

OFFICE OF THE
PARLIAMENTARY BUDGET OFFICER



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Cost Estimate of Bill C-291

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The *Parliament of Canada Act* mandates the Parliamentary Budget Officer (PBO) to provide an estimate of the financial cost of any proposal that relates to a matter over which Parliament has jurisdiction when requested to do so by a member or by a committee.

On September 29, 2011 the Standing Committee on Finance (FINA) passed a motion that “[c]onsistent with the Parliamentary Budget Officer (PBO) mandate... the PBO automatically always provide the Committee, within 45 calendar days of a Private Members’ Business item’s appearance on the Private Members’ Business Order of Precedence, a detailed and comprehensive costing analysis of all such items.”

This report fulfills that motion with respect to Bill C-291: *An Act to amend the Employment Insurance Act (waiting period and maximum special benefits)*.

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* The authors would like to thank Human Resources and Skills Development Canada for their timely assistance, as well as Chris Matier for helpful comments. For further information please contact Jason Jacques (jason.jacques@parl.gc.ca).

Key Points

Bill C-291 proposes to extend the maximum duration of Employment Insurance (EI) sickness benefits to 50 weeks from the current maximum of 15 weeks, as well as eliminate the requirement of a two-week waiting period prior to receiving sickness benefits.

PBO's estimate of the cost of Bill C-291 is up to \$1.1 billion for 2009-10. This includes approximately \$200 million for the elimination of the two-week waiting period and approximately \$900 million for the extension of benefits to 50 weeks from the current 15 weeks. Had this Bill been implemented in 2009-10, it could have doubled the cost of EI sickness benefits.

The Employment Insurance program is financed by the collection of EI premiums from employees and employers. Therefore, in order for the program to remain self financing, any increase in EI expenditures would require an equivalent increase in EI premium revenues.

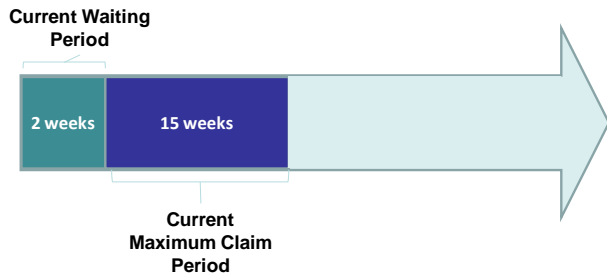
Introduction

The Employment Insurance program provides benefits to individuals that are unable to work because of sickness, injury, or quarantine. Following a two-week waiting period, individuals are eligible for up to 15 weeks of benefits (see Figure 1-1).¹

In 2009-10, the program disbursed over \$1 billion to approximately 328,000 beneficiaries. On average, recipients received a weekly benefit of \$334 for slightly more than 9 weeks.

Figure 1-1

Current Sickness Benefits Regime



Source: PBO

Bill C-291: *An Act to Amend the Employment Insurance Act (waiting period and maximum special benefits)* proposes two legislative amendments:

1. Eliminating the requirement of a two-week waiting period prior to receiving sickness benefits; and,
2. Extending the maximum duration of EI sickness benefits to 50 weeks from the current maximum of 15 weeks.

PBO has estimated the *static* cost of this proposal, meaning all impacts stemming from potential

behavioral responses to changes in the *Employment Insurance Act* (i.e. an increase in the number of people claiming sickness benefits) have not been considered due to availability of data.

It is also important to highlight that the estimated costs of these amendments are subject to uncertainty. To address this uncertainty, PBO has chosen to estimate a range of costs it believes to be the minimum and maximum static impact of the proposed amendments.

Methodology

PBO used a variety of data, Human Resources and Skills Development Canada (HRSDC) estimates and internal models to construct the estimated costs of Bill C-291.² The cost of both amendments has been estimated for fiscal year 2009-10.

Total sickness benefits (SB) can be calculated by multiplying the average weekly benefit (AWB) by the average benefit duration (AWP, in weeks) by total number of claims (C).

$$SB = C * AWB * AWP \quad (1)$$

Using this methodology and data from the 2010 *EI Monitoring and Assessment Report*, PBO's estimate of sickness benefits for 2009-10 is \$1,019 million – nearly identical to the value contained in the Public Accounts of Canada (\$1,023 million).

1. Elimination of two-week waiting period

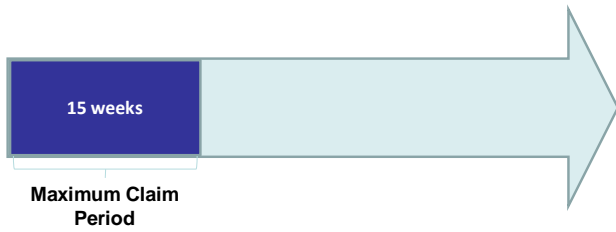
Under the current legislation, all EI benefit recipients must wait two weeks before collecting benefits. Bill C-291 proposes to eliminate this two-week waiting period (Figure 1-2).

¹ <http://www.servicecanada.gc.ca/eng/ei/types/sickness.shtml#much>. Accessed February 2011.

² In January 2012 HRSDC responded to PBO's December 5, 2011 request by providing information regarding its own cost estimates of Bill C-291. http://www.parl.gc.ca/PBO-DPB/documents/InformationRequests/Responses/Response_IR0057_HRSDC_Bill_C-291.pdf. Accessed January 2012.

Figure 1-2

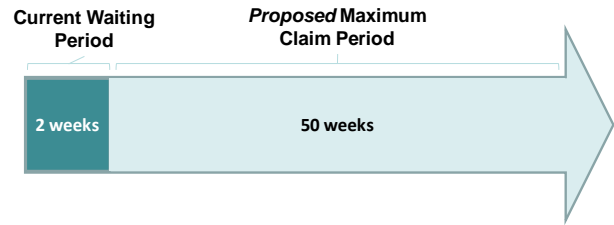
Proposed Elimination of Waiting Period



Source: PBO

Figure 1-3

Proposed Extension of Benefits



Source: PBO

To estimate the cost of eliminating the waiting period for sickness benefits, PBO multiplied the average weekly sickness benefit payment by the number of sickness claims and multiplied this value by 2. As such, it is assumed that all individuals eligible for benefits in the first two weeks would claim this time.

According to the *EI Monitoring and Assessment Report*, in 2009-10 there were approximately 328,000 new claims for EI sickness benefits. The average weekly benefit was \$334 and the average claim period was 9.3 weeks.

Given that the maximum benefit period remains 15 weeks, individuals currently claiming the maximum amount would receive no additional benefits and those claiming 14 weeks would only receive up to one additional week.³

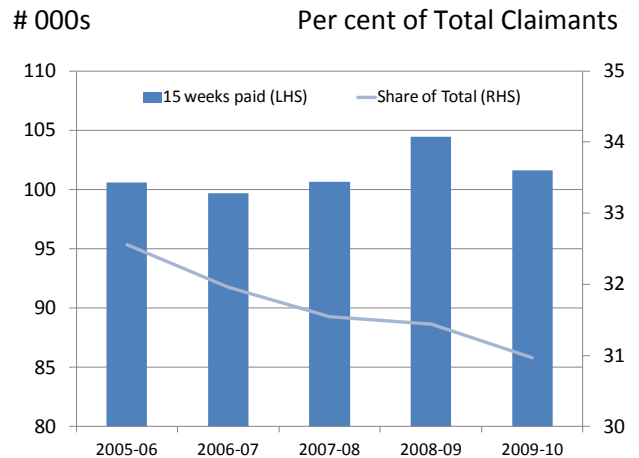
II. Increase in maximum sickness benefit duration

Under the current legislation, the maximum benefit period for EI sickness benefit recipients is 15 weeks. Bill C-291 proposes to extend the maximum benefit period to 50 weeks (Figure 1-3).

As presented in Figure 1-4, there were approximately 101,600 claimants that exhausted their full 15 weeks of benefits in 2009-10.⁴ This represents roughly 31 per cent of the total claimant population and has decreased slightly over the past five years.

Figure 1-4

Claimants Exhausting Sickness Benefits



Source: *Human Resources and Skills Development Canada; PBO Calculations*

³ The *Employment Insurance Monitoring and Assessment Report* identifies the proportion of claimants that exhaust the full 15 weeks of their claim. It is assumed that the balance of claimants are equally distributed across all other claim periods. http://www.hrsdc.gc.ca/eng/employment/ei/reports/eimar_2010/ind_ex.shtml. Accessed February 2012.

⁴ See footnote 1.

To calculate the cost of extending the maximum benefit duration to 50 weeks, PBO relied on data shared by HRSDC regarding the amount of time individuals continued to be away from work after exhausting their EI sickness benefits claim (Table 1).

Table 1

Working Lapse Post-Claim Period

Working Lapse Following 15 weeks of Benefits	Distribution
1 week to 8 weeks	11%
9 weeks to 16 weeks	7%
17 weeks to 26 weeks	5%
26 weeks +	77%

Source: Human Resources and Skills Development Canada

PBO estimated a range of potential costs based on multiplying the average weekly benefit (AWB) by the number of claimants (C) and the maximum and minimum duration for each segments. For instance, those requiring an additional 1 to 8 weeks to return to work would have a minimum duration of 1 week and a maximum duration of 8 weeks.

$$SB(MAX, MIN) = C * AWB * AWP(MAX, MIN) \quad (2)$$

As seen in Table 1, over three-quarters of claimants continued to be away from work for more than 26 weeks. For this group, the minimum and maximum claims were assumed to be 27 weeks and 35 weeks, respectively.⁵

III. Interaction Effect of Two Measures

As discussed earlier, waiving the waiting period will, in effect, provide an additional two weeks of

benefits for all individuals claiming between 1 week and 13 weeks, and one week of additional benefits for all individuals claiming 14 weeks.

When extending the benefits from 15 weeks to 50 weeks in conjunction with waiving the waiting period, all individuals claiming 1 week to 48 weeks would gain two weeks, and individuals claiming 49 weeks would gain one week only. Individuals claiming the maximum number of weeks would not benefit from the elimination of the two-week waiting period.

This interaction effect will offset part of the gross costs of each measure.

Results

Overall, the static cost estimate of the proposed legislative amendments range from \$900 million to \$1.1 billion (Table 2). The offset arising from the interaction effect is calculated to be approximately \$30 million.

Table 2

Total Static Cost Estimates (\$ million)

	Min	Max
Waived Waiting Period	185	185
Extended Benefits	722	976
Interaction Effect	(27)	(27)
TOTAL	880	1,134

Source: PBO Calculations

Had this Bill been implemented in 2009-10, total sickness benefit payments could have been approximately 100 per cent higher.

⁵ It is assumed that proportion of individuals claiming 15 weeks are the same as the proportion of individuals claiming 14 weeks in the previous scenario.

HRSDC Cost Estimate

HRSDC prepared a cost estimate of the proposed legislative amendments and shared their methodology with PBO.⁶ Overall, the Government estimates the cost of this proposal to be \$730 million for 2009-10, which is slightly below the lower end of the PBO's range.

A key difference between the PBO and Government estimates is the treatment of individuals that, when surveyed, stated that they returned to work after collecting 15 weeks of benefits. HRSDC assumed that none would apply to extend their benefits under a new 50 week regime. In contrast, PBO assumed that most would choose to extend their claim based on the distribution provided in Table 1 (*i.e.* between 1 week and 35 weeks).

⁶ In this particular case, HRSDC relied on survey results rather than administrative data. EI administrative data is of little use when estimating the extension of sickness benefits because there is no information on how long the claimants would collect benefits had more benefits been available.