

# Employment Insurance in Canada: Policy changes

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Employment Insurance or EI (formerly Unemployment Insurance or UI) was introduced in Canada in 1940. Over the course of nearly 60 years, the system has undergone numerous changes, the most significant being the *Unemployment Insurance Act, 1971*, which widely liberalized the system.

## The system prior to 1971

After an amendment to the *British North America Act* that brought unemployment insurance, among other matters, under federal jurisdiction, Parliament passed Canada's first *Unemployment Insurance Act* on August 7, 1940. The Act's main objectives were to provide financial assistance to unemployed persons, to find suitable employment for Canadians, to move people out of areas of high unemployment, and to provide aid to the disadvantaged.

The 1940 Act made coverage compulsory except for certain industries, professional services, government services, casual employees, and persons with annual earnings over \$2,000. During the first year of operation the system covered approximately 2.5 million workers, or about 42% of the workforce.

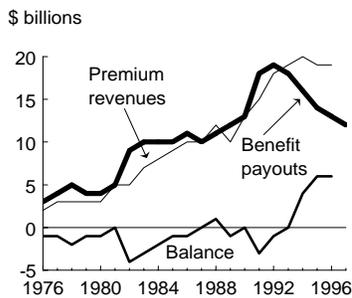
The Unemployment Insurance Commission administered the Act and the federal government paid for the administration of the program, plus 20% of the employee and employer contributions combined. Contributions into the UI fund commenced on July 1, 1941. The first date on which claimants could qualify for benefits was January 27, 1942.

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## Recent trends

Prior to 1993, benefit payouts exceeded premium revenues, substantially in some cases, and the Employment Insurance fund was in the red every year (except for the business cycle peak of 1987 and 1988). For example, the gross deficit was around \$4 billion in 1982 and \$3 billion in 1991. The system turned around in 1993, when the books were nearly balanced, and surpluses have been the rule ever since. The gross surplus was over \$3.5 billion in 1994 and close to \$6 billion in both 1995 and 1996 (Chart A). This turnaround reflects both increased revenues and reduced expenditures.

Chart A  
Since 1994, the EI account has been in surplus.



Source: Employment Insurance statistics

## Increased revenues

Total premium revenues collected from employees and employers rose from about \$10 billion in 1989 to around \$19 billion per year since 1994, largely thanks to the recovery of the economy. At the same time, EI financing has changed significantly over the years.

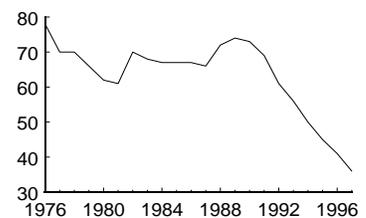
Prior to 1990, the cost of the program was shared by employees, employers and the federal government. In 1990, the federal government's financial responsibilities were eliminated as the fund became self-financing; that is, the entire cost of the system is now shared between employers and employees.

## Reduced expenditures

As revenues have risen, benefit payouts have declined steadily, from \$19 billion in 1992 to \$13 billion in 1996. This is the result of the falling number of beneficiaries, coupled with benefit rate reductions. The number of beneficiaries peaked at 1.4 million in 1992, and has been falling ever since, sliding to 0.9 million by 1997. Similarly, the number of beneficiaries receiving regular benefits hit its 1.0 million peak in 1991 and declined steadily to 0.5 million by 1997. The ratio of regular beneficiaries with no earnings to unemployed peaked in 1989 at 74%. And it too has been declining rapidly since 1990, reaching 36% by 1997 (Chart B).

Chart B  
Fewer unemployed are EI beneficiaries.

Regular beneficiaries with no earnings, as % of unemployed



Source: Employment Insurance statistics and Labour Force Survey

This article has been adapted from a longer paper entitled "Employment Insurance in Canada: Recent trends and policy changes," which was published in the *Canadian Tax Journal*, April 1998 (Volume 46, no. 1). The policy

changes noted are by no means intended to present a complete history; rather, they were selected by the author in the context of possible effects on recent trends.

In order to be eligible for benefits, claimants had to furnish proof that they were unemployed, available for work (unless engaged in approved training) and able to work, and that they had contributed into the fund for at least 180 days during a two-year period prior to the claim. Persons were disqualified from receiving benefits for up to 6 weeks if they had left their employment without just cause, had refused to accept suitable employment, or had been dismissed for misconduct. In addition, persons who were directly involved in labour disputes were disqualified from receiving benefits.

Main changes to the system in the 1940s included enacting provisions to assist persons discharged from the Armed Forces (1941); transferring the administration of the Act to the Department of Labour (1942); and raising the annual earnings ceiling for coverage to \$2,400 (1943). By the end of the 1940s, the system covered approximately 50% of the workforce, and the maximum weekly benefits had risen to \$18.30 for claimants with dependants and \$14.40 for those without dependants.

The system continued to evolve during the 1950s. The amendments of February 1950 provided supplementary or seasonal benefits to persons ineligible for regular benefits. In 1952, the waiting period was reduced to 5 days, and the supplementary benefits period extended. In August 1953, the Act was amended to provide for the continuation of benefit payments in case the claimant became ill after the claim had started.

A new act was passed on October 2, 1955 introducing a series of changes to benefit rates, contributions, duration of benefit payments, allowable earnings during the claim period, seasonal benefits, and coverage. In September 1956, regulations regarding repeat claimants were relaxed, and the eligibility requirement reduced from 30 to 24 weeks of insurable employment in the past year or since the last claim. By the end of the 1950s, maximum

weekly benefits had advanced to \$36.00 for claimants with dependants, and \$27.00 for those without dependants; maximum weekly insurable earnings had increased to \$69.00; maximum weekly contributions had risen to \$0.94; the coverage earnings ceiling had reached \$5,460; and the maximum benefit entitlement had increased to 52 weeks. In addition, coverage was extended to self-employed fishermen. To encourage claimants to seek employment, the regulations permitted earnings of up to 50% of weekly benefits without penalty.

The system remained relatively stable in the 1960s, during which no major legislative amendments were made. Following the release of the *Report of the Committee of Inquiry into the Unemployment Insurance Act* (the "Gill Report") in 1962, the government undertook some administrative changes. In April 1965, the duties and functions of the employment service became the responsibility of the Minister of Labour. Further integration of manpower policies and programs resulted in the creation of the Department of Manpower and Immigration. On October 1, 1966, the employment service was transferred to this new department. By the end of the decade, the system's coverage had expanded to about 68% of the workforce.

### The system since 1971

Major institutional changes to the system were enacted by the *Unemployment Insurance Act* of June 27, 1971. One major objective was to provide "adequate" income support for all persons experiencing temporary earnings interruptions. The new legislation widely liberalized the earlier system. Among other things, it provided nearly universal coverage for paid employees, eased eligibility, and added a host of special benefits, such as sickness, maternity and retirement benefits. Since the 1971 reforms, the system has undergone a series of refinements. (See Appendix for a chronology of main legislation.)

### Coverage requirements

In 1971, coverage became nearly universal. The only exclusions were the self-employed (except self-employed fishermen, who were covered under separate regulatory rules for income support during the off-season); persons aged 70 years or over (65 or over, as of January 1, 1976; then no upper limit, effective November 18, 1990); and persons who did not meet the minimum weekly earnings requirement (20% of the maximum weekly insurable earnings). This earnings requirement applied to each job separately; that is, earnings could not be summed across different jobs to meet this requirement.

Weekly hours of work were added to the minimum coverage requirement in 1979. The level was set at 20 hours a week *or* 20% of the weekly maximum insurable earnings for 1979 and 1980; 15 hours a week *and* 20% of the weekly maximum insurable earnings between 1981 and 1986; and 15 hours a week *or* 20% of the weekly maximum insurable earnings since 1987. Effective January 1, 1997, the minimum requirement was abolished and every hour of work became insurable.

### Eligibility, entrance requirement and UI regions

The 1971 legislation called for a minimum of 8 weeks of insurable employment during the 52 weeks immediately preceding the claim (qualifying period) for regular benefits; 20 weeks for special benefits. On December 4, 1977, the 8-week minimum was replaced by the Variable Entrance Requirement (VER). Depending on the unemployment rate prevailing in the region of residence, the claimant was required to have 10 to 14 weeks of insurable employment during the qualifying period to become eligible for benefits. Effective July 1, 1979, new entrants and re-entrants to the labour market required 20 weeks of insurable employment during the qualifying period. Repeat claimants (those who had made a claim in the past 52 weeks)

in regions where the unemployment rate was below 11% needed up to 6 weeks of insurable employment in addition to the VER (Table 1).

	Minimum weeks of insurable employment		
	Bill C-27	Bill C-21	Bill C-17
<b>Regional unemployment</b>			
Under 6%	14	20	20
6% to 7%	13	19	19
7% to 8%	12	18	18
8% to 9%	11	17	17
9% to 10%	10	16	16
10% to 11%	...	15	15
11% to 12%	...	14	14
12% to 13%	...	13	13
13% to 14%	...	12	12
14% to 15%	...	11	...
15% and over	...	10	...

On February 11, 1990, the recurring legislation that permitted the VER failed to pass the Senate. The entrance requirement reverted to a uniform 14 weeks nation-wide. When Bill C-21 came into force on November 18, 1990, repeat claimants were no longer required to work up to 6 additional weeks. The VER became 10 to 20 weeks, depending on the regional unemployment rate. Effective July 7, 1994, Bill C-17 set the VER at 12 to 20 weeks, depending on the regional unemployment rate. As of January 1, 1997, hours of work replaced weeks of insurable employment as the measure of entitlement.

When the VER was first implemented in 1977, the regional unemployment rate was based on 16 UI economic regions (established under the UI Act of 1971). Bill C-27 (November 11, 1978) increased the number of UI regions to 48. Bill C-21 (November 18, 1990) further raised the number to 62.

### Replacement (benefit) rate

The 1971 Act set the replacement rate at 75% of insurable earnings for claimants with dependants, and 66.67% for those without dependants. As of January 1, 1976, Bill C-69 reduced the former to 66.67%. Effective January 1, 1979, Bill C-14 further lowered the replacement rate to 60%. As of April 4, 1993, Bill C-113 reduced this rate for new claimants to 57%. And effective July 7, 1994, Bill C-17 raised the rate for claimants with low weekly earnings (less than half of the maximum insurable earnings) and with dependants to 60%, but lowered it to 55% for others. Finally, effective January 1, 1997, the base used to calculate the amount of benefit changed to average earnings over the 20 weeks preceding the claim.

### Maximum benefit period and phases

In 1971, the maximum benefit period could not exceed 51 weeks (except for persons participating in approved training). Bill C-27 reduced this to 50 weeks as of September 11, 1977.

The 1971 legislation allowed for benefits to be paid out in five phases: the first provided 8 to 15 weeks of benefits; the second, 10 weeks; the third, up to 18 weeks for claimants with a strong labour force attachment; the fourth (National Extended Benefits), up to 8 weeks, depending on the national unemployment rate (evaluated once benefit weeks granted in phases one to three were exhausted); and the fifth (Regional Extended Benefits), up to 18 weeks, depending on the regional unemployment rate and the difference between that and the national unemployment rate (evaluated once benefit weeks granted in phases one to four were exhausted) (Table 2).

On September 11, 1977, a three-phased structure replaced the former one: the first phase provided up to 25

weeks of benefits – one week of benefits for each week of insurable employment; the second (Labour Force Extended Benefits), a maximum of 13 weeks, one week for each 2 weeks of insurable employment beyond 26 weeks; the third (Regional Extended Benefits), up to 32 weeks – 2 weeks of benefits for each 0.5 percentage point increment in the regional unemployment rate in excess of 4%.

On November 18, 1990, a single benefit schedule came into effect, based on weeks of insurable employment and on the regional unemployment rate. On April 3, 1994, a two-component system replaced that schedule: the work component – providing up to 20 weeks of benefits (one week of benefits for every 2 of work for the first 40 insured weeks) and up to 12 additional weeks of benefits (one for each additional week of work beyond 40); and the regional component – up to 26 weeks of benefits (2 for every percentage point by which the regional unemployment rate exceeded 4%). The maximum benefit entitlement remained at 50 weeks.

### Disqualification and penalty

Under the *Unemployment Insurance Act, 1971*, claimants could be disqualified for a maximum 3 weeks of benefits for quitting without just cause, for being dismissed for misconduct, for refusing to accept suitable employment, for failing to attend a placement interview, or for refusing to follow instructions from personnel handling the claims. And these weeks of disqualification counted as weeks of benefit in calculating the maximum weeks of entitlement. Effective January 1, 1976, the penalty rose to a maximum 6 weeks; as of November 18, 1990, it moved to 7 to 12 weeks, and the replacement rate dropped to 50%. Then, effective April 4, 1993, those who quit without just cause or were fired because of misconduct, or who refused to accept suitable employment, became ineligible for benefits.

Table 2  
Benefit period during different phases, 1971 to 1977

Insurable employment	Benefit eligibility
<b>Phase 1</b>	
8 to 15 weeks	8 weeks
16	9
17	10
18	11
19	12
20 and over	15
<b>Phase 2</b>	
8 and over	10
<b>Phase 3</b>	
20	2
21 to 22	3
22 to 23	4
2-week intervals	1 extra week of benefits for each 2 additional weeks of insurable employment
51 to 52	18
<b>Phase 4</b>	
<b>National unemployment rate</b>	<b>Benefit eligibility</b>
Under 4%	0 weeks
4% to 5%	4
5% and over	8
<b>Phase 5</b>	
<b>Benefit period</b>	<b>Benefits cease if one of the conditions is satisfied:</b>
1 to 6 weeks	<ul style="list-style-type: none"> <li>● Regional unemployment drops below 4%</li> <li>● The difference between the regional and national unemployment rates drops to under 1 percentage point</li> <li>● At the end of the 6th week, the difference between the regional and national unemployment rates drops to under 2 percentage points</li> </ul>
7 to 12	<ul style="list-style-type: none"> <li>● Regional unemployment drops below 4%</li> <li>● The difference between the regional and national unemployment rates drops to under 2 percentage points</li> <li>● At the end of the 12th week, the difference between the regional and national unemployment rates drops to under 3 percentage points</li> </ul>
13 to 18	<ul style="list-style-type: none"> <li>● Regional unemployment drops below 4%</li> <li>● The difference between the regional and national unemployment rates drops to under 3 percentage points</li> </ul>

Source: The Unemployment Insurance Act, 1971

## Earnings, benefit claw-back and penalty for repeat users

As of 1971, beneficiaries were allowed to earn up to 25% of benefits without penalty. Beyond this limit, their benefits were subject to a dollar-for-dollar reduction. Effective January 1, 1979, a benefit claw-back was introduced to retrieve benefits from recipients with high earnings. Claimants with net income in excess of one-and-a-half times the annual maximum insurable earnings were required to pay back 30% of the benefits received.

As of July 1, 1996, the replacement rate for repeat users is now one percentage point lower for each 20 weeks of EI use in the past 5 years, up to the maximum of 5 percentage points. In addition, repeat claimants face a benefit claw-back of up to 100% if their earnings exceed the maximum insurable earnings. The extent of the claw-back depends on the number of weeks of EI use in the past 5 years. Benefits received before July 1, 1996 are not counted, nor are special benefits (maternity, parental, sickness) received at any time.

## Financing and contributions

The 1971 Act required that the costs of the system be shared by employers, employees and the federal government. Employers – who have been assessed at 1.4 times the employee premium rate since 1972 – and their employees were deemed responsible for the following costs: administration, special benefits, and regular benefits attributable to a level of national unemployment rate of up to 4%. The federal government assumed responsibility for costs relating to benefits paid to self-employed fishermen, payments to persons who had been granted extensions after training, benefits received by claimants in phases four and five, and benefits associated with the first three phases if the national unemployment rate exceeded 4%.

Effective January 1, 1979, Bill C-14 stipulated that the cost of the Labour Force Extended Benefits be shared among employers, employees and the federal government. The cost of operating the National Employment Service was shifted to employers and employees on April 1, 1980. Later that year (July 1), employers and employees also became responsible for costs relating to all benefits paid during the initial and Labour Force Extended Benefits periods. Finally, on November 18, 1990, the federal government's share of costs was eliminated and the UI fund became self-financing. The entire cost of the system is now shared by employers and employees. □

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## Appendix

### A chronology of major Employment (Unemployment) Insurance legislation since 1971

Legislation	Effective date	Key parameters
<b>UI Act</b>	June 27, 1971	<ul style="list-style-type: none"> <li>● Generously liberalized the pre-1971 system: <ul style="list-style-type: none"> <li>● Provided nearly universal coverage (commencing February 2, 1972)</li> <li>● Eased eligibility</li> <li>● Added a series of special benefits – sickness, maternity and retirement</li> </ul> </li> </ul>
<b>Bill C-69</b>	January 1, 1976	<ul style="list-style-type: none"> <li>● Disqualification increased from 3 to 6 weeks for those who quit without just cause, were fired because of misconduct, refused to accept suitable employment, failed to attend a placement interview, or refused to follow instructions from personnel handling their claims</li> <li>● Maximum age for coverage reduced from 70 to 65</li> <li>● Replacement rate reduced from 75% to 66.67% for claimants with dependants</li> </ul>
<b>Bill C-27</b>	September 11, 1977	<ul style="list-style-type: none"> <li>● Variable Entrance Requirements (VERs) established (effective December 4, 1977), based on 16 UI regions</li> <li>● Three-phased benefit structure replaced former five-phased benefit structure</li> <li>● Maximum benefit period reduced to 50 weeks</li> <li>● 48 new UI regions replaced former 16 UI regions (effective November 11, 1978)</li> </ul>
<b>Bill C-14</b>	January 1, 1979	<ul style="list-style-type: none"> <li>● Entrance requirement for new entrants and re-entrants to the labour market set at 20 weeks (effective July 1, 1979)</li> <li>● Entrance requirement for repeat claimants set at VER, plus up to 6 additional weeks in regions with an unemployment rate under 11%</li> <li>● Replacement rate reduced to 60%</li> <li>● Benefit claw-back introduced to recover benefits paid to high income recipients</li> </ul>
<b>Bill C-156</b>	January 1, 1984	<ul style="list-style-type: none"> <li>● Seasonal fishermen's benefits modified</li> <li>● Maternity benefits modified</li> <li>● Adoption benefits introduced</li> </ul>
<b>VER</b>	February 11, 1990	<ul style="list-style-type: none"> <li>● Failed to pass the Senate; entrance requirements reverted to a uniform 14 weeks nation-wide</li> </ul>
<b>Bill C-21</b>	November 18, 1990	<ul style="list-style-type: none"> <li>● Repeat claimants no longer required 6 additional weeks</li> <li>● Retirement benefits eliminated; workers 65 and over covered again</li> <li>● Penalty increased from 6, to 7 to 12 weeks for quitting without just cause, for being dismissed for misconduct, or for refusing to accept suitable employment; and replacement rate dropped to 50% for these claimants</li> <li>● VERs raised from 10 to 14 weeks, to 10 to 20 weeks</li> <li>● Single benefit schedule replaced former three-phased structure</li> <li>● Number of UI regions revised to 62</li> </ul>
<b>Bill C-113</b>	April 4, 1993	<ul style="list-style-type: none"> <li>● Those who quit without just cause, were fired for misconduct, or refused to accept suitable employment became ineligible for benefits</li> <li>● Replacement rate lowered to 57% from 60%</li> </ul>
<b>Bill C-17</b>	July 7, 1994	<ul style="list-style-type: none"> <li>● VERs raised to 12 to 20 weeks</li> <li>● Entitlement duration changed to work component and regional component</li> <li>● Replacement rate raised to 60% for claimants with low earnings and dependants; lowered to 55% for others</li> </ul>
<b>Bill C-12</b>	July 1, 1996	<ul style="list-style-type: none"> <li>● System renamed to Employment Insurance (EI)</li> <li>● Hours/earnings coverage requirement abolished; every hour of work insurable, starting in January, 1997</li> <li>● Entrance requirement and benefit entitlement based on hours of work</li> <li>● Average earnings over the last 20 weeks used to calculate amount of benefits</li> <li>● Replacement rate for repeat claimants lowered by one percentage point for each 20 weeks of use in the past 5 years, up to a maximum 5 percentage points</li> <li>● Repeat claimants face a benefit claw-back of up to 100%, depending on earnings and weeks of benefits in the last 5 years</li> <li>● Weekly maximum insurable earnings revised to \$750</li> </ul>