for expenses. CRA Schedule 13 is then completed by SBSE participants to calculate EI premiums payable.

<sup>15</sup> Self-employment income type was assigned mainly using amounts in the gross income fields on the T1; hence there is a large proportion (47.2%) of unknowns among participants.

of the participants attending the focus groups stated that they registered with the expectation that they would make a claim. Focus group attendees and 2012 survey respondents considered age a factor in the decision to participate, but health status was not mentioned.

***Q-11: What proportion of self-employed individuals enters into an agreement for special benefits?***

It was originally estimated that by the end of 2012, 318,900 self-employed workers would have opted into the measure.<sup>16</sup> The expected take-up over the first five years was based on projections of a self-employed person's primary purpose for opting in and adjusted for attrition resulting through withdrawal from the program or labour market, the transition to paid employment, death, and emigration.

In fact, between January 31, 2010 and May 31, 2013, 17,543 self-employed individuals opted into the SBSE measure and a total of 4,406 individuals subsequently cancelled or terminated their agreements. Thus, net registration for the SBSE is 13,137, representing 3.7% of the expected participation as of May 31, 2013.

***Q-12: To what extent does the prospect of major life events (becoming a parent, sickness, the need to provide compassionate care) influence the decision to enter into an agreement?***

As mentioned above (Q-2), in a 2006 survey of self-employed individuals,<sup>17</sup> 55% of respondents had never encountered a situation where their work demands were in conflict with major life events such as those covered by the SBSE. Similarly, only a few of the 2013 focus group attendees reported that they had experienced work disruptions related to the types of life events covered by the SBSE. However, most of the SBSE participants attending the focus groups stated that they registered with the expectation that they would make a claim.

Reasons for non-participation given in the 2012 survey were varied: age or earnings-related, no longer being self-employed and other unspecified reasons (29.6%); 22.1% did not need the insurance or they had access to other insurance (spouse, private, through an employer); another 22.1% of the non-participant respondents did not feel they had enough information to decide.

***Q-13: What proportion of self-employed individuals does not qualify for SBSE, i.e. has less than the required minimum income from self-employment?***

In order to be eligible for benefits, SBSE participants must have a minimum amount of income from self-employment in the year preceding the year of their claim. The threshold was set at \$6,000 in 2010, for claims submitted in 2011. In each subsequent year the minimum has increased: for claims submitted in 2013 the minimum level of earnings was \$6,342.

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<sup>16</sup> See *Benefits and Costs* (Table 1): <http://www.gazette.gc.ca/rp-pr/p2/2010/2010-01-22-x1/html/sor-dors10-eng.html>

<sup>17</sup> ESDC (2006), 2006 Survey of Self-Employed Individuals: Perceptions of Benefit Coverage, Phoenix SPI, commissioned by ESDC.

CRA T1 data for 2011 show that 34.2% of self-employed taxfilers reported less than the \$6,222 minimum that would be required for claims submitted in 2012; for tax year 2010, the results are similar with 34.4% of self-employed reporting under \$6,000 in net earnings from self-employment.

For comparison, among wage-earners the eligibility for special benefits has been estimated to be over 90% for the past few years.<sup>18</sup> The EI Monitoring and Assessment Report 2012 reported nearly all full-time paid workers (96.6%) in 2010 would have had sufficient hours to qualify for special benefits; for those employed only in part-time jobs during 2010, 64.6% would have been eligible to collect EI special benefits.

***Q-14: What proportion of agreements is terminated and when do the terminations occur?***

Within 60 days of registration, the SBSE agreement may be cancelled with no obligation to pay EI premiums. Otherwise, agreements are terminated effective the end of the calendar year and premiums are payable until the end of the calendar year. Overall, one-quarter (25.1%) of those who registered canceled or terminated their agreements.

As shown in Table 3, 5.4% of 17,543 registrants had terminated their agreements as of May 2013. After an initial spike in registrations in 2010, the number of new registrations declined in 2011 and 2012: a decrease of 19.1% from 2010 to 2011, and 28.9% from 2011 to 2012. The proportion of terminations to registrations increased (2.1% in 2010 to 8.3% in 2012), reflecting the coincident increase in terminations and decrease in number of registrations. The data required to calculate time from registration to termination are not available.

**Table 3: SBSE registration, cancellation and termination**

Year	Registrations	Cancellations	Terminations	Net Registrations	Terminations to Registrations (%)
2010	6,704	1,244	144	5,316	2.1
2011	5,424	1,193	370	3,861	6.8
2012	3,856	733	319	2,804	8.3
2013 (January-May)	1,559	290	113	1,156	N/A
All	17,543	3,460	946	13,137	5.4

Source: ESDC administrative data.

***Q-15: What other factors pose potential disincentives to self-employed individuals considering an agreement with the Canada EI Commission, such as EI premium level; the requirement that once a benefit has been paid, premiums are payable on all future income from self-employment; the required 40 percent reduction in time devoted to normal business activities;***

<sup>18</sup> See [http://www.esdc.gc.ca/eng/jobs/ei/reports/mar2012/chapter2\\_4.shtml](http://www.esdc.gc.ca/eng/jobs/ei/reports/mar2012/chapter2_4.shtml), page 78.

***the one-year qualifying condition; earnings exemption; potential Canada Revenue Agency claw back, etc?***

In the 2006 Survey of Self-employed Individuals, respondents were presented with three potential approaches to providing support to the self-employed: an income support program similar to SBSE; financial assistance program providing a lump sum; and a tax-sheltered savings plan. Approximately two-thirds of those who expressed interest in any of the three proposed approaches were willing to pay premiums for it.

The uncertainty that comes with the variability of income from self-employment was a common concern. Focus groups and key informants agreed that an important disincentive is the requirement to pay premiums on all future income from self-employment once benefits have been received, although this was not an issue for the non-participants interviewed for the 2012 survey. Some focus group attendees mentioned the earnings exemption as a disincentive, mainly because they expected to have to keep their businesses going at least minimally. It was generally agreed that self-employed individuals cannot be away from their businesses for an extended period.

When asked for reasons why they would not participate in the SBSE, 17.5% of 2012 survey respondents (non-participants) cited the premium level being too high, the benefit amount too low or participation in the SBSE was too much of a hassle. Two areas that were not a concern for survey respondents were 1) the earnings exemption and 2) the potential complications arising from using estimated earnings to establish a claim (EI Repayment).<sup>19</sup>

***Q-16: What is the claim rate, overall and by type of benefit? What proportion of claims is denied? What proportion of claimants had to estimate their income for the purpose of setting the benefit rate?***

Between January 2011 and June 2013, there were 2,422 claims: 14.3% of claims were not established due to problems determining earnings (1.8%) or claimant had not met the mandatory one-year qualifying condition (12.5%); 75.1% of claims were paid; the balance (10.6%) were claims unpaid due to disenitment, inactivity or other unknown/unspecified reasons.

The paid claims included benefits for maternity (72.7%), parental (76.3%) and sickness (18.3%).<sup>20</sup> Very few compassionate care claims were paid and there were no claims for benefits for parents of critically ill children.<sup>21</sup> Of the 2,076 established claims, 5.3% were established using estimated earnings. Overall, the proportion of paid claims to net registrations is 13.8%.

The average weekly benefit paid was highest for maternity (\$309) compared to parental (\$290) or sickness (\$245). EI Part I average weekly benefit rates tend to be higher. For comparison, in

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<sup>19</sup> EI Repayment refers to the situation where estimated earnings are used to set the benefit level and a subsequent compare with CRA tax data shows the claimant's actual income from self-employment was lower than the estimated amount.

<sup>20</sup> Benefits are often combined, especially maternity and parental, hence the percentages do not add to 100.

<sup>21</sup> Benefits for Parents of Critically Ill Children (PCIC) were introduced June 9, 2013.

2012–13 average weekly benefit rates under EI Part I were: maternity (\$394), parental-biological (\$402) and sickness (\$365).

***Q-17: On average, what is the time to the first claim?***

For claimants who registered in 2010, the average number of weeks between registration and the first week of paid benefits was 85.6 weeks (median 73 weeks). Shorter timeframes were observed for those who registered in 2011: 67.9 weeks (median 62 weeks).

***Q-18: Is there evidence that participants time their enrolment to ensure eligibility just as they are about to become parents or have surgery?***

From the international comparison study it was determined that many of the programs in other countries that provide types of income support similar to the SBSE are new and very few<sup>22</sup> of them are offered on a voluntary basis. The study found no published data to support or refute the timing of enrolment to life events.

The descriptive analysis study found that among claimants who registered in 2010, about half (47.4%) received benefits within six months of the end of the qualifying year (i.e. between 50 and 78 weeks after registration). For 2011, the proportion is considerably higher at 72.6%.

The highest proportions are associated with claims where the first benefit paid was parental: in 2010, 78.3% of claims paid benefits within six months of the end of the qualifying year, and for those who registered in 2011 the proportion was 91.4%. Similarly, for maternity claims the proportion with benefits paid within six months was higher in 2011 (70.6%) than in 2010 (46.3%). The assessment of the distribution for sickness benefits is more of a challenge given, for example, the different wait times for elective surgery and the small number of claims for this type of benefit. While the observations of maternity and parental claimants suggest that participants are timing enrolment, these observations were made fairly soon after implementation of the measure. Nevertheless, the potential for adverse selection is clear and was evident in the focus groups in that a majority of the SBSE participants who attended the focus groups indicated an important consideration in the decision to register was the likelihood of making a claim. It should be noted that once benefits are paid, the individual must pay EI premiums on all future income from self-employment.

***Q-19: How are benefits being combined?***

Overall, 67.3% of completed claims paid a combination of benefits. Claims with a combination of benefits most often included maternity and parental (66.6%). Claims for parental only represented 17.5% and less than ten percent were for sickness only.

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<sup>22</sup> Maternity/parental benefits are financed on a voluntary basis in Austria, Bulgaria, Poland, Czech Republic and France (specific industry sectors only). Similarly Bulgaria, Poland, Czech Republic, France and Switzerland finance sickness benefits on a voluntary basis.

***Q.20: How does the duration of claims compare to special benefit claims duration paid under EI Part I?***

In fiscal year 2011–12, both SBSE and EI Part I claimants averaged 29.6 weeks of parental (biological)<sup>23</sup> benefits. At 13.7 weeks, the average duration of maternity claims for SBSE participants was shorter than that of wage-earners by about one week. Sickness benefit durations were 9.4 weeks under EI Part I compared to 10 weeks for SBSE claimants.

***Q-21: Is there evidence that claimants continue to receive benefits after they are no longer reducing the time they devote to their self-employment activities by at least 40%?***

There is little evidence in the administrative data that claimants have not reduced the time they work at their businesses as stipulated in their agreements. Out of all paid claims, 162 (8.9%) received at least one week of disentitlement: just over half were disentitled for reasons related to providing a medical certificate and the balance of the disentitlements was for a variety of reasons including about 2% for issues related to remuneration.

However, the design of the SBSE is such that the onus is on the individual to report earnings as specified in the agreement. The inherent challenge to the integrity of the SBSE is in the nature of self-employment: the self-employed have greater control over their work schedules and they can be better positioned than wage-earners to arrange the timing of their income.

***Q-22: Are there differences in usage of maternity or parental benefits between the QPIP and the SBSE in the case of self-employed?***

Comparison with QPIP is limited due to significant differences in the design of the SBSE and the QPIP. The QPIP is a mandatory program covering all workers, offering maternity, parental and paternity leave and a choice of benefit streams with a replacement rate equivalent or greater than that of the SBSE.

Both the SBSE and the QPIP consider income from self-employment and paid employment when setting the benefit rate. Both regimes have a majority of claimants with income from self-employment only, compared to claimants with mixed income. Some comparisons are possible with respect to maternity and parental (biological) benefits: for claimants with income from self-employment only, the maternity and parental (biological) benefit rates were as follows in 2011:

- SBSE maternity claimants received an average of \$304 weekly compared to an average weekly benefit between \$315.74 and \$361.89 for QPIP claimants.
- SBSE parental (biological) claimants received an average of \$288 compared to an average weekly benefit between \$328.25 and \$370.29 for QPIP claimants.

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<sup>23</sup> There were too few observations for SBSE parental (adoption) for a comparison with parental (adoption) under EI Part I.

***Q-23: What is the impact of the SBSE for self-employed individuals on the quality of life of those who take advantage of this initiative?  
and***

***Q-24: What are the impacts of receiving EI special benefits on the businesses of self-employed individuals?***

Focus group attendees reported less stress and pressure as a result of receiving benefits. The benefits allowed claimants precious time for recuperation and family and they were able to keep their businesses going, rather than go back to paid employment or incur debt.

A majority (78.9%) of the 2012 survey respondents with paid claims agreed that the benefits received had a positive effect on the stability of their income.

***Q-25: Is there any evidence of an effect of the SBSE for self-employed individuals on other EI initiatives or on the labour market?***

Clearly, the SBSE has too few participants to have an effect on the labour market. With respect to the Employment Insurance Program, EI Part I initiatives are designed to support the 14-15 million wage-earners in Canada.<sup>24</sup> However, EI Employment Benefits and Support Measures (EBSM) provide financial assistance and business planning advice to individuals who are eligible for EI Part I benefits. The financial assistance provided helps cover personal living expenses and business-related expenses during the initial stages of the business start-up. The existence of the SBSE has the potential to influence EI Part I claimants to consider self-employment. Currently, there is insufficient information available to determine whether or not the income support available through the SBSE had an effect on the number of individuals participating in the self-employed initiative of the EBSM.

The international comparison found only indirect evidence of an effect of social benefits for the self-employed on labour market outcomes. Recent research on the factors determining the survival of firms suggests that extending short term financial assistance may improve the survival and growth outcomes of the self-employed.<sup>25</sup> This leaves open the possibility that measures like the SBSE may encourage self-employment.

***Q-26: Is there any evidence that the SBSE has affected the proportion of individuals who combine both salaried employment and self-employment?***

The current level of participation in the SBSE is too low to show an effect in terms of persons deciding to try self-employment while keeping their “day jobs”, or self-employed workers exiting the paid employment that maintained their access to EI special benefits. Statistics Canada data<sup>26</sup> for 2011 on employment income estimate the number of tax filers reporting a mix of wages, salaries, commissions and self-employment income at 1.3 million. In addition, the proportion of tax filers with mixed income has not varied greatly in recent years: between 2007 and 2011 the proportion ranged from 6.8% to 7.0% of all tax filers with employment income.

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<sup>24</sup> Statistics Canada CANSIM Table 282-0011 for 2011.

<sup>25</sup> <http://www.oecd.org/industry/smes/43183090.pdf>

<sup>26</sup> Statistics Canada CANSIM Table 111-0024, “Labour income profile of tax filers”.

***Q-27: Are there any disincentives to re-enter self-employment after receiving special benefits?***

None of the focus group attendees who received benefits under the SBSE indicated that they did not return to self-employment after their claim period. In fact, several participants said that the availability of benefits through SBSE was an important factor in choosing to stay self-employed. Most of the focus group attendees who were current SBSE participants mentioned that they intend to be self-employed for a long time but many of them would not rule out moving into paid employment.

## **2.5 Demonstration of Efficiency and Economy**

***Q-28: Is the SBSE for self-employed individuals the appropriate vehicle to help self-employed individuals facing major life events?***

***and***

***Q-29: What alternatives exist in terms of program delivery or regulations?***

The international comparison found that the design of the SBSE is one of many possible approaches to supporting the self-employed but that very few of the countries studied provide support on a voluntary basis. The majority of programs studied in the comparator countries that provide the same type of social protection encompassed by the SBSE measure do so under broad social systems typically financed through general taxation or a mandatory contribution program. In fact, none of the countries examined provides for maternity/parental leave, short-term sickness, compassionate care and unemployment under a single separate program. That said, broad tax based systems supporting both wage-earners and self-employed frequently impose separate eligibility rules to deal with the problems that are unique to the self-employed. The determination of eligible income, for example, is frequently calculated over a longer period of time for the self-employed than for wage-earners.

One suggestion raised in the international comparison study was to consider extending the period over which income is calculated for setting the benefit, given the variability of income of the self-employed. In some of the comparator countries the benefit rate for the self-employed is fixed, while other countries base benefits on income. A fixed rate benefit helps avoid the manipulation of earnings or labour market activity under an income based program.

The international comparison noted the initial 12-month qualifying condition under the SBSE measure to be longer than many of the programs considered in the cross-country comparison.

As noted above (Q-15), in the 2006 Survey of Self-employed Individuals respondents were presented with three potential approaches to supporting self-employed workers. A tax-sheltered savings plan was the preferred option:

1. Tax-sheltered savings plan similar to an RRSP that would allow contributors to withdraw funds when required (78%).
2. Income support option similar to that provided by EI to paid employees (74%).

3. Financial assistance in the form of a lump sum to help defray costs of running a business while people are not working (70%).

A tax-sheltered savings plan was also suggested by focus group attendees along with subsidized child care, improved tax deductions for health and disability insurance, and micro-loans for bridge funding for work disruptions. The focus groups concluded that the self-employed need flexibility to create their own solutions.

***Q-30: To what extent is the EI program for self-employed individuals self-sufficient, meaning no additional cost for the EI Commission?***

In the context of the EI Program, “self-sufficient” is a reference to the *EI Act*, subsection 66. (1)<sup>27</sup> that requires the premium rate be set so that just enough premium revenue is generated to cover the amount charged to the EI Account. Given that the SBSE was introduced in 2010, with benefits payable effective in 2011, a longer timeframe is required to allow for an assessment of self-sufficiency. However, the voluntary nature of the SBSE makes it likely that individuals will self-select into the measure: as noted above (Q-10) self-selection was evident in the focus groups, where most of the current SBSE participants reported that they registered with the expectation that they would make a claim.

Table 4 presents benefits paid and premiums collected by calendar year. The most recent year of tax data available was 2011.<sup>28</sup> Benefits paid under the SBSE measure totalled \$13,994,066 as of 2012–13. Estimates from CRA T1 tax data show that 5,413 individuals paid \$2,728,144 in premiums for SBSE over tax years 2010 and 2011.<sup>29</sup>

**Table 4: Benefits paid and premiums collected under the SBSE measure**

	Calendar year				
	2010	2011	2012	2013 (to March 31, 2013)	All
Premiums collected	\$1,176,096	\$1,552,048	(Note1)	(Note1)	\$2,728,144
Benefits paid	(Note2)	\$4,963,431	\$7,001,946 (Note3)	\$1,773,214 (Note3)	\$13,994,066

Source: ESDC administrative files as of August 2013; CRA T1 tax files.

Note1: As premium payments are administered through the tax system, the most recent data available was for the 2011 taxation (calendar) year.

Note2: Benefit payments commenced in January 2011.

Note3: Benefits paid by fiscal year: \$5.7 million in 2012–13; \$8.2 million in 2013–14 (ESDC 2013–14 Monitoring and Assessment Report).

Estimated administration costs for the measure are shown in Table 5. Between 2009–10 and 2013–14, the cost for ESDC to implement this new measure and support ongoing operations was \$45,041,712.<sup>30</sup>

<sup>27</sup> <http://laws-lois.justice.gc.ca/eng/acts/e-5.6/page-31.html#docCont>

<sup>28</sup> A two-year lag exists between a given tax year and the year the tax data are available for analysis.

<sup>29</sup> Estimated for SBSE participants from CRA T1 field “EI premiums payable on self-employment earnings”, line 430 on T1.

<sup>30</sup> Administrative cost figures exclude CRA expenditures of approximately \$5.3 million.

Administration costs are decreasing year over year. Several program areas, such as Legal Services, Service Canada College, Innovation, Information and Technology Branch and Operations (National Headquarters) had relatively high initial costs, all of which have decreased as of March 31, 2014.

Administration costs are high relative to the amounts paid in benefits. For example, in fiscal year 2013–14, \$8.1 million was expended for administration costs compared to \$8.2 million paid in benefits.

**Table 5: SBSE administration costs by fiscal year**

	2009–10	2010–11	2011–12	2012–13	2013–14	All
<b>Program Area</b>						
Policy Development	\$139,108	\$353,715	\$579,970	\$574,570	\$245,993	\$1,893,356
Legal Services	\$120,000	\$149,922	\$45,007	\$68,663	\$0	\$383,592
Public Affairs / Communication Services / Citizen-centred Service	\$205,185	\$3,727,806	\$3,768,084	\$3,096,484	\$3,341,040	\$14,138,599
Service Canada College	\$37,536	\$424,175	\$66,156	\$25,575	\$0	\$553,442
Innovation, Information and Technology	\$0	\$4,795,962	\$793,549	\$165,565	\$135,600	\$5,890,676
Operations - National Headquarters	\$69,757	\$1,784,913	\$850,951	\$424,148	\$378,651	\$3,508,420
Operations - Regions	\$0	\$0	\$1,216,456	\$1,628,875	\$1,848,319	\$4,693,650
Integrity Measures	\$0	\$467,264	\$1,314,460	\$1,314,455	\$552,881	\$3,649,060
Evaluation	\$0	\$57,891	\$253,146	\$156,340	\$109,448	\$576,825
Corporate Support	\$167,252	\$3,437,694	\$2,745,443	\$1,876,897	\$1,526,804	\$9,754,090
Total	\$738,837	\$15,199,342	\$11,633,223	\$9,331,571	\$8,138,739	\$45,041,712

Source: ESDC files as of August 2014.

Note1: Costs include Employee Benefit Plans; column totals may vary from the Total row due to rounding.

Note2: The Chief Financial Officer Branch confirmed that specific financial coding to track the administration of these specific EI benefits is no more available since the Department didn't receive a condition to track the costs on a permanent basis from the Treasury Board Secretariat.

***Q-31: Are there more cost-effective alternative ways that might achieve the objectives and the intended results? Are there other alternatives under federal responsibility, such as the CPP, a tax-sheltered saving plan or a general expense program, which could be used as a channel for delivering EI special benefits to this segment of the labour force?***

The international comparison study found that although there has been research conducted in recent years examining the role of social programs on self-employment outcomes (such as survival and growth of self-employment, and return to work intervals - especially following childbirth), few of the studies conduct formal program evaluations. In particular, most studies do not undertake the sort of cost-benefit analysis that is particularly useful for policy decision-making.

Nevertheless, the potential of the self-employed to time their income in response to an initiative such as the SBSE together with voluntary enrolment could inflate costs. As discussed above

(Q-29), a common alternative is a broader tax based system that covers both wage employed and self-employed individuals. The international comparison study found that most countries that supported their self-employed workers did so via either a broad tax based system or a mandatory contribution program.

Obviously, if all – or most – self-employed individuals had to contribute to the SBSE, premium revenue coming into the EI Account would be greater. However, from the results of the focus groups and the 2006 survey, there is little support among self-employed workers for a mandatory contribution scheme.

Alternative approaches identified through the international comparison included a general purpose expense program financed through tax-sheltered savings for the self-employed. Such a program would require the self-employed to contribute to a tax-sheltered savings account from which withdrawals could be made under a set of pre-specified conditions to fund life events, such as short-term earnings disruptions or retirement. Much like the loss of employment for wage employees, the loss of work or business can come about because of factors unrelated to the self-employed individual's choice or behaviour. As mentioned above (Q-25), the research on factors determining the survival of firms suggests that the availability of short-term financial assistance may improve the survival and growth outcomes of the self-employed. Further, firm survival and growth likely have external effects on worker employment and productivity.

***Q-32: To what extent might mandatory participation better achieve the objectives at lower cost?***

The international comparison suggests that most of the comparator countries provide support under either a broad-based social protection program funded by tax contributions or by mandatory contributions. The lack of voluntary programs in the comparator countries may be indicative of issues in the provision of such protection on a voluntary basis. While the international comparison study did not find direct evidence of such behavior, it is likely that individuals will self-select into the measure. This creates problems with respect to the equity of such programs and financial viability. Low earning self-employed individuals may be less likely to voluntarily enter the program because of the greater relative cost and lower benefits. In addition, the selection of self-employed individuals with the greatest potential for benefits may diminish the ability of the SBSE program to be self-financed or could lead to increased costs.

Coverage on a compulsory basis would mitigate some of the costs to the EI program for the SBSE measure. However, evidence from the focus groups and the 2006 survey indicated that there was little support for a mandatory contribution approach.

## **2.6 Program Delivery Issues**

***Q-33: What is the level of awareness and understanding of the EI special benefits (agreement, benefits, tax file link, eligibility criteria, self-estimation of income, etc.) of self-employed individuals?***

Overall, self-employed Canadians are not aware of the SBSE measure. Only 25.4% of non-

participants responding to the 2012 survey had heard of the SBSE measure prior to the interview. These results are consistent with the 2011 EI Tracking Survey<sup>31</sup> where over three-quarters of Canadians (77%) were unaware that the Government of Canada had passed legislation providing special benefits to self-employed Canadians on a voluntary basis. Ten percent claimed to be definitely aware of the SBSE, and a further 12% claimed to be vaguely aware of it.

In terms of understanding of the SBSE among participants, at least three-quarters of those responding to the 2012 survey were aware of and understood key aspects of the measure such as: the qualifying year (76.3%); that benefits were based on earnings from the previous tax year (88.6%); details regarding the benefit rate (78.1%). A majority (54.9%) knew that they may terminate their agreements at any time after the initial sixty-day period with the condition that EI premiums are payable until the end of the year.

Among non-participants responding to the 2012 survey who were aware of the measure prior to the interview, 45.9% first heard about the SBSE through the media, while 24.7% first heard by word-of-mouth. About 71% did not search for more information on the measure. Only 56.5% of non-participants who searched for more information characterized the information they found as “clear and easy to understand.”

From the focus groups it was learned that many attendees had questions about SBSE requirements. For example, they wondered about how to estimate their income if necessary, how to justify the 40% reduction in work hours for a claim given that work hours for self-employed are variable.

A large majority of key informants, both the federal Public Service representative group and the external stakeholder group, noted that there are issues pertaining to awareness of the SBSE.

It should be noted that ESDC carried out marketing and outreach activities regarding the SBSE using a mix of target print and web media. Between January 2010 and March 2011, four videos explaining the SBSE were posted to [www.servicecanada.gc.ca](http://www.servicecanada.gc.ca), and in August 2011 a special mail-out sent an information piece promoting the SBSE to approximately 150,000 women between the ages of 20 and 40 with reported self-employment income.<sup>32</sup> In addition, an insert was provided to CRA and an array of other departments, organizations and associations were informed about the measure.

***Q-34: What are some of the more common questions or subject areas in need of clarification?***

Focus group participants had a variety of technical questions: definition of who is self-employed; are the earnings gross or net; do the premiums go up every year; definition of “end of tax year”. A common concern was the situation where a claimant has to estimate his or her income.

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<sup>31</sup> Percentages are reported in whole numbers throughout this particular paper.

<sup>32</sup> ESDC files, June, 2011.

Key informants identified the following as common subject areas:

- Awareness of the requirement to fill out CRA Schedule 13 and, in general, Service Canada received CRA-related queries (e.g. how to fill out Schedule 13 or determining which expenses can be deducted from gross income when determining net income from self-employment).
- One-year qualifying condition.
- How earnings affect benefits and how earnings are allocated relative to the benefit period.
- SBSE eligibility requirements in general.

***Q-35: Which program delivery factors influence participation (complexity of explanation, the link of EI benefits with CRA information)?***

Since about one-quarter of those who register for the SBSE cancel or terminate their agreements, a number of individuals are registering without being sufficiently aware of important aspects of the measure.

Former participants who responded to the 2012 survey most frequently cited misunderstanding of program requirements as a reason for cancellation or termination of their SBSE agreements.

Very few (4.8%) of non-participants interviewed for the 2012 survey indicated that they did not wish to participate for reasons related to program delivery factors and rules governing access and eligibility (such as the complexity of explanation, length of benefit period or premiums payable on future income). Data sharing between ESDC and CRA was not identified as a concern among survey respondents, the focus groups or the key informant interviewees.

The focus group attendees who had attempted to obtain information about the SBSE mentioned that obtaining information from Service Canada was a challenge and at times staff could not answer their questions.

The key informants from the federal Public Service noted problems and confusion associated with:

- Obtaining a My Service Canada Account (MSCA) and personal access code; the overall time it took to establish participation (to obtain a My Service Canada Account and finalize registration).
- Understanding the terminology on the SBSE application form.

### ***3. Conclusions and Recommendation***

This evaluation focussed primarily on the need for the SBSE measure, the take-up and benefit usage. The evidence examined points to a lack of awareness and an overestimate of the demand for the measure. It was acknowledged early on that forecasting participation was subject to considerable margins of error, given the challenges associated with this diverse population and the voluntary nature of the measure.

Although awareness of the SBSE within the self-employed population is clearly a factor in the low take-up, fewer than half of the non-participants interviewed for the 2012 survey would consider participating. The reasons for non-participation provided by the 2012 survey are quite varied but some of the more frequent reasons include age, variability of earnings, perceived need for the type of coverage provided by the SBSE and having other options such as being covered by a spouse or partner's insurance. It was generally agreed that the self-employed cannot step away from their businesses for an extended length of time. An analysis of CRA T1 data revealed that for tax years 2010 and 2011, about one-third of all self-employed workers did not earn the minimum income required from self-employment for access to EI special benefits.

The profile of SBSE participants was observed to be significantly different from the comparison group of self-employed tax filers in 2011. Characteristics such as gender, age and income varied substantially between participants and the non-participant group. The potential for adverse selection emerged in the focus groups where the majority of SBSE participants interviewed indicated that an important consideration in the decision to register was the likelihood of making a claim.

A total of \$14 million was paid in benefits as of March 31, 2013. Claimants participating in the focus groups and 2012 survey reported that receiving benefits allowed precious time for recuperation and family, and they welcomed the stability of income provided by the benefits. Administration costs to implement this measure and support ongoing operations totalled \$45 million over fiscal years 2009–10 and 2013–14. Since 2010–11, administration costs have been decreasing year over year and were estimated to be \$8,138,739 for 2013–14. That said, administration costs are high relative to the amounts paid in benefits.

While the objective of the SBSE – to help self-employed workers better balance work and family responsibilities – is achieved on an individual level, it remains to be seen if the measure in its present configuration is the best approach. As a result of the evaluation findings, the recommendation is the following:

To continue to develop understanding of the needs of the diverse self-employed population as they relate to:

- The income support provided by the SBSE.
- The design of the measure and other potential approaches.
- Awareness of the measure.



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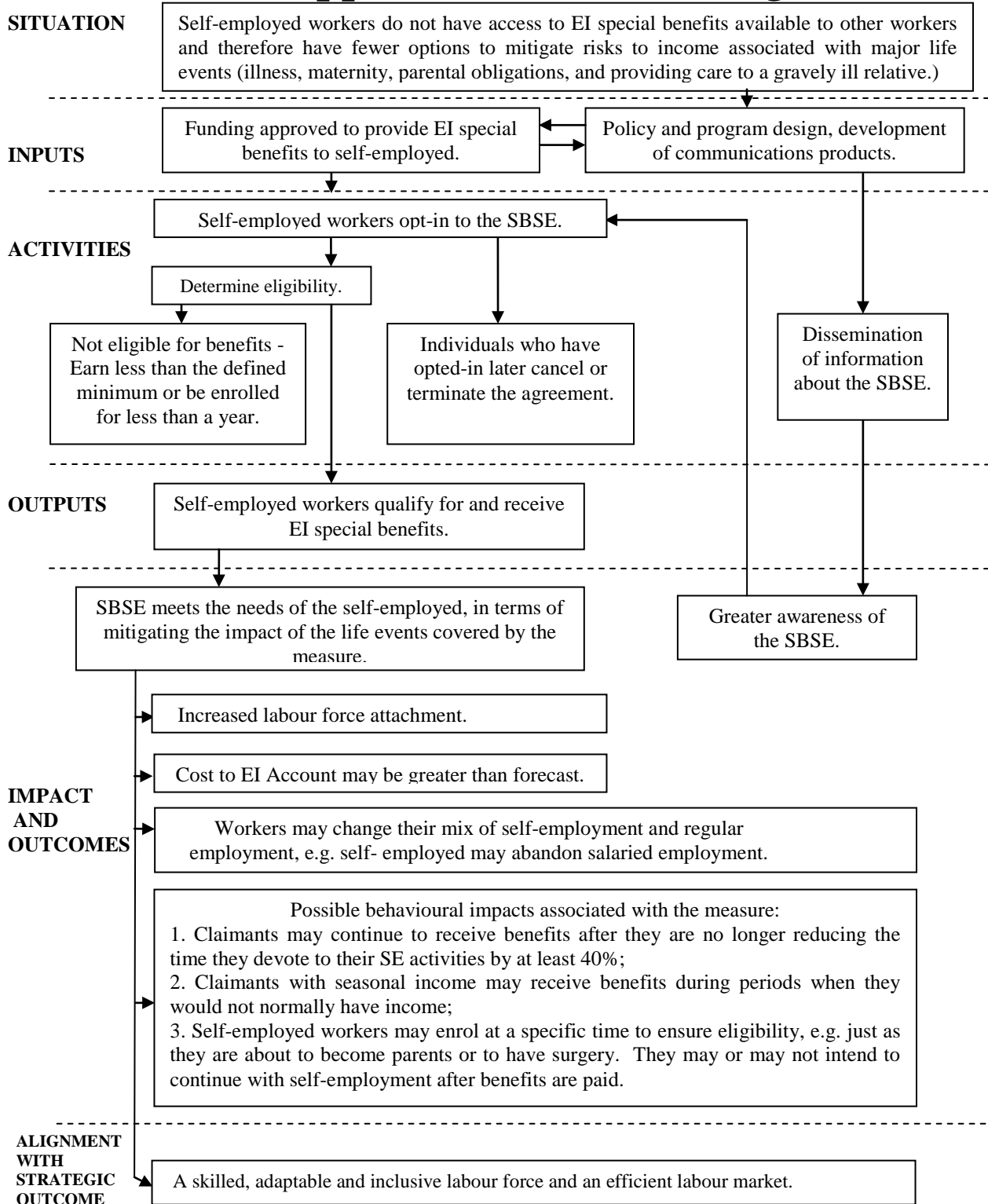
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## Appendix 2 – SBSE Logic Model



## *Appendix 3 - Evaluation Questions*

	Literature Review	International Comparisons	Data Analysis	Survey of Self-employed People	Focus Groups	Key Informant Interviews
<b>Need for the Program</b>						
1. Do self-employed workers need and want employment insurance to cope with major life events?	X	X		X	X	X
2. To what extent do self-employed individuals take time off to cope with life events related to maternity, parental obligations, sickness, or the need to provide compassionate care?	X			X	X	
3. What types of alternative arrangements, if any, do self-employed individuals make in order to avoid disruption of work and income during major life events? How satisfactory are these alternative arrangements in terms of the impact on the business or earnings?	X			X	X	
4. What other programs exist that support self-employed individuals during these life events?	X	X				
<b>Alignment with Government Priorities</b>						
5. To what extent is the SBSE for self-employed individuals in line with government priorities?			X			
6. To what extent is the SBSE for self-employed individuals in line with departmental strategic outcomes?			X			
<b>Alignment with Federal Roles and Responsibilities</b>						
7. Is it the role and the responsibility of the federal government to make consequential amendments to the EI Act to mitigate the described risks faced by self-employed individuals?			X			
<b>Achievement of Expected Outcomes</b>						
8. What is the profile of self-employed individuals with an agreement and self-employed individuals with a claim under SBSE, compared to self-employed individuals who have not signed an agreement?			X			
9. Who is enrolling (age, gender, province, income level etc.) in the program?			X			
10. What are the socio-demographic factors (timing, financial, personal arrangement, sub-contracting issues, age, gender,			X	X	X	

	<b>Literature Review</b>	<b>International Comparisons</b>	<b>Data Analysis</b>	<b>Survey of Self-employed People</b>	<b>Focus Groups</b>	<b>Key Informant Interviews</b>
health status, etc.) affecting the decision to enter into an agreement?						
11. What proportion of self-employed individuals enters into an agreement for special benefits?			X			
12. To what extent does the prospect of major life events (becoming a parent, sickness, the need to provide compassionate care) influence the decision to enter into an agreement?	X			X		
13. What proportion of self-employed individuals do not qualify for SBSE benefits, i.e. have less than the minimum income from self-employment?			X			
14. What proportion of agreements is terminated and when do the terminations occur?			X			
15. What other factors pose potential disincentives to self-employed individuals considering an agreement with the Canada EI Commission, such as EI premium level; the requirement that once a benefit has been paid, premiums are payable on all future income from self-employment; the required 40 percent reduction in time devoted to normal business activities; the one-year qualifying condition; earnings exemption; potential Canada Revenue Agency claw back, etc.?	X			X	X	X
16. What is the claim rate, overall and by type of benefit? What proportion of claims is denied? What proportion of claimants had to estimate their income for the purpose of setting the benefit rate?			X	X		
17. On average, what is the time to the first claim?			X			
18. Is there evidence that participants time their enrolment to ensure eligibility just as they are about to become parents or have surgery?		X	X			
19. How are benefits being combined?			X			

	Literature Review	International Comparisons	Data Analysis	Survey of Self-employed People	Focus Groups	Key Informant Interviews
20. How does the duration of claims compare to special benefit claim duration paid under EI Part I?			X			
21. Is there evidence that claimants continue to receive benefits after they are no longer reducing the time they devote to their self-employment activities by at least 40%?			X			
22. Are there differences in usage of maternity or parental benefits between the QPIP and the SBSE in the case of self-employed?			X			
23. What is the impact of the SBSE for self-employed individuals on the quality of life of those who take advantage of this initiative?				X	X	
24. What are the impacts of receiving EI special benefits on the businesses of self-employed individuals?				X		
25. Is there any evidence of an effect of the SBSE for self-employed individuals on other EI initiatives or on the labour market?		X	X			
26. Is there any evidence that the SBSE has affected the proportion of individuals who combine both salaried employment and self-employment?			X			
27. Are there any disincentives to re-enter self-employment after receiving special benefits?					X	
<b>Demonstration of Efficiency and Economy</b>						
28. Is the SBSE for self-employed individuals the appropriate vehicle to help self-employed individuals facing major life events?	X	X			X	
29. What alternatives exist in terms of program delivery or regulations?	X	X				X
30. To what extent is the EI program for self-employed individuals self-sufficient, meaning no additional cost for the EI Commission?			X			
31. Are there more cost-effective alternative ways that might achieve the objectives and the intended results? Are there other alternatives under federal responsibility, such as the CPP, a tax-sheltered saving plan or a general expense program, which could be used as a channel for delivering EI special benefits to this segment of the labour force?		X				

	Literature Review	International Comparisons	Data Analysis	Survey of Self-employed People	Focus Groups	Key Informant Interviews
32. To what extent might mandatory participation better achieve the objectives at lower cost?	X	X				
<b>Program Delivery</b>						
33. What is the level of awareness and understanding of the EI special benefits (agreement, benefits, tax file link, eligibility criteria, self-estimation of income, etc.) of self-employed individuals?				X	X	X
34. What are some of the more common questions or subject areas in need of clarification?				X	X	X
35. Which program delivery factors influence participation (complexity of explanation, the link of EI benefits with CRA information)?				X	X	X