

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](#).

Publication Date: 2021-07-08

Short Title: Extending the temporary enhancements to the Work-Sharing program for employers and employees affected by COVID-19

Description: Temporary enhancements to the Work-Sharing (WS) program, currently effective between March 15, 2020 and September 26, 2021 will be extended for one additional year. This includes the extension of the maximum duration of a WS agreement from 38 weeks to 76 weeks, the waiving of the mandatory cooling off period for employers already using the WS program, the easing of the recovery plan requirements, and the expansion of eligibility criteria.

Data Sources:	Variable	Source
	Number of Work-Sharing claims	EI Monitoring and Assessment Reports (MAR), Employment and Social Development Canada (ESDC), ESDC administrative data and PBO Labour Market Projections
	Average weekly benefit of Work-Sharing claims	EI MAR, ESDC
	Average duration of benefits of Work-Sharing claims	EI MAR, ESDC and the 'Evaluation of the Work-Sharing Program, 2016' report, ESDC

Estimation and Projection Method: This measure is assumed to come into force on September 26, 2021 and last for one year, until September 25, 2022.

The cost of this measure is equal to the cost of the EI Work-Sharing program under the temporarily extended enhancements minus the hypothetical program costs under the assumption of no extension (a counter-factual scenario).

The cost of the extended EI Work-Sharing program was calculated by multiplying the estimated number of Work-Sharing claims by the assumed average weekly benefit and the average duration of benefits of Work-Sharing claims. The number of Work-Sharing claims was estimated using the EI Monitoring and Assessment Reports (MAR) prepared by Employment and Social Development Canada (ESDC), ESDC administrative data and PBO Labour Market Projections. The Average weekly benefit was estimated using the EI MAR, ESDC. The Average duration of benefits of Work-Sharing claims was estimated using the EI MAR, ESDC and the 'Evaluation of the Work-Sharing Program, 2016' report of ESDC.¹

¹ <https://www.canada.ca/en/employment-social-development/corporate/reports/evaluations/2016-work-sharing.html>

PBO estimates the cost to be \$404 million in 2021-2022, \$174 million in 2022-2023 and \$15 million in 2023-2024.

EI benefits are taxable income. Hence, 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 current EI legislation, EI contribution rates must be set to ensure that the EI Operating Account would balance 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 this measure will not be recognized until 2025.

PBO assumes administrative costs add, on average, approximately \$10 for each \$100 of additional program spending between 2021-22 and 2023-24.

Sources of Uncertainty: The number of WS beneficiaries and their duration of benefits are both uncertain. The number of beneficiaries is affected by the increased volatility of labour market, caused by the pandemic. Historically, Work-Sharing has been pro-cyclical, so a deeper or more prolonged labour market recovery could markedly increase Work-Sharing uptake. We assume that the average duration of benefits is based on the duration of benefits experienced during the 2008-2009 recession and following years, and the average duration of benefits of the pre-pandemic period. But future program participation might differ from that of prior recessions. No behavioural response is considered in this cost estimate.

Prepared by: Eskandar Elmarzougui <Eskandar.Elmarzougui@parl.gc.ca>

Cost of proposed measure

\$ millions	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Total cost	404	174	15	-	-

Supplementary information

\$ millions	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Cost of the Work-Sharing program with the extension of temporary enhancements	882	244	61	-	-
Cost of the Work-Sharing program without the extension of temporary enhancements	512	84	47	-	-
Cost of the measure	370	160	14	-	-
Administrative Costs	33	14	1	-	-
Total cost	404	174	15	-	-

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 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.

© Office of the Parliamentary Budget Officer, Ottawa, Canada, 2021