

April 9, 2021

EMAIL TO: HUMA@parl.gc.ca

Subject: CFIB Response to HUMA Study on the Review of the EI System

Dear Members of the HUMA Committee:

More than a year into the pandemic, small- and medium-sized enterprises (SMEs) have been forced to significantly shift the way they operate and do business. While vaccination campaigns are now under way, restrictions could likely be in place for the foreseeable future, meaning that it will not be business as usual for some time. As a result, undertaking significant changes to the EI system at this time could have unintended consequences on the recovery of small business and the economy. Understanding that small business are more payroll intensive than larger firms, any increase in EI premiums hits them harder. Furthermore, payroll taxes like EI are profit insensitive, meaning that the business must pay them regardless of whether they make any revenue or not.

The state of small businesses

As of March 2021, 62% of businesses are now open, only 42% are fully staffed and 31% are reporting normal sales.¹ This means that most small businesses across the country are still facing major cash flow issues. CFIB's March Business Barometer shows that 51% of small businesses consider wages to be a major cost constraint for their business, and 49% reported that taxes and regulations were a constraint.² Cashflow issues have forced a large number of SMEs to take on additional debt in order to stay open. Recent CFIB research found that 73% of small business owners have taken on new debt due to COVID-19, with an average debt load of \$170,000. In the midst of the pandemic, small businesses were dealt another financial blow in the form of another round of Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) increases as of January 1st, 2021. Payroll tax increases such as these make it more expensive for struggling business owners to rehire staff they were forced to lay off, provide training or hire new staff.

The impact of COVID on the EI system

Small business owners understand that the government was forced to take immediate and significant actions to protect the livelihoods of employers and employees as a result of the pandemic. While

¹ CFIB, Your Voice Survey – March 2021 preliminary results, March 4-9 2021, n=3,351.

² CFIB, Business Barometer, March 2-15, 2021, n=985.

programs such as the Canada Emergency Response Benefit (CERB), which then became the Canada Recovery Benefit (CRB), are necessary in the context of the pandemic, we strongly caution against making them permanent. There are also concerns around the costs of these programs being folded into the EI system. Just over half of small businesses (52%) say they do not want general COVID-19 emergency programs, such as the CERB and any new EI measures to address COVID-19 impacts, to be paid for through the EI system.

SME views on the current EI system

The vast majority of small business owners (92%) see the EI system as primarily a job-loss insurance program and should only cover those who pay into it. Unlike other government programs, the EI system is entirely funded by employers and employees who contribute by paying EI premiums on their payroll. Employers pay 60% of EI premiums and employees pay the remaining 40%. For employees, EI is an insurance system they can tap into if needed, but it is a payroll tax for employers.

A portion of the EI fund is also dedicated to funding special benefits. Small business owners are largely supportive of having EI include maternity and parental benefits (66%), and sickness benefits (64%), which have been part of the EI system for a long time. Support is more muted for newer benefits such as compassionate care (51%) and family caregiver (45%). However, support for training benefits is lower (32%) among small businesses. This lack of support likely reflects the fact that small business owners are largely unaware of the various programs offered through the EI system.

Furthermore, SMEs most often provide on-the-job informal training that is not recognized by government training programs. It is therefore important that training programs funded through the EI system are designed to meet the needs of employers who pay for them by matching the skills training most needed, and recognizing informal training. Eighty-seven percent of small businesses believe that EI-funded training programs must be aligned with the needs of employers.

Reforms to the EI system

If the government decides to move forward with reforms to EI in the midst of the pandemic, we are concerned that such changes could result in higher EI premiums down the road for small businesses who will not likely be able to easily absorb new costs to hiring for years to come. To ensure the future sustainability of the EI system, the government must not overload it with additional costs related to the pandemic.

If the government contemplates any permanent changes to the EI system, consultations with those who pay for it – employers and employees – must come first. Eighty-six per cent of small businesses agree that any EI reforms should require full consultation with workers and employers, as well as a detailed cost analysis. Providing a detailed cost analysis of any proposed changes is important to ensuring that employers are fully aware of the implications on their business and what it could mean for their ability to hire and train workers.

Seventy-three per cent of small business owners do not think that the government should implement a minimum amount of EI coverage (e.g., \$500) regardless of what an employee previously earned as it could be a disincentive to returning to the workplace. When asked whether they had difficulty hiring people because they suspected would rather collect EI or other COVID-related benefits, 43% said this was the case. It is important that EI benefits not make anyone better off than if they were working.

Currently, self-employed individuals (this includes entrepreneurs and those working in the gig economy) are able to access special benefits such as maternity leave on a voluntary basis but cannot qualify for regular EI. Those who chose to opt in and use these special benefits must then pay EI premiums for the remainder of their working lives. The vast majority (89%) do not want mandatory EI coverage for the self employed, only 8% would support mandatory coverage. If made mandatory, expanding this safety net without careful consideration may have significant unintended consequences.

While, small business do support funding sickness benefits through the EI system, they are split almost 50:50 on the idea of expanding sickness benefits from 15 to 26 weeks. Many small employers either cannot afford or are unable to access health insurance for their employees and may see a benefit to have it offered through EI. Others may worry about the cost implications on the EI system and increases in premiums if benefits were expanded to 26 weeks. In order to fully understand what such a change could mean for their business, the government should provide small business owners with further details on what this would look like, including a detailed cost-analysis, in advance of any consultations.

Bringing fairness to the EI system

One of the things that small business owners want the most in the EI system is fairness. Small business owners currently contribute 1.4 times the employee rate for EI, despite it being a program primarily designed for employees. Small business owners are largely supportive of splitting EI premiums 50:50 between employers and employees (84% support), refunding EI overcontributions to employers (91% support), as well as requiring employees receiving regular EI benefits to sign up for the Job Bank (78% support). Sixty per cent of employers are also supportive of having employers and employees who most frequently access EI (usually in seasonal businesses) pay higher EI premiums (such as an experience rating). Just over half (51%) of seasonal business owners themselves would also be supportive of this initiative.³

Hiring and training support

Reuniting employers and employees will be a key part of economic recovery post-pandemic. However, as mentioned above, increases in CPP/QPP premiums will make it more costly to hire back workers. Additionally, young workers with less work experience will have a harder time finding employment opportunities, as it is costlier to train them and takes longer for them to become productive in the workplace. Providing significant hiring incentives can be a way to help encourage investments in hiring

³ CFIB EI Survey, Jan. 28 – Feb. 17, 2021, n=4,901.

and training, as well as offset the cost of CPP/QPP increases. An EI premium rebate to help with training costs for current and new employees would be welcomed by a majority of small businesses (67%). Close to seven in ten small businesses would also support an EI premium rebate for hiring youth. This was also a promise made in the 2015 Liberal Election platform that has yet to be acted on. The changes made to the Canada Summer Jobs program in light of the pandemic, namely the 75% wage subsidy, extending it to year-round and allowing part-time work, are helpful to small businesses looking to hire younger workers. Making these permanent could be another way to incent youth hiring post-pandemic.

Reducing red tape

In addition to the direct costs of EI premiums, dealing with the associated red tape (i.e., Records of Employment (ROE), payroll remittances) can be costly and time consuming for small business owners. Only about a quarter of business owners said that they found the ROE process to be very straight forward. While the ROE process and the forms themselves have improved over the last few years, particularly with the introduction of E-ROEs, there are still improvements to be made in simplifying the process. The government recently explored the potential of introducing an e-payroll initiative which would automatically send payroll information to the government from employers. The majority of businesses (64%) said that they would be comfortable with sharing this information with the government electronically if this meant reducing their administrative and paper burden.

While simplifying processes and forms is important to reducing red tape, ensuring that business owners can quickly access accurate information is also essential. Ensuring that information on the Service Canada website is accurate, in plain language and easy to find can also go a long way to reducing red tape and improving small business owners' overall experience.

Conclusion and recommendations

Here is a summary of CFIB's recommendations:

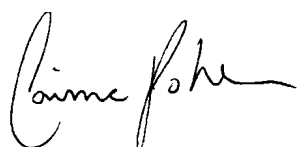
- Do not implement any permanent changes to the EI system until the economy has recovered.
- Ensure there is robust consultation with small business and a detailed cost analysis before moving forward with any proposed changes to EI.
- Make sure that the EI system remains sustainable so that employers and employees are not burdened with eventual increases in EI premiums.
- Ensure that no additional costs related to CERB or CRB are added to the EI system.
- Additional generosity in the EI system introduced during the pandemic should not be paid for through EI premiums.
- Ensure that income support measures do not make anyone better off than when they were working so as not to disincentivize the safe return to work.
- Better align and increase awareness of EI training programs and initiatives with small business needs and ensure they recognize the realities of running a small business. This includes

matching the training with the skills small employers need and recognizing informal, on-the-job training and ensure they remain easy to access with a limited amount of associated red tape.

- Do not make EI for the self-employed mandatory.
- Increase the overall fairness of the EI system by:
 - Implementing a 50/50 split in EI premiums so that both employers and employees contribute equally;
 - Allowing business owners to claim employer overcontributions;
 - Requiring employees to sign up for the Job Bank in order to access EI benefits;
 - Considering the proposal to increase EI premiums for employers and employees who use the program more frequently.
- Provide significant hiring and training incentives to employers to help them recover post-pandemic. Any incentives should be easy to access and require a minimal amount of red tape from employers. These could include:
 - An EI premium rebate to help with training costs for new and existing employees;
 - An EI premium rebate for employers who hire youth;
 - An EI credit which effectively lowers the rate that small businesses pay from 1.4 times the employee rate to 1.2 times; and,
 - Make the changes to the Canada Summer Jobs Program permanent (i.e., 75% wage subsidy, allowing part-time work, extending it to year-round).
- Reduce red tape for employers through measures such as:
 - Moving forward with implementing an e-payroll system;
 - Improving customer service at the Service Canada Call centres; and,
 - Ensuring that information provided on the Service Canada website is easy to find and written in plain language.

Small businesses will continue to be in a precarious position for the next few years after the pandemic is over, meaning that any additional costs will only prolong their recovery. While there are certainly positive reforms that can immediately be brought to the EI system to increase fairness and reduce red tape, any permanent changes with significant cost implications should not be considered until after the pandemic when the economy has had a chance to recover. As such, CFIB is ready and willing to work with the government on helping to reform the EI system so that it serves the needs of all Canadians who need it.

Sincerely,



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