Costing of a 360-hour Eligibility Threshold for Sickness Benefits

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The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

This report provides a cost estimate for a measure that would reduce the eligibility threshold necessary to claim sickness benefits from 600 to 360 hours of insurable employment.

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Executive Summary

This report provides a cost estimate for lowering the eligibility threshold for claiming sickness benefits from 600 hours of insurable employment to 360 hours.

Sickness benefits are part of the Employment Insurance (EI) program. To claim these benefits, a person must have worked at least 600 hours of insurable employment during the year before the claim is made.

If this threshold had been reduced to 360 hours in 2018, PBO estimates that just over 73,000 individuals would have benefitted over the course of the year. The total fiscal cost would have been roughly $325 million.

Once the policy is implemented, it would potentially benefit individuals who were absent from work for several months. This means that, among the 73,000 individuals who would have benefitted in 2018, some of them would have made their claim in 2017, had the policy been in place then.

As a result, the number of people who would benefit from this policy during the first year it is implemented will necessarily be higher than during subsequent years. PBO, therefore, projects that the cost would drop to $258 million in 2019, then gradually increase to $333 million by 2026 (Summary Table 1).

Summary Table 1 **Additional cost from reducing the eligibility threshold to 360 hours for sickness benefits**

	2018	2019	2020	2021	2022	2023	2024	2025	2026
Additional cost by year - Million	$325	$258	$268	$278	$288	$298	$309	$321	$333

Sources: Parliamentary Budget Officer

The EI program is self-financing, so any increase in cost is accompanied by an offsetting increase in revenues from EI premiums. Had this change been in place since January 2018, PBO estimates that this measure would result in an increase of roughly two cents ($0.02) per $100 of insurable earnings in EI premiums each year from 2020 to 2026[1]. These premiums are paid by employers and employees.

1. Introduction and Background

The sickness benefit program, part of the Employment Insurance (EI) program, provides support to individuals who are absent from work because of sickness. To be eligible, claimants must meet specific requirements[2]:

1. They must be employed in an insurable employment;
2. Their earnings must be reduced by at least 40 per cent;
3. They must have a doctor's note proving they are unable to work because of illness, injury or quarantine;
4. They must have worked at least 600 hours during the qualifying period. This period refers to the 52 weeks immediately prior to the date the claim is made, or the period between two EI claims, whichever is shorter.

This report focuses on point 4, specifically to estimate the cost of reducing the 600-hour threshold to 360 hours. This change would increase the number of people eligible for sickness benefits in any given year.

2. Methodology and Results

PBO used a two-step procedure to estimate the cost of reducing the eligibility threshold to 360 hours.

The first was to estimate the population that would benefit from the change. This population consists of the number of people who were not eligible because they did not work 600 hours, but who would otherwise be eligible under this policy change. We call these individuals *prospective claimants*.

The second step was to estimate the *average benefit payment* for each prospective claimant.

We calculated the cost of this policy change for a given period and region using the following formula:

$$Cost = Number\ of\ prospective\ claimant$$

$$\times\ Average\ cost\ per\ claimant$$

We assume that this policy change does not induce a behavioural response by individuals.

2.1. Assessing the number of prospective claimants

There are four types of sickness benefit claimants:

1. Those who are employed, but absent from work because of illness, injury or quarantine;
2. Those who still work while being sick, but whose earnings decline by more than 40 per cent;
3. Those who are unemployed and attached a sickness benefit claim to their regular EI claim;
4. Those who are laid off and are not eligible for regular EI benefits, but who then fall ill and become eligible for sickness benefits.

The majority of sickness benefit claimants fall into the first two categories. They would be the main beneficiaries of this policy change.

It is also possible for someone with fewer than 600 hours to claim sickness benefits if they are already eligible for regular EI benefits and fall ill while unemployed[3]. As a result, those in the third category will not benefit.

People in the fourth category pose a problem for our analysis, given our data limitations, as illustrated by the following example. Let's assume a worker has

worked 500 hours in the previous year. That worker is laid off; but he or she lives in a region of low unemployment, where the number of insurable hours in the qualifying period required to claim regular benefits is 700.

That worker will not be eligible to receive regular EI benefits. However, if the worker became sick while on unemployment, they could be eligible for sickness benefits, assuming the threshold fell to 360 hours.

Employment and Social Development Canada (ESDC) does not have data on the people who fall into that category, so PBO is not able to estimate the number of potential claimants in this category. Moreover, to our knowledge there are no publicly available datasets that enable us to identify these individuals.

We thus exclude them from our analysis, although it means underestimating the number of prospective claimants. We do not believe this omission materially affects our estimates, as the number of individuals in this situation is expected to be relatively small in comparison to the other groups.

We first need to assess the number of people affected by the proposed policy change. That is, we need to know how many people were previously not eligible for the sickness benefit because they did not work enough hours, but still worked at least 360 hours during the qualifying period.

Therefore, a prospective claimant must be eligible for the sickness benefit and they must have worked between 360 and 600 hours during the qualifying period.

To determine the number of prospective claimants, we use data from Statistics Canada's Labour Force Survey (LFS), as well as information provided by ESDC.

The LFS enables us to identify people who satisfy the following three criteria: they (a) are employed, (b) are absent because of illness or injury and (c) worked between 360 and 600 hours in the previous year[4].

Table 2-1 shows the number of people who satisfy these criteria by province and for the last five years. For each year, we assume that the policy would have been implemented at the beginning of January.

For the first month, we take into consideration everyone who satisfies the three criteria above. They represent the initial stock.

For the 11 subsequent months, we take into consideration only those who have been absent from work for fewer than four weeks, meaning that they are entering our sample since the LFS is conducted monthly. They represent the monthly flow[5] (Table 2-1).

Table 2-1 **Absent from work due to illness – worked between 360 and 600 hours during the previous year, by province**

	2015	2016	2017	2018
NL	323	398	227	654
PE	214	257	242	237
NS	1,380	1,712	1,646	1,584
NB	1,672	1,276	1,440	354
QC	16,078	11,249	10,239	15,031
ON	20,766	26,425	31,440	24,652
MB	1,605	2,041	1,850	2,750
SK	1,387	1,930	2,174	1,509
AB	6,755	5,645	6,655	6,034
BC	9,550	8,562	10,855	11,278
Total Canada	**59,731**	**59,494**	**66,776**	**64,083**
Initial stock – first month	**16,106**	**18,526**	**18,255**	**18,103**
Monthly flow – 11 subsequent months	**43,624**	**40,969**	**48,521**	**45,980**

Sources: Parliamentary Budget Officer and Statistics Canada (LFS)

Notes: The total for Canada can be calculated by summing across all provinces. As explained in the text, it can also be separated into two components: the initial stock in the first month the policy is implemented and the sum of the monthly flows for the 11 subsequent months.

Numbers may not add up due to rounding.

This methodology has an important caveat. Indeed, among the initial stock, there are potentially several individuals who previously made a sickness benefit claim, exhausted it and still haven't recovered from the illness or injury.

Indeed, on average over 60 per cent of the stock were away from work for more than 15 weeks. Someone who has been away for, say, 30 weeks may have made a successful claim 30 weeks earlier, when at that time they had more than 600 hours of insurable employment in their qualifying period.

As they have not worked since exhausting their initial claim, they would not be eligible even under the policy change;[6] but they would be flagged as such under our methodology. All else being equal, this would lead to an overestimation of the number of prospective claimants.

Not everyone flagged in the LFS will claim sickness benefits, although data show that most of them do. Indeed, even when considering individuals who worked more than 600 hours, there are still three criteria that must be met to claim sickness benefits. People identified using the LFS may not have worked in insurable employment; their earnings may not have been reduced by at least 40 per cent; or they may not have a doctor's note.

Of these identified in the LFS as being employed, absent from work due to sickness and having worked more than 600 hours, about 93.8 per cent claimed benefits on average between 2012 and 2017.

Table 2-2 Proportion of the population absent from work due to illness that claims sickness benefits

	2012	2013	2014	2015	2016	2017	Average 2012-2017
EI sickness claim – ESDC (1)	216,710	217,570	223,000	220,240	231,570	252,990	-
Absent from work due to illness and worked more than 600 hours – LFS (2)	239,890	232,912	235,324	240,365	246,157	256,558	-
Proportion (3) = (1)/(2)	90.3%	93.4%	94.7%	91.6%	94.1%	98.6%	93.8%

Sources: Parliamentary Budget Officer and Employment and Social Development Canada (ESDC)

In Table 2-3, we apply the average proportion of the population absent from work due to illness from Table 2-2 (93.8 per cent) to the number of individuals in 2018 from Table 2-1. This generates the estimated number of prospective sickness benefit claimants for 2018 who are away from work, by province.

Table 2-3 Prospective Sickness Benefits Claimants – 2018

	Proportion of the population absent from work due to illness that claims sickness benefits (1)	Absent from work due to illness (2)	Prospective sickness benefit claimants – absent from work (3)=(1)x(2)
NL	93.8%	654	614
PE	93.8%	237	222
NS	93.8%	1,584	1,486
NB	93.8%	354	332
QC	93.8%	15,031	14,100
ON	93.8%	24,652	23,124
MB	93.8%	2,750	2,580
SK	93.8%	1,509	1,415
AB	93.8%	6,034	5,661
BC	93.8%	11,278	10,580
Canada	**93.8%**	**64,083**	**60,113**

Sources: Parliamentary Budget Officer, Statistics Canada (LFS) and Employment and Social Development Canada.

Note: Numbers may not add up due to rounding

These calculations yield the number of prospective sickness benefit claimants who are *absent* from work. However, as mentioned earlier, one can claim benefits while still working, provided their earnings are sufficiently reduced.

Data obtained from ESDC indicate the proportion of claimants who are working while on claim (18.74 per cent)[7]. We assume this amount is uniform across all regions. To take into consideration those who work while receiving sickness benefits, we increase the current number of prospective sickness benefits claimants by this proportion to calculate the total number of people who will benefit from the policy change.

As a result, PBO estimates that, in 2018, 73,975 people would have benefitted from reducing the hours threshold to 360 hours (Table 2-4).

Table 2-4 Prospective Sickness Benefits Claimants – 2018

	Proportion of sickness benefit claimants working while on claim	Prospectve sickness benefits claimants – absent from work	Prospective sickness benefit claimants - total
	(1)	(2)	(3)=(2)/(1-(1))
NL	18.7%	614	755
PE	18.7%	222	274
NS	18.7%	1,486	1,829
NB	18.7%	332	408
QC	18.7%	14,100	17,351
ON	18.7%	23,124	28,457
MB	18.7%	2,580	3,175
SK	18.7%	1,415	1,742
AB	18.7%	5,661	6,966
BC	18.7%	10,580	13,018
Canada	**18.7%**	**60,113**	**73,975**

Sources: Parliamentary Budget Officer and Employment and Social Development Canada.

Note: The proportion of sickness benefit claimants working while on claim is the average from 2012 to 2017 (ESDC).

Numbers may not add up due to rounding.

Compared with subsequent years, the number of prospective claimants who would benefit from this policy will necessarily be higher during the first year it is implemented.

Indeed, when we assess the number of prospective claimants for the first year, we must consider individuals who could potentially have made a claim months before had the policy been in place then. In other words, the number of prospective claimants in 2018 includes individuals who would have made their claim in 2017 if it had been possible, and still qualify as their work experience is recent enough.

To avoid double counting when we project the number of new claimants in 2019 and beyond, we must consider only the monthly flow of prospective claimants. That is, we consider those who recently stopped working due to illness[8].

The number of prospective claimants will, therefore, be substantially lower in 2019 than in 2018. It will increase annually thereafter along with the growth in the labor force. On average, between 2015 and 2018, the sum of the monthly flow of prospective sickness benefit claimants as a percentage of the labor force was 0.29 per cent (Table 2-6).

We assume this proportion remains constant in the future to project the number of new claimants in 2019 and beyond. PBO projects that, by 2026, the number of prospective claimants in Canada will reach 60,555.

Table 2-5 Prospective Sickness Benefits Claimants – Projections

	Labor Force (million) (1)	% of labor force that are prospective sickness benefit claimants (2)	Prospective sickness benefit claimants – total (3) = (1)x(2)
2015	19,281	**0.29%**	54,936
2016	19,443	**0.27%**	51,591
2017	19,663	**0.31%**	61,102
2018	19,813	**0.29%**	57,902
		Projections	
2019	20,011	0.29%	**57,862**
2020	20,213	0.29%	**58,278**
2021	20,356	0.29%	**58,690**
2022	20,494	0.29%	**59,087**
2023	20,628	0.29%	**59,472**
2024	20,757	0.29%	**59,845**
2025	20,880	0.29%	**60,201**
2026	21,003	0.29%	**60,555**

Sources: Parliamentary Budget Officer and Statistics Canada (LFS)

Note: The number of prospective claimants for 2018 does not match the number from Table 2-4. As explained in the text, this is because in 2018 we consider the initial stock; this includes people who would have made their claim before 2018 had the policy been in place then. The number from this table is used to make projections, and is the sum of the monthly flow of prospective claimants.

For the projection period, we assumed that the percentage of the labor force who are prospective sickness benefit claimants is the average of what it was between 2015 and 2018. We, therefore, multiply this percentage by PBO's projections of the labor force to project the number of prospective sickness benefit claimants.

Numbers may not add up due to rounding.

2.2. Estimating the average cost per claimant

Having estimated the population of potential claimants, we can perform the second step of costing: estimating the average payment per claimant.

The average cost per claimant can be decomposed into two parts: the average weekly benefit and the average duration of sickness benefit claims, measured in weeks.

$$Average\ cost\ per\ claimant = Average\ \ weekly\ benefit$$

$$\times\ Average\ duration\ of\ sickness\ benefit\ in\ weeks$$

ESDC provided us with average weekly sickness benefits from 2012 to 2017. To project those from 2018 onwards, PBO assumes that average weekly sickness benefit amounts grow in tandem with PBO projections of average benefits for regular EI claimants (Table 2-6).

Table 2-6 Projection of the average weekly sickness benefits

	Payments to regular EI claimants - Million (1)	Number of beneficiaries receiving regular EI benefits – Thousands (2)	Average payments per beneficiary - Thousands (3)=(1)/(2)	Average payments – growth (4)	Average weekly sickness benefits (5)
2017	1,219	533	23.0	-	**$397**
2018	1,129	482	22.8	2.4%	**$407**
2019	1,266	524	23.1	3.1%	**$419**
2020	1,280	513	23.7	3.2%	**$433**
2021	1,295	506	24.3	2.8%	**$445**
2022	1,329	504	25.0	2.9%	**$457**
2023	1,364	502	25.7	3.0%	**$471**
2024	1,405	502	26.5	3.1%	**$485**
2025	1,446	501	27.3	3.1%	**$500**
2026	1,490	501	28.1	3.2%	**$516**

Sources: Parliamentary Budget Officer and Employment and Social Development Canada.

Note: The numbers for 2017 are actual. We use the percentage increase from column 4 to calculate average weekly sickness benefits (column 5) from 2018 onwards.

Numbers may not add up due to rounding.

To project the average cost per claimant in 2018 by province, we need to project average weekly sickness benefits on a provincial basis and the average duration of sickness benefits.

For the weekly benefits, we use the national growth rate from Table 2-6 (2.4 per cent). Because we have data on the average weekly benefit for 2017 on a provincial basis, we can simply apply this growth rate for each province.

We also have the average duration of sickness benefits in weeks for the years 2012 to 2017, by province. To make projections, we will simply assume that in the future, the duration will be equal to the average of these six years. Using this and the projections for average weekly benefits, we can construct an average cost per claimant. Table 2-7 shows this by province for 2018.

Table 2-7 Average cost per claimant for EI sickness benefits – by province

	Average duration in weeks (1)	Average weekly claim (2)	Average cost per claimant (in $) (3)=(1)x(2)
NL	10.9	$404	4,408
PE	10.6	$401	4,241
NS	11	$388	4,275
NB	10.5	$384	4,012
QC	10	$392	3,922
ON	10.9	$413	4,512
MB	10.8	$403	4,364
SK	10.8	$435	4,707
AB	11.1	$431	4,763
BC	11	$414	4,564
Canada	**10.7**	**$407**	**4,377**

Sources: Parliamentary Budget Officer and Employment and Social Development Canada.

Note: Numbers may not add up due to rounding

2.3. Total cost

To calculate the total cost, we multiply the number of prospective claimants (from Table 2-4) by the average cost per claimant (Table 2-7). Our estimates of total costs, by province, are summarized in Table 2-8.

Reducing the hour eligibility threshold for sickness benefits to 360 hours would have had an incremental fiscal cost of roughly $325 million in 2018.

Table 2-8 Additional cost in 2018 from reducing the eligibility threshold to 360 hours for sickness benefits – by province

	Number of prospective claimants	Average cost per claimant	Cost (in $M)
	(1)	(2)	(3)=(1)x(2)
NL	755	4,408	$3.3
PE	274	4,241	$1.2
NS	1,829	4,275	$7.8
NB	408	4,012	$1.6
QC	17,351	3,922	$68.0
ON	28,457	4,512	$128.4
MB	3,175	4,364	$13.9
SK	1,742	4,707	$8.2
AB	6,966	4,763	$33.2
BC	13,018	4,564	$59.4
Canada	**73,975**	**4,377**	**$325.0**

Source: Parliamentary Budget Officer

Note: Numbers may not add up due to rounding

The number of prospective claimants in 2018 includes the initial stock and the monthly flows.

We project the costs of this policy change going forward, using projections of prospective sickness benefit claimants (Table 2-5) and average weekly sickness benefits (Table 2-6).[9]

These calculations are made using the same approach as our 2018 estimate presented in Table 2-8, but they are presented without disaggregation at the provincial level. However, as was mentioned earlier, the number of prospective claimants will necessarily be higher the first year the policy is implemented. Therefore, our cost estimate for 2019 is substantially lower than the one for 2018.

The cost of reducing the eligibility threshold to 360 hours would fall from $325 million in 2018 to $258 million in 2019; after that, it would increase each year to about $333 million by 2026 (Table 2-9). This projection assumes no behavioral response.

Table 2-9 Additional cost from reducing the eligibility threshold to 360 hours for sickness benefits

	2018	2019	2020	2021	2022	2023	2024	2025	2026
Additional cost by year - Million	$325	$258	$268	$278	$288	$298	$309	$321	$333

Source: Parliamentary Budget Officer

The EI program is self-financing, so any increase in cost is accompanied by an offsetting increase in EI premium revenues. Assuming the policy is implemented in 2018, PBO estimates that this measure would result in an increase of two cents ($0.02) per year in EI premiums from 2020 to 2026. These premiums are paid by employers and employees.

References

Government of Canada, Employment Insurance Benefits, https://www.canada.ca/en/services/benefits/ei/ei-sickness.html, January 2019

Employment and Social Development Canada, *Employment Insurance Monitoring and Assessment Report for the fiscal year beginning April 1, 2016 and ending March 31, 2017,* March 2018

Parliamentary Budget Officer, *An Assessment of the Government's Cost Estimate of a 360-hour National Standard for Employment Insurance (EI) Eligibility*, September 2009

Notes

1. The EI premium currently amount to $1.62 on every 100$ of insurable income, up to a maximum annual employee premium of $860.22. For someone who earns $50,000 of annual insurable income, an increase of 2 cents in employee premium would amount to an increase in of roughly $10 annually.
2. To know more about the sickness benefit program, visit this page from the Government of Canada for an overview of the program (https://www.canada.ca/en/services/benefits/ei/ei-sickness.html). For more detailed information, we suggest reading the latest Employment Insurance Monitoring and Assessment Report from Employment and Social Development Canada (ESDC).
3. See https://www.canada.ca/en/employment-social-development/programs/ei/ei-list/reports/digest/chapter-11/specific-condition-minor-attachment.html#a11.4.0
4. The LFS does not actually report the total number of hours worked in the previous year. However, it reports the usual weekly hours as well as the number of weeks that someone has been away from work. Therefore, we can construct a proxy for the number of hours worked in the last year by multiplying the usual weekly hours by the number of weeks worked (which is 52 minus the numbers of weeks away from work).
5. The LFS is monthly. But because of a considerable variation in data from month to month, especially in smaller provinces where data are not always accurate, we do not consider the actual stock as of January and the actual flow for every month. Instead we take an average of the stock at any given month and use it as the initial stock; we also take an average of the monthly flows.
6. Indeed, the qualifying period is the time between two EI claims if it is shorter than 52 weeks. Therefore, the qualifying period of this individual would be the 30 weeks since their last claim. Having not worked during this period, they would not be eligible for another sickness benefits claim, even if the hours threshold is now 360.
7. This refers to the average number of sickness benefit claimants working while on claim between 2012 and 2017. To be considered as someone who has worked while on claim, one must work at least one week during the duration of the claim. Because some of the prospective claimants whom we identified using the LFS could possibly work later in their claim, this methodology would potentially lead to some cases of double-counting. This would lead to an overestimation of the prospective claimants. However, we don't believe it materially affects our estimate.
8. That is, we consider those who were away from work for less than four weeks. It ensures that we only consider individuals who just enter our monthly sample.

9. The projected average duration of sickness benefits into the future is the same as the one shown in Table 2-7. Therefore, we assume that, from 2018 onwards, a prospective sickness benefit claimant will claim sickness benefits for an average of 10.7 weeks.