**Applied Research Branch
Strategic Policy
Human Resources Development Canada**

**Direction générale de la recherche appliquée
Politique stratégique
Développement des ressources humaines Canada**

An Analysis of Employment Insurance
Benefit Coverage

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Executive Summary

Highlights

- The B/U ratio is a poor indicator of how effective the EI program is in serving its clientele.

- Alternative indicators of EI benefit coverage show that there has been a significant reduction in EI benefit coverage in the 1990s, but the B/U ratio may exaggerate the decline.

- Somewhat less than half of the decline in the B/U ratio between 1989 and 1997 is attributable to changes in the program broadly defined (i.e., program-induced effects and legislative changes). The rest is attributable to changes in the composition of unemployment (e.g., more unemployed with no previous work experience or having been without work for a long period of time).

- The EI program is meeting its main objective of providing temporary benefits to Canadians between jobs.

  ➢ Over 78 percent of the unemployed who lost their job or quit with just cause in the last year were eligible for EI.

  ➢ The remaining 22 percent did not meet entrance requirements.

- Another important finding is that a significant number of unemployed not covered by EI benefits in 1997 would also not have received EI benefits prior to 1990.

  ➢ Over 65 percent of the unemployed not covered by EI benefits in 1997 either had no work in the last twelve months, were self-employed or had left their job to return to school.

  ➢ Among the remaining 35 percent of unemployed not covered, 26 percent had insurable employment in the previous 12 months but either quit with no just cause (11 percent) or did not meet entrance requirements (15 percent). The remaining 9 percent, although eligible, did not receive benefits (because they had exhausted benefits, did not claim EI, or did not receive EI benefits for unknown reasons).

Summary of Study

- The regular EI beneficiaries to unemployed ratio (B/U ratio) has declined by almost 50 percent in the 1990s, falling from a level of 83 percent in 1989 to 42 percent in 1997. This report goes beyond the decline in the B/U ratio to examine the broad issue of the evolution of EI benefit coverage in the 1990s, including a detailed look at the current state of EI benefit coverage using new survey data. It examines the reasons for the decline in the B/U ratio in the 1990s and proposes alternative indicators to the B/U ratio.

The B/U ratio is a bad indicator

- The study first examines the significance of the B/U ratio as an indicator of EI benefit coverage and concludes that the indicator has many drawbacks:

  ➢ The B/U ratio was never intended to be used for measuring the proportion of unemployed that receive EI benefits. It was intended to be used as an aid for forecasting the EI account.

  ➢ The B/U ratio uses a measure of beneficiaries in the numerator that is not compatible with the level of unemployed used as the denominator. Some beneficiaries are excluded from the numerator and some are excluded from the denominator.

  ➢ But most importantly the B/U ratio says very little about how effectively the EI program meets its objectives since it is <u>not</u> an objective of the EI program to cover the unemployed who have little or no previous attachment to the labour market or who quit their job without cause.

Other indicators decline less than the B/U ratio

- In order to provide alternatives to the B/U ratio, the study constructs a number of indicators of EI benefit coverage ranging from broad indicators of general trends in benefit coverage in the population to indicators more narrowly targeted at the EI clientele base.

- Although all indicators show a decline in EI benefit coverage in the 1990s, they also show a smaller proportional decline in EI benefit coverage in the 1990s than the B/U ratio itself.

Why has the B/U ratio declined?

- The study then investigates the reasons for the decline in the B/U ratio. It reviews previous studies on the subject and proposes an improved methodology to analyse the phenomenon.

Methodology

- In attempting to assess the causes of the decline in the B/U ratio, the standard methodology that has been used by researchers is to run the following counterfactual experiment: if there had been no change to the EI program, that is, if the rules for qualifying for benefits and for duration of benefits had remained at their pre-1990 level, what would have happened to the number of EI beneficiaries. This is done by estimating the number of would-be beneficiaries or "potential beneficiaries," using micro data from Statistics Canada's Labour Force Survey.

- Our study improves on the standard methodology used in previous studies by including in the pool of potential beneficiaries not only some unemployed but also some individuals "out-of-the-labour force". The importance of including these individuals in the pool of potential beneficiaries is that they are in many ways very similar to the unemployed in their relationship to the labour market and the EI program. In particular, the EI Coverage Survey reveals that, contrary to the usual assumption made by previous studies, many of these so-called out-of-the-labour force individuals do receive EI benefits.

- Another improvement of the study is to distinguish beneficiaries with earnings from beneficiaries without earnings. Since it is not possible to model effectively the factors that have been responsible for the change in the number of beneficiaries with earnings, the study concentrates on modelling the behaviour of beneficiaries without earnings, leaving the evolution of the number of beneficiaries with earnings as a residual.

Results

- The study concludes that somewhat less than 50 percent of the decline in the B/U ratio between 1990 and 1997 can be attributed to changes in the program (induced-program effects or policy changes) and that the rest of the decline must be accounted for by other factors, notably changes in the composition of unemployment (e.g., labour market changes, more unemployed who have not worked for twelve months or more, etc.) and changes in the number of beneficiaries with earnings in proportion to the number of unemployed.

- A major labour market development behind the decline in the B/U ratio in the 1990s is the increase in the number of unemployed who have not worked in the past 12 months. The proportion of unemployment accounted for by individuals with no employment in the last twelve months has increased from 20.8 percent in 1989 to 38.4 percent in 1997. This includes unemployed with no previous work (10.3 percent) and unemployed with previous work but not in the last 12 months (28.1 percent)

- Analysis by province shows interesting differences in the causes of the decline. For instance, the decline in the B/U ratio in Ontario in the 1990s is largely attributable to changes in the composition of unemployment as induced-program effects and legislative changes to the EI program offset each other to a considerable extent.

Who receives EI and who does not?

- The study uses the new Statistics Canada EI Coverage Survey data in order to examine who are the individuals who do and do not receive EI benefits and why.

- This exercise leads to the conclusion that by and large the program is meeting its key objective of providing temporary benefits to Canadians between jobs. More than 78 percent of the unemployed who lost their job or quit with just cause in 1997 were eligible for EI benefits. The remaining 22 percent did not meet entrance requirements.

- Another important finding is that a significant part of the unemployed not covered by EI benefits in 1997 would also not have received EI benefits prior to 1990. Over 65 percent of the unemployed not covered by EI benefits in 1997 either had no work in the last twelve months, were self-employed or had left their job to return to school. Among the remaining 35 percent of unemployed not covered, 26 percent had insurable employment in the previous 12 months but either quit with no just cause (11 percent) or did not meet entrance requirements (15 percent). The remaining 9 percent, although eligible, did not receive benefits (exhausted benefits, did not claim EI, or did not receive EI benefits for unknown reasons).

Sommaire

Faits Saillants

- Le ratio prestataires/chômeurs est un piètre indicateur de l'efficacité du Régime d'assurance-emploi.

- Le recours à d'autres types d'indicateurs montre que le ratio prestataires/chômeurs exagère peut-être la diminution du nombre de prestataires admissibles durant les années 1990.

- Un peu moins de la moitié de la diminution du ratio entre 1989 et 1997 est attribuable aux changements apportés au régime dans son ensemble (automatiques et législatifs), le reste résultant de changements dans la composition de la population active et en chômage (nombre accru de chômeurs à long terme, par exemple).

- Le régime d'a.-e. atteint son principal objectif : verser temporairement des prestations aux Canadiens, entre deux emplois.

  ➢ Plus de 78 % des personnes qui ont perdu leur emploi ou qui l'ont quitté pour des motifs valables, durant la dernière année, étaient admissibles aux prestations.

  ➢ Le reste, soit 22 %, ne l'était pas.

- Une autre conclusion importante de l'étude est qu'un nombre appréciable de chômeurs qui n'étaient pas admissibles aux prestations en 1997, ne l'auraient pas été non plus avant 1990.

  ➢ Plus de 65 % des chômeurs non admissibles à l'a.-e. en 1997 n'avaient pas travaillé au cours des douze derniers mois, travaillaient à leur propre compte ou avaient laissé leur emploi pour retourner aux études.

  ➢ Parmi les 35 % restants, 26 % avaient un emploi assurable au cours des douze mois précédents mais, ou bien l'avaient abandonné sans motif valable (11 %), ou bien ne satisfaisaient pas aux critères d'admissibilité (15 %). Les autres (9 %) n'ont pas reçu de prestations, même s'ils étaient admissibles, parce qu'ils avaient épuisé leurs droits à des prestations, ou parce qu'ils n'en ont pas fait la demande, ou pour des raisons inconnues.

Sommaire

- Le ratio des prestataires/chômeurs a diminué de près de 50 % dans les années 1990, passant de 83 % en 1989 à 42 % en 1997. Le présent rapport va au-delà de ce ratio pour examiner en profondeur la question plus globale de l'évolution des critères d'admissibilité aux prestations dans les années 1990, y compris la situation actuelle, à partir des données d'une nouvelle enquête. Il analyse les raisons de la diminution du ratio dans les années 1990 et propose d'autres indicateurs.

Le ratio prestataires/chômeurs est un piètre indicateur

- L'étude examine d'abord le ratio en tant qu'indicateur de l'admissibilité au régime d'a.-e. pour conclure que celui-ci présente de nombreux problèmes :

  ➢ Le ratio P/C ne devait pas être utilisé pour évaluer le pourcentage de chômeurs recevant des prestations d'a.-e., mais plutôt pour aider à prévoir les dépenses du régime d'a.-e.

  ➢ Le ratio P/C utilise comme numérateur une mesure des bénéficiaires qui n'est pas compatible avec la mesure du chômage qui sert de dénominateur. Tant le nombre qui sert de numérateur que celui qui sert de dénominateur excluent certains bénéficiaires.

  ➢ Enfin, et c'est là le problème le plus important, le ratio P/C nous donne très peu de renseignements sur l'efficacité du régime a atteindre ses objectifs puisque que le régime d'a.-e. n'a pas pour objectif de verser des prestations aux chômeurs qui ont peu ou aucun lien préalable avec le marché du travail, ou qui ont quitté leur emploi sans motif valable.

D'autres indicateurs font état d'une diminution moins marquée

- Comme alternatives au ratio prestataires/chômeurs, l'étude construit un certain nombre d'indicateurs : des indicateurs globaux montrant les grandes tendances de la couverture assurée de la population et des indicateurs ciblant davantage la clientèle de l'a.-e.

- Bien que tous les indicateurs montrent une diminution du nombre de prestataires durant les années 1990, ils montrent une diminution proportionnelle moins importante que celle suggérée par le ratio P/C, ce qui laisse entendre que ce dernier exagère l'importance de la diminution du nombre de prestataires.

Pourquoi le ratio prestataires/chômeurs a-t-il diminué?

- L'étude s'attarde ensuite aux raisons du déclin du ratio prestataires/chômeurs. Des études antérieures sur le sujet sont examinées et on propose une méthodologie améliorée pour analyser le phénomène.

Méthode

- Afin de déterminer pourquoi le ratio prestataires/chômeurs a diminué, les chercheurs utilisent la méthode type consistant à formuler la proposition hypothétique suivante : s'il n'y avait eu aucun changement apporté au régime d'a.-e., c'est-à-dire si les règles touchant l'admissibilité aux prestations et la durée de la période de prestations étaient restées aux niveaux d'avant 1990, que serait-il arrivé au nombre de prestataires d'a.-e? Ils évaluent le nombre de « prestataires potentiels» en utilisant les micro-données de l'Enquête sur la population active de Statistique Canada.

- L'étude repose sur une meilleure méthodologie que celle normalement utilisée dans les études antérieures, car elle englobe dans le groupe des prestataires potentiels non seulement des chômeurs, mais aussi des inactifs. Il est important d'incorporer ces personnes au groupe des prestataires potentiels parce qu'à maints égards elles ressemblent beaucoup aux chômeurs dans leur relation avec le marché du travail et le régime d'a.-e. En particulier, l'Enquête sur la couverture de la population par le régime d'a.-e. révèle que, contrairement au postulat généralement posé par les études antérieures, un grand nombre de ces « inactifs » touchent des prestations d'a.-e.

- Une autre amélioration est le fait que l'étude établit une distinction entre les prestataires qui ont une rémunération et les prestataires sans rémunération. Puisqu'il n'est pas possible de modéliser efficacement les facteurs auxquels est attribuable le changement du nombre de prestataires rémunérés, l'étude a été axée sur la modélisation du comportement des prestataires sans rémunération, de sorte que l'évolution du nombre de prestataires rémunérés devenait un résidu.

Résultats

- L'étude conclut qu'un peu moins de 50 % de la baisse du ratio prestataires/chômeurs entre 1990 et 1997 peut être due aux changements dans le régime d'a.-e. (changements induits ou changements d'orientation) et que le reste s'explique forcément par d'autres facteurs, notamment des changements dans la composition du groupe des chômeurs (évolution du marché du travail, un plus grand nombre de chômeurs qui n'ont pas travaillé depuis au moins douze mois, etc.) et dans le nombre de prestataires rémunérés par rapport au nombre de chômeurs.

- Un important facteur lié au marché du travail qui a joué dans la baisse du ratio P/C au cours des années 1990 est l'augmentation du nombre de chômeurs qui n'ont pas travaillé depuis douze mois. Leur proportion est passée de 20,8 % en 1989 à 38,4 % en 1997. Environ le tiers seulement de ces personnes ont été continuellement en chômage au cours des douze derniers mois. Les deux tiers avaient quitté le marché du travail pendant une partie de ces douze mois et étaient au chômage depuis peu.

- L'analyse par province montre des écarts intéressants dans les causes de la diminution du ratio. Par exemple, la baisse du ratio en Ontario dans les années 1990 est largement attribuable aux changements de composition du chômage, les changements induits du régime et les changements d'orientation se contrebalançant dans une large mesure.

Qui reçoit des prestations et qui n'en reçoit pas?

- L'étude a recours aux données de l'Enquête sur la couverture de la population par l'Assurance-emploi de Statistique Canada pour déterminer qui reçoit des prestations, qui n'en reçoit pas, et pourquoi.

- Cet examen nous amène à conclure que, dans l'ensemble, le régime atteint son principal objectif, soit de verser des prestations temporaires aux Canadiens qui se trouvent entre deux emplois. Plus de 78 % des personnes qui avaient perdu leur emploi ou avaient démissionné pour un motif valable en 1997 ont été admissibles aux prestations d'a.-e. Les 22 % qui restent n'ont pas répondu aux conditions d'admissibilité.

- Une autre conclusion importante est le fait qu'une proportion appréciable des chômeurs non admissibles à l'a.-e. en 1997 n'auraient pas non plus touché de prestations avant 1990. Plus de 65 % des chômeurs qui n'étaient pas admissibles aux prestations en 1997 n'avaient pas travaillé au cours des douze derniers mois, travaillaient à leur compte ou avaient quitté leur emploi pour retourner aux études. Sur les 35 % qui restent, 26 % avaient occupé un emploi assurable au cours des douze derniers mois, mais ont démissionné sans motif valable (11 %) ou n'ont pas répondu aux conditions d'admissibilité (15 %). Les autres, soit 9 %, étaient admissibles, mais n'ont pas touché de prestations parce qu'ils avaient épuisé leur droit aux prestations ou qu'ils n'avaient pas présenté de demande ou pour des raisons inconnues.

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Introduction

In its December 1997 Employment Insurance Monitoring and Assessment Report to Parliament, the Canada Employment Insurance Commission identified the decline in the beneficiaries to unemployed (B/U) ratio as an important issue in need of further analysis. The decline in the B/U ratio, which is the number of *regular* Employment Insurance (EI) beneficiaries divided by the number of unemployed workers, has raised questions about the adequacy of the Employment Insurance program in providing income protection to Canadians who lose their jobs. The report stated that the department of Human Resources Development Canada (HRDC) would prepare a separate analytical paper on the declining ratio. This study is HRDC's response to the Commission's request.

In order to better understand the reasons for the decline in the number of EI beneficiaries and to better monitor and assess the evolution of the adequacy of the Employment Insurance program in supporting individuals in periods of transition between jobs, HRDC commissioned Statistics Canada to run a new survey -- the Employment Insurance Coverage Survey (EICS). The survey, designed by the Strategic Policy Division of HRDC and the Special Surveys Division of Statistics Canada, is a quarterly supplement to Statistics Canada's Labour Force Survey (LFS). The EICS survey asks questions to a subset of LFS respondents which includes unemployed, part-time employed and out-of-the-labour force individuals in order to determine whether they were in receipt of EI or not and the reasons for not receiving EI. The survey also asks a number of questions concerning the means by which these people support themselves, their job search, the wage rate for which they are prepared to work and other issues.

This paper uses data from the EICS and other sources to perform an analysis of who receives EI in Canada. Among other things, it examines the reasons for the decline in the B/U ratio in the 1990s and proposes new indicators that provide a more accurate picture of EI benefit coverage[1] in the 1980s and 1990s.

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[1] In the context of the EI program, the term "coverage" is often used to describe the proportion of paid workers who <u>contribute</u> to the EI program. In this paper, the term "benefit coverage" is used in a non-technical way to describe broadly the proportion of the unemployed population which receives EI benefits.

The paper is organized as follows. Chapter 1 describes recent reforms to the Employment Insurance program and changes in the labour market. Chapter 2 reviews the evolution of EI benefit coverage over more than two decades. It compares the evolution of the B/U ratio to that of a number of other indicators of EI benefit coverage, ranging from very broad indicators such as the ratio of EI beneficiaries to the overall non-employed population to more pointed indicators such as the ratio of labour market-related EI beneficiaries to recently laid-off workers. Comparison of a range of indicators provides additional perspectives on the phenomenon of the decline of EI benefit coverage rates.

Chapter 3 provides a statistical analysis of the decline in the B/U ratio over the 1990-97 period. The analysis extends and improves the standard statistical approach used to examine this issue in previous studies.

Chapter 4 takes advantage of the new EICS to perform a detailed analysis of the unemployed who do not receive EI benefits, and why.

Finally, the conclusion summarizes the results.

The EI program is rather complex, and through the years analysts have developed technical language to describe its various facets and interactions with the workings of the labour market. While efforts have been made to clarify the concepts and expressions as they are introduced throughout this document, the reader may find it useful to refer to the Glossary at the end of the analysis.

1.   Context

Since 1990 there have been a number of legislative changes to the EI program, each implemented in the context of a rapidly evolving labour market. There has also been considerable public concern about how well the program is continuing to serve Canadians who lose their jobs.

The most commonly used indicator of how well the EI program is serving Canadians who lose their job is the B/U ratio. It compares the number of regular EI beneficiaries to the number of unemployed as estimated by Statistics Canada. Since 1989, the B/U ratio has declined from 83 percent to 42 percent. (See Figure 1.1.)

 The popularity of the B/U ratio stems mainly from the ready availability of the data to calculate it. Each month EI administrative data provide statistics on the total number of regular beneficiaries -- i.e., all those who receive benefits, except sickness, maternity, parental, adoption, fishing, training, work sharing, job creation and self-employment assistance benefits. The number of unemployed are estimated from Statistics Canada's Labour Force Survey.

Figure 1.1
The Ratio of Regular EI Beneficiaries to Total
Unemployment (The B/U Ratio)
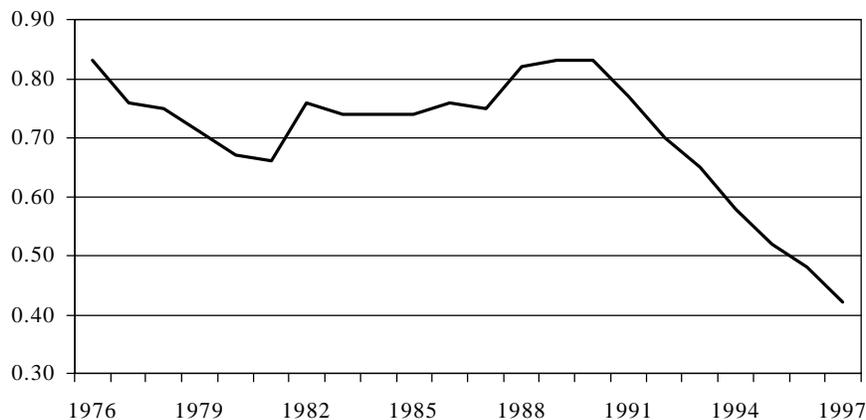
Unfortunately the B/U ratio has serious deficiencies as a measure of EI benefit coverage. "The unemployed", as measured by Statistics Canada, are too broad a group to form the denominator of the ratio. The unemployed are primarily those who have looked for work in the past month or are on temporary layoff and who are without work but available for work during the week of the survey. This includes individuals who have just entered the labour force for the first time, re-entrants to the labour force who have not worked for more than a year, those who have been unemployed for more than a year, and the self-employed. None of these groups has ever been eligible for benefits since the introduction of the Unemployment Insurance Act in 1940. The unemployed group also includes those who voluntarily left their jobs, a group whose benefit entitlement has always been reduced, and who, since 1993, is eligible for benefits only in special cases where a worker has quit for "just cause."

When looking at possible explanations for the decline in the B/U ratio, it is important to keep in mind that not all unemployed Canadians are expected to receive EI benefits. If the groups that have never been eligible for EI benefits increase in importance among the unemployed, one would expect the B/U ratio to fall. Possible explanations for the decline in the B/U ratio in the 1990s can therefore be classified in two categories: (1) changes in the eligibility and duration rules of the EI program, and (2) changes in the nature of work or the composition of the unemployed.

Recent EI program changes

Legislative changes have reduced benefit duration and tightened benefit eligibility requirements of the EI program. In 1990, Bill C-21 increased entrance requirements to 10 to 20 weeks from 10 to 14 weeks and increased the penalties for those who voluntarily quit their jobs. In April 1993, Bill C-113 excluded voluntary quitters. In 1994, Bill C-17 increased the minimum number of weeks of insurable employment required to be eligible for EI in high-unemployment-rate regions from 10 to 12 weeks and reduced the maximum benefit period for a given number of weeks of insurable employment by an average of 8 weeks. In 1996, Bill C-12 reduced the maximum length of benefits from 50 weeks to 45 weeks for long-attachment workers in high-unemployment-rate regions and

extended coverage to all part-time workers when eligibility became based on hours worked rather than insurable weeks worked. Before Bill C-12, workers with less than 15 hours of work per week and earning less than 20 percent of the maximum insurable earnings would not have been eligible for benefits. The latter Bill also increased the eligibility requirements for new entrants and re-entrants to the labour force.

Recent labour market developments

Changes in the nature of work and the composition of unemployment are also believed to have contributed to the decline in the B/U ratio. The rapid rise in self-employment over the 1990s has resulted in a large pool of workers who are not covered by EI. Over the period 1989-1997, the proportion of total employment accounted for by self-employment increased from 13.8 percent to 17.8 percent (Figure 1.2). This fact is mitigated, however, by the very low unemployment rate among the self-employed, so that it is unlikely to be a major factor in the decline of the B/U ratio. On the other hand, the increase in part-time work to 19.0 percent of total employment in 1997 from 16.6 percent in 1989 could be a significant factor, since the incidence of EI benefit coverage among unemployed part-time workers is less than among unemployed full-time workers. This was especially true prior to the hours-based coverage introduced in January 1997.

Figure 1.2
Self-Employment and Part-Time Employment as a
Percentage of Total Employment, 1976-1997
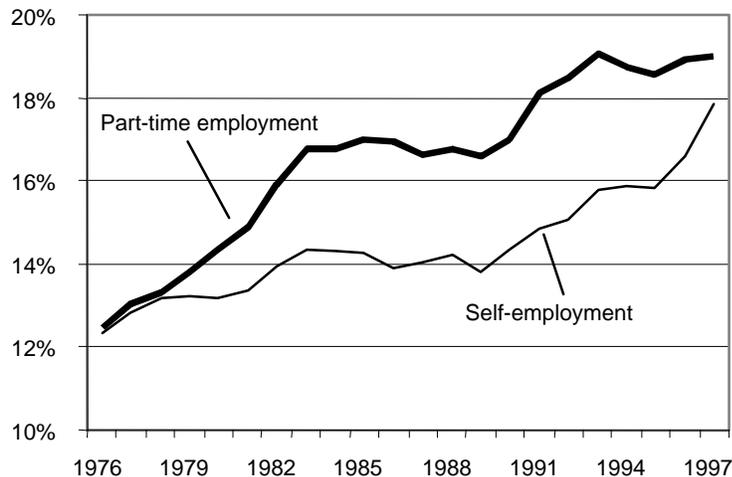
Increase in the duration of unemployment and in the proportion of unemployment spells of long duration (over 12 months) may also have contributed to the decline in the B/U ratio, insofar as those unemployed for more than twelve months would have exhausted their EI benefits. Long-term unemployment, the proportion of unemployed who have been looking for work for more than 12 months, increased from 5.5 percent in 1990 to 14.8 percent in 1994, then declined to 12.2 percent in 1997.

Finally, a more recent development that may have an impact on the B/U ratio is the increase in the number of unemployed full-time students, since full-time students are not eligible for EI benefits. Unemployed full-time students accounted for 14 percent of total unemployment in 1997, up from 9.3 percent in 1991.

Conclusion

The decline in the B/U ratio has raised questions about the adequacy of the Employment Insurance program in providing income-protection to workers in Canada who lose their jobs. Unfortunately, the B/U ratio has serious deficiencies as a measure of EI benefit coverage. Understanding the reasons for the decline in the B/U ratio is an important matter, but understanding the limits of the B/U ratio as a measure of the adequacy of the program is equally important. The remainder of this paper attempts to shed some light on both of these issues.

2.   Indicators of Employment Insurance Benefit Coverage

The B/U ratio, which compares the number of regular EI beneficiaries to the number of unemployed as estimated by Statistics Canada, is a widely used indicator of EI benefit coverage. Its popularity stems principally from the ready availability of the data to calculate it. It has attracted a lot of attention in the 1990s, since the ratio has undergone a pronounced decline. But apart from studies about the decline itself, little analytical work, either on the meaning of the decline of the B/U ratio or on the reliability and comprehensiveness of the B/U ratio as an indicator of EI benefit coverage, has been done.

The origins of the B/U ratio

The B/U ratio was initially used as a forecasting tool for projecting benefit payouts, not for measuring the level of coverage per se. Until the 1990s, it was believed that the B/U ratio moved in a systematic manner with the evolution of the unemployment rate, making it a potentially useful predictive tool of the expected number of beneficiaries -- provided one could rely on a good prediction of the unemployment rate. For example, at the beginning of a recession, the B/U ratio would increase as the rate of unemployment rose and many unemployed started their EI benefit spells. As the recession aged, the unemployment rate would rise and more and more unemployed would remain in that state long enough to exhaust their benefits, thus driving the B/U ratio down. Program administrators used this relationship to predict and plan for benefit payouts.

While the B/U ratio has long been used as a tool for forecasting the number of beneficiaries and benefit payouts, it became more difficult to forecast benefits and the number of beneficiaries using the B/U ratio in the 1990s when the past relationship with the rate of unemployment broke down.

A poor indicator of EI benefit coverage

The B/U ratio was never a good indicator of EI benefit coverage. This stems first from the fact that incompatible data sources are used. For instance, some regular EI beneficiaries included in the numerator are not accounted for in the definition of

unemployed used in the denominator. This is the case for some EI beneficiaries who work while collecting benefits. Other beneficiaries, particularly in high-unemployment regions, tell the Labour Force Survey that they are not looking for work; therefore, they collect EI benefits but are not counted as unemployed. The importance of this phenomenon is not negligible as demonstrated by the fact that the B/U ratio stood significantly over 100 percent in three Atlantic provinces throughout most of the 1970s and 1980s.

Also, the numerator includes only regular beneficiaries and, therefore, provides an incomplete picture of the EI program clientele by excluding non-regular beneficiaries -- sickness, maternity, parental, adoption, fishing, training, work sharing, job creation, and self-employment assistance beneficiaries.

Box 2.1

The B/U Ratio:
Comparing Apples and Oranges

	Included	**Not Included**
Beneficiaries	• regular EI beneficiaries (with and without earnings)	• sickness beneficiaries • maternity beneficiaries • parental/adoption beneficiaries • fishing beneficiaries • training beneficiaries

Unemployed	• unemployed eligible for EI, and also:
	  ➢ new entrants (never worked)
	  ➢ re-entrants with no work in the last 12 months
	  ➢ people who work as self-employed
	  ➢ voluntary quitters
	  ➢ those who have worked only a few weeks
		• beneficiaries who tell Statistics Canada they are not looking for work, e.g., people who:
		  ➢ believe no job is available
		  ➢ are temporarily not looking for work
		  ➢ do not want a job
		• EI beneficiaries with earnings

But the main reason why the B/U ratio is a poor indicator of EI benefit coverage is that not all unemployed individuals are expected to receive EI at all times. One important objective of the EI program, through its income benefits component, is to provide temporary income support to workers who become unemployed through no fault of their own. EI income benefits are not designed to be an income supplement for people who have very weak labour market attachment or people with no previous work experience who are facing difficulties in entering the labour market.

The denominator of the B/U ratio (the level of unemployment) does not distinguish between those unemployed individuals for whom the EI program is designed to provide benefits and those for whom the EI program is not designed to provide benefits. It counts only the number of people in the Labour Force Survey who indicate they are without work, available and looking for work.

The inconsistency between groups included in the numerator and those included in the denominator is a major flaw of the B/U ratio. Some people counted as beneficiaries are not counted as unemployed. Another shortcoming of the B/U ratio is that it includes only one type of beneficiary, those receiving regular benefits, and doesn't include other types such as those receiving fishing or training benefits.

Given these facts, it is instructive to look at other indicators of EI benefit coverage, rather than the B/U ratio in isolation. It is also important to understand the meaning and limitations of each indicator. No single indicator now available can provide a comprehensive picture of EI benefit coverage.

The next two sections of this paper present alternative indicators of EI benefit coverage grouped into two distinct groups: broad macroeconomic indicators and more focused targeted indicators.

2.1   Broad Indicators of Employment Insurance Benefit Coverage

The inconsistencies between groups represented in the numerator and those represented in the denominator of the B/U ratio can be addressed by constructing indicators which make use of broader populations in both the numerator and the denominator. Diagrams 1 and 2 represent two such indicators of EI benefit coverage. The lightly shaded area of the diagrams represents the definition of beneficiaries used for the numerators of the new indicators. The sum of the lightly shaded area and the darkly shaded area represents the denominators.

The broad indicator in Diagram 1 compares all the EI beneficiaries without earnings (light-shaded area) with the overall non-employed population (i.e., the population 15 years and over without employment) (sum of light- and dark-shaded areas). The numerator and denominator are fully consistent with one another: the denominator includes all possible beneficiaries without earnings, admittedly including many individuals who have no need or intention of collecting EI benefits or working (e.g., retirees, homemakers and students). This indicator can be thought of as a measure of how important EI is as a source of income among the non-employed population.

Diagram 1
EI Benefit Coverage Among the Non-Employed
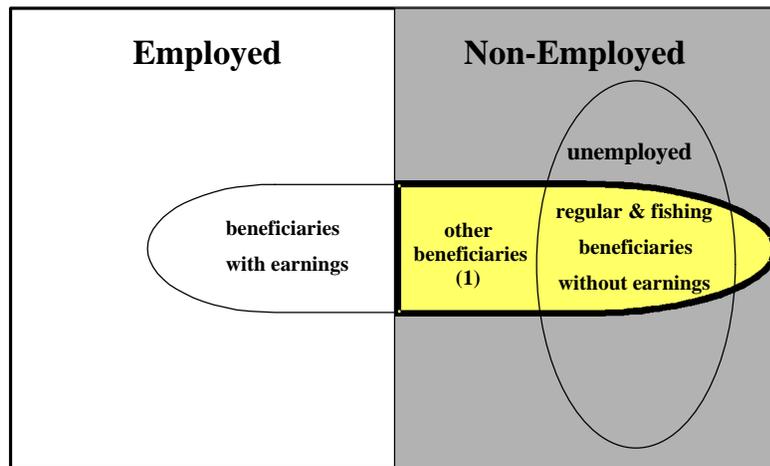
(1) Other beneficiaries include sickness, maternity, parental, adoption, training, work sharing, job creation, and self-employment assistance beneficiaries

In Figure 2.1, the first indicator (thin line) follows a cyclical evolution similar to the B/U ratio (solid black line). Interestingly, it shows a 50 percent decline between its peak in 1991 and 1997 – a decline which is similar for the B/U ratio (49 percent). However, the decline is considerably less important when analyzed over a longer period (19 percent between 1981 and 1997) than the decline in the B/U ratio (36 percent in the same period).

Figure 2.1
Comparison of Broad Indicators of EI Benefit Coverage
to the B/U Ratio
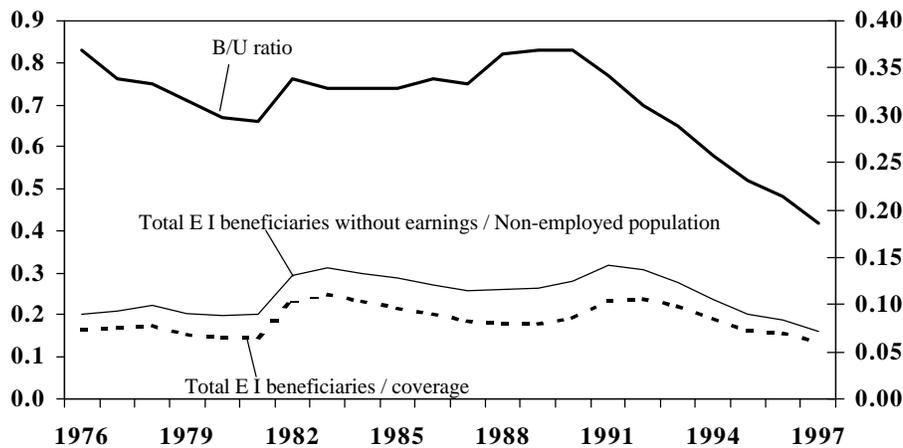
What the first broad indicator shows is that there has been a significant decline in the proportion of non-employed individuals who receive EI in the 1990s. While part of the decline is certainly cyclical, part may also reflect a tendency for the EI program to move away from being a broad-based income support program to being more focused on providing insurance to workers with a reasonable attachment to the labour market.

The second broad indicator, represented in Diagram 2, compares all EI beneficiaries to all individuals contributing to EI or receiving EI benefits. This indicator can be seen as a measure of the benefit-to-contribution payout ratio, or how well the program is serving its contributors. In Figure 2.1, the indicator (dotted line) is particularly cyclically sensitive

when compared to the B/U ratio, yet it declined by less than the B/U ratio in the 1990s. It declined by 43 percent in the five years following its 1992 peak (6 percent less than the B/U ratio). The 1997 level is 0.6 percentage points (or 9 percent) below the 1981 level, while the B/U ratio declined by 24 percentage points (or 36 percent) over the same period.

Diagram 2
EI Benefit Coverage Among Contributors

Employed	Non-Employed
	unemployed
beneficiaries with earnings	other beneficiaries (1)	regular and fishing beneficiaries without earnings
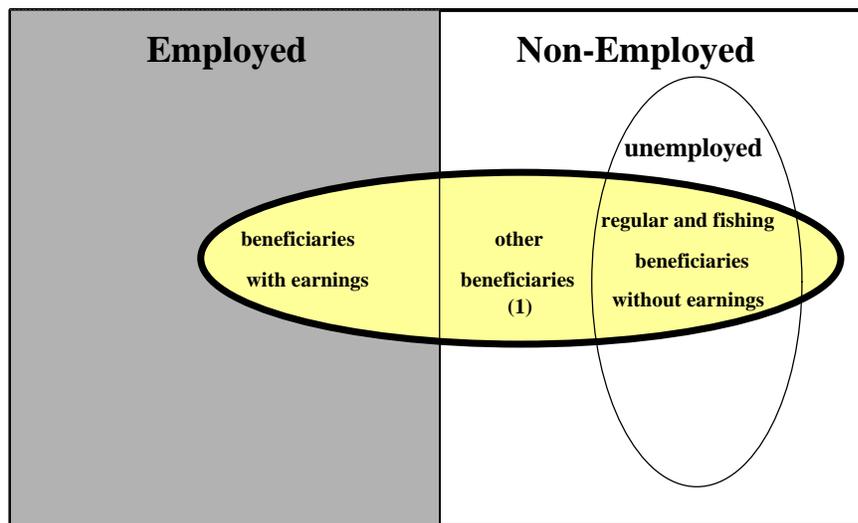
(1) Other beneficiaries include sickness, maternity, parental, adoption, work sharing, job creation, and self-employment assistance beneficiaries.

2.2   Targeted Indicators of Employment Insurance Benefit Coverage

Broad indicators, while making use of numerators and denominators that are compatible, are not very useful in capturing how well the program meets its main objective -- supporting workers through periods of temporary unemployment. It is possible to construct indicators that focus more directly on individuals for whom the EI program is designed, such as recently laid-off workers with a reasonable attachment to the workforce. While such targeted indicators represent better measures of EI benefit coverage, they have their own flaws. Indeed, because of data restrictions, time series for those indicators can only be calculated if both the numerator and denominator include

individuals who are not unemployed. The new Employment Insurance Coverage Survey discussed in Chapter 4 can be used to calculate true indicators of EI benefit coverage among the unemployed, but because the survey is so recent, it is impossible to construct a time series for trend analysis purposes.

Two targeted indicators are presented below. They are rough approximations of EI benefit coverage at best, but it is useful to look at how they have evolved through time as compared to the B/U.

The first targeted indicator (Diagram 3) compares labour market-related beneficiaries without earnings with the number of recently laid-off workers. Labour market-related beneficiaries (numerator) include regular beneficiaries with no earnings, fishing beneficiaries, and beneficiaries receiving EI for training, work sharing, job creation, and self-employment assistance. The grouping excludes sickness, maternity, and adoption beneficiaries from total beneficiaries without earnings, since those benefits are not related to labour market activity. As for recently laid-off workers (denominator), they consist of all people (unemployed and out-of-the-labour force) that have lost their job in the past 12 months.

Diagram 3
EI Benefit Coverage Among Recently Laid off Workers
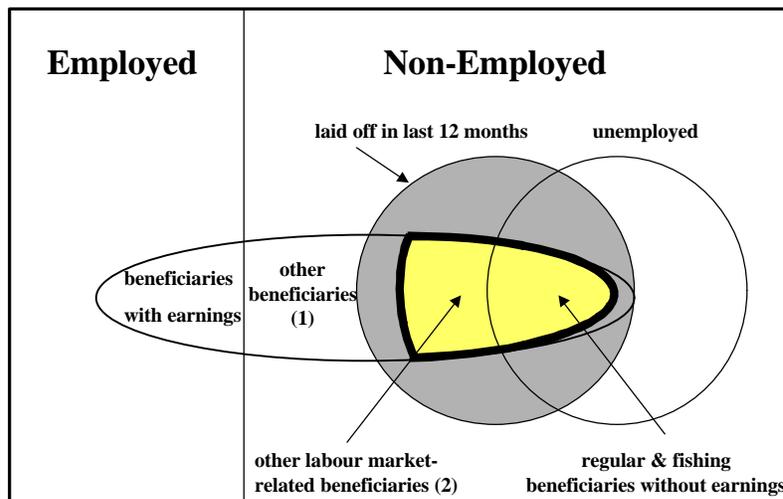
(1) Other beneficiaries include sickness, maternity, parental, and adoption beneficiaries.

(2) Other labour market-related beneficiaries include training, work sharing, job creation, and self-employment assistance beneficiaries.

As shown in Figure 2.2, the level of this first targeted indicator is very similar to that of
the B/U ratio up until 1989. By 1997, the level is significantly higher than that of the
B/U ratio. The indicator reaches a peak in 1989 (.83) but declines to .55 in 1997 --
translating into a 34 percent decline, somewhat less that the 49 percent decline of the B/U
ratio. Furthermore, although 1997 is a historical low, it is only 18 percent lower than the
1981 level (previous trough). What this indicator shows is that the decline in EI benefit
coverage among the traditional clientele of the EI program appears smaller, both over the
long term and in the 1990s, than the decline suggested by the B/U ratio.

Figure 2.2
Comparison of Targeted Indicators of EI Benefit
Coverage with the B/U Ratio
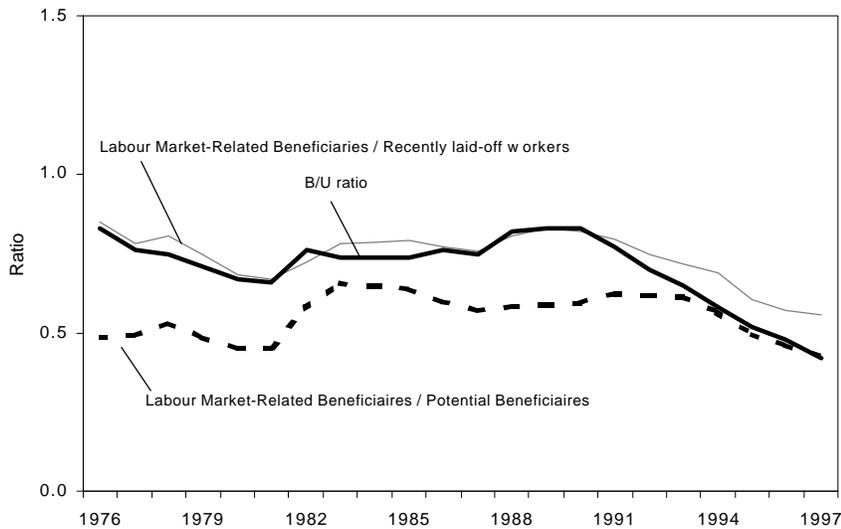
The second targeted indicator (see Diagram 4) compares labour market-related
beneficiaries without earnings with the total number of potential beneficiaries. "Potential
beneficiaries" consist of all jobless individuals (unemployed and out-of-the-labour force)
who were without work for 12 months or less, are not going to school, and worked for at
least 2 months. In essence, this indicator is intended to capture clients likely to receive EI
income benefits among the overall non-employed population. The level of EI benefit

coverage shown by this second indicator is lower than the other indicators in Figure 2.2. What is more interesting, however, is the evolution of the indicator over time. As shown in Figure 2.2, the ratio has declined by 32 percent since 1991. Again, this represents a smaller decline than that experienced by the B/U ratio. Also interesting is that the 1997 level is not much lower than the previous trough in 1981 (5 percent lower).

Diagram 4
**EI Benefit Coverage Among Potential EI Beneficiaries**
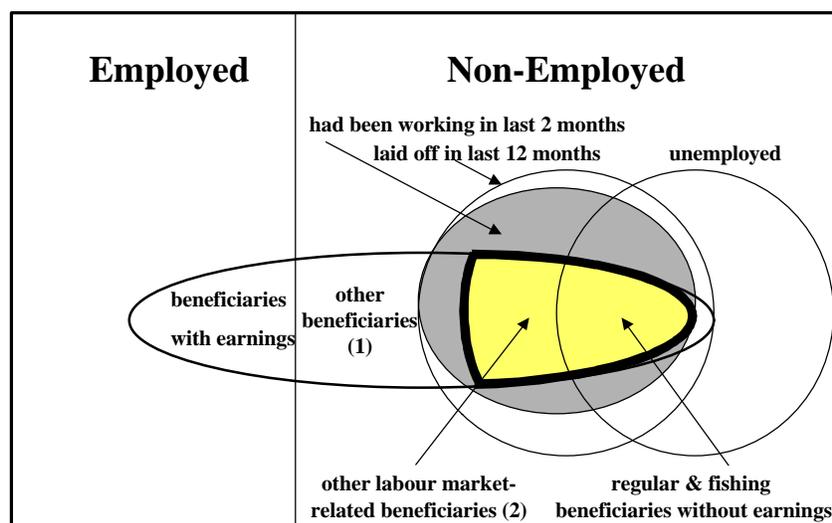
(1) Other beneficiaries include sickness, maternity, parental, and adoption beneficiaries.
(2) Other labour market-related beneficiaries include training, work sharing, job creation, and self-employment assistance beneficiaries.

The decline in EI benefit coverage, therefore, is less pronounced over both the long term and the 1990s, when targeted indicators of EI benefit coverage are used. However, even these consistent, targeted indicators show a significant decline in EI benefit coverage during the 1990s.

2.3 Conclusion

What do these alternative indicators tell us? First, all indicators show a significant decline in EI benefit coverage in the 1990s, which remains to be explained. Second, most indicators of benefit coverage constructed with consistent numerators and denominators

show smaller declines, both during the 1990s and in the longer term than the decline
suggested by the B/U ratio.

Thus, there appears to be something unique about the B/U ratio, since it shows a
distinctly more pronounced trend decline and a larger proportional decline in benefit
coverage in the 1990s than other indicators. The next section of this paper attempts to
shed some light on the issue by performing a detailed empirical analysis of the reasons
behind the decline in the B/U ratio in the 1990s.

3.   What Explains the Decline in the Beneficiaries to Unemployed Ratio?

As seen in the previous chapter, the Beneficiaries to Unemployed (B/U) ratio is by no means the only indicator of Employment Insurance (EI) benefit coverage. But the B/U ratio is the only indicator that has received broad public attention.

This chapter will provide an analysis of the causes of the decline in the B/U ratio in the 1990s.

3.1   The B/U Ratio Over Time

Chapter 1 of this paper discussed the evolution of the B/U ratio from 1976 to 1997, with its significant downward turn in the 1990s. (Figure 1.1 depicts the evolution.) From a level of 0.83 in 1989, the ratio fell to 0.42 in 1997, a 41 percentage point decline or 49 percent of the 1989 level. The first large drop in the B/U ratio in the 1990s occurred in 1991. This drop coincided with the beginning of the 1990-1991 recession[2] and also with the beginning of several legislative changes made to the EI program.

The decline in the B/U ratio occurred in every Canadian province in the 1990s. However, as can be seen in Figure 3.1, the descent has been particularly steep in the Atlantic provinces. There, the B/U ratio declined between 45 percentage points in Prince Edward Island and New Brunswick and 97 percentage points in Newfoundland. In the Atlantic provinces, where the B/U ratio historically stood at over 1.0 for many years, the 1997 B/U ratio ranged between 0.57 (Nova Scotia) and 0.83 (Prince Edward Island). The B/U ratio in the Atlantic provinces has historically stood over 1.0 since many regular beneficiaries in these provinces have not been looking for work because of low employment opportunities in their communities, and are not consequently considered unemployed by the Labour Force Survey. In three Atlantic Provinces, the B/U ratio still exceeded 75 percent in 1997. In the rest of the country the decline ranged between 30 percentage points (Ontario) and 44 percentage points (Quebec).

While the year 1990 was the first year of decline in the national B/U ratio, the beginning of the decline varied among provinces. The decline started in 1990 in Nova Scotia, Quebec, and

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[2] The B/U ratio declined very slightly between 1989 and 1990, from 83.4 percent in 1989 to 82.7 percent in 1990. More significant declines occurred after 1990.

Alberta. But it began in 1989 in Newfoundland, in 1991 in Ontario, Manitoba and British
Columbia, and in 1992 in New Brunswick and Saskatchewan. In Prince Edward Island, the B/U
ratio has been declining since 1985.

A comparison of the B/U ratio in Canadian provinces and American states highlights interesting
facts. Despite the significant decline in the ratio in the Atlantic and Quebec in the 1990s, these
provinces still had well above-average B/U ratios in 1997. (See Table 3.1.) The comparison
also shows that all Canadian provinces except Ontario have higher B/U ratios than the average
for the United States. Ontario's ratio is very similar to that of the United States. (29.5 percent for
Ontario; 29.7 percent for the United States.)

The B/U ratio in the 1980s

The 1990s are not the first time the B/U ratio experienced significant change. The ratio
increased significantly in a number of provinces during the 1980s. In Newfoundland it increased
by 54 percentage points (45 percent) between 1984 and 1989. And in Alberta, the B/U ratio
more than doubled between 1981 and 1983 to a level of 0.63 in 1983. These were significant
changes during periods of no major policy changes to the program.

Figure 3.1
Provincial B/U Ratios
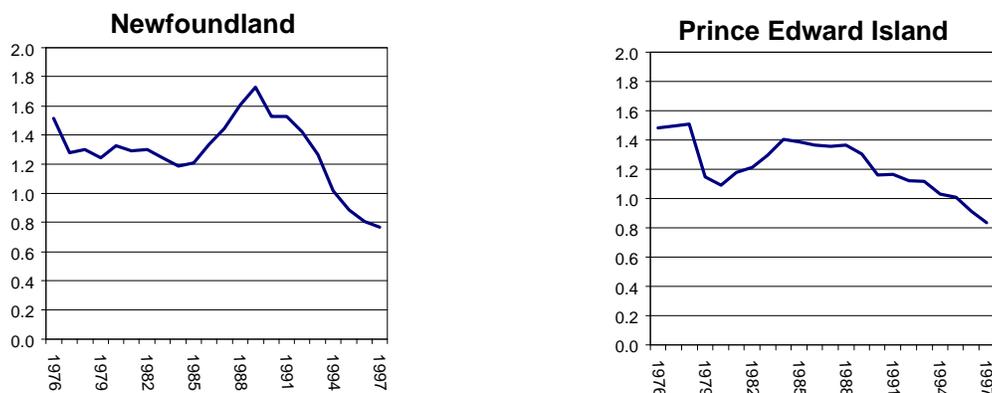
Figure 3.1 (continued)
Provincial B/U Ratios
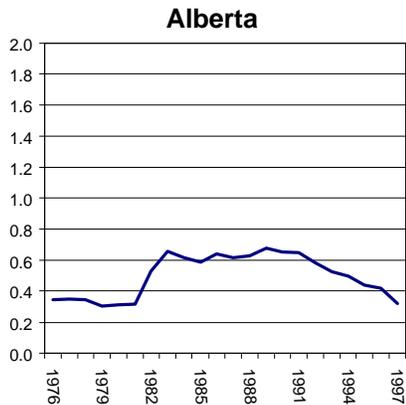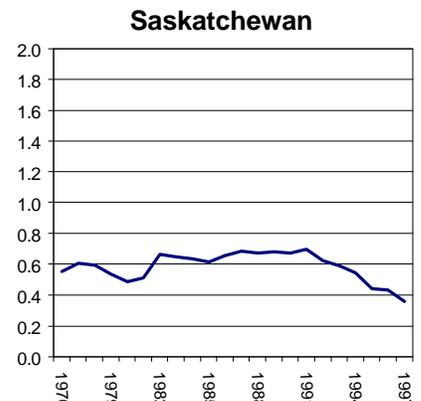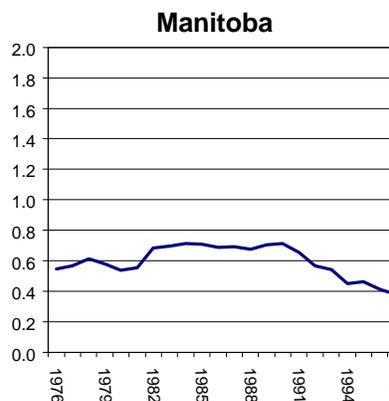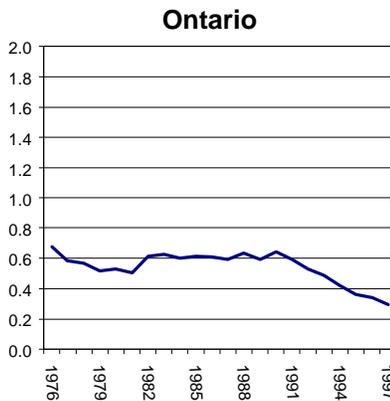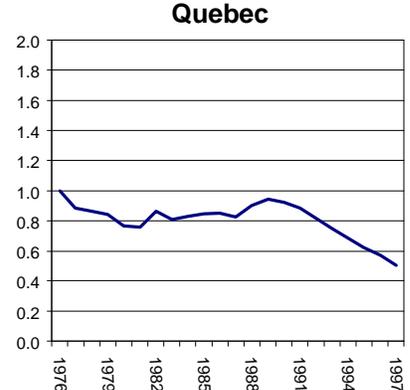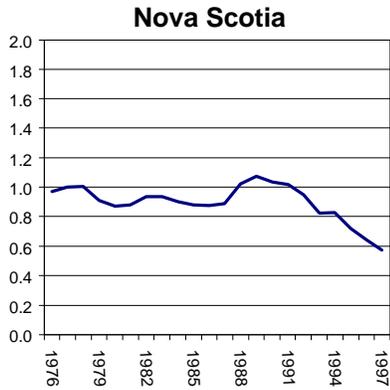
Table 3.1
B/U Ratios: Canadian Provinces and American States, 1997

Province / State	B/U Ratio	Rank of State / Province
Prince Edward Island	**0.835**	**1**
New Brunswick	**0.792**	**2**
Newfoundland	**0.762**	**3**
Nova Scotia	**0.575**	**4**
Wisconsin	0.511	**5**
Quebec	**0.504**	**6**
Alaska	0.495	7
Rhode Island	0.494	8
Nevada	0.457	9
Vermont	0.447	10
Washington	0.447	11
North Dakota	0.428	12
Pennsylvania	0.426	13
Massachusetts	0.425	14
New Jersey	0.419	15
Delaware	0.411	16
District of Columbia	0.401	17
British Columbia	**0.391**	**18**
Oregon	0.383	19
Connecticut	0.382	20
Michigan	0.378	21
Maine	0.377	22
Manitoba	**0.376**	**23**
Illinois	0.361	24
Minnesota	0.359	**25**
Saskatchewan	**0.357**	**26**
Iowa	0.349	**27**
Arkansas	0.337	28
California	0.337	29
Hawaii	0.329	30
Alberta	**0.322**	**31**
Idaho	0.307	32
New York	0.304	33
Montana	0.300	34
Ontario	**0.295**	**35**
Missouri	0.279	36
North Carolina	0.270	**37**
West Virginia	0.268	38
Nebraska	0.258	39
Tennessee	0.253	40
Kansas	0.248	41
Ohio	0.247	42
Indiana	0.241	43
Kentucky	0.241	44

Table 3.1 (continued)
B/U Ratios: Canadian Provinces and American States, 1997

Province / State	B/U Ratio	Rank of State / Province
Alabama	0.240	45
Wyoming	0.232	46
South Carolina	0.231	47
Maryland	0.229	48
Utah	0.227	49
Mississippi	0.218	50
Colorado	0.213	51
Florida	0.193	52
Texas	0.189	53
Arizona	0.184	54
Georgia	0.181	55
New Hampshire	0.181	56
New Mexico	0.177	57
Louisiana	0.160	58
Oklahoma	0.153	59
South Dakota	0.152	60
Virginia	0.148	61
Canada	**0.422**	
United States	**0.297**	

Note: Data for Canada are from Statistics Canada. Canadian provinces B/U ratios are calculated by dividing the provincial level of regular EI beneficiaries by the provincial annual average unemployment levels. Data for the United States are from the US Department of Labor. American States B/U ratios are calculated by dividing the total annual number of regular benefit weeks paid by 52 weeks and by the annual average US States unemployment levels. Canadian and American B/U ratios are comparable: both divides the number of regular beneficiaries by the number of unemployed individuals.

3.2 Reasons the B/U Ratio Varies Over Time

As seen above, the B/U ratio has varied considerably over time. There are a number of reasons for this. The B/U ratio varies because of cyclical and structural changes in the labour market. It also varies because of changes in the rules and properties of the EI program.

Labour market changes

The B/U ratio varies over the economic cycle. It usually increases at the beginning of a downturn, and declines as the economy recovers. At the beginning of an economic downturn, many workers are laid off. Many of these newly unemployed workers have long job tenure and thus qualify for EI benefits. Since an increasing proportion of unemployment is then composed of these newly unemployed workers and most receive EI benefits, the proportion of unemployed individuals receiving EI benefits and the B/U ratio increase. When the economy recovers, many workers are recalled or find other employment, but some remain unemployed for a longer period and exhaust EI benefits. Unemployment is then composed of more long-term unemployed individuals who no longer are entitled to EI benefits. The B/U ratio therefore declines.

The B/U ratio may also vary because of structural changes in the labour market. The economy and labour market have been profoundly affected by rapid technological changes, liberalization of trade, and globalization of markets. The sectoral composition of employment has shifted over time from primary industries to secondary industries, and more recently towards services and knowledge industries. These shifts in the industrial structure have had significant impacts on the occupational structure, rendering some occupations and skills out-moded and others more in demand.

Structural and cyclical changes in the labour market have impacted on the B/U ratio by changing the composition of the workforce and thus, of the unemployed population. Longer unemployment duration and increases in the proportion of employment accounted for by self-employment and part-time work mean that an increasing number of the unemployed are either not entitled to or not eligible for EI benefits.[3] Individuals unemployed for more than 12 months are not entitled to benefits. Self-employed persons are not covered by the EI program.[4]

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[3] Over the period 1989-1997, the unemployment rate increased from 7.5 percent to 11.3 percent, then declined to 9.2 percent. The average duration of unemployment increased from 16.8 weeks (1990) to 25.7 weeks, then dropped to 22.3 weeks, while the proportion of total employment accounted for by self-employment and part-time employment increased from 13.8 percent and 16.5 percent to 17.8 percent and 19 percent respectively.

[4] Until the introduction of the hours-based system, many part-time workers were not eligible for EI benefits. Previous to January 1997, to be insured, workers had to be employed at least 15 hours a week by the same employer or have earnings at least equal to 20 percent of the maximum weekly insurable earnings ($163 a week in 1995).

Changes in the rules of the EI program

The B/U ratio also varies because of changes in the rules and properties of the EI program. Rules and properties of the EI program change both as a result of policy changes and because the program has been designed to automatically respond to changes in unemployment rates.

This automatic response or "induced-program effect" is due to program rules that link eligibility and duration of benefits to the regional unemployment rate. The EI program is now structured in such a way that both eligibility and duration of benefits increase when the regional unemployment rate increases. Eligibility increases because the number of insured hours that are necessary to establish eligibility for EI benefits decreases when unemployment increases. For example, at a regional unemployment rate of 7 percent, an unemployed individual currently needs 665 hours to establish eligibility for EI benefits. If the regional unemployment rate rises to 10.5 percent, the same individual would need 525 hours.

The same induced program mechanism applies to the duration of benefits. With 665 hours of insured employment and a regional unemployment rate of 7 percent, unemployed individuals are currently entitled to 15 weeks of benefits. At a regional unemployment rate of 10.5 percent, unemployed individuals with 665 hours of insured employment would be entitled to 23 weeks of benefits. At higher unemployment rates, increased eligibility for benefits and longer duration of benefits translate into more unemployed drawing EI benefits for longer, and thus, into a higher B/U ratio.

3.3 Review of Previous Studies

A number of studies have been made previous to this one on the discrepancy between the number of regular EI beneficiaries and the number of unemployed as estimated by the Labour Force Survey.

The Lévesque Studies

In 1987, Jean-Marc Lévesque[5] introduced the concept of "potential beneficiary". Discrepancies between the number of unemployed persons and the number of regular beneficiaries led Lévesque to use detailed Labour Force Survey (LFS) information to construct two series that would match the concept of "regular beneficiaries" more closely than "total unemployment." The idea behind the construction of potential beneficiaries series was to exclude from the LFS estimate of total unemployment those individuals not entitled to regular benefits and thus to get as close as possible to the number of "potential" recipients of regular benefits. The period covered by the first Lévesque Study was 1977 to 1986. A follow-up[6] study prepared by Lévesque for Actuarial Services of Human Resources Development Canada (HRDC) re-examined the relationship between the regular beneficiaries series and his potential beneficiaries series up to 1993.

The studies found that the series constructed by Lévesque correlated well with the number of EI regular beneficiaries. The first series was the number of unemployed persons who were paid employees at some point within the last twelve months. The second series was a combination of the first and a subpopulation of individuals not in the labour force: those who were paid employees at some point within the last twelve months, who "lost" as opposed to "left" their last job, and were available for work[7].

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[5] Jean-Marc Lévesque, "Unemployment: a Tale of Two Sources", *Perspectives on labour and income*, Statistics Canada 75-525, winter 1989

[6] Jean-Marc Lévesque, "Recent Trends in the Ratio of the Recipients of Regular Benefits Without Declared Earnings over the Labour Force Survey Unemployment Series," unpublished document prepared for Actuarial Services, Unemployment Insurance Program, Human Resources Development Canada, 1994.

[7] The latter are "out-of-the-labour force" even though they are available for work. To be "unemployed," individuals without work must fulfill the following two conditions: be available for work and be looking for work.

Lévesque also discovered that both of these series tracked EI beneficiaries quite well if the relationships were considered separately by age and province. The series comprised of the unemployed tracks the number of beneficiaries better in Ontario and some of the western provinces, while the series including the "out-of-the-labour force" subpopulation correlates better with the number of beneficiaries in the Atlantic provinces. The studies state that the lack of available jobs, and therefore the impossibility of job search in the off-season in this region leads to a higher ratio of EI beneficiaries to unemployment in Atlantic Canada and would account for the higher correlation of EI benefit coverage with the second potential beneficiaries series.

The Bédard Study

In 1995, Bédard,[8] using Lévesque's concept of potential beneficiary, observed that the increasing number of unemployed who are not eligible for EI, and in particular those without employment for more than 12 months, explains an important part of the decline in the B/U ratio. Based on these observations, Bédard developed a new approach for projecting the B/U ratio. The new methodology consisted in using projections of the number of potential beneficiaries to project the number of EI regular beneficiaries and the B/U ratio.

The Sargent Study

In a forthcoming study, Tim Sargent[9] traces the factors behind the fall in the B/U ratio over the last decade in order to ascertain whether the ratio can be expected to rise back to its pre-recession level. Using an econometric model of the aggregate B/U ratio rooted in the potential beneficiary concept, the author decomposes the aggregate ratio to find out what proportion of its decline could be explained by a fall in the number of unemployed potential beneficiaries.

Sargent finds that 60 percent of the fall in the B/U ratio between 1987 and 1997 was caused by the severity and length of the post-1990 downturn, with 40 percent of the decline attributable to successive EI reforms.

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[8] Marcel Bédard, "Methodology for Predicting the Beneficiary/Unemployed Ratio (B/U Ratio)," Human Resources Development Canada, Applied Research Branch, Working Paper W-95-2E, 1995.
[9] T. Sargent, "The B/U Ratio: Prospect and Retrospect," Economic Studies and Policy Analysis Division, Department of Finance, forthcoming.

The Kapsalis Study

In 1998, C. Kapsalis[10] conducted a study for HRDC to explain the decline in the B/U ratio. Kapsalis used two data sources. December 1988 data were created by linking the 1988 Labour Market Activity Survey (LMAS) and the EI Status Vector (HRDC administrative data on EI claims). December 1997 data were taken from the new Statistics Canada EI Coverage Survey.[11] In his study, the author decomposes the decline in the B/U ratio without earnings into a labour market and a program effect. The labour market effect consists of changes in the characteristics and composition of the labour force. The program effect consists of changes in the incidence of EI benefit coverage among groups of people with similar labour force characteristics. The results of the study suggest that 47 percent of the December 1988 to December 1997 decline in the B/U ratio without earnings can be attributed to labour market changes and 53 percent to EI program changes.

In summary, previous studies have concluded that between 40 and 60 percent of the decline in the B/U ratio since 1990 can be attributed to labour market changes. Results differ according to the particular methodology used and the time period covered.

3.4 The Potential Beneficiary Approach Revisited

As discussed above, the potential-beneficiary approach has been utilized by a number of researchers to decompose the movements in the B/U ratio into two categories--movements caused by program changes and those caused by labour market changes.

The standard methodology that researchers have employed to differentiate the two categories is to run the following counterfactual experiment: if there had been no change to the EI program (that is, if the rules regarding qualifying for and duration of benefits had remained at their pre-1990 level), what would have happened to the number of EI beneficiaries? This experiment is done by first estimating the number of would-be beneficiaries, using micro data from Statistics Canada's Labour Force Survey. Then the researcher compares the actual number of EI

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[10]   C. Kapsalis, "Explaining the Decline in the EI Beneficiary–to–Unemployed Ratio," unpublished document prepared for EI Program Analysis, Human Resources Development Canada, 1998.
[11] See Chapter 4 and Glossary for additional information.

recipients to these potential beneficiaries through time, which provides an indication of how changes in the EI program impact on the level of EI benefit coverage.

This current study improves on the standard methodology by including in the pool of potential beneficiaries not only non-employed persons actively looking (the unemployed as defined by Statistics Canada), but also non-employed individuals with recent labour force attachment not looking for work during the week of the Survey (part of what Statistics Canada defines as the "out-of-the-labour force" population). The importance of including these out-of-the-labour force individuals in the pool of potential beneficiaries is that they are in many ways similar to the unemployed in their relationship to the labour market and the EI program. In particular, the EI Coverage Survey reveals that, contrary to the usual assumption made by previous studies, many of these so-called out-of-the-labour force individuals do receive EI benefits. This approach is also motivated by the seminal study by Card and Riddell[12] which pointed out that the line is sometimes blurred between jobless individuals who are considered unemployed and some of those who are considered out-of-the-labour force.

Another improvement of this current study is to distinguish beneficiaries with earnings from beneficiaries without earnings. Since it is not possible to model effectively factors responsible for changes in the number of beneficiaries with earnings, the analysis concentrates on modelling the behaviour of beneficiaries without earnings, leaving the evolution of the number of beneficiaries with earnings as a residual.

Defining potential beneficiaries

A potential beneficiary is defined in this current study as an individual who could have been eligible for the EI program at any particular point in time during the period from 1972 to 1998. For instance, a person in 1998 could qualify as a potential beneficiary if he or she was eligible for EI in 1972, or any other year since 1972. This same individual may not be qualified for EI according to 1998 criteria. The best example of this situation is a worker who voluntary quits his/her job without just cause. While this worker would not qualify for EI benefits in 1998,

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[12] Card, David and W. Craig Riddell, "A Comparative Analysis of Unemployment in Canada and the United States," pp. 149-189 in David Card and Richard B. Freeman (eds.), *Small Differences That Matter: Labour Markets and Income Maintenance in Canada and the United State* (Chicago: University of Chicago Press and NBER), 1993.

he/she is a potential beneficiary since voluntary quitters without just cause have been excluded from EI eligibility only since 1993.

Box 3.1 provides details on how this current study calculates the potential beneficiaries series. The chart at the bottom of the box divides the universe of all unemployed and out-of-the-labour force individuals into potential beneficiaries and other categories. A potential beneficiaries series is obtained by excluding from the number of individuals with no work (unemployed and out-of-the-labour force) those who are without work for more than 12 months, those who were self-employed before being without work, those who voluntarily left a job to go to school, and those with less than 2 months of tenure in their last job. In 1997, potential beneficiaries represented 14 percent of the non-employed population.

Box 3.1
Calculating the Number of Potential Beneficiaries

- **From the total of unemployed individuals (from LFS data), subtract:**
  - the unemployed with no work for more than 12 months,
  - the unemployed who were self-employed before becoming unemployed or were unpaid in a family business,
  - the unemployed who voluntarily left a job to go to school, and
  - the unemployed with less than 2 months of tenure in their last paid job.

- **To the remainder, add all individuals out-of-the-labour force and then subtract:**
  - those with no work for more than 12 months,
  - those who were self-employed before becoming unemployed or were unpaid workers in a family business,
  - those who voluntarily left a job to go to school, and
  - those with less than 2 months of tenure in their last paid job.

- **The end result is the number of potential EI beneficiaries.**

Potential EI Beneficiaries in the Universe of

Unemployment and Out-of-the-Labour Force, 1997

Unemployed with no work for more than 12 months 5%

Self-employed 2%

Left job to go to school 4%

Tenure < 2 months 1%

Potential Beneficiaries 14%

Individuals out-of-the-labour force with no work for more than 12 months 74%
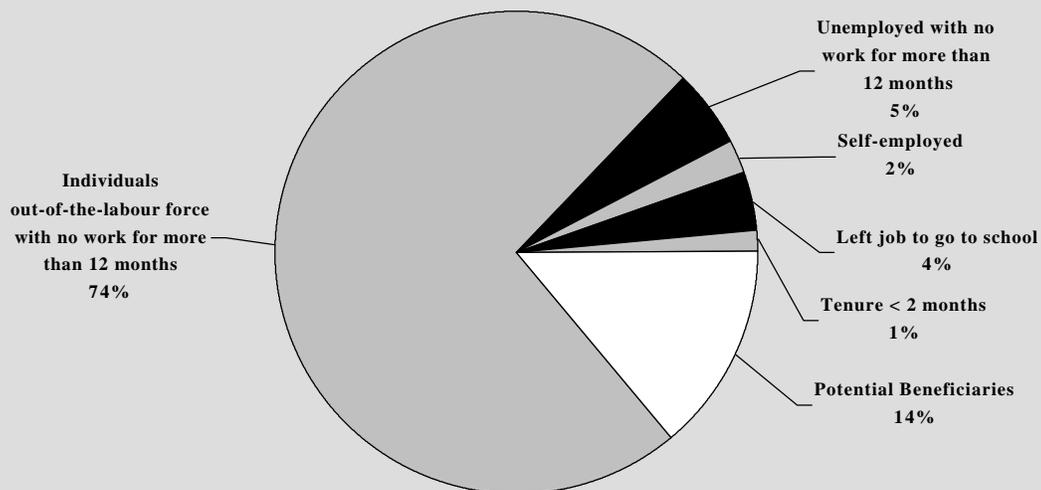
The model

The model, described in Box 3.2, shows the steps required to separate the effects of program and labour market changes in the B/U ratio.

Box 3.2
The Model

(1) $B/U = BNG/U + BWG/U$

(2) $BNG/U = [BNG/(Upot+OLFpot)] * [(Upot+OLFpot)/U]$

(3) $B/U = [BNG/(Upot+OLFpot)] * [(Upot+OLFpot)/U] + BWG/U$

(4) $\Delta(B/U) =$ $[((Upot+OLFpot)/U)_t+((Upot+OLFpot)/U)_{t-i}]/2*$
                 $\Delta[BNG/(Upot+OLFpot)]+[(BNG/(Upot+OLFpot))_t+$
                 $(BNG/(Upot+OLFpot))_{t-i}]/2*\Delta[(Upot+OLFpot)/U]+$
                 $\Delta[BWG/U]$

Where:
B: Regular EI beneficiaries
U: Unemployment
BNG: Beneficiaries without earnings
BWG: Beneficiaries with earnings
Upot: Potential beneficiaries that are unemployed
OLFpoT: Potential beneficiaries that are out-of-the-labour force
Δ: Change between year t and year t-i

Equation (1) expresses the B/U ratio as the sum of beneficiaries with and without earnings divided by unemployment. The equation isolates the B/U ratio of individuals without earnings from that of those with earnings, since it is not possible to distinguish the separate impacts of program and labour market changes on beneficiaries with earnings.

Equation (2) is the B/U identity. It expresses the B/U of individuals without earnings as the product of two ratios. The first term of equation (2), the ratio of regular beneficiaries to potential beneficiaries, approximates the program component of the B/U ratio. "Potential beneficiaries" excludes all individuals who would never have been eligible under the current EI program or the

previous UI program. Changes in program rules, such as increased minimum entry requirements to qualify for benefits, or shorter duration of benefits, are reflected in the first term of equation (2) since these program changes impact on the proportion of potential beneficiaries actually receiving EI benefits.

The second term of equation (2), the ratio of potential beneficiaries to unemployment, estimates the labour market component of the B/U ratio. Changes in the number of potential beneficiaries are not attributable to EI program changes. The number of potential beneficiaries will change along with the growth or decline of the workforce categories that are excluded from or included in the "potential beneficiaries" definition. Thus, a change in the number of potential beneficiaries relative to the number of unemployed reflects modification in the composition of the workforce (e.g., increases in unemployment of self-employed workers, full-time students, long term unemployment, etc.) and, therefore, of the unemployed and potential beneficiaries populations.

Equation (3) adds beneficiaries with earnings to arrive at the standard B/U ratio.

Equation (4) expresses the change in the B/U ratio as the sum of a program change effect, a labour market change effect and the change in the number of beneficiaries with earnings.[13]

3.5 The Results

The results of the decomposition of the causes of the decline in the B/U ratio between 1989 and 1997, using the model presented in Box 3.2, are summarized in Table 3.2. Changes in the composition of unemployment explain 18 percentage points of the 41-point decline in the B/U ratio. This amount represents 43 percent of the overall decline in the B/U ratio over the 1989-1997 period.

---

[13] Equation (4) is a variation of finite differences where the change in, say: $f = xy$, is $\Delta f = y\Delta x + x\Delta y + \Delta x\Delta y$, and where $\Delta x\Delta y$ is an interaction term. The variation specified in equation (4) evaluates the change in the B/U ratio at the mean, thus eliminating the interaction term. This variation corresponds approximately to proportionately distributing the interaction term between the two factors.

The results of this current analysis also indicate that program changes account for 20 percentage points of the 41-point decline in the B/U ratio between 1989 and 1997. This figure represents 48 percent of the overall decline in the B/U ratio over that period. The decline in the ratio of beneficiaries with earnings to unemployment accounts for the remaining 3-percentage points out of the 41 point decline. The number of regular beneficiaries with earnings has increased as a proportion of total regular beneficiaries during the 1990s, but declined as a proportion of unemployment. It is impossible to know how much of this decline is due to program changes or to changes in the composition of unemployment.

Table 3.2

Causes of the Decline in the B/U Ratio Between 1989 and 1997

	Percentage points	**Proportion of the decline**
B/U in 1989	83	N/A*
B/U in 1997	42	N/A*
Change in B/U, 1989-1997	-41	100%
Due to labour market changes	-18	43%
Due to program changes	-20	48%
Due to change in the ratio of beneficiaries with earnings to unemployment	-3	9%

* N/A stands for not applicable

Policy changes did not impact on the B/U ratio until 1993

Policy changes made to the Employment Insurance program in the early 1990s did not impact negatively on the B/U ratio until 1993 as the effects of the 1990-1991 recession on program eligibility and duration of benefits offset policy changes made to the program until that time. Figure 3.2 shows the actual B/U ratio over the period 1976 to 1997 and the program component of the B/U ratio over the period 1990 to 1996. As a result of the recession, unemployment increased in all regions of the country. The program rules that link eligibility for and duration of benefits to the regional unemployment rate played their role: eligibility for and duration of

benefits automatically increased in all regions of the country. This automatic reaction of the EI program to an increase in unemployment had the effect of offsetting the policy changes made to the program in the early 1990s. Only after 1993 did the B/U ratio begin to reflect the impact of program changes in eligibility for and duration of EI benefits.

Figure 3.2
Actual BU Ratio (1976-1997) and
Calculated Program Changes Component
(1990-1997)
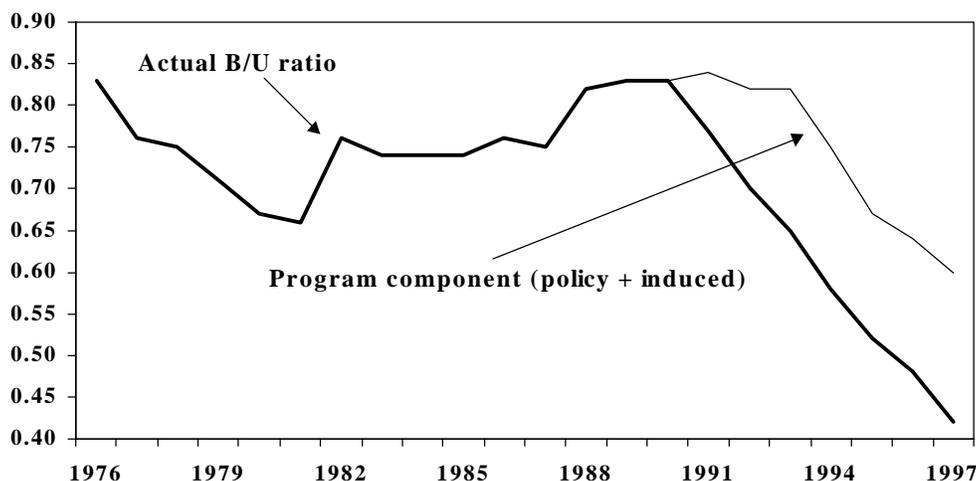
The program component corresponds to the B/U ratio, had labour market changes not occurred over that period.

The main factor behind the change in the composition of unemployment

The main factor behind the change in the composition of unemployment is the near doubling of the number of unemployed who have not worked in the past 12 months as a proportion of total unemployment. This number has increased significantly since 1989: their share of total unemployment increased from 20.8 percent to 38.4 percent in 1997. Those who haven't worked in the last 12 months account for over 90 percent of the labour market changes that contributed to the decline in the B/U ratio. The rest is accounted for by changes in the number of unemployed who had some employment in the last 12 months and were self-employed prior to unemployment, full-time students, or part-time workers.

It is important to understand that the term "unemployed without work for more than 12 months" differs considerably from what is commonly considered "long-term unemployed." The latter group is usually defined as "individuals unemployed for more than 12 months." To be unemployed for more than 12 months, an individual without work must have been looking for work for more than 12 consecutive months. To be an unemployed individual without work for more than 12 months, an individual only needs to be looking for work at the time of the Statistics Canada Labour Force Survey and be without work for more than 12 consecutive months. An unemployed individual who last worked more than 12 months ago but who started to look for a job only 2 weeks ago is an unemployed individual without employment for more than 12 months, but unemployed only 2 weeks.

The proportion of unemployment accounted for by individuals with no employment in the last 12 months has increased by 17.6 percentage points to 38.4 percent between 1989 and 1997. Long-term unemployment has increased only by 5.6 percentage points over that period to 12.2 percent of unemployment in 1997. Therefore, there is a large and increasing proportion of individuals with no employment in the past 12 months that are now reporting to be looking for work, and thus are classified as unemployed. (Figure 3.3).

Figure 3.3
Unemployed with No Work in the Last 12 Months Compared
to Unemployed for More Than 12 Months
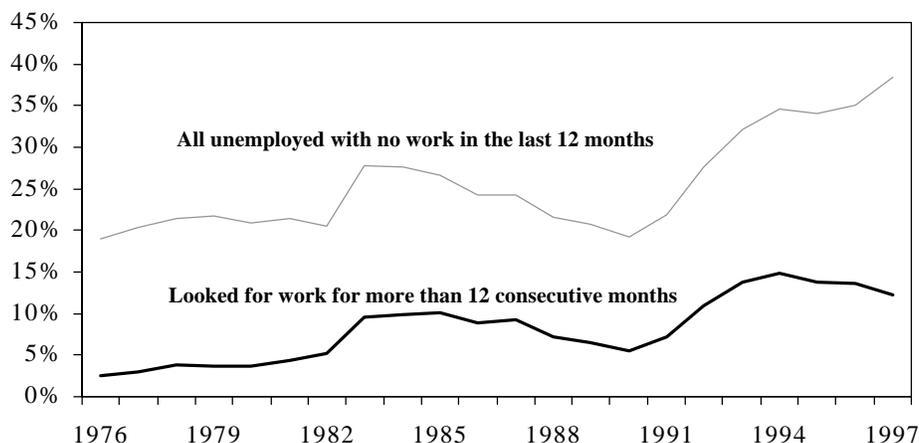
A full analysis of the causes of the increase in the number of unemployed individuals with no employment in the last 12 months lies outside the scope of this document, but it is nevertheless a phenomenon that deserves particular attention. The unemployed with no employment in the last 12 months can be divided in two sub-groups: (1) those with previous work, but not in the last 12 months, and (2) those with no previous work. Most of the increase in the proportion of unemployed individuals with no work in the last 12 months is due to an increase in the proportion of individuals with some previous work experience, but not over the past 12 months. Their share of total unemployment increased from 17.8 percent in 1989 to 28.1 percent in 1997. But an increasing proportion of unemployed with no employment in the past 12 months is also accounted for by individuals with no previous work. The proportion of unemployment accounted for by individuals with no previous work has increased from 3.0 percent in 1989 to 10.3 percent in 1997 (Figure 3.4).

Figure 3.4
Unemployed With No Employment
in the Last 12 Months as a Proportion of all Unemployed
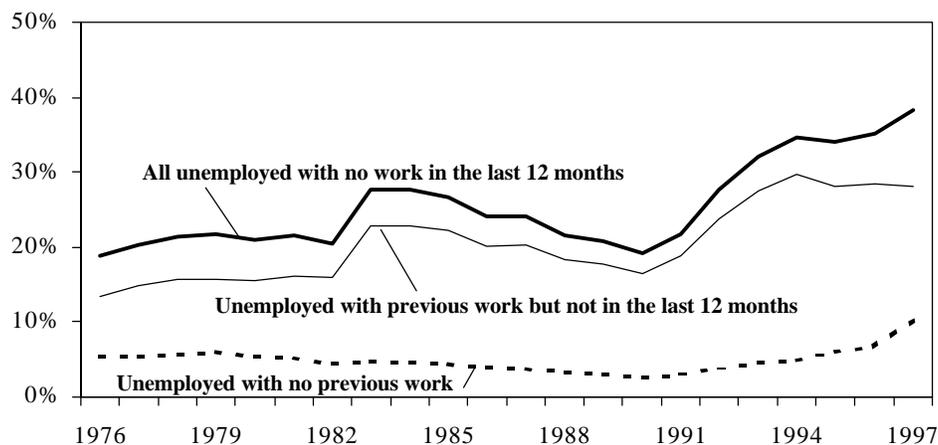
Thus, for many Canadians, it now seems more difficult to get a first job, or to simply regain employment after a long period without work. Several factors may account for this development. There could be a growing mismatch between employers' requirements and the skills and experience of certain groups of unemployed. Other factors may be of an institutional

nature. For instance, changes in some provincial social assistance programs in the 1990s designed to foster more labour market participation and job search activities may have encouraged more people to declare themselves unemployed at the time of the Labour Force Survey. Data from the EI Coverage Survey indicate that about 30 percent of the unemployed without work in the last 12 months were receiving social assistance benefits in 1997. It is not possible to say whether this proportion has increased or decreased in recent years.

A preliminary analysis of the composition of the unemployed with no work in the last twelve months reveals that:

- Over 60 percent of the unemployed with previous work, but not in the last 12 months are without work for more than two years, and about a quarter are without work for more than 5 years (Figure 3.5).

- The age composition of those unemployed with previous work, but not in the last twelve months is very similar to that of the labour force (Figure 3.6b). Older workers are not over-represented among that group of unemployed.

- As expected, in the case of unemployed individuals with no previous work, the situation is quite different. The 15-24 age group accounts for the lion's share -- more than 75 percent of the overall number of unemployed without previous work experience are youth (Figure 3.6a).

- In comparison with their relative importance in the labour force, women are slightly over-represented among the two groups of unemployed – those with no previous work, and those with previous work, but not in the last 12 months (Figure 3.7a and 3.7b).

- In comparison with their weight in the labour force, Quebec and Ontario account for a proportionately more significant share of the unemployed without previous work experience (Figure 3.8a). In the case of the unemployed with previous work, but not in the last twelve months, the representation is relatively more important in Quebec and the Atlantic provinces (Figure 3.8b).

Figure 3.5
Percentage Distribution of Unemployed with Previous
Work, But Not in the Last 12 Months,
by Number of Months Without Work, 1997
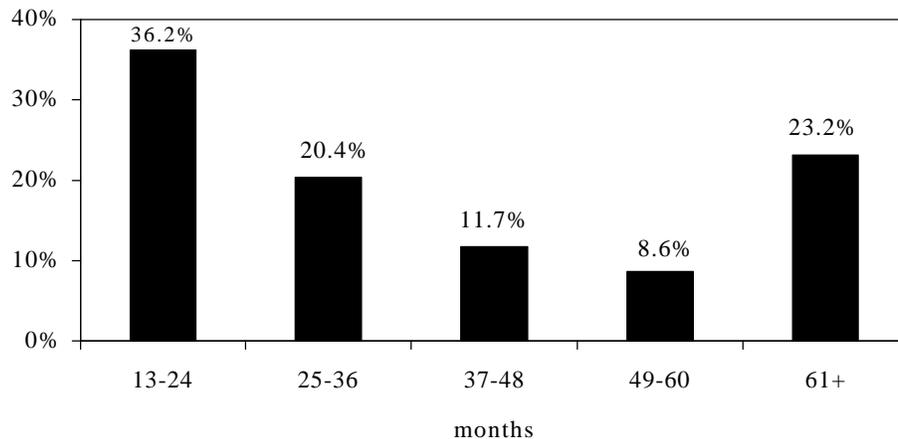
Provincial analysis

Decomposition of the B/U ratio by province indicates that program changes accounted for between 44 and 54 percent of the decline in the B/U ratio in the five provinces east of Ontario over the period 1989-1997 (See Table 3.3.). In Ontario, program changes accounted for only 27 percent of the decline in the B/U ratio as access to the program improved in response to the severe recession of the early 1990s. Program changes accounted for between 64 and 83 percent of the decline in the B/U ratios of the provinces west of Ontario

This wide range of program-change effects is largely explained by the rules that link eligibility to benefits and duration of benefits to the rate of regional unemployment. Ontario's unemployment rate in 1997 was 8.5 percent compared to 5.1 percent in 1989. The higher unemployment in Ontario in 1997 implies that minimum entrance requirements and duration of benefits were almost the same in 1997 as in 1989, despite the policy changes made to the program over that period. Hence, induced program effects partially offset the impact of policy changes to the program.

Figure 3.6a
Distribution of Unemployed with no Previous Work by Age Group, 1997
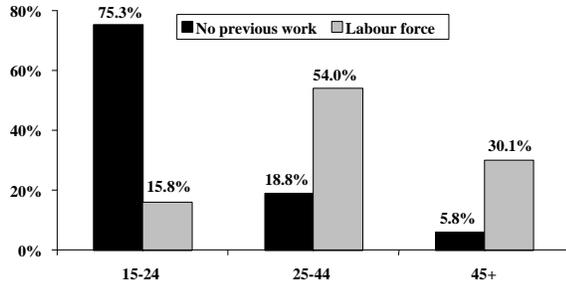
Figure 3.6b
Distribution of Unemployed with Previous Work, But Not in the Last 12 Months, by Age Group, 1997
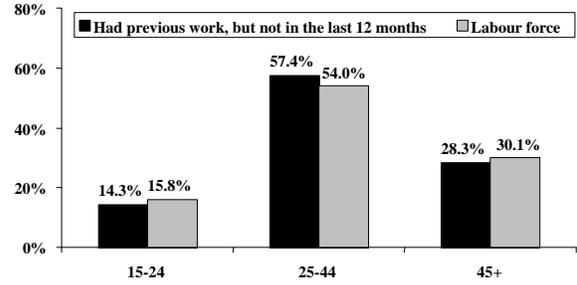
Figure 3.7a
Distribution of Unemployed with no Previous Work by Gender, 1997

Figure 3.7b
Distribution of Unemployed with Previous Work, But Not in the Last 12 Months, by Gender, 1997

Figure 3.8a
Distribution of Unemployed with no Previous Work, by Region, 1997

Figure 3.8b
Distribution of Unemployed with Previous Work, But Not in the Last 12 Months, by Region, 1997

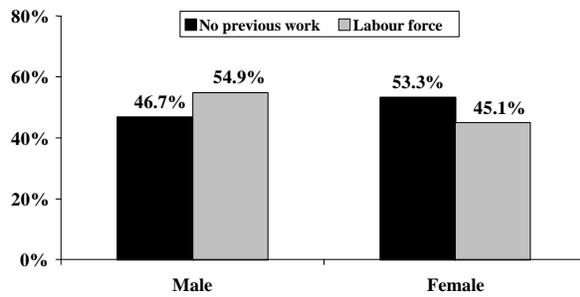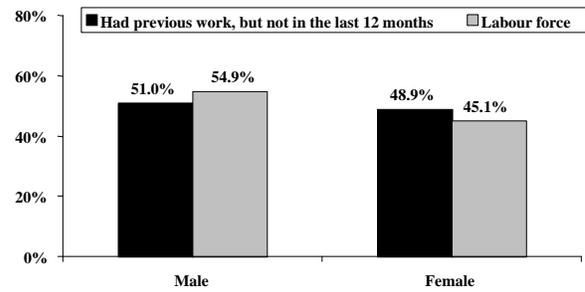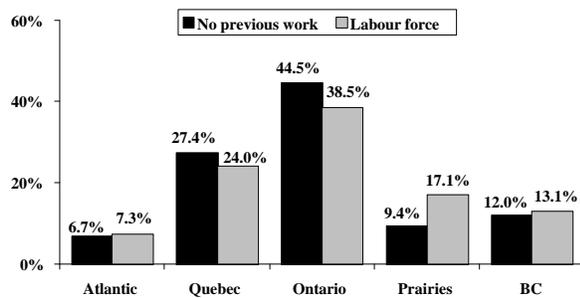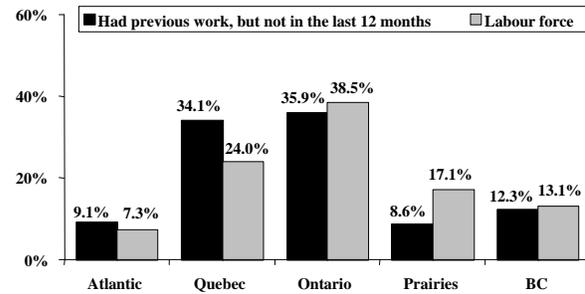In Manitoba, Saskatchewan and Alberta, the unemployment rate was about 1 to 1.5 percentage points lower in 1997 than in 1989. These figures explain why the program effect is so large in those provinces. In the Prairie region, the policy changes and the induced-program effect both worked in the same direction. In addition to the program cuts, the unemployed in these provinces had to face higher entrance requirements and shorter benefit entitlement because of a lower unemployment rate in 1997 than in 1989.

The unemployment rate in British Columbia in 1997 was similar to that in 1989 (8.9 percent vs. 9.1 percent), so the rules that link eligibility requirements and duration of benefits to the regional unemployment rate had little impact in that province.

Table 3.3
Analysis of the Decline in the B/U Ratio by Province

	Nfld	PEI	NS	NB	Que
	Percentage points				
B/U in 1989	1.74	1.29	1.07	1.25	.94
B/U in 1997	0.77	.83	.57	.80	.50
1997-1989 change	-.97	-.46	-.50	-.45	-.44
Proportion of the decline explained by:		*Percentage*			
- labour market changes	48	35	46	37	48
- program changes	48	52	44	54	45
- change in beneficiaries with earnings to unemployment ratio	4	13	10	9	7

	Ont	Man	Sask	Alta	BC
	Percentage points				
B/U in 1989	.59	.71	.68	.68	.76
B/U in 1997	.30	.38	.36	.32	.39
1997-1989 change	-.29	-.33	-.32	-.36	-.37
Proportion of the decline explained by:		*Percentage*			
- labour market changes	63	13	10	8	23
- program changes	27	77	79	83	64
- change in beneficiaries with earnings to unemployment ratio	10	9	11	9	13

3.6 Conclusion

Every study on the decline of the B/U ratio has concluded that changes in the composition of the unemployed had a major effect on the ratio's evolution. This current analysis confirms that result, employing the most comprehensive measure of potential beneficiaries ever used.

The study explains that somewhat less than 50 percent of the decline in the B/U ratio between 1990 and 1997 can be attributed to changes in the program (induced-program effects or policy changes) and that the rest of the decline must be accounted for by other factors, notably changes in the composition of unemployment and changes in the number of beneficiaries with earnings in proportion to the number of unemployed.

A major labour market development behind the decline in the B/U ratio in the 1990s is the increase in the number of unemployed that have not worked in the past 12 months. The proportion of unemployment accounted for by individuals with no employment in the last twelve months has almost doubled between 1989 and 1997.

The study also finds that the rules that link eligibility for and duration of benefits to the regional unemployment rate played an important role in helping individuals gain and retain entitlement during the recession. They are an important feature of the EI program.

These findings help put the evolution of the B/U ratio in perspective. The analysis of the factors that have contributed to the ratio's evolution in the current decade reinforces the main findings of the previous chapter, that the B/U ratio is not a good indicator of EI benefit coverage.

4.   Who Receives EI? Who Does Not? Why?

4.1 The Issue

With the exception of the own-account self-employed and their family members who work in the same business,[14] most Canadians working for pay contribute to the Employment Insurance (EI) program. Yet, large numbers of the unemployed do not collect Employment Insurance benefits. Why is this so?

As indicated in the previous chapter, the EI system is not designed to pay benefits to all unemployed people. Only individuals who have recently contributed to EI and have lost their previous job due to layoff, or have left it for just cause, are eligible for benefits. Only those who do not have severance or pension benefits from their last job to fall back on are eligible to receive benefits immediately following the standard two-week waiting period. Many of the unemployed who are without work and are actively looking for work are nonetheless not eligible to receive EI benefits. They have not had a paid job for over a year, they have left their previous job without just cause or they have just started to look for work after leaving school or after having been out-of-the-labour force for several months or years. Some who are eligible to receive benefits are not doing so currently because they are in the two-week waiting period or have severance or pension benefits to fall back on. Some don't know how to claim EI or simply do not want it.

This chapter will examine and explain in depth who, among the unemployed, does and does not receive Employment Insurance benefits. Data from the Employment Insurance Coverage Survey (EICS) are utilized.

4.2 The Employment Insurance Coverage Survey

The EICS is a quarterly survey conducted by Statistics Canada on behalf of Human Resources Development Canada. A supplement to the Labour Force Survey (LFS), it is designed to obtain information on who receives Employment Insurance benefits, who does not, and the reasons why certain unemployed individuals do not receive EI. In addition, the EICS asks respondents about

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[14] Spouses and other family members can be covered if an arms length relationship exists between the owner of the business (the own-account self-employed) and the employed family member.

their financial situation and resources, details about separation from their last job, their job search intensity and other matters.

The first EICS survey was conducted in January 1997, and surveys have been conducted every 3 months since. Participants are interviewed by telephone. There are no "proxy interviews" where someone else in the household responds on behalf of the target respondent. Interviews are conducted between three and six weeks following the Labour Force Survey reference week.

The EICS sample of about 3,500 persons per survey is set at a number considerably smaller than the Labour Force Survey sample of approximately 100,000 for two main reasons. First, the relevant population for the EICS is smaller than for the Labour Force Survey. The Labour Force Survey aims to capture the labour force status of the entire non-institutional civilian population aged 15 and over who live in a Canadian province. The main objective of the EICS is to obtain information about members of the population who could receive EI; so its relevant population includes only:

- those people who were unemployed during the reference week;

- those employed but working only a few hours during the reference week;

- those not working or looking for work in the reference week but with some employment during the two years prior to the reference week; and

- those employed full-time during the reference week but employed only in intermittent jobs during the previous two months.

The second reason for the smaller EICS sample is that this survey is administered only to the one-sixth of the Labour Force sample that rotates out-of-the-labour Force Survey each month. This is done both to avoid over-burdening respondents and to make sure that the EICS does not interfere in any way with the normal operation of the LFS.

The data presented in this chapter are based on information collected in the four surveys conducted for the year 1997 pooled together. This increases the total sample size to about 14,000 individuals and considerably improves the reliability of the data.[15]

4.3 Who Among the Unemployed Receives Employment Insurance Benefits?

Analysis of the aggregate EICS data for 1997 suggests that the Employment Insurance program is meeting its objective of providing temporary income support to workers in Canada between jobs. Most unemployed for whom the program has been designed are indeed eligible for benefits. Figure 4.1 and Table 4.1 help illustrate how this is the case.

Figure 4.1 entitled "From Unemployment to the B/U Ratio" decomposes the aggregate unemployment figure. Table 4.1 highlights important statistics from Figure 4.1. Dividing the number in the lowest rectangle (all regular EI beneficiaries) of Figure 4.1 by the number in the top rectangle (all unemployed), one gets the familiar 42 percent B/U ratio for 1997. The rectangles in the middle show the various categories of labour market participants one has to subtract or add to go from the total number of unemployed (the U of the B/U ratio) to the total number of regular EI beneficiaries (the B of the B/U ratio).

One first observation is that, about 78 percent of the unemployed who lost their job or quit it with just cause in 1997 were eligible for EI benefits. This result is obtained by comparing the number of eligible unemployed (516,000, 6th rectangle down), to the number of unemployed who have been laid off or quit a job with just cause in the twelve-month period that preceded the reference week (658,000, fifth rectangle down).

A second finding is that about 63 percent of all unemployed who contributed to the program were eligible for benefits. This result is obtained by comparing the number of eligible unemployed (516,000), to the number of unemployed who worked in the twelve months preceding the reference week and whose last job was as a paid employee, (814,000, third rectangle down).

---

[15] The EICS appears to be quite successful in identifying EI regular beneficiaries within the target population. A comparison of the average EICS and EI administrative counts of beneficiaries for the four survey months in 1997 indicates that the two measures are reasonably close, with only about 10 percent under-reporting of regular beneficiaries. The reported EICS data are adjusted to reflect the real number of beneficiaries.

Not all these eligible unemployed were covered by EI benefits during the reference week of the survey, i.e. had received or had established their right to EI benefit. Some did not claim benefits (36,000), did not receive EI benefits for unknown reasons (8,000) or had exhausted their benefits (35,000).

As a result, 66 percent of unemployed who lost their job or quit it with just cause were covered by EI benefits in 1997. Similarly, 54 percent of unemployed who contributed to the program were covered in 1997. These percentages are obtained by respectively comparing the number of covered unemployed, (437,000, sixth rectangle up) to the number of unemployed who lost their job or quit it with cause in 1997 (658,000) and to the number of unemployed who contributed to the program in 1997 (814,000).

Not all covered unemployed were receiving benefits during the reference week, since many were serving the standard two-week waiting period or were receiving severance pay or pension from their employer: overall 353,000 were receiving EI benefits, of which 341,000 were receiving regular EI benefits. Thus 54 percent of unemployed who lost their job or quit it with just cause in 1997 were receiving EI benefits, and 52 percent were receiving regular benefits. During the reference week, 43 percent of those unemployed who contributed to the program in 1997 were receiving EI and 42 percent were receiving regular EI benefits.

In order to arrive at the B/U ratio of 42 percent, one needs to add to the number of unemployed regular beneficiaries (341,000) all regular beneficiaries in employment (94,000) and outside the labour force (139,000) and to divide by the number of all unemployed (1,362,000).

Note that exclusions and additions in Figure 4.1 and Table 4.1 are sequential: the descending order matters. For instance, had the sequence of exclusion been reversed,[16] and the self-employed (third rectangle down) been excluded first and the unemployed with no work in the previous twelve months (second rectangle down) been excluded second, there would still be the same total number of unemployed excluded, 548,000. But there would be more self-employed since they would have been excluded first and less unemployed with no work in the preceding 12 months, since some would have already been excluded as self-employed or unpaid family workers.

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[16] In practice, however, the sequence of exclusion cannot be interverted since the LFS contains the class of worker information only for those who had worked in the 12 months preceding the reference week.

Figure 4.1
From Unemployment to the B/U Ratio, 1997

U

All unemployed **1,362,000**	
Worked in last 12 months **879,000**	**No work in last 12 months** **483,000**
Last job was as a paid employee **814,000**	**Self-employed and unpaid family workers** **65,000**
Last job was as a paid employee and did not leave last job to go to school **758,000**	**Left job to go to school** **56,000**
Laid off from last job or quit with just cause **658,000**	**Quit no just cause** **100,000**
Eligible unemployed **516,000**	**Did not meet entrance requirements** **142,000**
Claimed EI Benefits **480,000**	**Did not claim EI benefits** **36,000**
Received or established right to EI benefits since unemployed **472,000**	**Did not receive EI benefits for unknown reasons** **8,000**
Covered unemployed: **Received or established right to any type of EI benefits in reference week** **437,000**	**Exhausted EI benefits** **35,000**
Received any type of EI benefits in reference week **353,000**	**Established right to EI benefits in reference week** **84,000**
Received regular benefits in reference week **341,000**	**Received non-regular EI benefits in reference week** **12,000**
Received regular benefits in reference week **341,000**	**Were out of the labour force (OLF) and received regular EI benefits in reference week** **139,000**
Received regular benefits in reference week: **(Unemployed and OLF)** **480,000**	**Were employed and received regular EI benefits in reference week** **94,000**

B

Total regular beneficiaries in reference week: **(Unemployed, OLF & employed** **574,000**	**Number of beneficiaries used in the B/U ratio**

Note: U Stands for total unemployment (the denominator used in the B/U ratio). B stands for "total regular beneficiaries" (the numerator used in the B/U ratio). OLF refers to those who are out-of-the-labour force. The line just below the middle of the table indicates the beginning of the steps needed to go from the "covered unemployed" to the "regular beneficiaries" used as the numerator of the B/U Ratio.

Table 4.1
EI Benefit Coverage Among the Unemployed, 1997

	As a Percentage of		
	Unemployed who lost or quit a job with just cause	Unemployed who were EI contributors	All Unemployed
Eligible for benefits	78%	63%	38%
Received or established right to benefits during reference week	66%	54%	32%
Received benefits during reference week	54%	43%	26%
Received regular benefits during reference week	52%	42%	25%
B/U Ratio	-	-	42%

4.4 Who Among the Unemployed Does Not Receive Employment Insurance Benefits and Why?

Section 4.3, examined who is covered by EI benefits. We now turn to who is not covered by EI benefits in order to better understand the reasons many unemployed people have difficulty accessing EI benefits.
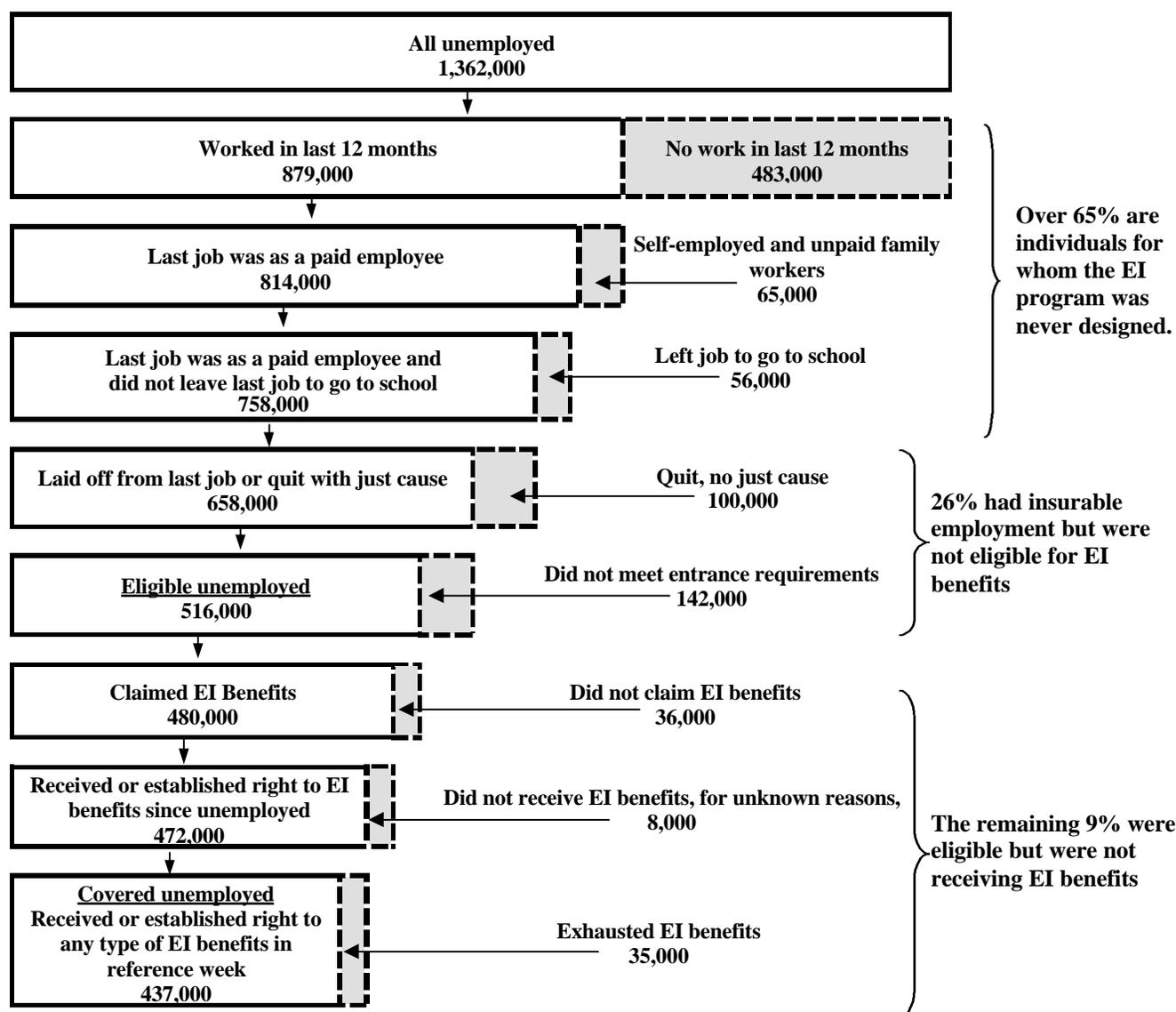
According to the data of the EI Coverage Survey, about 925,000 unemployed were not covered by EI benefits for the year 1997. An analysis of the composition of the unemployed not covered (see Figure 4.2) suggests that a significant number of them would also not have received EI benefits prior to 1990.

Over 65 percent of the unemployed not covered by EI benefits in 1997 would not have received benefits prior to 1990. Indeed, among the 925,000 unemployed persons not covered by EI benefits in 1997, 604,000 either had no work in the last twelve months, were self-employed or

had left their job to return to school. None of these three groups of unemployed has ever been covered by the EI program or the previous Unemployment Insurance program.

What about the remaining 35 percent of unemployed not covered? 26 percent had insurable employment in the previous 12 months but were nevertheless not eligible and the remaining 9 percent, although eligible, did not receive benefits.

Figure 4.2.
Who is not Covered Among the Unemployed, 1997

All unemployed 1,362,000

Worked in last 12 months 879,000	No work in last 12 months 483,000

Last job was as a paid employee 814,000	Self-employed and unpaid family workers 65,000

Last job was as a paid employee and did not leave last job to go to school 758,000	Left job to go to school 56,000

Over 65% are individuals for whom the EI program was never designed.

Laid off from last job or quit with just cause 658,000	Quit, no just cause 100,000

Eligible unemployed 516,000	Did not meet entrance requirements 142,000

26% had insurable employment but were not eligible for EI benefits

Claimed EI Benefits 480,000	Did not claim EI benefits 36,000

Received or established right to EI benefits since unemployed 472,000	Did not receive EI benefits, for unknown reasons, 8,000

Covered unemployed Received or established right to any type of EI benefits in reference week 437,000	Exhausted EI benefits 35,000

The remaining 9% were eligible but were not receiving EI benefits

According to the EICS data, not meeting the EI entrance requirements is the most important reason for the 35 percent of unemployed not being covered. About 142,000 unemployed who lost or quit their job with just cause (15 percent of the unemployed not covered) did not meet entrance requirements (Figure 4.3). An analysis of the data from the EI Coverage Survey concerning reasons the 15 percent not covered did not meet EI entrance requirements shows that:

- Somewhat more than half (8 percentage points) had worked for pay for fewer than the 420 hours worked in the last 12 months required in regions with the highest unemployment rates (the minimum EI entrance requirement).

- The rest (7 percentage points) had met the minimum EI requirement (420 hrs) but not the regional entrance requirements.

Since there were minimum (10 weeks of paid employment) and regional entrance requirements prior to 1990, many of these unemployed would also not have qualified for benefits under the pre-1990 rules.

Figure 4.3
Unemployed With Insurable Employment in the
Last 12 Months Who Did Not Meet EI Entrance
Requirements as a Proportion of Unemployed Not
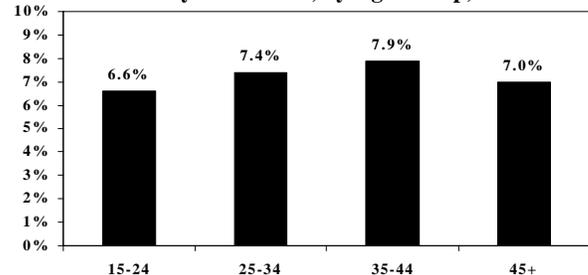**Covered by EI Benefits, 1997**
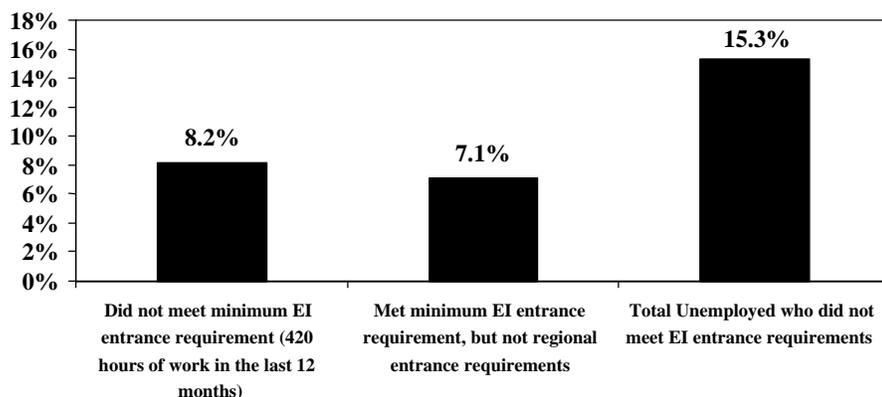
Figures 4.4 to 4.9 illustrate the composition by age, sex and region of the unemployed who did not meet entrance requirements. It is interesting to note that:

- Those who did not meet the minimum EI entrance requirement (420 hours worked in the previous 12 months) tend to be proportionately younger than those who met the minimum EI requirement but not the regional one;

- Men and women account for similar proportions of unemployed not covered who do not meet the minimum EI entrance requirement. But men account for a higher proportion of the unemployed who met the minimum EI requirement but not the regional requirements;

- The unemployed who did not meet the minimum EI entrance requirement accounted for a much more significant share of the unemployed not covered in the Atlantic provinces than in any other region in Canada.
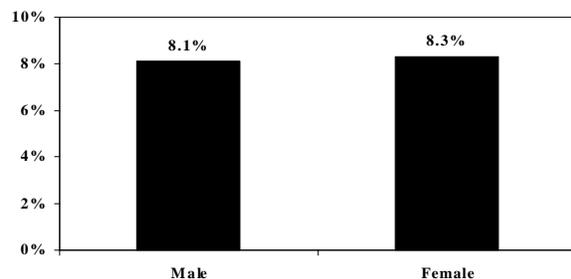
Figure 4.4
Unemployed With Insurable Employment in the Last 12 Months Who Did Not Meet Minimum EI Entrance Requirement as a Proportion of Unemployed Not Covered by EI Benefits (420 hrs.), by Age Group, 1997
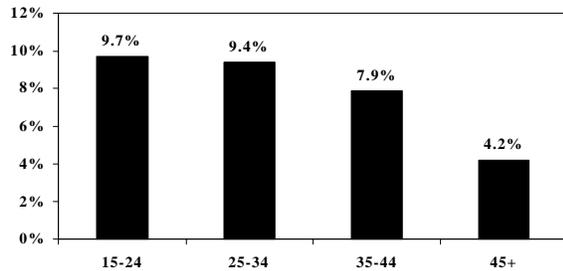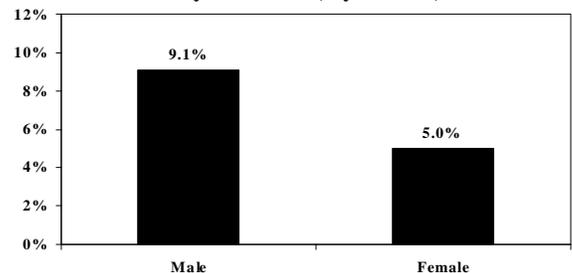

Figure 4.5
Unemployed With Insurable Employment in the Last 12 Months Who Met Minimum EI Entrance Requirement (420 hrs.), But Not Regional Entrance Requirements as a Proportion of Unemployed Not Covered by EI Benefits, by Age Group, 1997
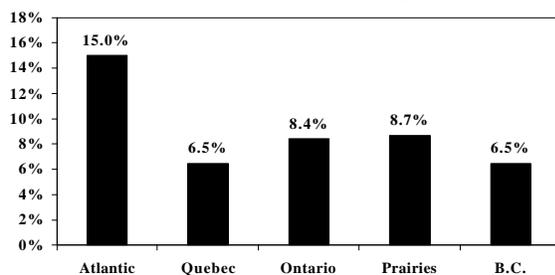

Figure 4.6
Unemployed With Insurable Employment in the Last 12 Months Who Did Not Meet Minimum EI Entrance Requirement (420 hrs.) as a Proportion of Unemployed Not Covered by EI Benefits, by Gender, 1997


Figure 4.7
Unemployed With Insurable Employment in the Last 12 Months Who Met Minimum EI Entrance Requirement (420 hrs.), But Not Regional Entrance Requirements as a Proportion of Unemployed Not Covered by EI Benefits, by Gender, 1997

Figure 4.8
Unemployed With Insurable Employment in the Last 12 Months Who Did Not Meet Minimum EI Entrance Requirement (420 hrs.) as a Proportion of Unemployed Not Covered by EI Benefits, by Region, 1997
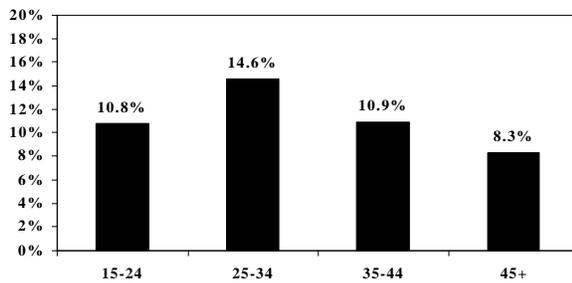

Figure 4.9
Unemployed With Insurable Employment in the Last 12 Months Who Met Minimum EI Entrance Requirement (420 hrs.), But Not Regional Entrance Requirements as a Proportion of Unemployed Not Covered by EI Benefits, by Region, 1997
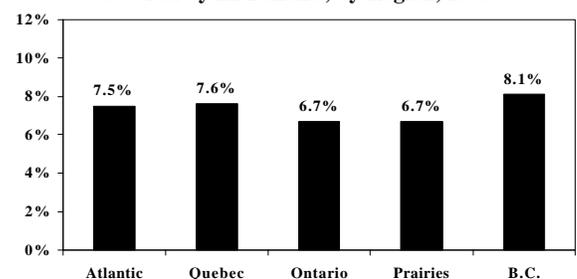
Another finding of the EICS is that the unemployed who had voluntarily left their jobs without just cause accounted for 100,000 of the unemployed not covered by EI benefits (11 percent). Voluntarily quitting is the third most important reason for not being covered by EI benefits in 1997. The rule regarding voluntary quitters was introduced with the 1993 changes to the UI program. Before 1993, those unemployed who voluntarily left their job without just cause had to wait longer to qualify and received less benefit (50 percent of insurable earnings compared to 60 percent for laid-off workers) than others covered by EI; but they were not excluded from benefits.

Voluntary quitters with no just cause are proportionately more concentrated among the 25-34 age group and in the Prairies. This finding indicates higher voluntary job turnover among young adults and in relatively low unemployment areas such as the Prairies. (See Figures 4.10 to 4.12.)

Figure 4.10
Voluntary Quitters With No Just Cause as a Proportion
of Unemployed Not Covered by EI Benefits,
by Age Group, 1997

Figure 4.11
Voluntary Quitters With No Just Cause as a Proportion
of Unemployed Not Covered by EI Benefits,
by Gender, 1997
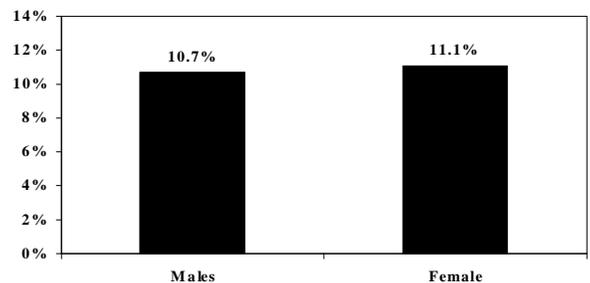
Figure 4.12
Voluntary Quitters With No Just Cause as a Proportion
of Unemployed Not Covered by EI Benefits,
**by Region, 1997**
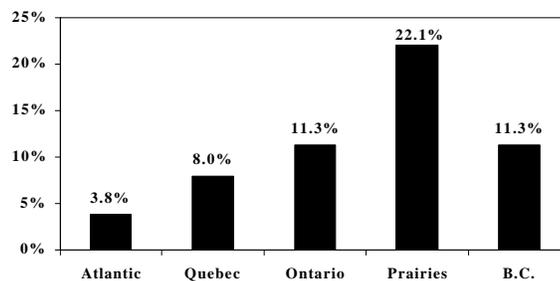
The fourth most important reason for not being covered is not claiming benefits. About 36,000 unemployed who meet EI entrance requirements (4.0 percent of the unemployed not covered) were in this position last year. These unemployed were eligible to receive benefits but did not need them or did not want to claim them.

The final reasons for not being covered by EI benefits was having exhausted one's benefits in the last twelve months. About 35,000 (3.8 percent) of the unemployed not covered by EI benefits were in this position in 1997.

The unemployed who exhausted their benefits in the last twelve months are proportionately more concentrated in older age groups, to a lesser extent among women, and in Quebec and the Atlantic region. Figures 4.13 to 4.15 illustrate the age, sex and regional composition of the unemployed who exhausted their benefits in the last 12 months as a percentage of unemployed not covered by EI benefits.

Figure 4.13
Eligible Unemployed Who Exhausted EI Benefits in the Last 12 Months as a Proportion of Unemployed Not Covered by EI Benefits, by Age Group, 1997
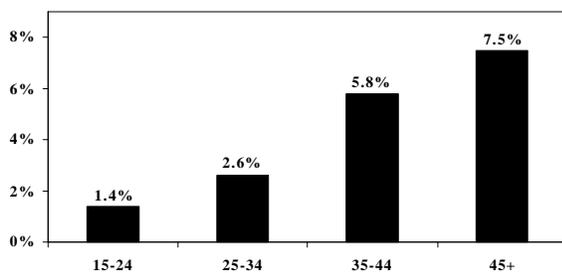
Figure 4.14
Eligible Unemployed Who Exhausted EI Benefits in the Last 12 Months as a Proportion of Unemployed Not Covered by EI Benefits, by Gender, 1997
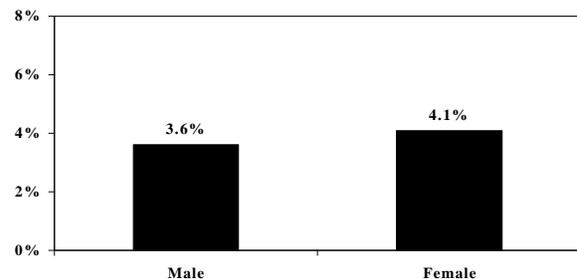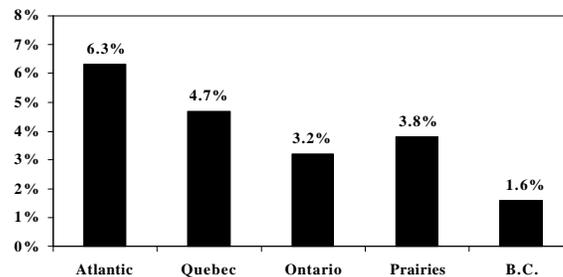

Figure 4.15
Eligible Unemployed Who Exhausted EI Benefits in the Last 12 Months as a Proportion of Unemployed Not Covered by EI Benefits, by Region, 1997

4.5 Conclusion

Three main conclusions emerge from our analysis of various aspects of EI benefit coverage in 1997 using the EICS.

First, the EI program is meeting its key objective of providing temporary income support between jobs to workers in Canada. Most of the unemployed for whom the program is designed are eligible for EI benefits. Data show that about 78 percent of the unemployed who lost their job or quit with just cause were eligible in 1997. The other 22 percent did not meet entrance requirements.

Secondly, a significant number of unemployed not covered by EI benefits in 1997 would also not have received benefits prior to 1990. Our analysis suggests that two-thirds of the non-covered unemployed either had no work in the last twelve months, were self-employed or had left their job to return to school. Of the remaining 35 percent, many would also not have qualified because of failure to meet entrance requirements.

Thirdly, Chapter 4 confirms the main finding of Chapter 3: the single most important reason for not being eligible for EI benefits in 1997 is not having worked in the twelve months preceding the reference week. This finding is consistent with the findings of Chapter 3 regarding the increase among the unemployed of people who have no work experience or have been without work for a long time.

Conclusion

The Employment Insurance (EI) program is meeting its key objectives of providing temporary benefits to Canadians between jobs. 78 percent of the unemployed who lost their job or quit with just cause in 1997 were eligible for benefits.

However, a lower proportion of the unemployed than in the past is actually covered by EI benefits. This is partly due to a change in the composition of the unemployed, in particular, a rise in the proportion of those who have been without work for a year or more or have never worked. As we have seen, the share of the unemployed accounted for by this group rose from 20.8 percent to 38.4 percent between 1989 and 1997.

The findings of this study suggest that for many Canadians it is difficult to get a first job, or to simply regain employment after a long period without work. The EI program was never designed to address the special needs of those unemployed. This task has been left to other types of labour market programs or interventions.

From a research perspective, more needs to be known on this new phenomenon in order to properly inform program and policy decisions by governments.

Glossary

B/U Ratio

The ratio of the number of Employment Insurance regular beneficiaries to the level of unemployment.

Beneficiaries with Earnings

EI beneficiaries with employment earnings while on claim. EI beneficiaries are allowed to earn the higher of 25 percent of benefits or $50 a week, before the amount of benefits they receive is reduced. Over that amount, each dollar of employment earnings is deducted dollar for dollar from benefits.

Benefit Rate

Proportion of weekly insurable earnings replaced by the Employment Insurance benefit. For example, if a person's insurable earnings were $500 a week and they received EI benefits of $275 a week, their benefit rate would be $275/$500 or 55 percent.

Compositional Effect

A result produced by a change in the characteristics of a particular group of individuals. A change in the characteristics of individuals that comprise the unemployed population may produce a compositional effect on the proportion of the unemployed receiving EI benefits. Example: change in level of unemployment of part-time workers.

Coverage

Proportion of paid workers who contribute to the Employment Insurance fund.

Cyclically-Sensitive

Sensitive to the economic cycle, i.e., varies when the economy improves and/or deteriorates.

Discouraged Workers

Individuals without work who stopped looking for work because they think there is no work available. Discouraged workers are part of the "out-of-the-labour force" population.

Duration (of Unemployment/of Joblessness/of Benefits)

The length in weeks of an unemployment/jobless/benefits spell (See also Jobless Spell.)

Econometric Model

Mathematical/statistical formulation of quantifiable phenomena. Econometric models are used to estimate statistical relationships between events or phenomena and to use such relationships to make projections and simulations. Econometric models have been used, for instance, to project the evolution of the B/U ratio and to estimate its linkage to the rate of unemployment.

Economic Downturn

A deterioration in the economy such as a recession.

Employment Insurance Account

The Employment Insurance account is a record of Employment Insurance premiums and benefits paid. If premiums received are less than benefits paid plus the cost of administering the system in any given year, the difference is borrowed from the federal government's Consolidated Revenue Fund and adds to the federal government's deficit or reduces its surplus. The opposite occurs when premiums received exceed benefits paid plus the cost of administering the system.

EI Benefit Coverage

EI benefit coverage is used to describe the proportion of the unemployed population which receives or has established a right to receive EI benefits.

Employment Insurance Client

Person receiving or entitled to receive regular or non-regular Employment Insurance benefits.

Employment Insurance Coverage Survey

The Employment Insurance Coverage Survey (EICS) is a new quarterly survey conducted by Statistics Canada on behalf of Human Resources Development Canada. It is a supplement to the Labour Force Survey designed to obtain information on who receives Employment Insurance benefits, who does not and the reasons why many unemployed individuals do not receive EI benefits. In addition, the EICS asks questions about the financial situation and resources of respondents and their households, details of separation from last job, job search intensity and so on (See Section 4.2 of this report for additional information.)

Entitlement

Entitlement is the condition of having met the legal requirements to receive benefits. Some persons who are entitled to receive benefits do not receive them because their mandatory two-week waiting period has expired, they have not exhausted pension or severance benefits, or they were previously overpaid benefits.

Establish a Right to a Benefit

When people apply for Employment Insurance benefits, they establish a right to receive them by demonstrating to an official that they meet the legal requirements. In the case of regular benefits, this involves demonstrating that they have sufficient hours of paid work in the past twelve months to qualify for benefits in their region, that they were not self-employed prior to unemployment and that they did not voluntarily leave their last job to go to school or without just cause. People may establish a right to a benefit and not receive it for some time because they are still in their two-week waiting period, they have severance or pension benefits from their last employer which they must exhaust before receiving Employment Insurance benefits, or they have EI overpayment benefits to exhaust.

Hours–Based System

Prior to 1997 the Employment Insurance system was based on insured weeks of paid employment. Persons who worked for the same employer at least 15 hours in a week and were paid at least 20 percent of maximum weekly insurable earnings were considered to have put in a week of insurable employment. At least twelve weeks of insurable employment were required to qualify for benefits. Under the system in place since 1997, all paid hours of work for an employer are insurable. A minimum of 420 hours of insurable employment in the twelve months prior to unemployment are required to qualify for benefits.

Induced-Program Effect

The EI program is structured in such a way that both the number of persons eligible for EI and the duration of benefits increase when the regional unemployment rate increases. Variations in the unemployment rate therefore induce changes that impact on the B/U ratio.

Insurable Earnings

Insurable earnings are that part of earnings from paid employment on which Employment Insurance premiums are paid. In 1998 the first $39,000 of earnings are insurable.

Insurable Employment

Insurable employment consists of those jobs covered by the Employment Insurance system. Forms of employment not covered by EI include self-employment, work for a spouse who is self-employed and unpaid work in a family business.

Involuntary Part-Time Workers

Individuals working part-time because they cannot find full-time work.

Job Search Intensity

Concept used to characterize the amount of effort jobless individuals put into looking for work.

Job Tenure

Length of time worked at a particular job.

Jobless (The)

Without work. The jobless category includes both the unemployed and those who are out-of-the-labour force.

Jobless Spell (Duration of Joblessness)

The number of consecutive weeks an individual is without work. Jobless spells correspond to the number of consecutive weeks without work, while unemployment spells correspond to the number of consecutive weeks jobless individuals were available and looking for work.

Just Cause

A situation where an individual leaves a job as opposed to losing a job, but is still entitled to Employment Insurance benefits. Some examples are escaping a situation of harassment in the workplace, moving to another community to accompany a spouse and unsafe working conditions.

Labour Force

Population aged 15 and over working or looking for work. The labour force is the sum of the employed population and the unemployed population.

Labour Force Survey

The Labour Force Survey (LFS) is a survey conducted monthly by Statistics Canada. The LFS collects information through a sample of about 59,000 households involving some 106,000 respondents. The Survey is used to produce monthly estimates of employment, unemployment and persons out-of-the-labour force.

Labour Market Activity Survey

The Labour Market Activity Survey (LMAS) is a survey implemented by Statistics Canada designed to collect information on the labour market participation patterns of the Canadian population over one to two-year periods. The survey also gathers a wealth of information on the characteristics of the jobs held during those periods.

Labour Market Attachment

Concept used to characterize the degree of labour market activity of jobless individuals.

Labour Market Inactivity

Period of time when individuals without work are not looking for work.

Minimum Entrance Requirements

Minimum entrance requirements are the fewest hours of paid employment (in the twelve months prior to losing one's job) which a person must work to be eligible to receive benefits. The minimum entrance requirements have an inverse relationship with the unemployment rate in the region where a person resides. Currently, in regions with unemployment rates greater than 13.1 percent the entrance requirement is 420 hours of paid employment. In regions with lower unemployment rates, individuals must have worked additional paid hours in the twelve months prior to losing their jobs to be eligible to receive benefits.

Non-Regular Beneficiaries

Non-regular beneficiaries are individuals receiving sickness, maternity, parental, adoption, fishing, training, work-sharing, job-creation, and self-employment benefits from Employment Insurance.

Out-of-the-Labour Force

Individuals without work who are not looking for work. (See also Discouraged Workers, Jobless.)

Paid Employees

Employees working for an employer for pay. They are covered by Employment Insurance except for those who work directly for spouses who are self-employed.

Policy Changes

Changes made to the EI Act (and program) by means of Bills adopted by Parliament.

Potential Beneficiaries

Individuals without work who would qualify for EI under the most relaxed EI program parameters since 1971. Potential beneficiaries must be without work for 12 months or less, must not be going to school, and must have held a paid job for at least 2 months (8 weeks). Potential beneficiaries differ from actual beneficiaries in that they include every person who would qualify for EI benefits, according either to current program rules or to Unemployment Insurance program rules under which it was easier to qualify for benefits. There are therefore more potential beneficiaries than there are actual beneficiaries.

Potential Eligibility

Likelihood of individuals meeting all EI eligibility criteria.

Predictive Capability

Capability of an econometric model to foresee the future evolution of an event or phenomenon such as the number of EI beneficiaries in upcoming years.

Program Generosity

Term used in some economic studies of social programs. Program Generosity refers to the level, duration of benefits, and facility of access to benefits. A program with a high level of benefits, long duration of benefits, and low entrance requirements is deemed more generous than one with a lower level of benefits, a shorter duration of benefits, and higher entrance requirements.

Program Parameters

Program parameters are the rules governing payment of EI premiums, eligibility for benefits, maximum duration of benefits and benefit rates. These rules determine what portion of earnings is insurable, the rates at which premiums are paid on those earnings by employers and employees, how many hours of paid work are required to qualify for benefits, the maximum number of weeks of benefits a person can receive in each EI region and the proportion those benefits represent of insured earnings.

Regular Beneficiaries

Persons receiving regular Employment Insurance benefits. Excluded are sickness, maternity, parental, adoption, fishing, training, work-sharing, job-creation and self-employment assistance benefits.

Status Vector File

The Status Vector file is a statistical record of each person's dealings with the Employment Insurance system. Based on the Social Insurance Number (S.I.N.), this file keeps track of premiums received from each employer and employee and regular and non-regular benefits paid. It is used to determine if an individual is eligible for benefits and the maximum number of weeks of benefits to which he or she is entitled.

Survey Population Group

The Survey Population Group is a portion of a larger population on which a survey collects information. Once a survey is designed, a representative cross-section (sample) of the survey population group is then interviewed to obtain the information sought. No person outside the survey population group can be part of the sample. For example, if the survey population group consists of all those receiving the Old Age Security pension, no individuals under age 65 would be interviewed.

Targeted Indicators

Targeted indicators are measures of EI benefit coverage which focus on those persons in the labour market for whom the Employment Insurance system was designed.

Underemployed

Denotes individuals willing to work more than they currently do. Underemployed individuals include unemployed individuals, discouraged workers, and involuntary part-time workers.

Unemployment (Level)

The number of individuals without work who are available and looking for work.

Unemployment Spell (Duration of)

The number of consecutive weeks an individual without work is available and looking for work. (See also Jobless Spells.)

Voluntary Quitters

Individuals who leave their jobs voluntarily, as opposed to being laid off, are termed voluntary quitters. If they leave for just cause, for example to accompany a spouse who is being transferred out of town or to get away from harassment in their workplace, they are still eligible to receive EI benefits. However, since 1993, if they leave their jobs or without just cause, they are not eligible to receive benefits.

Waiting Period

Initial two-week period of a spell of unemployment during which Employment Insurance benefits are not paid.