

# **Improving Labour Market Outcomes for Older Displaced Workers**

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# Need to be clear about policy objective

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- If policy is to provide some form of compensation to workers for assuming the burden of adjustment costs, why focus on displaced workers only? And how do we decide who deserves such compensation?
  - What about the 15-16 % of self-employed who are also exposed to job losses later in their working life?
  - Or why not strictly focus on all workers who are victims of real shocks?
- If policy is to address looming labour shortage issues:
  - Need to identify whether labour shortages are in specialized areas or are generalized to all occupations
  - If no shortage of low-skill workers, then wage insurance not the right tool
  - Training options could be more efficient if shortage of specialized workers

# Designing the Program

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- How generous should the wage insurance or supplement be?
- When should the offer be made?
- How long to provide it for?
- Should the supplement be based on previous earnings, current earnings, EI benefits, or a combination of all of these?
- Should it be offered to certain target groups only? Based on age, industrial sector?
  - Mining vs accounting?
- What definition of displacement should be used: tenure in a specific job, with a specific employer, or for a specific industry? For how long?
- Should it cover mass lay-offs only?
- How will it be financed?

# The Earnings Supplement Project

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## Objective:

- Test a financial incentive to encourage unemployed people to return to work more quickly than they otherwise would.
- Was not restricted to older workers

## Rationale:

- Reservation wages may be unrealistically high.
- Long-term unemployment may lead to “scarring.”
- Job search while in employment may be more effective than searching while unemployed.
- May represent a cost-effective alternative transfer.

# Target Population

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- Displaced workers – permanent job separation after at least three years of employment.
- Repeat EI users – applying for benefits for at least the fourth consecutive year.

# Program Features

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- Supplements make up 75% of earnings loss (an earning loss insurance program).
- Maximum supplement amount of \$250 a week.
- Pre-EI salary capped at MEI (\$42,380 or \$815/week in 1995).
- Maximum job search period: 26 weeks.
- Supplement could be received for up to 24 months from date first offered.
- Jobs with previous employer not eligible for supplementation.
- New job must be 30 hours a week or more.

# ESP: A Randomized Experiment

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- Random-assignment experiments provide the most reliable method of estimating program impacts.
- Allows innovative programs to be tested on a limited scale prior to national implementation.
- Eligible participants are randomly assigned either to a program group or a control group.
- If sample size is large enough, this method ensures that participants from both the program group and control group share **on average** identical observable characteristics (e.g., gender, age, occupations) and unobservable characteristics (e.g., motivation, leadership, tolerance to risk).

# Enrolment

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- Enrolment period: March 1995 to June 1996.
- ESP enrolled a total sample of:
  - **8,144 displaced workers**
  - Project sites: Granby, Oshawa, Toronto, Winnipeg, and Saskatoon
- Displaced worker sample members:
  - had on average been working for same employer for 6+ years.
  - had typically been working full time in jobs that paid about \$600 a week.
  - were unlikely to have been earning very low or very high wages.

# Supplement Take-up

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- High level of initial interest (97% sign-up rate).
- 2 out of 10 program group members received supplements.
  - 3 out of 10 qualified, but 70% of them claimed;
  - For 64 weeks on average (of those receiving the supplement);
  - Total of \$8,705 on average;
  - 44% still receiving supplement at the end of eligibility period.
- 6 out of 10 program group members **did not find a job in time** to qualify for the supplement.

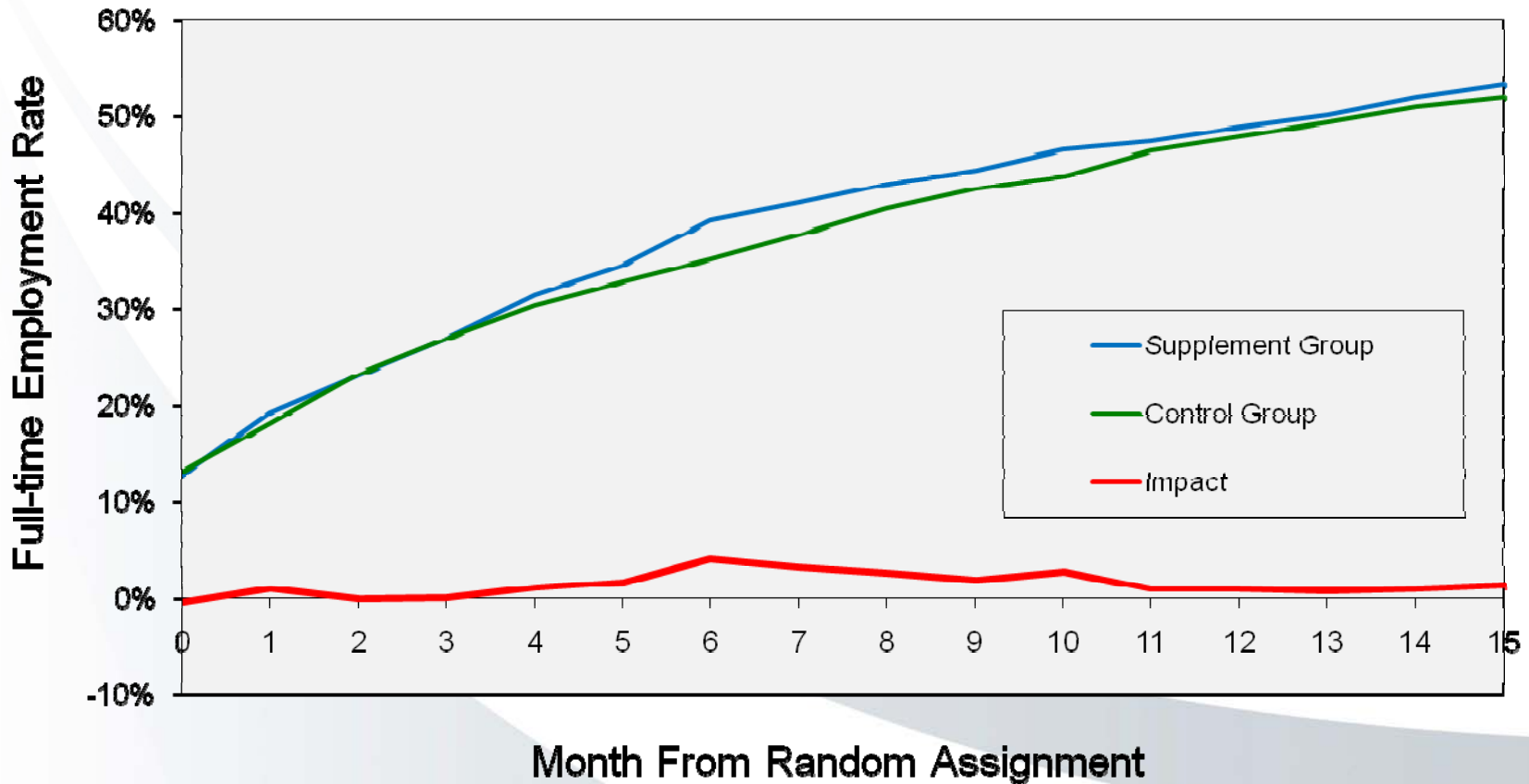
# Impacts of the Program

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- Small short-lived impact on re-employment (4.4 percentage points increase in probability of full-time employment in first six months; no impact after month 10).
  - Control group, those without assistance did as well
- Average total earnings for program group slightly below control group after 15 months.
  - Supplement may have caused some displaced workers to take lower-paying jobs.
- No effect on amount or duration of unemployment benefits.
- Net financial cost to government:
  - Program cost \$1,340 per supplement group member during the first fifteen months, with no offsetting savings from lower EI payments.
- Sub-groups impact not statistically significant.

# Displaced Workers

Monthly Percentage of Sample Members Who Were Employed Full Time



# Insights From Focus Groups and Interviews

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## About being unemployed:

- Workers devastated by their job loss and affected not only financially, but also on a deep, personal level.
- Most participants had expected to hold their jobs well into the future.
- Many participants, particularly those who did not receive severance packages, or **had lower education level**, were filled with anxiety.
- **Older participants** particularly worried about their age as a potential barrier to their re-entry.

# Insights From Focus Groups and Interviews

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## Thinking ahead:

- Most individuals attached a great deal of importance to finding a new job, and finding it as soon as possible.
- Financial pressures drove this urgency for many.
- **But getting back into the workforce was also integral to self-identity and self-esteem.**
- One-third of participants did not share this sense of urgency; individuals talking about having other income options (severance pay, EI, spousal income).

# Insights From Focus Groups and Interviews

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## Job search activity

- Nearly everyone had actively searched for jobs.
- About half of those attending the groups (at 26 weeks) had thought they would find a job quickly – at a maximum within three months.
- Virtually all participants said relocating was not an option.
- Supplement offer affected the job-search behaviour of a minority of displaced UI claimants.
- Main behavioural effect was to broaden the scope of jobs considered, rather than increasing job-search intensity or causing job search to begin earlier.
- The ESP offer was well received but generally looked upon as a “last resort.”

# Earnings Supplementation may not be the best solution

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- ESP provided rigorous evidence that wage insurance is not a panacea to improve labour market outcomes for displaced workers in general.
- Supplements can however help to cushion the shock associated with displacement for many.
- The addition of job search assistance and greater workers' familiarity with such program would no doubt help increasing take-up and impact.
- **First condition remains that people find jobs; demand-side solutions should be sought as well.**
- Other options within EI program may be worth considering and evaluating.

# Examples of Alternative EI Options

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## Enriching EI Benefits

- A higher income replacement rate
- A longer benefit duration (budget 2009) or extended benefits for sub-category of workers
  - recent government policies: additional 5 weeks or special provisions for long-tenured workers
- A flexible adjustment benefit that provides an option to increase either EI weekly benefits or the duration of benefits
- Benefit retention after re-employment
- EI-Part 3: to address massive lay-offs and provide wage and pension protection – Would be more affordable

## Options to accelerate re-employment

- Re-employment bonus
- Subsidies or vouchers to employers (stigmatisation?)
- Personal re-employment accounts: provide lump-sum payments that can be used for training, re-employment bonus or wage top-up
- Declining EI payment schedule

## Preventive measures

- More generous work-sharing provisions (budget 2009)