

## The Redistributive Impact of Employment Insurance

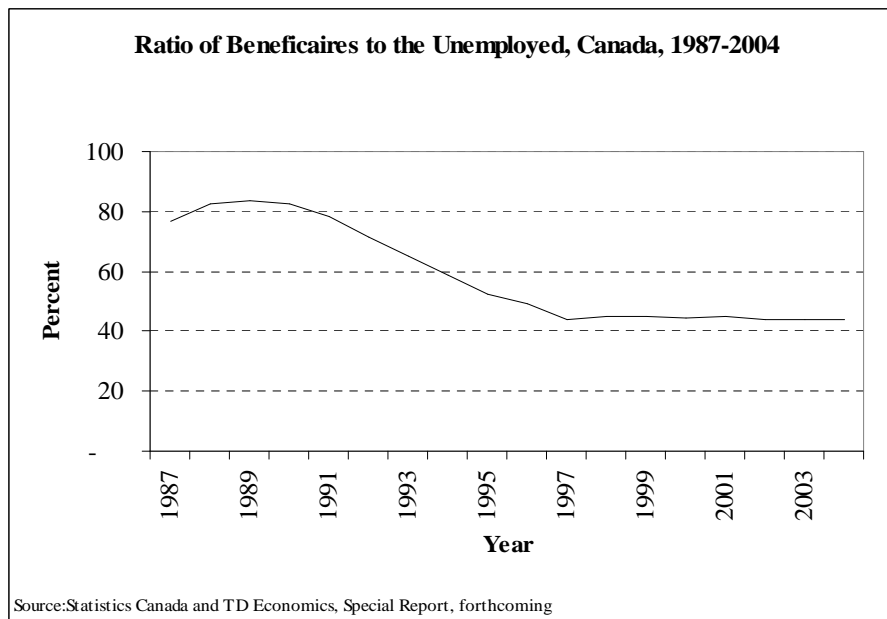
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Much has been made about how the cuts to Unemployment Insurance and later Employment Insurance have reduced the value of the UI/EI program for those facing unemployment.

- As recently as 1991 regular EI benefits were 98% of contributions to the fund. They are now about 48% of contributions.
- The ratio of beneficiaries to the unemployed has fallen from about 80% to under 40%. This ratio is as low as 22% in Toronto and is below 10% for youth under 25.
- If you recalculate this ratio excluding the self-employed and those who didn't work in the last year the ratios do not change appreciably (see Table 1 below). Overall, about 45% of the unemployed, who contributed to EI in the last year, are receiving benefits; the figure is lower for vulnerable Canadians; low-wage, part-time, young people and women.

Figure 1



## Go Figure

An occasional newsletter concentrating on the analysis of Canadian social policy.

**Number 1 – The Redistributive Impact of Employment Insurance**

It has been pointed out in various places that the reductions in EI coverage have been greatest for women (particularly those working part-time), lower-income workers and young people.

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See: <http://canadianlabour.ca/updir/unemployedfallingEn.pdf>  
[http://www.torontoalliance.ca/imageLibrary/MISWAA\\_EI.pdf](http://www.torontoalliance.ca/imageLibrary/MISWAA_EI.pdf)  
[http://shillington.ca/publications/EI\\_Research\\_Note.pdf](http://shillington.ca/publications/EI_Research_Note.pdf)

In the past, some analysts have suggested that the ratio of beneficiaries to unemployed (the B/U ratio in the chart above) is not a good measure of UI/EI coverage because some of the unemployed were previously self-employed or had not worked in the last year and therefore have not contributed to UI/EI.

In response to this, in a report for HRSDC on how you measure UI/EI coverage I've suggested a coverage measure which is the ratio of beneficiaries to the unemployed who would have been required to contribute to EI in the last year (those who had paid employment).

The data presented in Table 1 is the ratio of Beneficiaries to Unemployed Contributors. This again demonstrates again that coverage is below 50%.

For vulnerable populations the picture is even bleaker; for youth under 25 this ratio is 19%, for part-timers the ratio is about 25%; for low-wage workers the ratio is about 28%.

These data demonstrate that under the new EI, the more likely you are to be unemployed and to need assistance the less likely you are to be eligible for benefits.

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**Table 1**

**Current E.I. Regular Beneficiaries as a Percent of Unemployed Contributors\*, 2003**

<b>Population</b>	
<b>All Canadians 15+</b>	45%
<b>15-24 years</b>	19%
<b>25-34 years</b>	53%
<b>35-44 years</b>	55%
<b>45-54 years</b>	55%
<b>55 years and over</b>	57%
<b>Males 15-34</b>	38%
<b>Females 15-34</b>	28%
<b>Females with Children</b>	46%
<b>Male worked part-time</b>	23%
<b>Female worked part-time</b>	27%
<b>Wages under \$10/hr.</b>	28%

**Source: Special Tabulations by Statistics Canada using the E.I. Coverage Survey**

**\* Unemployed Contributors are those unemployed who have worked in paid employment in the last year.**

## ***Impact by Income Group***

The data presented in Table 2 and Figure 2 goes further in demonstrating the distributional impact of the cuts to UI/EI.

The data explores the distribution of benefits between low-income and higher-income families.

The distribution of UI/EI benefits has shifted significantly away from poor Canadians and toward middle and upper-income families. In fact the declines in benefits, at about 50%, were larger for lower-income families than the overall decline (at about 34%).

Indeed the change in character of UI/EI can be noted further by observing that in 1991 the family income group with the highest average benefits were in the family income group of \$30,000-\$40,000; by 2002 the highest benefits were paid to families in the income group \$60,000-\$70,000.

This relative shift in benefits from poorer to more middle-income families is due to cuts in regular benefits that go to the unemployed, changing eligibility criteria that disadvantage vulnerable Canadians (e.g. shifting from weeks worked to hours worked) and, increasing maternity benefits which go disproportionately to higher-income families.

**Table 2**

**Average UI/EI Benefits by Family Income Group,  
Working-Age Families, 1991 and 2002**

Dollar Values (2002 \$'s)			
Family Income	1991	2002	Change
1,000-10,000	\$ 386	\$ 251	-35%
10,000-20,000	\$ 1,449	\$ 709	-51%
20,000-30,000	\$ 2,170	\$ 1,385	-36%
30,000-40,000	\$ 2,448	\$ 1,440	-41%
40,000-50,000	\$ 2,398	\$ 1,437	-40%
50,000-60,000	\$ 2,324	\$ 1,628	-30%
60,000-70,000	\$ 2,152	\$ 1,740	-19%
70,000-80,000	\$ 1,964	\$ 1,347	-31%
80,000-90,000	\$ 1,792	\$ 1,501	-16%
90,000-100,000	\$ 1,876	\$ 1,344	-28%
100,000-110,000	\$ 1,407	\$ 1,057	-25%
110,000-120,000	\$ 1,466	\$ 1,323	-10%
120,000-130,000	\$ 1,614	\$ 1,136	-30%
120,000 +	\$ 1,417	\$ 789	-44%
Total	\$ 1,900	\$ 1,246	-34%

Source: tabulations by the author using Statistics Canada databases (SCF and SLID).

Figure 2

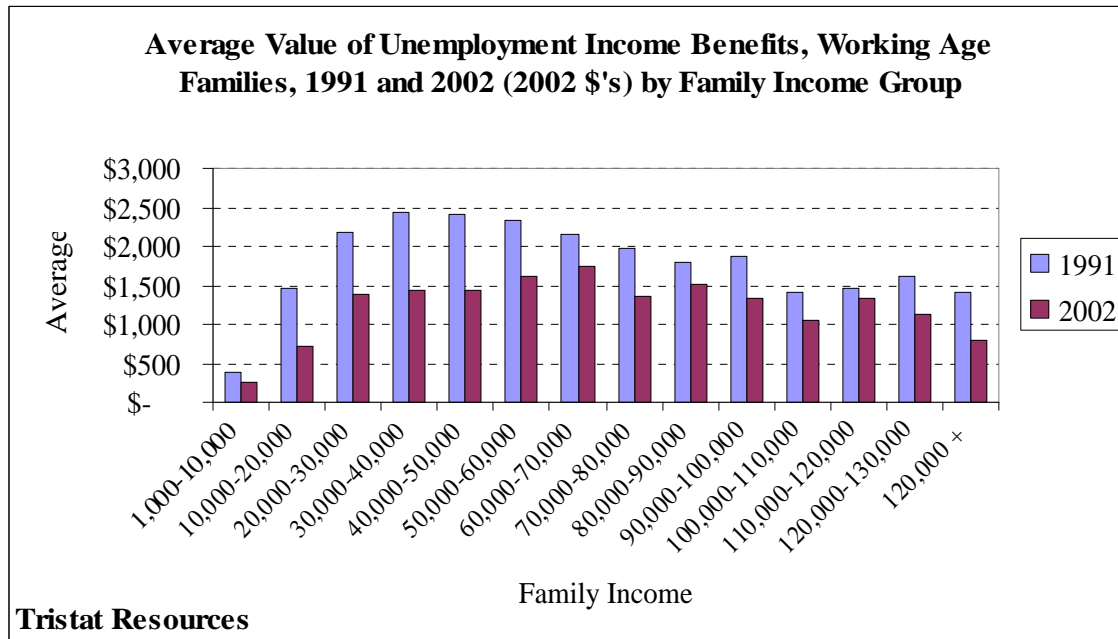


Table 3

**Impact of UI/EI Benefits on Poor Working-Age Families**

	Average Benefits per Family (2002 \$'s)		
	Dollar Value		As a Percent of Income
<b>Poor Families</b>			
<b>1991</b>	\$ 1,170		9%
<b>2002</b>	\$ 619		4%
<b>All Families</b>			
<b>1991</b>	\$ 1,900		3%
<b>2002</b>	\$ 1,246		2%

Note: Poor here refers to families below the Low-Income Cut-Off (LICO) before income taxes.

Source: tabulations by the author using Statistics Canada databases (SCF and SLID).

**Impact by Poverty Status**

In 1991 average UI benefits were about \$1,900 (2002 \$'s) this fell to \$1,246 by 2002 a decline in benefits of about 34% (see Table 3). The impact of the UI/EI cuts have been greater in poor families from \$1,170 to \$619, a decline of about 47%.

UI benefits were about 9% of income for poor working-age families in 1991 but had declined to 4% in 2002.

## ***Conclusions***

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Employment Insurance has become a program which better serves political interests rather than the needs of vulnerable Canadians. The excess of contributions over income benefits created a surplus in the fund which made possible income tax cuts with federal budgets which would otherwise have been in deficit.

Contributions are required of employees who have very little chance of receiving benefits particularly young people and people who work part-time. As well, contributions are required of people who have no chance of receiving benefits – you contribute and won't benefit; e.g. summer students (high school, college and university).



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