

# TRISTAT RESOURCES

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Measuring Trends in the Coverage of Unemployment Insurance and Employment  
Insurance

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# Measuring Trends in the Coverage of Unemployment Insurance and Employment Insurance

## Background

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I have been asked to provide a technical assessment of indicators of Employment Insurance (EI) adequacy including the Benefit to Unemployed (B/U) ratio and the new measure recently used by Human Resources Development Canada (HRDC) to measure EI coverage.

In preparing this report, I have relied on documents which were made public by HRDC over the last few years. As well, I have used material published by myself while employed at the Canadian Council on Social Development. I have also relied on other published research reports and data available from Statistics Canada. In addition, government documents obtained under the Access to Information Act will be used.

A copy of my Curriculum Vitae is attached. My academic training includes a Ph.D. in Statistics from the University of Waterloo. I have conducted and published a great deal of research over the last 20 years on a variety of social issues including tax policy, income security programs, and poverty. The following work is of particular relevance to this project and the topic of unemployment insurance:

- Researcher - Commission on Inquiry on Unemployment Insurance, 1985/86.
- Co-authored a report with the United Steelworkers of America on the impact of the 1989 changes (c-41). Appeared before the Senate committee studying the Unemployment Insurance (UI) changes.
- Co-authored a report for the Canadian Council on Social Development on the impact of the changes from UI to EI. Also appeared before the House of Commons committee studying the transition from UI to EI.
- Analyzed and organized the data, obtained from Statistics Canada, which were published by the Canadian Labour Congress in their report “Left out in the Cold” concerning UI/EI coverage.

Other work which involves the use of statistical information to monitor human rights and social conditions has included the following:

- Provided several days of testimony as an expert witness before the Canadian Human Rights Tribunal in the Pay-Equity case between the Canadian Human Rights Commission and the Treasury Board of Canada.
- Conducted research in Pakistan and South Africa, funded by the Canadian International Development Agency, on the collection, analysis and utilization of statistical indicators of social conditions and the realization of human rights.

### **The Evolving Purpose of Unemployment/Employment Insurance**

Unemployment Insurance is part of the social safety net in industrialized countries. It has operated in Canada since 1940 (Lin, 1998). The main objective of the program has been "to provide financial assistance to unemployed persons, to find suitable employment for Canadians, to move people from areas of high unemployment to areas of low unemployment, and to provide aid to the disadvantaged." (Lin, 1998)

While the broad objective of the program, to fulfill some role of income replacement for individuals who have are temporarily without employment, has been reasonably constant, the implementation of the objective has undergone a multitude of revisions as government's interpretation of that objective has changed.

The concept of insured employment was originally very limited. There were exclusions for those for whom unemployment was very unlikely or for those where unemployment might be considered routine. Over the years, the concept of insured employment expanded to cover the majority of paid employees.

As well, coverage was originally limited to those who were temporarily unemployed but able to return to the workforce. For example, income replacement for those not available for work, due to sickness or pregnancy, was originally not provided.

Gradually, the scope of unemployment insurance was broadened to include a wider range of social insurance objectives. For example, in 1971 "one major objective of the new UI Act was to provide 'adequate' income support for all persons who were experiencing temporary interruptions in earnings." (Lin, 1998)

A special class of benefits for some of those who were not available for employment was added in 1971. These included income replacement for a wider range of those in need; including retirees and those unable to work due to sickness and or maternity. However, significant attachment to the labour force still had to be demonstrated. Thus, a certain minimum number of weeks of employment was required within a qualifying period.

In a similar fashion the assessment of criteria for labour force attachment has successively changed over time from days in the last two years, to weeks in the last two years, and to weeks in the last year and, finally under EI, to hours in the last year (History of UI – HRDC web-site).

Over most of its existence, the scope of UI has constantly expanded, but the assessment of eligibility, benefit rates and benefit duration has been a subject of constant flux. There has been no constant methodology for determining insured employment, eligibility for benefits and the level/duration of benefits.

### **The Debate**

In recent years, there has been a great deal of debate about the adequacy of the Employment Insurance Program.

Historically, the Beneficiary to Unemployment Ratio or B/U ratio, has been used by experts and by the Federal Government to assess program coverage. However, the 50% decline in the B/U ratio over the past 10 years and the fact that fewer than half of the unemployed are receiving employment insurance benefits has been cited by many critics as evidence that UI/EI is failing to provide adequate coverage.

In response, a study released in October of 1998 by Human Resources Development Canada (HRDC, 1998) has suggested that the B/U ratio is not an appropriate indicator of EI coverage.

HRDC proposes a new measure of program adequacy. Based upon its new methodology of assessing coverage, it concludes that “the EI program is meeting its main objective of providing temporary benefits to Canadians between jobs.”

Any assessment of the adequacy of the EI program in terms of providing adequate coverage of unemployed Canadians, must be based on a full understanding of what is meant by both the B/U ratio and the new standard developed by HRDC.

### **Steps to Determining Eligibility and Coverage**

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Before assessing measures of program coverage for UI/EI, it is worthwhile reviewing the steps used to determine eligibility for benefits and the method for calculating benefits. There are essentially four steps:

1. Establishing insured employment.
2. Establishing qualifying unemployment.
3. Establishing sufficient labour force attachment.
4. Calculation of benefit entitlement.

To receive income support from UI/EI, the claimant must satisfy the criteria which have been established for each of these steps.

**1. Insured employment:** Claimants need to prove that their employment was insured. They must have contributed to the program. At one time, the program excluded seasonal workers and part-time workers because their unemployment was seen as expected. It also excluded civil servants because their unemployment was seen as very unlikely and therefore uninsured. Currently the program excludes the self-employed (except for fishermen) and contract

workers. Until recently, employment was not insured for those working very few hours per week (less than 15 hours) and with very low earnings (less than 20% of Maximum Insurable Earnings); this exclusion was removed with EI.

**2. Qualifying unemployment:** The second stage used to assess eligibility determines if the individual is available for work (for regular benefits) and that the termination of employment was not for cause or due to a voluntary quit. Since 1993, those who quit their job need to establish that they had a valid reason for quitting to be eligible for EI.

**3. Sufficient labour force attachment:** If an individual satisfies the two criteria above, then eligibility for benefits will next depend on establishing that they have demonstrated sufficient labour force attachment. This criteria currently is based on hours worked in the last year (the reference period), the minimum number of hours/weeks required depends on the local unemployment rate. The criteria are higher for new entrants and re-entrants (those with fewer than 490 hours of work in the previous 52 weeks).

The determination of sufficient labour force attachment based on days, weeks or hours has always been an important measure for determining who will receive UI or EI benefits.

**4. Benefit Determination:** If an unemployed individual establishes that their insured employment constitutes a sufficient labour force attachment and that their unemployment is within covered categories, then their benefits can be determined. The amount of benefit depends upon the average insured earnings, the replacement rate, the waiting period and the duration of benefits. Average insured earnings have been determined in a number of ways over the years. The replacement rate, currently 55%, is lower than previous values, and can be lowered further for those with previous claims or increased for those eligible for family supplements.

To ease the discussion, I will use "entitled" to identify claimants who satisfy the first two steps for receiving benefits. These individuals have insured employment and unemployment which is covered. The term "eligible" will identify claimants who are entitled but also demonstrate sufficient labour force attachment.



It should be remembered that being eligible for benefits does not guarantee payments. Actually receiving income support at a point in time depends on being eligible for benefits, but also depends on the waiting period and the benefit duration. Benefits can also be reduced or eliminated when the beneficiary has earnings. Even if payments are received some higher income beneficiaries will have all or part of them “clawed-back” on their income tax return.

### **How do you Measure UI/EI Coverage?**

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Researchers concerned with program evaluation will use statistical measures to assess a program's effectiveness relative to its goals and objectives.

In the context of Unemployment or Employment Insurance (UI/EI) there is a very long list of reasonable questions which might be asked which will affect a conclusion about how well UI/EI is working. The various questions would lead to inspection of various statistics.

The simplest coverage question may be to ask: What proportion of the unemployed receive income benefits? This is effectively the well-known B/U ratio.

Another approach is to break this simple statistic into components that represent the various stages of eligibility determination as discussed above.

1. What proportion of the unemployed had insured employment - (i.e. were contributors)?
2. What proportion of those with insured employment have unemployment which qualifies for UI/EI - (i.e. this excludes students and voluntary quitters)?
3. What proportion of those entitled to UI/EI meet the eligibility requirement of sufficient labour force attachment?
4. What proportion of those eligible for benefits actually receive support at a point in time?

5. What proportion of beneficiaries lose some or all of their benefits to the income tax claw-back?

Each of these proportions assesses the impact of the various conditions which must be met to determine eligibility and receive benefits. Each is a legitimate program evaluation question.

### How Measures react to Program Changes

Recall that as the program's legislation and regulations change over time, so do the definitions of insured employment, and "covered unemployment" as well as the criteria for those "entitled" to benefits, "eligible" for benefits or actually receiving benefits. Some statistical indicators trace the impact of these changing definitions over time.

One use of a measure of coverage is to assess the impact, over time, of changes in the UI/EI legislation and regulations. In evaluating, the utility of various statistical measures, it is important to consider how those measures are affected by program changes.

For example, if a large group of previous claimants are now ineligible from benefits, as happened when voluntary quits were excluded in 1993, should a measure of coverage drop to reflect the reduction in the number of unemployed Canadians entitled to UI/EI?

The answer depends on the purpose of the measurement. For those interested in a broad measure of coverage such as; "for those with an income replacement need; how many are having it met," the measure should reflect a reduction in coverage. The B/U ratio is a measure of coverage which can be a very useful indicator and would fall when voluntary quits were excluded.

Others will be legitimately interested in a narrower measure of program effectiveness. From this perspective, it is legitimate to ask, "What proportion of those who are entitled to UI/EI, meet the requirement of sufficient labour

force attachment." This is the present approach in assessing program coverage adopted by HRDC.

It is a legitimate policy issue to want to measure the restrictiveness of the labour force attachment requirement. It is important though to bear in mind that this narrow measure of coverage, which computes, of those "entitled", how many are "eligible", will not detect some important program changes. For example, it would miss the impact of the policy change to exclude voluntary quits because they would be excluded from those "entitled".

To illustrate the point, suppose EI were changed so that married women were no longer entitled to benefits. The B/U ratio would fall reflecting the decline in the number of beneficiaries relative to the unemployed. The coverage measure proposed by HRDC though would not necessarily change since it determines what proportion of those "entitled" meet the labour force attachment criteria. "Entitled" would then exclude married women

To give another example, illustrating the difference between the B/U ratio and the ratio used by HRDC, suppose waiting periods were increased substantially and the duration of benefits was reduced. The B/U ratio would decline reflecting the number of unemployed no longer receiving benefits. HRDC's measure would not change because there would be no change in the number "eligible" for benefits. So HRDC's measure will miss several important aspects of program coverage.

### **HRDC's Report: "An Analysis of Employment Insurance Benefit Coverage"**

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In measuring UI/EI coverage, the appropriate statistic will depend on how the policy question is formulated. In recent documents HRDC has claimed that the Beneficiary to Unemployment Ratio, the B/U ratio, is a bad indicator. (HRDC 1998, page 4) The following discussion will assess the B/U ratio and the alternative presented by HRDC for assessing coverage.

HRDC published a report in the fall of 1998, which analyses coverage measurement. Much of the analysis is based on survey data collected by Statistics Canada on a sample of unemployed Canadians. The report includes very useful data on the actual number of Canadians who satisfy the criteria established at each of the various stages needed to qualify for UI/EI.

The report assesses the reasons for the decline in the B/U ratio over the recent years and concludes that the decline is as much due to changes in the labour market as the tightening of UI/EI eligibility criteria.

#### *Using the B/U Ratio*

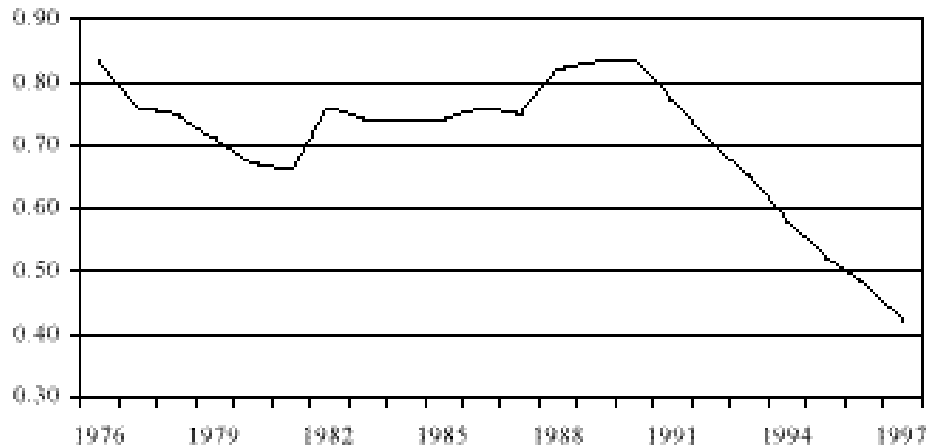
The B/U ratio has been used in a series of studies by experts and academics publishing in referred journals to evaluate the characteristics of the UI/EI program over time. It also has been relied upon by a number of researchers in assessing the coverage provided by UI/EI (Lin, 1998; Muszynski, 1997; CLC, 1999).

In the extensive research which was made available by the Federal Government to explain the expected impact of Bill C-12; the ratio of beneficiaries to the unemployed, the B/U ratio, was referred to in assessing coverage changes and program impact without any suggestion that it was a flawed measure. Indeed, briefing notes which were prepared by government to answer questions suggested that Bill C-12 would increase the B-U ratio but did not suggest that it was a flawed measure (HRDC - Attachment A).

#### *The Trend in the B/U Ratio*

The chart below from the 1998 HRDC analysis illustrates that the B/U Ratio has dropped since 1990 from just over 80% to about 40%; a drop of about half. (HRDC, 1998, page 13). The trend line of the B/U Ratio has been declining for some time and has attracted significant attention by researchers,

**Figure 1.1**  
**The Ratio of Regular EI Beneficiaries to Total Unemployment (The B/U Ratio)**



academics and the media.

These data based on the B/U ratio show clearly that a declining proportion of unemployed Canadians are receiving income support from UI/EI. This information indicating that overall coverage is declining is useful but tells us little about why. The answer to this more detailed question depends on more analysis which was conducted by HRDC (it is discussed below).

**HRDC's Assessment of the Decline in the B/U Ratio**

According to HRDC about half of the decline in the B/U ratio is due to the changes in eligibility criteria and about half is due to changes in the composition of the labour force (HRDC, 1998). Both of these are important messages from a public policy perspective.

The first message from this analysis of the B/U ratio is that various changes to UI including Bill C-12, the Employment Insurance Act, apparently made far

fewer unemployed Canadians eligible for income support. This decline after 1996 is an effect which was not predicted by the impact analyses which were published by HRDC (HRDC 1996). Indeed, in the quote below government members in 1996 argued, with hindsight incorrectly, that C-12 would increase the B/U ratio. They did not suggest it was a flawed measure.

Robert D. Nault (Parliamentary Secretary to Minister of Human Resources Development, Lib.): “I also take exception to some of the labor unionists who are saying we are shrinking the system. In fact the numbers show that 52 per cent of people who are unemployed can get unemployment insurance now. With a 2 per cent or 3 per cent increase which is guaranteed in the next number of years we will be back not too long from now to where as high as 60 per cent of the people who end up unemployed will be able to get UI benefits. People, the media and the labour movement are saying it is down to 40 per cent and that is not factually correct.” Canada, House of Commons Debates: Official Report (Hansard), May 10, 1996 at p. 2618.

The HRDC report concludes that about half the decline in the B/U ratio is due to changes in the labour market and about half is due to program changes. Much attention has been given to the program changes but one should not lose sight of the importance of the labour force changes. There is a message here that the B/U ratio is falling – and part of the reason is because of a growth in the part of the labour force which EI does not serve well (part-timers and contract workers).

Economists are aware that the labour force is changing with an increasing proportion of jobs being "non-standard". Non-standard includes part-time, temporary, and self-employed positions. As this Figure from the HRDC report (page 15) illustrates, part-time and self-employment is an increasing proportion of employment. If part of the B/U decline is a result of the growing importance of self-employment, which is excluded from insured employment, then it is possible to conclude that UI/EI is not meeting the evolving income

replacement needs of Canadians. This conclusion is particularly clear for that class of self-employed who are doing contract jobs and earning all their income from a single employer.

### The Value of the B/U Ratio

HRDC's conclusion that the B/U ratio is a "bad measure" is because the numerator and denominator are not strictly comparable and because the measure cannot show that some of the decline is due to changes in the labour

**Figure 1.2**  
**Self-Employment and Part-Time Employment as a Percentage of Total Employment, 1976-1997**



market. (HRDC, 1998, page 4)

These limitations are issues which need to be kept in mind when interpreting B/U ratio trends but do not render the statistics useless.

A major factor in constructing any indicator is the ease with which information can be collected for tabulation and the ease of interpretation. Compromises will often be made in constructing an indicator to ease computation and comprehension.

The B/U ratio utilizes a numerator which is the number of UI/EI beneficiaries receiving regular benefits (sometimes excluding those with earnings). Attention is restricted to regular benefits because many receiving special benefits like maternity benefits will not be looking for work and therefore would not be considered unemployed by definitions of the Labour Force Survey.

The denominator is the number of unemployed persons. Using the “unemployed” as the denominator for the B/U ratio is a compromise, but a reasonable one based on the readily available data. It is not a perfect measure of the number of individuals who require income replacement due to unemployment. It will exclude some employed persons who are under-employed (based on hours or their utilized skills). It will also exclude some discouraged workers who are not unemployed because they have given up looking for work (instead they are “not in the labour force”). On the other hand, it will include some unemployed who are not entitled to UI/EI because they have never been employed.

Despite these limitations the unemployed is used because it is readily available, and is measured reliably Statistics Canada and is easy to understand.

I expect, the B/U ratio as constructed will continue to be used by academics and other researchers in providing a rough diagnostic assessment of trends in UI/EI coverage which serious researchers will have to study in greater depth in order to understand why observed trends have occurred.



HRDC is correct in stating that the B/U ratio cannot explain why the program is changing but that does not diminish the fact that the B/U ratio is a useful diagnostic tool for assessing whether those with a need for income replacement are having it met by UI/EI.

The B/U ratio is an indicator of the coverage provided by UI/EI, yet it is not prescriptive. It does not tell you why the ratio is changing.

In this respect, the B/U ratio is similar to other diagnostic measures. It has diagnostic value but has limited prescriptive value.

For example, taking one's temperature is a standard diagnostic medical procedure. If the temperature is high, every parent knows that it indicates that something is wrong. The temperature itself does not tell you why it is elevated - that would require further diagnostic tests. It is important to understand though that taking one's temperature is a very useful diagnostic tool, even though it has limited prescriptive value.

To consider another example, the unemployment rate is a commonly used statistic which provides some diagnostic value while requiring careful interpretation. The unemployment rate is the ratio of the unemployed to the population in the labour force. Persons who are not seeking employment, who would accept a position but believe none exists, are not included in the labour force or in the unemployed.

Economists are well aware of circumstances where the unemployment rate increases during an economic recovery as people enter the labour force because jobs are available. This apparent contradiction is well known but just underlines the importance of interpretation; it does not make the unemployment rate a "bad measure".

The fact that careful interpretation of the unemployment rate does not make it a bad measure, but rather simply means it needs to be interpreted with care, recognizing that its value is more diagnostic than prescriptive.

In a similar fashion, the B/U ratio, is a reasonable, measure of the coverage rate of UI/EI even though it does not tell you why the ratio is changing.

One should not expect a single number or ratio, like the B/U ratio, to measure all aspects of program change particularly for a very complex program like UI/EI. A single ratio can only serve as an indicator. Its use by researchers will depend on other data which help to explain the trends observed in the B/U ratio.

*The HRDC Measure of Employment Insurance Coverage*

The HRDC report includes some detailed information not previously available on access to EI benefits of unemployed Canadians which is very useful. It is presented here in Table 1.

Table 1

From Unemployment to the B/U Ratio, 1997		
1	All Unemployed	1,362,000
2	Of whom worked in the last 12 months	879,000
3	Last job was as a paid employee	814,000
4	Last job was as a paid employee and did not leave last job to go to school	758,000
5	Laid off from last job or quit with just cause	658,000
6	Eligible unemployed	516,000
7	Claimed EI Benefits	480,000
8	Received or established right to EI benefits since unemployed	472,000
9	Covered Unemployed: Received or Established right to any type of EI benefits in reference week.	437,000
10	Received any type of EI benefits in reference week	353,000
11	Received regular benefits in reference week – and unemployed	341,000
12	Received regular benefits in reference week – unemployed or not in labour force	480,000
13	Received regular benefits in reference week – employed, unemployed or not in labour force	574,000

Source: HRDC 1998; An Analysis of Employment Insurance Coverage

The data in Table 1 are complex but essentially indicate how many unemployed Canadians satisfy the criteria set at the various stages of eligibility for EI. Using these data for 1997, there are about 1,362,000 unemployed Canadians (line 1), of whom 879,000 worked in the last year (line 2). Note that the difference between these two figures is 483,000; the number of unemployed who did not work in the last year. This 483,000 will include two important groups: those who have never been employed (and have never been eligible for UI/EI) and those who have been unemployed for more than one year (who some might feel should be eligible for UI/EI).

Of these 879,000 unemployed who have worked in the last year, 814,000 (line 3) left employment as a paid employee, (this excludes the self-employed who are not generally covered by UI/EI). And of these, 758,000 might still be entitled to UI/EI because they are not students (line 4).

Of the 758,000 unemployed who were employed in the last year in the paid labour force and are not students, 658,000 were laid off from their last job or quit with just cause (line 5). The 100,000 excluded here, between line 4 and line 5, would have been entitled before 1993, but are not now entitled to UI/EI.

Of these 658,000 who meet these criteria, 516,000 are eligible for benefits (line 6). The ratio of these two figures  $516,000 / 658,000$  is the 78% figure which HRDC uses later in their study. The 142,000 excluded here, between lines 5 and 6, are those who have paid premiums and have qualifying unemployment but who lack sufficient labour attachment under the EI rules.

It should be noted further that these 516,000 are only “eligible” for benefits. Many of them will not actually receive any benefit. Table 1 goes on to indicate why. Of the 516,000 who are “eligible” only about 480,000 made a claim (line 7), of whom, about 472,000 received or established a right to benefits (line 8). Further, in the Table the study establishes that 353,000

received some benefits (line 10). The figure for those receiving regular benefits was 341,000 (line 11).

These detailed findings for the number of unemployed satisfying each of the stages needed to be eligible for benefits can be used to make a number of very useful calculations.

A sample of the kinds of ratios which can be estimated based on Table 1 are found in Table 2.

**Table 2**

<b>EI Benefit Coverage Among the Unemployed, 1997</b>				
<b>As a Percentage of</b>				
	<b>Line in Table 1</b>	<b>Unemployed who lost or quit a job with just cause</b>	<b>Unemployed who were EI contributors</b>	<b>All Unemployed</b>
<b>Line in Table 1</b>		<b>Line 5</b>	<b>Line 3</b>	<b>Line 1</b>
Eligible for Benefits	Line 6	78 %	63%	38%
Received or established right to benefits during reference week.	Line 9	66%	54%	32%
Received benefits during reference week.	Line 10	54%	43%	26%
Received regular benefits during reference week - unemployed.	Line 11	52%	42%	25%
B/U Ratio: Received regular benefits during reference week	Line 13			42%

Source: HRDC 1998; An Analysis of Employment Insurance Coverage

To illustrate how the percentages in Table 2 are derived, note that the 78% is the ratio of the numbers in line 6 to line 5 from Table 1. It indicates the proportion of the unemployed in line 5 who are in line 6. Similarly, the 52% is the ratio of line 11 to line 5 and the 25% is the ratio of line 11 to line 1.

The HRDC figure, 78%, (the ratio of line 6 to line 5) is the proportion of those “Laid off from last job or quit with just cause” who are “Eligible Unemployed”. Similarly, 52%, (the ratio of line 11 to line 5) is the proportion of those “Laid off from last job or quit with just cause” who “Received regular benefit in reference week – and are unemployed”. Finally, 25%, (the ratio of line 11 to line 1) is the proportion of the “Unemployed” who “Received regular benefit in reference week – and are unemployed”.

This extremely useful table can be used to draw a number of conclusions. First the numbers on the first row indicate that; those eligible for benefits based on sufficient labour force attachment are about 78% of those "unemployed who lost or quit a job with just cause." They are 63% of the unemployed who contributed to EI and 38% of all the unemployed.

The extent then of UI/EI coverage depends on comparing the number “eligible” for benefits to some reference unemployed population. The choice of reference population will affect your conclusion. HRDC chose as a reference those “entitled” to UI/EI (the unemployed excluding students, voluntary quits, and those unemployed for more than one year) and concluded that coverage, at 78%, is meeting the needs of Canadians.

If you instead compare the number “eligible” for UI/EI to those unemployed who had insured employment the ratio drops to 63%. If the reference population is the number of unemployed then the ratio drops to 38%.

Therefore, one’s assessment of coverage will depend on the reference population to which the number of “eligible” claimants is compared.

HRDC uses the number “eligible” (line 6) for its measure of coverage of 78%. If the focus is narrowed to those who actually receive benefits then the coverage rate drops to 54% (line 10 divided by line 5). Further, only 52% of those “entitled” are unemployed and receiving regular benefits (line 11 divided by line 5).

If our focus is limited to the unemployed with regular benefits, then a very different picture develops. Those receiving regular benefits are about 52% of those "unemployed who lost or quit a job with just cause." They are 42% of the unemployed who contributed to EI and 25% of all the unemployed.

HRDC's focus on the 78% supports its optimistic conclusion about the coverage provided by EI. The data in Table 2, indicate that other reasonable measures of coverage (near and below 50%) do not support such a positive conclusion.

The HRDC report concludes, "The B/U ratio is a bad indicator." The analysis relies on another measure based on which the report concludes "The EI program is meeting its main objective of providing temporary benefits to Canadians between jobs." (HRDC, 1998, page 3). The measure used by HRDC is the 78% and effectively the ratio of those eligible for EI to those entitled to EI; that is, it simply measures the impact of major labour market attachment assessment on eligibility.

The ratio used by HRDC in press releases and the House of Commons is the 78% figure. This ratio is described in these public documents as follows: "Over 78 percent of the unemployed who lost their job or quit with just cause in the last year were eligible for EI." (HRDC, 1998, page 3).

Only a technical expert who read the report carefully would be aware of the limitations of this characterization; that, many of the eligible would receive no support and that many more than voluntary quits, (students and exhaustees) are excluded from the ratio. Certainly, one could not expect the media, the general public or members of parliament to understand the limitations of assessing coverage solely based on the 78% figure.

On closer inspection, this ratio, as a measure of coverage, has as many limitations, arguably more, than the B/U ratio. The statistic does not capture the ratio of those who receive income replacement to those who need it. The

numerator is those “eligible” and includes many who do not receive any income support. The denominator excludes many who would previously have been “entitled” and also many who are unemployed with legitimate income replacement needs.

The interpretation of the 78% figure is further complicated by the absence of any trend line. Is this figure high or low compared to previous years? The data necessary to do such a calculation do not exist.

The conclusion that EI is meeting peoples needs based on 78%, clearly assumes that 78% is "good enough". This of course, depends on ones view of entitlement. Clearly, if this were a life insurance policy, a statement that 78% of life insurance claims were paid properly would not be enough. If only 78% of auto insurance or fire insurance claims were actually paid, this would be considered inadequate. In the income security field, if only 78% of destitute Canadians were eligible for welfare, this would reflect badly on the program.

Those who have paid premiums to the program and have covered employment but find that they have insufficient labour force attachment might also question the assertion that 78% is enough.

It is difficult to interpret the 78% without such an agreed standard. Indeed, the HRDC's analysis, (reproduced in Table 2) also includes statistics which could lead to a number of other conclusions, many of which could raise concerns about the extent of EI coverage (only about half of “entitled” unemployed are receiving benefits).

Admittedly, the determination of sufficient labour force attachment is an important step in determining eligibility for UI/EI. The measure proposed by HRDC (HRDC 1998), compares the number eligible for UI/EI benefits based on sufficient labour force attachment to those who would otherwise be eligible. They describe it as "78% of those who are laid-off or quit for just cause are eligible for EI benefits." This statistic is a reasonable measure of the

restrictiveness of the determination of sufficient labour force attachment; of course, it does not assess other important steps in receiving UI/EI benefits.

HRDC interprets the 78% as evidence that EI is fulfilling its role. This conclusion first does not refer to what an acceptable eligibility rate is. It also ignores evidence that many of these 78% do not receive any income support. It also ignores the other evidence that, of EI contributors who are unemployed, only about 42% actually receive regular benefits. Further, only about one quarter of the unemployed, some of whom have not contributed to EI, receive regular benefits.

## **Conclusion**

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In recent years, there has been a great deal of debate about the adequacy of the Employment Insurance Program.

Historically, the Beneficiary to Unemployment Ratio or B/U ratio, has been used by experts and by the Federal Government to assess program coverage. However, the 50% decline in the B/U ratio over the past 10 years and the fact that less than half of the unemployed are receiving employment insurance has been cited by many critics as evidence that the program is failing to provide adequate coverage.

HRDC reports that the dramatic decline in the B/U ratio over the last several years is due to two factors. First, this is due to tightening of eligibility criteria for EI. Second, this is due to the growth in non-standard employment in the labour market. This disproportionate growth is in employment which is not covered by EI. For both of these reasons, UI/EI is meeting a declining share of the income replacement needs of Canadians.



HRDC acknowledges that the B/U ratio is declining in part because of the changes in accessibility criteria which were part of Bill C-12. Government documents, obtained under ATI, had asserted that Bill C-12 was expected to increase the B/U ratio (HRDC, Attachment A).

Human Resources Development Canada (HRDC) now asserts that the B/U ratio is not an appropriate indicator of EI coverage. It uses a new measure of program adequacy. Based upon its new methodology, it concludes that “the EI program is meeting its main objective of providing temporary benefits to Canadians between jobs.”

The Beneficiary to Unemployed Ratio (B/U ratio) has been used for many years by officials and researchers as a means of assessing the coverage of UI/EI. HRDC first started to seriously question the value of the B/U measure in its first monitoring report after the conversion from UI to EI. This was after it became clear that the B/U rate was declining in part due to the change from UI to EI and contrary to expectations.

Contrary to the assertion of HRDC, the B/U ratio is a reasonable diagnostic tool for assessing UI/EI coverage. Like all diagnostic tools, it needs to be interpreted carefully.

The HRDC conclusion that the “EI program is meeting its main objective of providing temporary benefits to Canadians between jobs.” is based on a simple measure, the ratio of those eligible for EI to those entitled to EI. However, the HRDC standard solely measures the impact of the labour market attachment assessment on eligibility.

This simple figure, 78%, can not be used to support the wide reaching conclusion that EI is meeting its main objective. This is because of the number of important coverage questions which are ignored by that figure including;

- the proportion of the unemployed with insured employment.

- the proportion whose unemployment qualifies for EI, (the exclusion of students and voluntary quits).
- The proportion of those eligible actually receiving benefits (not excluded by waiting periods or by exhausting benefits).

The HRDC statistics are a reasonable measure of the restrictiveness of the criteria for labour market attachment but the assertion that 78% is “good enough” is without foundation. The fact that 22 percent of those who pay premiums and have covered unemployment do not receive benefits raises serious questions about the adequacy of the program.

Based on HRDC numbers it appears that, at a point in time, only about 52% of the unemployed who are entitled to EI benefits actually receive income support as a regular beneficiary. It also appears that, at a point in time, only about 42% of those unemployed who contributed to the program, receive regular benefits. This figure is coincidentally about the same as the B/U ratio.

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