

# **Understanding Employment Insurance Claim Patterns**

**Final Report of the  
Earnings Supplement Project**

**Shawn de Raaf  
Anne Motte  
Carole Vincent**

**SRDC**

**SOCIAL  
RESEARCH AND  
DEMONSTRATION  
CORPORATION**

**March 2004**

The Earnings Supplement Project is funded under a contributions agreement with the federal Department of Human Resources and Skills Development Canada (HRSDC). The findings and conclusions stated in this report do not necessarily represent the official positions and policies of HRSDC.

The Social Research and Demonstration Corporation (SRDC) is a non-profit organization and registered charity with offices in Ottawa, Vancouver, and Sydney, Nova Scotia. SRDC was created specifically to develop, field test, and rigorously evaluate social programs. SRDC's two-part mission is to help policy-makers and practitioners identify social policies and programs that improve the well-being of all Canadians, with a special concern for the effects on the disadvantaged, and to raise the standards of evidence that are used in assessing social policies and programs.

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## Executive Summary

As demonstrated in the past few years, the Employment Insurance (EI) program remains an important policy instrument for the federal government to use to respond to the changing economic realities of the Canadian labour market. For instance, employed Canadians can now gain access to up to six weeks of compassionate care benefits if they need to leave work to provide support to a gravely ill family member. Delivered as a special benefit under the EI program, these benefits are designed to recognize the responsibilities that workers may have to their families and to provide them with financial assistance when those responsibilities require them to be absent from work. As such, they represent a further measure by the government to support working Canadians with family responsibilities, and follow in the wake of amendments to the maternity and paternity benefit measures in 2001 that eased eligibility requirements and extended the length of time new parents could receive benefits.

Extending EI coverage to other types of work interruptions raises an important question: who is the EI program intended to serve? In the 1940s the original framers of the program envisioned a program that would provide benefits to workers in the form of an insurance-based program. Both workers and their employers would pay unemployment insurance premiums while the workers were employed, and then workers would receive benefits if they found themselves unemployed. Throughout the years successive governments have altered the focus and the scope of the program, fuelling a never-ending debate over the merits of returning the program to its original insurance principles. While delivering special benefits represents a move away from the original vision of the program, it is aimed at better reflecting the realities of many working Canadians who must balance their work with their family responsibilities.

This report, co-authored by Shawn de Raaf, Anne Motte, and Carole Vincent of SRDC, highlights recent research that explores the factors that contribute to workers' reliance on EI.<sup>1</sup> While this research shows that many workers have long-lasting annual patterns of work and EI receipt, an important lesson learned is that policies that focus narrowly on addressing workers' frequent reliance on EI are misdirected. Instead, policies should more broadly address the barriers to employment faced by workers who have inadequate skills or education, whether they rely on EI or not. In fact, while some workers who face these barriers are able to find employment that enables them to qualify for benefits, research indicates that there may be many more workers who face these same barriers but are unable to qualify for benefits. With an increasing number of Canadians employed in non-standard and more precarious forms of employment, whether or not EI is adequately addressing the needs of working Canadians is therefore a timely question.

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<sup>1</sup>In this report terms such as "EI reliance" and "reliance on EI benefits" are used simply to describe patterns of EI benefit receipt where individuals receive, on one or more occasions over time, the EI benefits to which they are entitled.

## THE EARNINGS SUPPLEMENT PROJECT

The publication of this new report brings closure to the Earnings Supplement Project (ESP). In 1994 the federal department of Human Resources and Skills Development Canada (HRSDC)<sup>2</sup> funded ESP, a demonstration project designed to test whether the offer of a temporary earnings supplement would increase re-employment among two groups of unemployed workers: frequent EI claimants and displaced workers. The poor response to the supplement offer among ESP participants — particularly frequent claimants — led to the design of the Survey on Repeat Use of Employment Insurance (SRUEI), a survey with a national scope that aimed to capture information that would lead to a better understanding of the unique circumstances and needs of frequent claimants.

Two earlier Social Research and Demonstration Corporation (SRDC) reports that analyze findings from the SRUEI provide important insights into the diverse circumstances of claimants who frequently claim EI benefits. In particular, they show that frequent claimants, like occasional claimants, can be found in all regions of Canada, all industries, and in a wide range of occupations. However, they are comparatively older, less educated, and a disproportionate number of them are men. When workers' relationships with their employers are examined, many frequent claimants are found to have long-standing relationships with the firms that laid them off, and expect to be recalled again by the same employer. This relationship, often referred to as an "implicit contract," sheds some light on frequent claimants' disinterest in the ESP offer; since these workers have high expectations of being recalled in the future, they would have lower motivation to seek a new job, especially if it paid less.

Another important finding is that while frequent claimants may be as willing as occasional claimants to accept a wage cut when searching for a new job, the fact that frequent claimants have, on average, higher past wages could mean that they would be less likely to find available jobs that they would be willing to take. This finding provides an additional explanation for the lack of take-up of the ESP offer by frequent claimants. The earnings supplement that was offered may not have adequately accounted for frequent claimants' "reservation wage" — the lowest wage that they are willing to accept.

The series of in-depth analytical studies on the SRUEI also provides a unique perspective on frequent claimants' range of experiences with the EI program. One study provided a further disaggregation of claimants into nine different types, depending on their claim patterns and characteristics. This typology allows researchers to move beyond simple dichotomies, such as frequent versus occasional or seasonal versus non-seasonal, to give a picture of the heterogeneity among frequent claimants. While many frequent claimants are found to have a seasonal pattern of claiming EI benefits, a sizable proportion regularly claim EI benefits in a non-seasonal fashion. This suggests that many claimants are in precarious employment, which provides them enough work to qualify for benefits but no guarantee of another job when their benefits run out. The heterogeneous nature of frequent claimants may explain the relative ineffectiveness of policies aimed at reducing frequent reliance. Whether they are based on incentives, such as the ESP offer, or disincentives, such as EI rules that penalize claimants according to their past claim patterns, these approaches fail to address the

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<sup>2</sup>In December 2003 the former Human Resources Development Canada (HRDC) was divided into two separate departments: the Department of Social Development Canada (SDC) and the Department of Human Resources and Skills Development Canada (HRSDC). SRDC continues to work with HRSDC on ESP and other initiatives.

individual barriers to employment faced by unemployed workers who have come to rely on EI year after year.

More recently the final phase of ESP expanded the scope of its EI research to further explore claimants' patterns of work and EI receipt. This research produced a series of working papers that analyze the circumstances and barriers faced by workers who are at risk of becoming unemployed, and who consequently must rely on EI benefits. The research was aimed at addressing three broad research questions: Who are the workers who do not have secure, year-round employment and must depend on benefits? What barriers to employment do they face? What can be done to better address their needs? This final ESP report summarizes the findings from the working papers in order to elicit key policy lessons that can guide the future development of EI. Placed within the context of a discussion of the principles underlying the present-day EI program, this research leads the authors to identify policy options that are worth exploring further in order to make EI more responsive to the realities of today's labour market, while at the same time addressing potential disincentives and inequities in the current system.

## **LESSONS LEARNED ABOUT EI**

The report contains a series of lessons learned from research on work and EI reliance. Exploiting datasets such as Statistics Canada's longitudinal Survey of Labour and Income Dynamics (SLID), workers' long-term work and EI claim patterns are examined to understand better their relationship with the program and its impact on their labour market decisions. These data sets also permit researchers to examine the impact of EI on other household members, a perspective that is often lacking in previous research. Despite the fact that EI does not take into account claimants' household circumstances when determining their eligibility and the length of EI entitlement, EI can play an important role in mitigating the shock that the unemployment of one household member has on other household members.

One of the principal lessons learned about EI is that workers have complex relationships with the program that involve both their employment opportunities and the labour market adjustments they make to comply with EI's myriad rules and provisions. For instance, one study examines a common criticism of EI — that the relative generosity of benefits in high unemployment regions inhibits workers from moving to other regions where employment conditions are better. In *Employment Insurance and Geographic Mobility: Evidence From the SLID*, Rick Audas and Ted McDonald (2003) find, however, that there is no strong evidence that EI inhibits mobility, even when it is examined at the intraprovincial level — a perspective that had yet to be examined in the literature on EI and geographic mobility. This study shows that the relationship between EI and the decision to migrate is complex and depends on individuals' degree of attachment to the labour market, since only those who work few weeks per year were found to be more likely to move following the tightening of the EI program in the mid-1990s.

Another way that EI can influence worker behaviour is through the complexity of its rules, and therefore, claimants who know the program the best will be in the best position to benefit from its rules. For example, when claimants' behaviours are examined within the context of one of EI's more complicated provisions, one that permits claimants to accept

available work while continuing to receive benefits, claimants with the most experience with EI are found to make the greatest use of this provision in ways that could facilitate their claiming benefits again in the future.

In *The Impact of the Allowable Earnings Provision on EI Dependency*, David Gray and Shawn de Raaf (2002) analyze the relationship between the use of this provision, referred to as the “allowable earnings provision,” and individual claim patterns. They demonstrate that claimants’ experience with EI can lead to marked differences in the ways that this provision is used. They also find that working while on claim has a mixed impact on short-term and long-term EI claim patterns. While working on claim may lead to shorter periods of time in receipt of benefits, it may also increase the probability of claiming again. Therefore, this research addresses the possibility that the allowable earnings provision may be encouraging participation in non-standard employment (augmented by intermittent periods of EI receipt), and discouraging the search for stable full-year employment that the provision’s designers had originally intended.

Another hotly debated issue with respect to EI’s impact on labour market attachment is the coverage of seasonal workers — workers who experience annual periods of unemployment at the same time every year. Given that seasonal claims represent a large share of all frequent EI claims, it is surprising that very little research to date has examined the extent to which seasonal work leads to EI receipt. In *Seasonal Employment and Reliance on Employment Insurance: Evidence From the SLID*, Shawn de Raaf, Costa Kapsalis, and Carole Vincent (2003) attempt to fill this gap by identifying a sample of seasonal workers according to their employment patterns over a five-year period and then examining the extent to which their seasonal job losses lead to EI benefit receipt.

The authors find that while over half of all seasonal job losses lead to an EI claim, only one third of seasonal workers receive benefits after each of their seasonal job losses. When compared with all seasonal workers, those who frequently claim benefits face the highest barriers to finding secure employment; they are older, less educated, and living in regions with higher unemployment rates. However, the authors’ findings caution the reader from concluding that those seasonal workers who do not rely on EI are necessarily doing better in the labour market. These workers, who have the highest likelihood of not having accumulated sufficient hours to qualify for benefits in the first place, are also the most likely to be working multiple jobs at the time of their seasonal job loss and to be re-employed part time instead of full time.

If frequent claimants cannot be understood simply as being seasonal workers or as workers living in high unemployment regions, what are the factors that lead to individuals maintaining a pattern of frequent reliance over time? In *Dynamics of Reliance on EI Benefits: Evidence From the SLID*, Shawn de Raaf, Anne Motte, and Carole Vincent (2003) attempt to address this issue, and find that stereotypical determinants of frequent EI reliance do not hold true when claim patterns are examined over time. While such commonly identified factors as gender and region of residence are important determinants of initially becoming a frequent claimant, only workers’ education and occupation and the conditions of the local labour market increase the probability that they will maintain their frequent claim pattern over time. In addition, this research indicates that exposure to the EI program and workers’ own unobserved tastes and preferences play an important role in explaining long-term EI claim patterns. By moving beyond simple determinants of frequent EI reliance, this research points

to the more fundamental barriers faced by workers who are unable to move into full-year employment.

Much of the research on EI to date has focused on the individual claimant, but workers' patterns of EI receipt may reflect, to some extent, the demand side of the labour market. Lately a growing body of research indicates that firms are an important piece in the EI frequent claimant puzzle. Over the past decade many economists have supported the view that the absence of a link between the amount of EI premiums and firms' actual layoff patterns, or the lack of "experience rating," means that the EI program gives no disincentive to firms to lay off workers temporarily during business slowdowns. In *Who Benefits from Unemployment Insurance in Canada: Regions, Industries or Individual Firms?*, Miles Corak and Wen-Hao Chen (2003) show that a considerable number of firms were predictably and persistently receiving subsidies through the EI program over the 1986 to 1996 period, in that their employees' receipt of EI was higher than the premiums paid into the program. They find that a firm's own practices or characteristics are twice as important as the industry or geographic location of the firm in explaining whether it is subsidized by EI. This finding points to the need to investigate further the practices and characteristics that differentiate firms according to their employees' reliance on EI.

Another area of research worth further exploration is the impact of EI on household labour market decisions. Policies in Canada are placing greater emphasis on workers' needs to balance work and family life, exemplified by the expansion of EI special benefits in recent years to provide better coverage and more generous benefits to workers with family responsibilities. While not specifically designed to address workers' family responsibilities, EI regular benefits may represent an even more important form of support to families. Regular benefits can help offset the shock to the family's finances when a member loses his or her job.

In *Employment Insurance and Family Response to Unemployment: Canadian Evidence from the SLID*, Rick Audas and Ted McDonald (2004) provide a first look at the role regular EI benefits play in spousal labour supply decisions when the main income earner experiences a job loss. While in general the main income earner's eligibility for EI is found to have little impact on the spouse's decision to seek employment or to work more, it does appear to have a significant impact when children are present in the household or when the job loss occurs for reasons that are by nature non-seasonal, and therefore are most likely unpredictable. This finding suggests that EI may be reducing the need for a spouse to seek employment after a family member's job loss, thereby giving families greater flexibility in balancing their work and family responsibilities. However, further research is warranted before conclusive policy lessons can be drawn.

## **PRIORITIES FOR FUTURE RESEARCH AND POSSIBLE INTERVENTIONS**

This research provides the important insight that frequent reliance on EI should not be viewed simply as workers becoming familiar with the program and learning how to benefit from its rules and provisions. Instead, a recurring theme from each of the working papers is that frequent reliance is symptomatic of workers' inability to gain year-round employment due to their lack of skills, education, or job opportunities in the region in which they live.

By expanding the scope to all workers at risk of job loss, the research also shows that workers who do not rely on EI are not necessarily doing better in the labour market, emphasizing the need to avoid focusing only on the unemployed who are able to qualify for benefits.

This research also provides an opportunity to examine the EI program itself in order to understand its shortcomings and identify areas for future research. The current program is designed to achieve a number of different goals — providing temporary income support to workers who lose their jobs, facilitating training opportunities for workers who need to upgrade their skills to increase their employability, and supporting workers with family responsibilities. However, the evolution of the program over time has also led to a system that may not fully reflect the realities of the present-day labour market, warranting a revisiting of EI's eligibility and entitlement rules. In particular, the present system may not adequately account for the circumstances of workers who are not eligible for benefits. This study points out that EI's hours-based system for determining eligibility and entitlement does not compensate every hour worked in the same way across and within EI regions. Consequently, it potentially excludes the growing number of Canadians who are working in non-standard employment by choice or by circumstances such as having family responsibilities or work-limiting disabilities. As well, it gives an advantage to workers who have greater flexibility to work more hours per week: those who are unable to maintain as intensive a working schedule receive lower benefit payments for the same number of hours worked during the qualification period. This leads the authors to conclude that further research is needed to explore alternatives to labour market attachment as the key determinant for EI eligibility criteria.

The study concludes that more research is needed on how to make the EI program more responsive to the realities of today's labour market, while at the same time addressing potential disincentives and inequities in the current system. On the workers' side, this could include research on the disincentives within the EI program itself to seeking standard employment. More importantly, there needs to be more research on the barriers faced by many workers who cannot secure employment due to inadequate skills or education, regardless of whether they rely on EI or not. On this front, more emphasis could be placed on employment-oriented training programs and basic adult education, including literacy. The research findings also suggest that policies should not neglect the role that employers play in their employees' EI reliance. Further research is needed on the practices that should be encouraged on the part of firms to help reduce the need for their employees to establish claims for EI benefits.