

# Costing Note

Announcement date: 2020-03-25 (C-13)

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Short title: Proposed Changes to the Canadian Emergency Response Benefit (CERB)

Description: A parliamentarian requested that the PBO cost a proposal modifying the CERB to adopt a phase-out for the benefit of \$0.50 for each dollar of employment income above \$1,000 per month.<sup>1</sup>

Modifications to the CERB program are assumed to be implemented on July 5, 2020.

Data sources:	<u>Variable</u>	<u>Source</u>
	Projections of COVID-19 illness	PBO CERB Model (April 30, 2020)
	Demographic data	Statistics Canada's Labour Force Survey
	Labour force statistics	Statistics Canada's Labour Force Survey
	Labour force projections	Updated Labour Market Projections base off PBO Economic Scenario Analysis (April 23, 2020)
	Average effective federal tax rate	SPSD/M 28.0 <sup>2</sup>
	El regular benefit recipients	Statistics Canada's Employment Insurance Statistics

Estimation and projection method: PBO estimated the cost of the proposed modifications by building on the model used in the previous PBO CERB program cost estimate.<sup>3</sup> Prior assumptions on the use the CEWS programs are maintained. Eligibility to the CERB program for workers earning between \$1,000 and \$5,000 in the payment period is limited to workers who have seen a reduction in their income through reduced working hours.

To incorporate behavioural responses to the CERB program, the PBO used the Labour Force Survey from March and April 2020 and attempted to identify workers who may have adjusted their labour supply in response to incentives created by the CERB program. These identified workers are taken as the basis of the behavioural response to the CERB model.

<sup>1</sup> Government of Canada. *Canada Emergency Response Benefit*. Retrieved June 1, 2020, from <https://www.canada.ca/en/services/benefits/ei/cerb-application.html>

<sup>2</sup> This analysis is based, in part, on Statistics Canada's Social Policy Simulation Database and Model (SPSD/M). The assumptions and calculations underlying the SPSP/M simulation results were prepared by the Office of the Parliamentary Budget Officer (PBO) and the responsibility for the use and interpretation of these data is entirely that of the PBO.

<sup>3</sup> See Legislative Costing Note: Canadian Emergency Response Benefit. [https://www.pbo-dpb.gc.ca/web/default/files/Documents/LEG/LEG-2021-019-S/LEG-2021-019-S\\_en.pdf](https://www.pbo-dpb.gc.ca/web/default/files/Documents/LEG/LEG-2021-019-S/LEG-2021-019-S_en.pdf).

Individuals who are eligible for both CERB and EI regular benefits are assumed to choose the CERB.

PBO's cost estimate only includes future CERB payments and does not include CERB payments prior to July 5, 2020.

PBO did not consider the interest expenses the federal government would incur on the CERB payments that will be repaid through the income tax system.

Aggregate Results: PBO estimates the cost to modify the CERB program starting July 5, 2020 to be an additional \$967 million.

Source of Uncertainty: The estimate is highly sensitive to the assumed economic outlook and the probability of contracting COVID-19. Due to the unavailability of microdata regarding CERB recipients, any estimates of the behavioural response to the CERB program are highly uncertain and rely on strong assumptions.

Further uncertainty stems from how the proposed measure will be administered (more specifically the extent and intensity of compliance activities) and the actual take up of the CEWS.

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#### Cost of proposed measure (includes behavioural responses and PIT recovery)

\$ millions	2020-2021
Net cost of current CERB program starting July 5, 2020 <b>(A)</b>	8,458
Net cost of CERB program, with proposed modification (phase-out rate) starting July 5, 2020 <b>(B)</b>	9,426
Incremental cost of modification (phase-out rate) starting July 5, 2020 <b>(B)-(A)</b>	967

#### 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