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POSTAL CODE LOTTERY

CANADA'S EI SYSTEM COMPARED

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MOWAT CENTRE POLICY INNOVATION

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NOTE

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Many aspects of the Employment Insurance system in Canada are controversial, but perhaps its most controversial element is the regional differentiation that characterizes access to, length of and size of benefits. This *Mowat Note* looks to 17 other OECD countries, including all eight OECD federations, to see how they address this thorny issue.

The evidence highlights that Canada is an extreme outlier. While other countries provide workers the same benefits regardless of where they live, Canada is unique in modifying benefits on the basis of region of residence.

Many of Canada's social programs treat all Canadians equally, but the Employment Insurance system is not a neutral social benefit for workers; it retains within its design a legacy as a program of regional support and economic development.

POSTAL CODE LOTTERY

CANADA'S EI SYSTEM COMPARED

Vuk Radmilovic

A central feature of the Canadian Employment Insurance[1] (EI) system is that it divides the country into 58 "economic regions" so that place of residence has a direct bearing on benefits.

In fact, regional differentiation governs three of the most important questions a recently unemployed Canadian may confront: 1) Can I access the EI system? 2) For how long? 3) If I qualify, how much do I get?

Answers to these questions are partially determined by unemployment rates across the 58 regions. In particular, Canadians living in economic regions with higher rates of unemployment (averaged for the three months prior to losing a job) are more likely to have easier access to the system, to receive higher benefits, and to enjoy them for longer periods of time.

The reported logic behind the reliance on regional differentiation is to ensure system responsiveness by making entrance requirements, duration of benefits and levels of compensation more generous in high unemployment areas where, in theory, it is more difficult to find work.

The question remains, however, whether regional differentiation is the most effective mechanism of ensuring that those facing greater barriers to finding a new job receive greater support. Some argue that the local unemployment rate is not the most reliable indicator of how hard it is to obtain employment. Even if local unemployment rates do provide a reliable indicator of how difficult it is to find work, one could still be concerned that regional differentiation creates unfairness by treating otherwise-similar workers differently.

ACCESS TO BENEFITS

As Table 1 shows, three factors primarily explain who can access EI benefits in most countries: capability and willingness to work, employment history, and age. Region is not among them in any country other than Canada.

All EI systems require recipients to be capable and willing to obtain future employment as a condition for receiving benefits. Most countries require recipients to register at relevant employment offices, and benefits are often halted or suspended for recipients who voluntarily quit jobs, engage in misconduct, refuse suitable work, fail to seek employment, or violate other administrative rules.

Employment history is the second most important factor determining access to benefits. Eligibility is typically conditioned by a qualifying period of employment which can vary substantially from country to country. In Canada, for example, the qualifying period ranges (for reasons to be explored below) from 420 to 700 hours in the last 52 weeks of employment. In the Netherlands it is 26 weeks in the last 36 weeks, in France it is 4 months in the last 18 months, while in Switzerland it is 12 months in the last 2 years.

Table 1 - Factors Determining Access to EI Benefits Across the OECD

	CAPABILITY AND WILLINGNESS TO WORK	EMPLOYMENT HISTORY	AGE	INCOME AND ASSETS	REGIONAL RATE OF UNEMPLOYMENT
Federations					
Canada	✓	✓			✓
Australia	✓		✓	✓	
Austria	✓	✓	✓		
Belgium	✓	✓	✓		
Germany	✓	✓			
Spain	✓	✓	✓		
Switzerland	✓	✓			
United States	✓	✓			
Non-Federations					
Denmark	✓	✓	✓		
Finland	✓	✓	✓		
France	✓	✓	✓		
Italy	✓	✓	✓		
Netherlands	✓	✓	✓		
Norway	✓	✓			
Portugal	✓	✓			
Sweden	✓	✓	✓		
United Kingdom	✓	✓	✓		

Employment history can include many different measures. Some countries condition eligibility on a particular level of income earned, as in most US states. Type of employment can also be relevant. In Canada, Switzerland and the US, for example, self-employed workers are denied access to benefits,[2] while in Denmark and the UK they are eligible but face separate and rigorous entry requirements.

Among countries assessed, it is only in Australia that employment history is irrelevant in the calculation of benefits as all unemployed persons of working age are eligible for unemployment benefits. Access to benefits in Australia can also be postponed for persons who have a certain amount of income and assets available to spend.

The third factor governing access to benefits is age. Many countries, such as Australia, France, Denmark, the Netherlands, Sweden, Switzerland, Spain, and the UK, confine eligibility to workers who are below the retirement age to avoid encroachment of EI onto pension schemes. In Canada, recipients who qualify for pension income remain in the EI program, but can receive

lower EI benefits. Age plays a more prominent role in the Belgian and Austrian systems where the length of the required period of employment is different for people of different ages. Young people in Austria, for example, enjoy shorter qualifying periods.

Table 1 shows that Canada is the only country that conditions EI eligibility on region, applying regional rates of unemployment so that EI is easier to access in regions with higher unemployment. For example, to qualify for EI in regions with unemployment rates below 6 per cent, employees need to have worked for at least 700 hours prior to lay-off. In regions with unemployment rates above 13 per cent it takes 420 hours to qualify.[3]

What it means for workers

Contrary to the practices of all other countries reviewed in this note, a recently unemployed Canadian can be denied access to EI benefits on the basis of the unemployment rate in his or her region.

DURATION OF BENEFITS

While some countries, such as Australia, Finland, the UK, and Belgium, have a uniform duration of EI benefits, in most OECD countries employment history and age are often used to determine benefit duration (see Table 2).

In terms of employment history, two factors are particularly important: 1) how long the person worked (i.e. having worked longer tends to lead to a longer duration of benefits); and 2) the amount of income earned or contributed (i.e. higher amounts of income earned and higher contributions usually lead to longer duration of benefits).

Age also plays an important role in many countries, with younger people tending to be eligible for benefits for shorter periods of time. While age is the only criterion determining benefit duration in Denmark and Sweden, in most other systems duration of benefits is calculated through a function that combines both employment history and age. In Germany, for example, duration of benefits can vary from 6 to 24 months depending on age and contributions paid into the system.

In Austria, benefit duration can be extended under certain circumstances. For example, companies experiencing severe restructuring problems can propose planned workforce reductions and sign onto "employment foundations." These programs offer additional supports for laid-off workers such as vocational guidance, active job search supports, training, and extended duration of EI benefits.

In Canada, the duration of benefits can range from a minimum of 14 to a maximum of 45 weeks depending on: 1) the worker's length of employment; and 2) the regional rate of unemployment. Canadians residing in regions with lower unemployment rates are required to work longer in order to obtain the same benefit duration as Canadians residing in areas with higher unemployment rates.

As with the rules governing access to benefits discussed above, regional differentiation in benefit duration can be quite dramatic. For example, in order to collect benefits for 32 weeks, a worker in a region with an unemployment rate of 16 per cent would have to work 420 hours, while the same worker in a low unemployment region would have to work almost four times longer—1,640 hours—in order to qualify for equivalent benefits.[8]

The only other country in which region may affect duration of benefits is the US, where state governments are primarily responsible for EI programs. Most states calculate duration of benefits on the basis of the amount of income earned and contributed during the qualifying period. Nearly all states limit the maximum duration to 26 weeks.[9]

Table 2 - Factors Determining Duration of EI Benefits Across the OECD

	EMPLOYMENT HISTORY	AGE	SPECIAL CIRCUMSTANCE	REGIONAL RATE OF UNEMPLOYMENT
Federations				
Canada	✓			✓
Australia[4]		✓		
Austria	✓	✓	✓	
Belgium[5]				
Germany	✓	✓		
Spain	✓			
Switzerland	✓	✓		
United States	✓			✓
Non-Federations				
Denmark		✓		
Finland[6]				
France	✓	✓		
Italy	✓	✓		
Netherlands	✓			
Norway	✓	✓		
Portugal	✓	✓		
Sweden		✓		
United Kingdom[7]				

During recessions, when national unemployment is high, or when unemployment rates in particular states are high, workers may qualify for the Extended Benefits (EB) program. The program is financed jointly by the federal and state governments, and provides additional weeks of compensation beyond the usual 26 weeks.

In the decades prior to the most recent recession, the EB program had very limited application. For example, when unemployment rates reached their peak following the 2001 recession, extended benefits were triggered in only 3 of 50 states (Burtless 2007, 245). Under the current EB program, workers can receive an extra 13 weeks of compensation if they reside in states where the unemployment rate is 6.5 per cent or higher, and 7 additional weeks in states with an unemployment rate of at least 8 per cent.

In response to the most recent recession, beginning in December of 2007, Congress created Emergency Unemployment Compensation (EUC) and assumed 100 per cent funding of the EB program. The Obama administration extended the program for another year in December of 2010.

The EUC tops up the EB program by providing additional weeks of compensation based on a state's unemployment rate (*The Capital*, 2010).

Combining the EB and EUC programs, some unemployed workers in the US can therefore attain the maximum of 99 weeks of compensation. These programs, however, are exceptional and are triggered during periods of high unemployment and are not permanent features built into the design of the system.

What it means for workers

Contrary to the practices of most other countries, in Canada, local unemployment rates strongly affect how long unemployment benefits last, producing substantial regional differentiation.

Belgian Experience with Regional Differentiation

Until 2004, the Belgian EI program contained a regional differentiation component. While the system generally allowed an unlimited duration of EI benefits, cohabitants of wage earners could have experienced benefit exhaustion as a function of their age, gender and region of residence. The scheme did not rely on regional rates of unemployment (as in Canada) but on rates of regional unemployment duration (i.e. the average amount of time EI recipients in particular regions remained unemployed). The scheme was criticized for being implicitly discriminatory and unfair, which was the primary reason why the Belgian government decided to abolish it in 2004 (see Cockx and Dejemeppe 2007, 4).

INCOME REPLACEMENT

The most important factor determining how much compensation EI recipients will obtain is the amount of income earned during the qualifying employment period. As Table 3 shows, this practice is followed in all countries except in Australia and the UK where flat-rate payments are provided to beneficiaries.

Canadian levels of income replacement are comparable to those provided in most US states, while European countries such as Germany, Belgium, Spain, France, Denmark, Sweden, and Portugal tend to have more generous systems. Most countries also provide maximum ceilings so that accrued benefits do not exceed particular weekly, monthly or yearly thresholds.

Family structure, duration of the unemployment period, and age can also play a role in determining levels of compensation. In most jurisdictions, lower benefit rates are provided to single individuals than to those living with dependent cohabitants. In Canada, for example, the family supplement is available to low-income families with dependents, and it can reach a maximum of 80 per cent of average insurable earnings.

Levels of compensation in Belgium, the Netherlands and Spain are also determined by the duration of the unemployment period so that rates of income replacement decline as recipients remain unemployed for longer periods of time. In Spain, for example, 70 per cent of the earned income is replaced during the initial period of 180 days after which the replacement rate drops to 60 per cent.

Age is the key variable determining levels of EI compensation in the UK, with recipients aged 25 and over receiving somewhat higher flat-rate payments than those aged 16 to 24. In Australia, older recipients are eligible for higher flat-rate payments.

Table 3 shows that, as with the rules governing access to benefits, Canada is the only country that relies on regional rates of unemployment to determine levels of EI compensation. While EI's

rate of income replacement is officially a standard 55 per cent, for some workers the actual amount of income compensation can vary substantially from one economic region to another.

The standard Canadian formula for determining EI benefits divides recipients' total earnings during the preceding 26-week period by either 1) the number of weeks worked or 2) the "minimum divisor" (whichever of the two is higher). The minimum divisor can range from 14 to 22 weeks depending on the level of regional unemployment. A single point increase in the local unemployment rate decreases the minimum divisor by one week. The minimum divisor alters the benefit calculation formula on a regionally differentiated basis and lowers the replacement incomes of short-tenured workers.

For recipients who held steady employment prior to becoming unemployed, such as those who worked in excess of 22 weeks during the last 26 weeks of employment, the minimum divisor rule will not apply. There is also interaction between the minimum divisor and "best 14 weeks" pilot project that creates further regional differentiation in income replacement (this issue will be treated in greater depth in a follow-up Note

Table 3 - Factors Determining Levels of Income Replacement Across the OECD

	LEVEL OF INCOME	MAXIMUM CEILING	FAMILY STRUCTURE	DURATION OF EMPLOYMENT	AGE	REGIONAL RATE OF UNEMPLOMENT
Federations						
Canada	✓	✓	✓			✓
Australia		✓	✓	✓	✓	
Austria	✓	✓	✓		✓	
Belgium	✓	✓	✓	✓		
Germany	✓	✓	✓			
Spain	✓	✓	✓	✓		
Switzerland	✓	✓	✓			
United States	✓	✓	✓			
Non-Federations						
Denmark	✓	✓				
Finland	✓	✓	✓			
France	✓	✓				
Italy	✓	✓				
Netherlands	✓	✓		✓		
Norway	✓	✓	✓			
Portugal	✓	✓	✓			
Sweden	✓	✓	✓			
United Kingdom					✓	

forthcoming from the Mowat Centre EI Task Force).

What it means for workers

Contrary to practices in all other countries, Canada stands alone in differentiating the weekly size of benefits for some workers based on the regional unemployment rate.

CONCLUSION

This review of OECD support systems for the unemployed reveals that Canada stands alone in its heavy reliance on regional differentiation. Only in Canada is regional differentiation part of the overall architecture of the national government's program of support for the unemployed. EI regimes in some countries, such as the US, do vary from region to region, but as a result of different policies adopted by sub-national rather than national governments.

The US is also the only other country in which unemployment-based regional differentiation can play an important role in extending the duration of EI benefits. Much of the intention behind such US programs, however, is to serve as stop-gap measures and to alleviate pressures unemployed workers face during exceptional times of economic hardship. It is only in Canada that regional differentiation forms an integral part of the EI regime. Regional rates of unemployment to systematically affect availability, duration and level of EI compensation.

Determining access, duration and levels of EI compensation on the basis of unemployment rates across no less than 58 economic regions makes the Canadian method of benefit calculation one of the most, if not *the* most, complex in the OECD.

Most countries condition eligibility for benefits on the basis of relatively straightforward criteria, such as age and length of the qualifying employment period. In Canada, the eligibility formula incorporates 9 categories of hours of insurable employment, 9 categories of unemployment rates, and 58 economic regions.

And that is just to determine eligibility. To decipher how long benefits will last, a Canadian worker needs to consult 12 categories of rates of unemployment (across the 58 regions) and no less than 41 categories of hours of insurable employment. Simply put, it is very difficult for recently unemployed workers to figure out whether they are eligible to receive benefits, for how long, and just how much compensation they are entitled to claim.

Compared to other OECD countries, the Canadian reliance on regional differentiation is more likely to produce inequitable and unfair outcomes. After all, the system is designed to treat otherwise-identical workers very differently.

To the extent that rates of unemployment fail to provide the most optimal measure of how hard it is to obtain employment, or to the extent that 58 regions do not reflect changing economic realities, the system produces real inequity that is hard to justify on a principled basis. For example, workers with identical work histories at the same plant could be entitled to different benefits based on how far away from the plant they live; workers having a difficult time finding a job because of outdated skills may be denied benefits because the overall unemployment rate in their region is low.

The inequity problem can be particularly acute during widespread economic downturns when jobs everywhere become scarce and difficult to obtain. During such times, the system continues to assign benefits in a differentiated manner, granting more generous benefits to workers in some but not other regions of the country.

Excessive reliance on regional differentiation makes it very difficult for Canadian workers to

understand what their EI obligations and entitlements are, as well as why some workers receive greater benefits than others. Such complexity can undermine the legitimacy of the system and the public support that is necessary for such a key component of the social contract. Efforts aimed at simplifying the system and increasing its transparency and fairness are worth pursuing. MC

ENDNOTES

1. While Canada renamed the *Unemployment Insurance Act* the *Employment Insurance Act* in 1996, in most other countries similar programs are referred to as Unemployment Insurance programs (UI). However, throughout this paper I use the now standard Canadian terminology ("EI") to refer to the support systems for the unemployed in place internationally.
2. Self-employed workers in Canada were recently granted the right to opt-in to maternity, parental leave and compassionate care benefits after one year of contribution. However, they remain ineligible for regular benefits.
3. The table for calculating benefit eligibility is available at: http://www.servicecanada.gc.ca/eng/ei/legislation/ei_act_part1_1.shtml
4. Australia has unlimited duration of UI benefits for working age recipients.
5. Belgium has unlimited duration of UI benefits.
6. Finland has uniform duration of benefits (500 days, or around 16 ½ months).
7. The United Kingdom has uniform duration of benefits (182 days, or around 6 months).
8. The table for calculating benefit duration is available at: http://www.servicecanada.gc.ca/eng/ei/legislation/ei_act_sched_I.shtml#schedule_I
9. The exceptions in this regard are Montana, Massachusetts and Washington which permit benefit payments for an extra 2-4 weeks (see Burtless, 2007: 244).

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About the EI Task Force

The Mowat Centre has convened a research-driven Employment Insurance Task Force to examine Canada's support system for the unemployed. The Task Force will develop an Ontario proposal for modernizing the EI system—conscious of the national context—that works for individuals and businesses.

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