



**THE CPQ'S POSITION**  
FOR THE CONSULTATIONS OF THE STANDING COMMITTEE ON  
HUMAN RESOURCES, SKILLS AND SOCIAL DEVELOPMENT  
AND THE STATUS OF PERSONS WITH DISABILITIES ON  
CANADA'S EMPLOYMENT INSURANCE PROGRAM

APRIL 2021

The mission of the Conseil du patronat du Québec (**CPQ**) [Quebec employers council] is to ensure that businesses in Quebec enjoy the best possible conditions—particularly in terms of human capital—for sustainable prosperity in the context of global competition.

The CPQ is the focal point for employer solidarity. Its leadership makes it an essential reference in its areas of activity, and it is a substantial constructive influence for a more prosperous society, in which entrepreneurship, productivity, wealth creation and sustainable development are the prerequisites for raising all citizens' standard of living.

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## Summary of proposals

In anticipation of the upcoming reform of the Employment Insurance (EI) program, the Conseil du patronat du Québec (CPQ) makes the following proposals:

- That balance be restored to the EI program through active measures, such as training and employment supports, to have a positive long-term impact on the labour market. Access to EI should be tied to training measures designed to develop skills.
- That priority be given to supporting and developing the digital literacy of workers and employers.
- That support measures be developed to assist businesses in upgrading the skills of their workforce. Consideration should be given to an EI premiums holiday for employment training expenditures.
- That the work-sharing training policy be enhanced.
- That the costs and impact on premiums of any added flexibility to make the EI program more accessible be assessed, particularly with respect to non-standard workers, the replacement rate and maximum insurable earnings.
- That the EI program funding structure be revised to more fairly share the costs among the three stakeholders so that responsibility for employability is better shared among individuals, businesses and government.
- That social measures not be included in the EI program, in order to preserve its original purpose.
- That the EI program provide income support to workers who have lost their jobs while they train, but that this support not reduce the incentive to work.

## Foreword

In light of an expected reform of the Employment Insurance (EI) program and the call put out by the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities (HUMA), the Conseil du patronat du Québec (CPQ) wishes to take part in the discussion on the principles that should guide this reform and make sure employers' voices are heard on the subject.

With the pandemic causing Canada's unemployment rate to jump from 5.6% in February 2020 to nearly 18% in April 2020, it soon became clear that EI would not be able to keep up. The program was therefore suspended between March 15 and September 27, 2020, and replaced by a single benefit, the Canada Emergency Response Benefit (CERB). The CERB had the advantage of being simple to administer, and benefits were distributed very quickly. The CERB also provided financial support to workers who were not eligible for EI, but who had lost their sources of income because of the crisis, such as self-employed persons and part-time workers. However, this emergency financial assistance was a disincentive to return to work for two reasons. First, the benefit almost completely matched, and in some cases exceeded, the average wage of full-time workers in the sectors most affected by the pandemic. Second, no job-search obligation was tied to the benefit.

Since September 27, the federal government has consolidated all mechanisms for paying employment-related benefits under the EI program, including those for workers who did not qualify for EI before the pandemic. The Speech from the Throne emphasized that an improved EI program must adapt to the 21st-century reality of the many self-employed and non-standard workers in the labour market.

People may continue to receive EI while on training, but these benefits are barely over 10% of standard EI benefits. With the temporary expansion of EI eligibility—some provisions of which may become permanent—now is the perfect time to overhaul the EI program, including its funding mechanism, and to build active training measures into it. The COVID-19 crisis revealed EI's shortcomings, but it also showed the need for a better-trained workforce, especially as regards workers' ability to effectively use technologies and processes such as digitization, automation, roboticization, and the deployment of artificial intelligence.

The fact that there are currently more vacancies in Quebec than there were before the pandemic illustrates just how quickly we need to adapt our workforce to the new demands of the labour market and the new challenges presented by the introduction of technology.

## Background

The economic crisis brought on by the COVID-19 pandemic showed that the EI program, which proved unable to respond to the influx of applicants, is behind the times. The system could not cope with the 930,000 new claims the week of March 15, 2020, when prior to that the average weekly number of claims was around 27,000.

As a result, the federal government had to suspend the EI program retroactively to March 15 and create a universal benefit, the Canada Emergency Response Benefit (CERB), for those who had lost their jobs—regardless of whether they were eligible for EI—or who could not go to work because of school and daycare closures. The government announced these measures on March 18 under Canada’s Economic Response Plan. In April, the government passed Bill C-13, which established the CERB and granted the minister responsible for the EI program full authority to amend the *Employment Insurance Act* and its regulations to bring in new benefits and amend or suspend some of its existing provisions.

A reform of the EI program was already in the works. In December 2019, when federal ministers were sworn in, the Minister of Employment, Workforce Development and Disability Inclusion was mandated to “strengthen Employment Insurance, including the development of new Special Benefits models.” The wording clearly shows that the government intended to transform EI into a social program. For example, the Minister was asked to use the EI program to develop a Guaranteed Paid Family Leave program, create a Career Insurance Benefit and propose a new Employment Insurance Disaster Assistance Benefit.

Similarly, an advisory group convened at the request of the government proposed in 2019 a re-evaluation of EI sickness benefits and made 10 recommendations to make them more generous and accessible to workers who are absent because of illness and to informal caregivers.

This drive to reform the EI program came at a time of strong economic growth, when an unusually low unemployment rate resulted in large surpluses in the fund, which approached \$5 billion at the end of the 2018–2019 fiscal year. As a result, the 2020 EI premium rate for Quebec employers was set at 1.20%, the lowest since 1980.<sup>1</sup> The government has already announced that it will freeze the premium rate for 2021 and 2022 to reduce the financial burden on businesses hit hard by the pandemic.

The reason reform was already the subject of stakeholder discussion is that, unlike in many OECD countries, the EI program primarily provides temporary income support to unemployed workers while they look for work, as well as special benefits to workers who are away from work owing to specific events (illness, pregnancy, caring for a newborn, a newly adopted or seriously ill child, or informal caregiving).<sup>2</sup> These are the Part I benefits.

The EI program also includes another set of measures, known as active measures, which are aimed at training and skills upgrading. These are the Part II benefits. However, these benefits are relatively modest, accounting for just over 10% of expenditures (see Table 1).

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<sup>1</sup> The EI premium rate in Quebec is lower than the rate in other provinces because, outside Quebec, EI provides parental leave benefits, whereas in Quebec, these are provided through the Québec Parental Insurance Plan (QPIP).

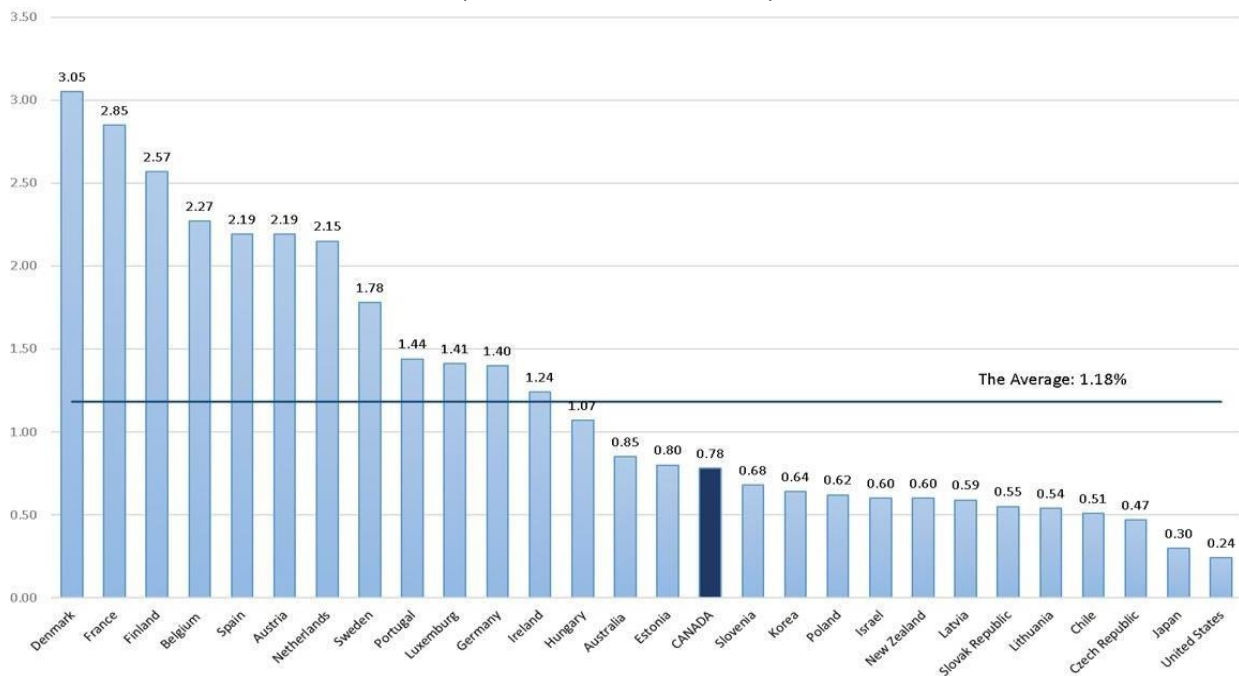
<sup>2</sup> In some OECD countries, such as Finland and France, enrolment in placement services is part of activation policies, and benefits are not paid until the worker is actually enrolled. In Canada, benefits are paid without this requirement.

Table 1—Breakdown of EI Program Expenditures for the 2018–2019 Fiscal Year  
(\$ millions)

Part I: Employment Insurance benefits	\$16,580.00	80%
Part II: Employment benefits and support measures	\$2,307.90	11%
Administration costs	\$1,929.40	9%
Total expenditures	\$20,817.40	100%

The federal government has expressed concern about training shortcomings and the fact that Canada is lagging other OECD countries in this area (see Figure 1). As a result, in 2019 it created the Canada Training Benefit primarily to help Canadian workers and their employers stay current with technological change. This assistance, in the form of an annual tax credit and leave through the EI program, was still being discussed by stakeholders when the health crisis erupted.

Figure 1 – Government Expenditures on Labour Market Policies  
(2017, as a % of GDP)



Another factor that emerged because of the pandemic was that many people who lost their jobs were not eligible for EI benefits. This was the case for self-employed workers and part-time or contract workers who could not accumulate enough hours to qualify for benefits. To fill this gap, the CERB was paid to any worker who had earned \$5,000 or more in the 12 months prior to the pandemic.

### What does the CERB cost?

Between March 15 and September 27 of this year, the Government of Canada received 27.7 million CERB applications from 8.9 million unique applicants, and paid out \$80.6 billion. In September, the government announced that it will credit the EI Operating Account for CERB costs. The impact of the pandemic on this EI program account will not be known for several more weeks.

Source: <https://www.canada.ca/en/services/benefits/ei/claims-report.html>

The desire to reform the EI program was reiterated in September's Speech from the Throne, in which the federal government stated that the pandemic "has shown that Canada needs an EI system for the 21st century, including for the self-employed and those in the gig economy."

During the summer of 2020, a Job Skills Round Table led by Senator Diane Bellemare brought together employer and labour representatives to propose solutions to skills and training challenges. The work of this round table, in which the CPQ participated, resulted in the following consensus measures:

- Strengthen support for the skills development and training component of the EI program..
- Reinstate the sector councils that foster social dialogue.
- Support the digital literacy of workers, employers and education providers.
- Develop support measures to help businesses upgrade the skills of their workforce.
- Enhance the work-sharing training policy.
- Take advantage of the increased number of workers receiving EI to help them develop their skills while still drawing EI.
- Provide appropriate support to training institutions (colleges and institutes, polytechnics, universities) so that they are prepared to welcome new students and move quickly to offer the necessary training in all necessary formats.

Consequently, while there is a consensus on the need to overhaul EI and build training into the program, not everyone agrees on how best to do so. Furthermore, the funding formula was never called into question.



## The CPQ's historical position

Over the past few years, the CPQ has had many opportunities to present its views on the EI program. The CPQ has always maintained that it is deeply unfair for employers to be required to provide 7/12 of its funding while program management is joint and the government is free to make changes to the program and add new benefits.

Accordingly, the CPQ proposed the following measures:

- Change EI program funding to more fairly share the costs between the three stakeholders so that responsibility for employability is better shared among individuals, businesses and government. This sharing could also reflect the social benefits provided by the plan.
- Refocus the EI program on its primary mission of providing insurance against job loss and increasing job seekers' employability.
- Ensure that the EI program does not reduce the incentive to work.
- Restore balance to the program by adopting active measures, such as training and employment supports, to make a positive long-run impact on employment.
- Consider an EI premiums holiday for employment training expenditures.

Despite the current context, there is no compelling case for our organization to change course. However, there is an opportunity to develop our position in favour of expanding Part II measures, namely, active benefits, and to rethink how the program is funded.

## POINTS TO CONSIDER

The introduction of the CERB during the worst months of the crisis skewed the debate on EI reform, even leading the most radical groups to call for the introduction of a guaranteed basic income.

### **Review of the CERB's main measures**

Benefits of \$500 a week for up to 24 weeks

Eligibility: Canadians who have lost their job, are sick, are quarantined, are taking care of someone who is sick with COVID-19 or have stopped working to care for children who are sick or at home because of school or daycare closures

Canadians who are still employed but are not receiving income because of disruptions to their work due to COVID-19 or who have exhausted their regular EI benefits

Canadians who earned at least \$5,000 the previous year in employment or self-employment income, EI or parental leave benefits, or dividends

- Workers are allowed to earn up to \$1,000 per month while collecting the CERB.
- The CERB is taxable, but tax is not deducted at source.
- There is no requirement to be available for work, to look for a job or to be in training.

In any event, the CERB (\$500 per week) amounts to almost half (49%) of average weekly earnings for all industries in Canada, and four fifths of earnings in the sectors most affected by the crisis: retail (81%) and arts, entertainment and recreation (80%).<sup>3</sup> This replacement rate is as high as 119% in the accommodation and food services industries, which were also hard hit.<sup>4</sup> We have seen the effect on employment demand of financial support that is not only too generous, but above all has no job search or training strings attached. Given the current labour shortage, this set of circumstances must be avoided at all costs.

Even though the federal government has softened the program's requirements many times since 2015, stakeholders have been lobbying the government to make changes that would return the EI program to the way it was in the late 1990s.<sup>5</sup> Among the most frequently heard proposals are a decrease in the eligibility floor, an increase in the maximum benefit received, the inclusion of "non-standard" workers and the elimination of benefit disqualification for those who quit or are fired.

These proposals have been advocated with little knowledge of their actual cost. Employers, who foot much of the bill, are right to be concerned about potential expansions to the program that would inevitably lead to higher costs.

Since 2008, EI premium rates have been determined by the *Employment Insurance Act* (SC 1996, c. 23) and set so that the projected balance in the EI Operating Account is \$0 over seven years. Adding temporary measures to expand EI eligibility and increasing benefits, as well as the federal government's decision to freeze premiums for 2021 and 2022, will clearly unbalance the Operating Account. It is easy to imagine that permanent changes to lower the eligibility floor, increase benefits and establish a minimum benefit would substantially raise the premium rate.

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<sup>3</sup> In 2019, the average weekly EI benefit in Quebec was \$462.

<sup>4</sup> National Bank of Canada, *The Canadian Labour Market: Devils in the Details*, July 24, 2020.

<sup>5</sup> These improvements include providing caregiver benefits, reducing the waiting period from two weeks to one week and allowing people to work during the benefit period.

With respect to coverage of the self-employed, the intent of the legislation is to ensure that they contribute to the EI program as much as they are expected to draw in benefits. Despite being part of the current government's commitment, including the self-employed will lead to discussions on income determination, as many self-employed persons are compensated in dividends and capital gains.

The various changes to the EI program in recent years have pulled it away from its primary mission of providing insurance against job loss and increasing job seekers' employability and turned it into more of a social program. If other social measures are to be added to EI, federal funding is essential. Ideally, social measures should not be built into it at all.

The modernization of the EI program will obviously lead stakeholders to review the eligibility grid based on the regional unemployment rate, which many experts say is inappropriate. There is some merit to introducing a mechanism that can react more quickly if a sector or industry (or even a province) is in difficulty or there are unusual recession conditions, such as the situation we are in now.

If one good thing can come out of the pandemic, it is the consensus of labour market stakeholders that there is an urgent need to upgrade workers' skills and make it easier for unemployed workers to reskill. We believe the EI program must be brought back into balance by adopting active measures, such as training and employment supports, to make a positive long-term impact on the labour market. Challenges remain in the areas of workforce training and matching training availability to the needs of the labour market.

We have recently witnessed a fracturing of the labour market, which has both a relatively high unemployment rate and an equally elevated job vacancy rate. In their current form the recovery benefits certainly will not encourage unemployed workers to re-enter the workforce. Worse still, those who are currently unemployed do not seem to have the skills to fill positions in this "new" job market, where digital skills are in high demand. We believe a shift toward training, not only of unemployed people, but also of employed people whose work is likely to change, is critical.

The EI program should also enable employers to support employees whose lack of skills puts them at risk of losing their job. In a world of work where technology is evolving at breakneck speed, some form of assistance would be beneficial. This support could take many forms, including an EI premium holiday for training.

## THE CPQ'S PROPOSALS

Based on the foregoing, the CPQ supports modernizing the EI program and taking this opportunity to review the scope of certain measures and the way EI is funded.

Further to the consensus reached at the Job Skills Round Table organized by the Quebec Department of Employment and Social Solidarity last October, we believe that it is essential to **restore balance to the EI program**. This can be achieved **by adopting active measures, such as training and employment supports, to make a positive long-term impact on the labour market**. Access to EI should be tied to training measures designed to develop skills, potentially even making skills development a condition for receiving benefits, as is the practice in France and Finland. In concrete terms, this could mean requiring unemployed workers to create a Job Bank account and enhancing businesses' capacity to take an active role in designing and delivering training programs while helping them integrate training programs into recruitment efforts.

Labour market stakeholders agree on the need to improve workers' skills to increase their employment opportunities and meet labour market needs. Therefore, not all training programs should be eligible for EI. These programs should be short and transferable, boost skills and provide a qualification. **Priority should be given to supporting and developing workers' and employers' digital literacy.**

The CPQ supports the principle that unemployed workers should have access to a wide range of training and counselling services, but that employed workers should also improve their skills to help their businesses be more productive and avoid being laid off. **The EI program should include support measures to help businesses upgrade the skills of their workforce.** Why not, for example, consider an EI premium holiday for employment training expenditures?

The EI work-sharing program is an adjustment program designed to help employers and employees avoid layoffs when there is a temporary reduction in the normal level of business activity that is beyond the control of the employer. The measure provides income support to employees eligible for EI benefits who agree to work a reduced work week and share the available work over a specified period. **A work-sharing training policy should also be established.**

Because the federal government wants to extend the EI program to non-standard workers, more people will have access to benefits, which will inevitably put pressure on the program's financial balance. For example, the federal government estimates that the temporary measures to expand access to EI will result in 400,000 more people receiving benefits. Many of those people pay little if anything into the EI program.

Assuming the government maintains the minimum benefit at \$500 per week, it is easy to imagine the impact on the deficit.<sup>6</sup> In the current economic climate, it may be tempting to rush to help as many idled workers as possible. However, since reform should be examined from a long-run perspective, we need **an accurate assessment of the costs and impact on premiums of any changes to make the EI program more accessible, particularly with respect to non-standard workers, the replacement rate and maximum insurable earnings.**

The current funding formula, in which employers pay 7/12 of the total, is no longer realistic. **The CPQ is advocating for a review of EI funding for more equitable sharing of costs among the three stakeholders so that responsibility for employability is better shared among individuals, businesses and government.** This sharing could also reflect social benefits, if they need to be retained in the program at all. However, **social measures should not be built into the EI program if its original intent is to be preserved.**

The example of the CERB has shown how generous measures can be counterproductive when there are no strings attached. This is particularly true for workers who earn less than the average wage and for part-time workers, who could earn more from a minimum benefit than from working. While it is important to ensure that EI provides income support to workers who have lost their jobs while they train, it is just as important that this **support not reduce the incentive to work.** Any disincentive to work brought on by a minimum benefit is to be avoided given the current labour shortage. A percentage of insurable income seems to us the best solution, in part because it maintains a balance between premiums and benefits, and because it would make returning to work more attractive. The same is true for the Working While on Claim program, which, following review, should remain temporary and support a transition to full-time employment.

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<sup>6</sup> The cost of 400,000 additional beneficiaries receiving \$500 per week for 26 weeks is \$5.2 billion.



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