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Cost Estimates of Selected Legislative Amendments in Bill C-280 and Bill C-308

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The *Parliament of Canada Act* mandates the Parliamentary Budget Officer (PBO) to provide an estimate of the financial cost of any proposal that relates to a matter over which Parliament has jurisdiction when requested to do so by a member of either House or by a committee of the Senate or of the House of Commons.

This report seeks to fulfill June 2010 requests by Rick Casson, Member of Parliament for Lethbridge, Alberta regarding potential costs arising from legislative amendments to the *Employment Insurance Act* (EI Act) contained in three private member's bills: C-280, C-308 and C-395.

PBO has estimated the cost of selected amendments in two of the bills related to Employment Insurance: Bill C-280 – An Act to Amend the Employment Insurance Act (qualification for and entitlement to benefits), and Bill C-308 – An Act to Amend the Employment Insurance Act (Improvement of Employment Insurance System).

Bill C-395 – An Act to Amend the Employment Insurance Act (Labour Dispute) was not costed by PBO due to uncertainty regarding the types of labour disputes that would qualify, and a general lack of data regarding the number of beneficiaries that could be potentially impacted by the proposed changes.

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Key Points

PBO has estimated the cost of selected amendments from Bill C-280 and Bill C-308 including: a 360-hour entrance requirement; benefit payment based on best 12 weeks of earnings; replacement rate on earnings of 60 per cent; additional weeks of benefits; and indexing maximum insurable earnings to CPI.

PBO has only estimated the *static* costs of selected amendments meaning that potential *behavioral* responses to changes in the EI Act have not been considered (e.g. a potential increase in the unemployment rate). The costs of amendments estimated by PBO are subject to varying degrees of uncertainty.

PBO's estimate of the cost of selected amendments from Bill C-280 is \$3.2 billion for 2010-11. The total cost of selected amendments from Bill C-308 is estimated to be \$5.9 billion for 2010-11.

\$ millions	2010-11	2011-12	2012-13	2013-14	2014-15
Bill					
C-280	3,177	3,026	2,977	2,902	2,911
C-308	5,892	6,135	6,072	5,981	6,052

Note: Figures represent the total cost when selected amendments are allowed to interact.

The Employment Insurance program is financed by the collection of EI premiums from employees and employers. Therefore, in order for the program to remain self financing, any increase in EI expenditures would require an equivalent increase in EI premium revenues.

Introduction

PBO has estimated the cost of selected amendments contained in two bills related to Employment Insurance: Bill C-280 – An Act to Amend the Employment Insurance Act (qualification for and entitlement to benefits), and Bill C-308 – An Act to Amend the Employment Insurance Act (Improvement of Employment Insurance System). PBO also received a request to estimate the cost of Bill C-395 – An Act to Amend the Employment Insurance Act (Labour Dispute), but was not able to do so due to uncertainty regarding the types of labour disputes that would qualify, and a general lack of data regarding the number of beneficiaries that could be potentially impacted by the proposed changes. In addition, HRSDC had no information to provide regarding impact estimates of this bill.

Each bill proposes several amendments to the existing EI Act, but PBO limited its analysis to those amendments that could be reasonably estimated using previous analysis provided by Human Resources and Skills Development Canada (HRSDC), existing PBO models and publicly available data.¹

With all of the amendments, PBO has only estimated the *static* cost, meaning all impacts stemming from potential *behavioral* responses to changes in the EI Act (e.g. an increase in the unemployment rate) have not been considered. It is also important to highlight that the estimated costs for each amendment are subject to varying degrees of uncertainty.

Proposed Amendments

Table 1 summarizes the amendments contained in bills C-280 and C-308 and identifies which of these amendments have been costed by PBO.

¹ On September 22, 2010 HRSDC responded to PBO's July 28, 2010 request by providing some information regarding its own cost estimates of selected amendments.

Table 1

Proposed Amendments in Bills C-280 and C-308

	Bill(s)	Costed?
Lowering the entrance requirement to 360 hours of insured employment for regular beneficiaries, new entrants, re-entrants and special beneficiaries	C-280, C-308	Yes
Calculating the weekly insurable earnings based on the highest-paid 12 weeks in the 12-month period preceding the interruption of earnings	C-280, C-308	Yes
Increasing the rate of weekly benefits to 60% of average weekly earnings	C-308	Yes
Providing additional weeks of benefits	C-308	Yes
Indexing Maximum Insurable Earnings by the Consumer Price Index	C-308	Yes
Increasing the entrance requirement for claimants who have accumulated a violation	C-280, C-308	No
Eliminating the presumption that persons related to each other do not deal with each other at arms length	C-308	No
Including self-employed persons in the EI Act	C-308	No

Source: Parliament of Canada², Office of the Parliamentary Budget Officer.

Methodology

PBO used a variety of data, previous HRSDC estimates and internal models to construct estimated costs of selected amendments from Bill C-280 and Bill C-308. PBO attempted to cost amendments only for which PBO believed reasonable cost estimates could be produced. Further, only *static* cost estimates were produced due to the high degree of uncertainty associated with estimating potential *behavioral* responses to changes in the EI Act. Lastly, it is important to highlight that the estimated costs for each amendment are subject to varying degrees of uncertainty.³

² Bill C-308: <http://www2.parl.gc.ca/HousePublications/Publication.aspx?Docid=4330050&file=4>, Bill C-280: <http://www2.parl.gc.ca/HousePublications/Publication.aspx?Docid=4330351&file=4>.

³ The uncertainty around these estimates reflects data gaps for particular amendments. For example, estimating the cost of changing the replacement rate or changing the calculation of average weekly benefits to the best 12-weeks of earnings can be estimated fairly easily over history by using the EI administrative databases and changing the relevant EI parameters. On the other hand, changing the entrance requirement to the EI program would introduce new individuals into the EI program who do not currently qualify for benefits and thus are not captured in the historical EI administrative databases. To estimate the impact of this sort of amendment requires

The costs of all the selected amendments have been estimated for fiscal year 2009-10. The cost estimates are then used to determine the size of the respective shocks to EI expenditures and premium revenues in 2009-10. These shocks are then incorporated into PBO's EI model and used to estimate how much EI expenditures and revenues would change relative to PBO's 2010 Budget projection as the base case.⁴ Each amendment has been examined on its own and then combined in their respective bills to capture the interactions between amendments.⁵

The remainder of this section will highlight the data sources used in the analysis, discuss the exact change that is being examined based on PBO's interpretation of the legislation, and discusses how PBO has derived its cost estimates for each of the amendments considered.

i) Data

PBO used data from a variety of sources to construct cost estimates of amendments from Bill C-280 and Bill C-308. The sources include: previous HRSDC cost estimates, the EI Monitoring and Assessment Reports, HRSDC Pilot Project Evaluations, the Annual Reports of the Chief Actuary to the Employment Insurance Commission, the Public Accounts, Budget 2009 and 2010, and Statistics Canada.

ii) 360-hour entrance requirement

The interpretation of Bill C-280 and Bill C-308 is that the EI entrance requirement, in terms of hours worked, would be lowered to 360-hours in all economic regions for regular beneficiaries, special beneficiaries and new-entrants and re-entrants (NEREs) according to the EI schedule in Annex A

(which excludes the current 5-week extension). PBO's estimate relies on two cost estimates prepared by HRSDC, one from March 2008 and the other from September 2009. PBO chose to use HRSDC's previous cost estimates for two reasons. First, HRSDC's estimates are constructed using the EI administrative database. PBO does not have access to this database, but recognizes that this is the most complete information set with respect to the EI system. Second, previous PBO analysis concluded that the *static* cost estimate of a 360-hour entrance requirement for regular claimants produced by HRSDC was reasonable.⁶

HRSDC's cost estimates are produced using a methodology referred to as the mirror approach. This methodology assumes that a reduction in the entrance requirement is equivalent to an equivalent size increase in the entrance requirement. This assumption is required because the EI administrative database only contains information on people currently in the EI system and therefore has no information on individuals who may qualify for EI benefits in the future, such as those affected by this amendment. While this approach appears to be reasonable, the fact that it impacts individuals that are not currently in the EI system means there is likely more uncertainty around this estimate than the other amendments examined.

PBO has used HRSDC analyses to estimate the number of regular beneficiaries, special beneficiaries and NEREs affected by this amendment in 2009-10. The average cost per claimant, based on claim type, has also been derived from HRSDC estimates. These estimates are combined to calculate a total cost estimate of this amendment for 2009-10. This cost estimate is then used to calculate the impact on EI expenditures relative to PBO's base case projection in 2009-10. This result is then used to residually determine the increase in the beneficiary-to-unemployment ratio (BU ratio) that would, all else equal, generate an increase in EI expenditures of

assumptions be made which can only be evaluated after the fact and therefore introduces more uncertainty into the estimate.

⁴ For more details on PBO's baseline projection see PBO (2010) http://www2.parl.gc.ca/Sites/POB-DPB/documents/Budget_2010_Outlook.pdf.

⁵ For example when the 360-hour and 60 per cent replacement rate amendments are allowed to interact the additional beneficiaries captured with the 360-hour amendment will also receive benefits at the higher replacement rate.

⁶ See PBO (2009): http://www2.parl.gc.ca/Sites/POB-DPB/documents/EI_Estimate_360h_EN.pdf.

an equivalent amount. Finally, the backed out increase in the BU ratio is introduced as a permanent shock in PBO's EI model to ensure that the increase in the costs to the EI program are captured throughout the entire projection horizon.⁷

Increase in benefit duration

Bill C-308 proposes an amendment to the EI schedule that would increase the maximum benefit duration for all regular EI beneficiaries by a minimum of 5 weeks to a maximum of 10 weeks. However, PBO has only estimated the cost associated with a 5-week extension for all regular EI recipients since PBO does not have access to the administrative database and no information beyond 5 additional weeks is available. Therefore for this amendment, PBO used the cost from Budget 2009 which was estimated to increase EI expenditures by \$575 million in both 2009-10 and 2010-11. The proposed amendment was incorporated over the projection horizon using the same methodology as for the 360-hour entrance requirement. The increase in EI expenditures in 2009-10 was used to estimate the shock to the BU ratio. The BU ratio is then assumed to be increased permanently from 2011-12 onwards.⁸

Highest paid 12-weeks of insured earnings

The interpretation of this amendment is that the current formula for calculating average weekly benefits would be changed and would now be based on the best 12-weeks of average earnings of in the last 52 weeks, or since a claimant's last EI claim. Since the cost of this amendment can be estimated relatively accurately over history using the EI administrative database, PBO's cost estimate for this amendment is constructed using previous HRSDC analysis that was presented to the House of Commons Standing Committee on Human Resources, Skills Development, Social Development

and the Status of Persons with Disabilities on December 7, 2004.⁹ At that time, this amendment was estimated to affect 470,000 claimants and cost \$320 million. After adjusting for the increase in wages and potential beneficiaries since 2004, PBO estimates the cost of this amendment, in 2009-10, to be approximately \$500 million.

Increase in replacement rate to 60 per cent.

The EI Act allows beneficiaries to claim 55 per cent of their average weekly earnings up to a maximum weekly benefit. The amendment contained in Bill C-308 proposed to increase the replacement rate to 60 per cent. To estimate this cost, PBO simply increased total EI Part 1 payments, which includes payment to regular and special beneficiaries, by 9.1 per cent (5 per cent divided by 55 per cent).

Maximum Insurable Earnings (MIE) indexed by the Consumer Price Index (CPI)

MIE is the maximum amount of annual earnings insured under the EI Act. MIE is \$43,200 per worker in 2010 and, under the current system, this threshold is indexed to the annual growth in average weekly earnings (AWE).¹⁰ The amendment in Bill-308 proposes to index MIE to CPI rather than AWE, thereby slowing the rate of increase in the threshold since AWE is projected to increase at a faster rate than CPI in PBO's baseline projection. To estimate the cost of this change, PBO utilized its forecast for CPI produced at the time of Budget 2010. In addition, PBO allowed the share of total insurable earnings at or above MIE to increase over the projection period instead of holding it constant as was done at the time of Budget 2010.¹¹

⁹ See

<http://www2.parl.gc.ca/content/hoc/Committee/381/SEMP/Evidence/EV1538493/SEMPEV07-E.PDF>.

¹⁰ MIE in 2010 is equal to MIE in 2009 multiplied by the percentage change in average monthly earnings (from the Survey of Employment, Payrolls and Hours) for the year ending June 30, 2009 and the year ending June 30, 2008.

¹¹ In the base case, earnings of individuals at MIE and below MIE increase at roughly the same rate so the assumption of a constant share of earnings at MIE was reasonable. With the proposed amendment, earnings below MIE will increase faster than the MIE so PBO has assumed that the share of earnings at MIE will increase over the projection.

⁷ For more information on PBO's EI model see PBO (2010):

http://www2.parl.gc.ca/Sites/POB-DPB/documents/Projecting_EI.pdf.

⁸ The shock to the BU ratio is only included in 2011-12 onwards since the 5-week extension that was announced in Budget 2009 is already included in 2010-11.

Administration Costs

Over the period 1997-98 to 2008-09 administration costs were, on average, equivalent to 11.2 per cent of total EI Part 1 and EI Part 2 payments. To estimate the impact of selected amendments, PBO assumed that this share will remain constant in the future. Only amendments that affect the number of beneficiaries are deemed to have an impact on administration costs.

Results

In the following section PBO presents cost estimates for selected amendments beginning in 2010-11 to reflect the fact that none of these changes could apply to 2009-10 since the fiscal year is now complete.

i) Bill C-280

Table 2 presents selected cost estimates for Bill C-280. PBO estimates that the 360-hour amendment would add roughly \$2.4 billion to EI expenditure in 2010-11, decreasing to \$2.2 billion by 2014-15. The best 12-weeks amendment would increase costs by roughly \$0.5 billion in 2010-11, declining to roughly \$0.4 billion in 2014-15. Lastly, administration costs associated with these changes are valued at roughly \$0.3 billion in each year of the projection.

The total cost is estimated to be \$3.1 billion in 2010-11, declining to \$2.8 billion by 2014-15 when no interactions are considered. Once the proposed legislative changes are allowed to interact the total costs remain relatively unchanged – from \$3.2 billion in 2010-11 to \$2.9 billion in 2014-15.

Table 2

Selected Cost Estimates of Bill C-280

\$ Millions					
	2010-11	2011-12	2012-13	2013-14	2014-15
Proposed Amendment					
360-hour Requirement	2,359	2,257	2,224	2,171	2,180
12-Best Weeks	481	446	436	421	420
Administration costs	265	253	250	244	245
Total Cost (add-up)	3,104	2,957	2,909	2,836	2,845
Total Cost (with interaction)	3,177	3,026	2,977	2,902	2,911

Source: Office of the Parliamentary Budget Officer.

Notes: Total Cost (add-up) is the sum of each amendment.

Total Cost (with interaction) is the estimated costs when all amendments are changed in the model simultaneously.

ii) Bill C-308

Table 3 presents selected cost estimates for Bill C-308. The cost estimate for the 360-hour amendment is the same as Bill C-280 – \$2.4 billion in 2010-11, decreasing to \$2.2 billion by 2014-15. Increasing the replacement rate to 60 per cent of insurable earnings is estimated to cost \$1.8 billion in 2010-11 declining to \$1.6 billion by 2014-15. Allowing beneficiaries to claim an additional 5 weeks of benefits would cost an additional \$0.6 billion in 2011-12 declining to \$0.5 billion by 2014-15.¹²

The best 12-weeks amendment could increase costs by roughly \$0.5 billion in 2010-11, declining to roughly \$0.4 billion in 2014-15. Indexing MIE by CPI instead of average weekly earnings is estimated to have very little impact on the EI costs. This is due to the fact that less earnings are insured, on average, leading to both a decline in benefit payments as well as a decline in premium revenues. Administration costs associated with the aforementioned changes are valued at roughly \$0.3 billion in each year of the projection.

¹² A cost estimate was not provided for 2010-11 since the 5 weeks of additional benefits was included at the time of Budget 2010 as part of Budget 2009 stimulus measures.

The total cost is estimated to be \$4.9 billion in 2010-11, increasing slightly to \$5.0 billion by 2014-15 when no interactions are considered. Once the proposed legislative changes are allowed to interact the total costs increase by approximately 20 per cent, to \$5.9 billion in 2010-11 and \$6.1 billion in 2014-15.

Table 3

Selected Cost Estimates of Bill C-308

\$ Millions					
	2010-11	2011-12	2012-13	2013-14	2014-15
Proposed Amendment					
360-hour Requirement	2,359	2,257	2,224	2,171	2,180
Replacement rate to 60%	1,775	1,638	1,625	1,601	1,615
Additional 5 weeks of benefits	--	577	564	545	544
12-Best Weeks	481	446	436	421	420
MIE indexed by CPI	0	-2	11	14	15
Administration costs	265	253	250	244	245
Total Cost (add-up)	4,879	5,170	5,109	4,996	5,020
Total Cost (with interaction)	5,892	6,135	6,072	5,981	6,052

Source: Office of the Parliamentary Budget Officer.

Notes: Total Cost (add-up) is the sum of each amendment.

Total Cost (with interaction) is the estimated costs when all amendments are changed in the model simultaneously.

Annex A – Insurable Hours Requirements and Benefit Durations

EI Schedule I

Number of hours of insurable employment in qualifying period	6% and under	More than 6% but not more than 7%	More than 7% but not more than 8%	More than 8% but not more than 9%	More than 9% but not more than 10%	More than 10% but not more than 11%	More than 11% but not more than 12%	More than 12% but not more than 13%	More than 13% but not more than 14%	More than 14% but not more than 15%	More than 15% but not more than 16%	More than 16%
360-384	9	11	13	15	17	19	21	23	25	27	29	31
385-419	9	11	13	15	17	19	21	23	25	27	29	31
420-454	10	12	14	16	18	20	22	24	26	28	30	32
455-489	10	12	14	16	18	20	22	24	26	28	30	32
490-524	11	13	15	17	19	21	23	25	27	29	31	33
525-559	11	13	15	17	19	21	23	25	27	29	31	33
560-594	12	14	16	18	20	22	24	26	28	30	32	34
595-629	12	14	16	18	20	22	24	26	28	30	32	34
630-664	13	15	17	19	21	23	25	27	29	31	33	35
665-699	13	15	17	19	21	23	25	27	29	31	33	35
700-734	14	16	18	20	22	24	26	28	30	32	34	36
735-769	14	16	18	20	22	24	26	28	30	32	34	36
770-804	15	17	19	21	23	25	27	29	31	33	35	37
805-839	15	17	19	21	23	25	27	29	31	33	35	37
840-874	16	18	20	22	24	26	28	30	32	34	36	38
875-909	16	18	20	22	24	26	28	30	32	34	36	38
910-944	17	19	21	23	25	27	29	31	33	35	37	39
945-979	17	19	21	23	25	27	29	31	33	35	37	39
980-1014	18	20	22	24	26	28	30	32	34	36	38	40
1015-1049	18	20	22	24	26	28	30	32	34	36	38	40
1050-1084	19	21	23	25	27	29	31	33	35	37	39	41
1085-1119	19	21	23	25	27	29	31	33	35	37	39	41
1120-1154	20	22	24	26	28	30	32	34	36	38	40	42
1155-1189	20	22	24	26	28	30	32	34	36	38	40	42
1190-1224	21	23	25	27	29	31	33	35	37	39	41	43
1225-1259	21	23	25	27	29	31	33	35	37	39	41	43
1260-1294	22	24	26	28	30	32	34	36	38	40	42	44
1295-1329	22	24	26	28	30	32	34	36	38	40	42	44
1330-1364	23	25	27	29	31	33	35	37	39	41	43	45
1365-1399	23	25	27	29	31	33	35	37	39	41	43	45
1400-1434	24	26	28	30	32	34	36	38	40	42	44	45
1435-1469	25	27	29	31	33	35	37	39	41	43	45	45
1470-1504	26	28	30	32	34	36	38	40	42	44	45	45
1505-1539	27	29	31	33	35	37	39	41	43	45	45	45
1540-1574	28	30	32	34	36	38	40	42	44	45	45	45
1575-1609	29	31	33	35	37	39	42	43	45	45	45	45
1610-1644	30	32	34	36	38	40	42	44	45	45	45	45
1645-1679	31	33	35	37	39	41	43	45	45	45	45	45
1680-1714	32	34	36	38	40	42	44	45	45	45	45	45
1715-1749	33	35	37	39	41	43	45	45	45	45	45	45
1750-1784	34	36	38	40	42	44	45	45	45	45	45	45
1785-1819	35	37	39	41	43	45	45	45	45	45	45	45
1820-	36	38	40	42	44	45	45	45	45	45	45	45

Source: Office of the Parliamentary Budget Officer.

Note: The maximum durations in this table have been adjusted to remove the 5-week extension introduced in Budget 2009.