



**FREDERICTON
CHAMBER
OF COMMERCE**
— The Voice of Business —

364 York Street, Suite 200
Fredericton, NB
E3B 3P7



EI Consultation = Phase 2

Krista Ross, CEO

Fredericton Chamber of Commerce

Fredericton, NB

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Both themes are addressed in this submission:

- Theme 1: Ensuring the adequacy of benefits (Does the amount and duration of these benefits meet the needs of workers contributing to Employment Insurance (EI)?)
- Theme 2: Ensuring the financial sustainability of the EI program (How can we build a better EI program while balancing costs and benefits and limiting the need for premium increases?)

Introduction / Timing

The foundational principle of Employment Insurance is that it is meant to be an insurance system. In its simplest terms, if someone has paid into the system and loses their job, the insurance pays them temporarily until they are able to find another job. Individuals collecting EI should be both looking for work and available to work – baseline expectations and critical to keeping the fund sustainable. EI should not be a government social support program, of which there are many. The government’s stated goal for Phase 2 of these reform consultations is to make EI more “accessible” - but in the current conditions with employers from all sectors having trouble attracting employees, this is not the right policy choice. We need an effective and sustainable Employment Insurance system that works for all parties.

The timing of the consultations has the potential to distort results. The government appears, in part, poised to make permanent, some of the temporary changes to the program implemented in the early days of the pandemic, such as lowering the minimum hours worked threshold, standardizing that number across the country, and a longer benefit duration.

The lines between EI and social programs have been blurred over time – especially the previous two years due to COVID-19. It is difficult to consider any issue without making links to the pandemic – it’s what we’ve lived 24/7 since March 2020, but it is critical that we sever EI in our minds from the pandemic. The conditions over the past two years have been unlike anything we’ve experienced in our working lifetimes and will not see again (even if there is another pandemic, our experience from COVID-19 should make that a different scenario). Historically, changes to the EI system have remained for 15-20 years after implementation, so we should not make decisions based on today’s conditions.



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With almost all COVID-19 Public Health restrictions eliminated and economies beginning to recover from the pandemic, employment opportunities have returned to pre-pandemic levels, but labour availability has lagged. Statistics Canada reported on 28 July 2022 that Canada set an undesirable record in May 2022 with 1,005,700 unfilled jobs – up slightly from April 2022 and a massive increase of 42% from the previous year. In fact, during May the job vacancy rate hit 5.8% while unemployment was essentially negligible at 5.1% - this is an economic storm in the making that will be significantly exacerbated if EI access and benefits are expanded. Not surprisingly, the agency also reported that the Canadian economy did not grow in April or May 2022.

This apparent pending expansion of EI will hamper business' ability to recover and, in some cases, their ability to sustain their operations entirely. The lack of available workforce had become the number one issue for businesses even prior to the pandemic and now it is a full-blown crisis that is a threat to just about every business in the province.

Enhanced benefits were provided as an emergency measure through the EI system during the pandemic partially because the mechanism to get funds in people's hands quickly already existed. It would be a mistake moving forward to think of EI as a program meant to cover a wide breadth of situations. We must protect vulnerable citizens in need, but through the appropriate mechanism, not necessarily the Employment Insurance system - which should only be used *for* employment and *as* insurance.

Cost to Employers / Sustainability of the System

Having an efficient and financially stable Employment Insurance system is a needed safety net – both employees and employers benefit from a program that is properly designed and implemented. If someone has paid into the system and loses their job, the insurance pays them temporarily until they are able to find another job. Individuals collecting EI should be both looking for work and available to work – baseline expectations, and critical to returning the fund to a sustainable position.

Currently the fund is about \$30 billion in debt and the government's proposed expansion will add billions more to the annual cost. Given that the system is funded entirely by employers and workers – the EI rate will have to be dramatically increased over the next few years to return to balance, which is a federal legislative requirement – this will come out of the pockets of workers and in many cases, small businesses - neither of whom can afford more costs. Currently, employers pay a rate of 1.4 times that of employees. It is not clear why employers pay a disproportionate share of funding the system. Moving forward, we would like to see a 50-50 shared cost model. This would be a more equitable distribution of costs and make future increases are felt equally.



Recommendations:

- Return EI to a true insurance system with a limited purpose and scope.
- The government should reset the system by bringing the fund back to balance through general revenue.
- Move to a 50-50 cost sharing model between employees and employers. Alternatively, move to a 40-40-20 model with employers and workers funding equally at 40% and the government providing 20%.

Labour Market / Disincentive to Work

Studies in multiple jurisdictions confirm that EI benefits prolong joblessness and there is a strong correlation between EI benefits coming close to ending and recipients finding employment. That is to say - regardless of how long one receives benefits, on average they tend to get a job just as benefits are ending. This would indicate either that the current duration of benefits is adequate, or the current duration of benefits is a disincentive to find work. It is important now and moving forward to not disincentivize work - lack of workforce is the #1 issue for employers across the country – government should not actively exacerbate that.

At a minimum, to mitigate the negative effects on the economy of expanding EI, the government must ensure the integrity of the program by stepping up enforcement of the rules to prevent abuse of the system and enhance efforts to match EI recipients with job vacancies. If work is available, that should be the first and only option – which is already the case but seemingly unenforced. To design EI properly, the government should focus on its fundamentals – an insurance system for a limited and temporary purpose.

The current labour market is a key consideration here beyond the regionality issue. Even prior to the pandemic, workforce availability had already become the number one issue in many industries in the province. A reformed system should include enhanced efforts to match Employment Insurance recipients with job opportunities – as an example, the government could require all EI recipients to post their resumes on the federal Job Bank and actively seek to match those individuals with available job opportunities – a win-win.

Recommendations:

- In whatever form EI is to take, enhance enforcement efforts (for workers and employers).
- Take a more active role in assisting EI recipients to find new employment as soon as possible.



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Eligibility Requirements / Standardization

As previously stated, the starting point for eligibility requirements to receive Employment Insurance benefits should be to return EI to a true insurance program and move away from the social program as it has become – particularly during the COVID-19 pandemic.

The conditions over the past two years have been unlike anything we've experienced in our working lifetimes and will likely not see again (even if there is another pandemic, our experience from COVID-19 will make that a different scenario). Enhanced benefits were provided as an emergency measure during the pandemic – with the emergency subsiding, so should these benefits.

Tying insurable hours to local labour markets and economic conditions makes the system more equitable across the country. We are a very large country with many subeconomies that are dynamic – varying the number of insurable hours needed by region is the best way to try to make sure that workers that need EI receive it without unduly distorting local labour markets.

Recommendations:

- Maintain Variable Entrance Requirements to best reflect local labour market conditions
- Alternatively, if the government chooses to standardize VER (variable entrance requirements) – it should also standardize benefit duration.

Adequacy of benefits

In our opinion, the current system provides adequate support. It would be a mistake to view the EI system in the context of the pandemic – it is not (and should not be) designed for such extreme circumstances. It made sense to deliver financial relief through EI because of the existing infrastructure, processes and staffing – but only as an extraordinary circumstance. If it was not adequate for a once-in-a-century pandemic response purposes, that does not mean it is inadequate for ordinary job loss. More than 80% of applicants qualify for benefits under pre-pandemic rules.

The program should not be extended more than the current period since Statistics Canada shows that the average duration of unemployment across Canada was 23 weeks in 2021, much lower than the current available period. In an environment with record-high job vacancies, especially in the manufacturing industry, the benefit duration of a maximum of 45 weeks provides sufficient time for an employee to find a job.

Today's high inflation environment is expected to push up wage growth this year. This would typically result in an increase in the MIE for 2023. The cumulated effect of an increase in the MIE, an expansion



to eligibility, an increase in the replacement rate, and/or a longer maximum duration of a claim, combined with increased premiums would bring unbearable burdens to employers during this already challenging time. To maintain the sustainability of the system for all parties, any increase in the MIE overriding the wage increases should be offset by decreasing the premium rate.

Most sickness benefit claims already fit comfortably within the 15-week time frame (average duration is 10 weeks). Extensions should only be made on a case-by-case basis and when short/long-term disability benefits are not available from an employer's health plan.

Recommendations:

- Maintain the income replacement rate at 55 per cent.
- Maintain the benefit duration up to a maximum of 45 weeks (depending on the unemployment rate in the region, to sustain labour market attachment and minimize the disincentive to work).
- Maintain the current Maximum Insurable Earners Threshold.
- Maintain sickness benefits at a maximum of 15 weeks.

Conclusion

Having an effective and financially sustainable EI system is an unqualified good thing. However, the way the discussion documents are framed and subsequent statements by government officials during consultation meetings make it clear that it is the government's intention to make it easier to get EI benefits, to make them more generous and to provide them for longer. This will materially affect the sustainability of the fund, employers' ability to attract workers and the economy's ability to grow.

Coming out of a pandemic with highly unusual economic and market conditions as the contextual backdrop is likely the worst possible time to embark on serious reform of such a critical program. Our members are currently experiencing unprecedented workforce conditions that are negatively impacting small business' ability to compete or even exist. From coast-to-coast labour has become the top issue for employers and expanding EI access will make this situation even worse.

If there is one guiding principle that should be followed, it is that EI is insurance and should be treated as such. It has a distinct purpose and limited scope – straying beyond that makes it a social program that employers should not be responsible for funding. Accessing benefits should be available for those who need it, but enforcement of the rules at a much higher level is needed to maintain the integrity of the fund – however the program looks moving forward.