

# Legislative Costing Note

This is an independent cost estimate of a budgetary measure contained in the federal government's Budget 2021. A list of the PBO's cost estimates of components of the Budget can be viewed on [its website](#).

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Short Title: Employment Insurance Sickness Benefits Extension

Description: In Budget 2021 the Government of Canada proposed to increase the maximum number of weeks for which employment insurance sickness benefits may be paid due to a prescribed illness, injury, or quarantine to 26 weeks from 15 weeks. The extension is planned to come into effect summer 2022.

Data Sources:	Variable	Source
	Total EI sickness benefit claims, average weekly benefit rate	Employment and Social Development Canada (ESDC)
	Percentage of claimants that have a working lapse and distribution of work lapse duration	2007 COMPASS Survey administered by Employment and Social Development Canada
	Average wage growth	PBO Economic Model
	EI Premiums	PBO Fiscal Model

Estimation and Projection Method: The total number of claimants that used the maximum 15 weeks of sickness benefit represented roughly 35% of all EI sickness benefit claimants. To project forward the eligible subset, only the claimants that used the maximum 15 weeks of benefits were considered for the 11-week extension.

ESDC does not keep administrative data on claimants' working lapse, that is the interval of time between sickness, injury or quarantine and when the claimant can return to work, nor is information regularly collected regarding time before claimants return to work after receiving EI sickness benefits. To estimate working lapse rates, PBO applied results from an unpublished 2007 ESDC survey on sickness leave in Canada.

According to survey data, approximately 23% of claimants return to work immediately following the 15 weeks of benefits. However, the study also indicated that approximately 55% of individuals return to work under a modified schedule. Taking this into consideration, PBO estimated that 151,526 claimants could benefit from the extension in 2022. The eligible number of claimants was grown forward using the 5-year average growth rate from 2015 to 2019. Of the claimants that do not immediately return to work, we estimated that these claimants would, on average, take an additional 10 weeks of extended leave before returning to work.

The average weekly benefit rate was grown using the PBO's fiscal model in the medium and long-term. PBO applied the average 5-year growth rate of the benefit rate between 2015-2019 to exclude the impact of COVID-19 relief measures.

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PBO estimated the cost of extending EI sickness benefits by multiplying the average weekly benefit rate by the total number of claims and the average benefit duration, capped at an additional 11 weeks of benefits.

Budget 2021 indicated the extension will come into effect summer 2022. Implementation was assumed to begin July 1, 2022. The estimated cost of the proposed extension would be an additional \$622 million in 2022-2023 which grows to \$1,033 million in 2025-2026.

EI benefits are taxable income. As such, an increase in the total benefits paid out results in an increase in income tax revenue. However, an increase in the associated EI premium generates a tax credit for employees and employers, partially offsetting the additional income tax revenues.

Under the EI legislation, EI contribution rates must be set to ensure that the EI Operating Account would be balanced over a seven-year horizon. Annual changes are subject to a legislated limit of 5 cents and premiums are set such that the EI Operating account balances over each 7-year cycle. At this time, premiums have reached their legislated limit and therefore the impact of extending EI sickness benefits will not be recognized until 2025.

PBO assumes administrative costs add, on average, roughly \$10 for each \$100 of additional program spending between 2022-23 and 2025-26.

Sources of Uncertainty:

A source of uncertainty is the additional weeks that would be taken by claimants that used the maximum 15 weeks of benefits. Given that ESDC does not keep administrative data on claimants' working lapse, our assumptions are underpinned by a 2007 survey. As such, it may not be representative of Canada's current labour market and could potentially underestimate the working lapse.

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## Cost of proposed measure

\$ millions	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Gross cost	-	622	884	959	1,033

## Supplementary information

\$ millions	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Cost of measure	-	569	811	872	939
Administrative Costs	-	53	73	87	94

## Notes

- Estimates are presented on an accruals basis as would appear in the budget and public accounts.
- Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.
- "-" = PBO does not expect a financial cost.
- For each \$100 million in new expenditures, EI premiums will need to be raised by slightly less than one cent over the 7-year breakeven period. Given the annual five cent increase prescribed by the *Employment Insurance Act*, such an increase may not be necessarily implemented over the medium-term horizon.