Cost Estimate of an Increase in the Duration of Employment Insurance (EI) 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 extend the duration of employment insurance (EI) sickness benefits from 15 weeks to 50 weeks.

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Executive Summary

Employment insurance (EI) sickness benefits cost $1.6 billion in 2017 and provided support to over 400,000 claimants, of which 36% received the maximum 15 weeks of benefits.

A member of Parliament requested that the Parliamentary Budget Officer (PBO) estimate the cost of increasing the duration of EI sickness benefits from 15 weeks to 50 weeks.

This report estimates the additional cost to be approximately $1.10 billion in 2020. By 2025, this cost is expected to grow to an additional $1.30 billion per year.

Summary Table 1

	2020	2021	2022	2023	2024	2025
Additional Cost from the Extension of Sickness Benefits (Billions $C)	$1.10	$1.13	$1.17	$1.21	$1.25	$1.30

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

Notes: Summary Table 1-1 provides the yearly additional cost, in billions of dollars, from the extension of EI sickness benefits from 15 weeks to 50 weeks.

The EI program is self-financing. Increases in the cost of the program translate to an increase in the premium rate paid by employees and employers in Canada. Therefore, the increase in the duration of benefits is expected to raise the employee premium rate by a total of 6-cents from the baseline rate of $1.62 per $100 of insurable earnings.

1. Introduction

A member of Parliament requested that the Parliamentary Budget Officer (PBO) estimate the cost of increasing the duration of employment insurance (EI) sickness benefits from 15 weeks to 50 weeks.

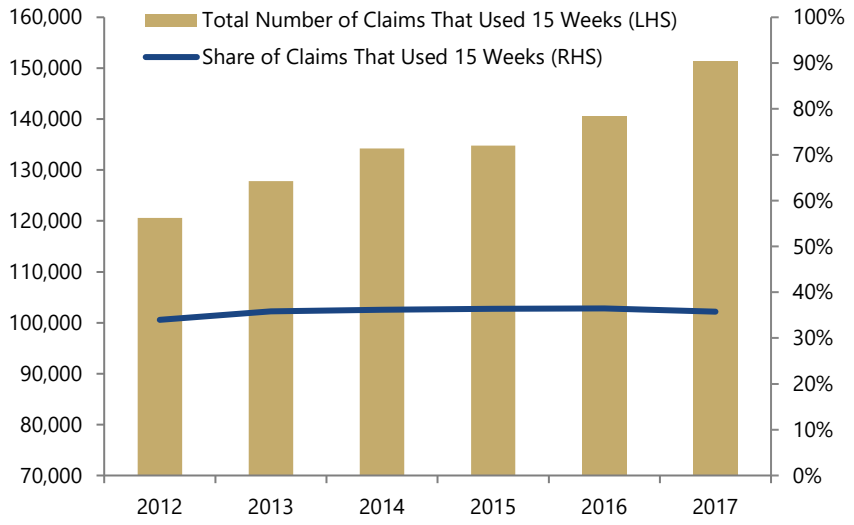
Sickness benefits offer temporary financial assistance to individuals who are unable to work due to sickness, injury or quarantine, replacing 55% of an individuals income up to a maximum insurable amount of $53,100 per year.

Under the current legislation, individuals can receive up to a maximum of 15 weeks of EI sickness benefits if they meet the following conditions:

- They are employed in an insurable employment;
- Their normal weekly earnings are reduced by more than 40%;
- They have accumulated at least 600 hours of insurable employment during the qualifying period; and,
- They meet the criteria with regards to their sickness, injury or quarantine.[1]

In 2017, sickness benefit claims cost approximately $1.6 billion and made up roughly 20% of the total number of EI claims established.[2] Approximately 36% of the EI sickness benefit recipients received the maximum 15 weeks of benefits and, of those recipients, 14% worked while on claim and 36% combined their claim with another EI benefit in 2017.

Figure 1-1 New EI Sickness Claims Established, 2012 – 2017.



Sources: PBO and ESDC

Notes: Figure 1-1 shows the total number of new claims established for recipients that used all 15 weeks of EI sickness benefits. The share of claims that used the 15 weeks of benefits relative to all EI sickness claims has remained stable in this period at roughly 36%.

The EI program is financed through the collection of premiums paid by employees and employers. Therefore, the associated cost of extending the maximum benefits from 15 weeks to 50 weeks will result in an increase in EI premiums.

In this report, we provide an estimate of the cost of extending EI sickness benefits to 50 weeks. Section 2 outlines the methodology and assumptions for determining the cost of the extension. Section 3 presents the results of the cost assessment. Section 4 provides a sensitivity analysis of the results.

2. Methodology

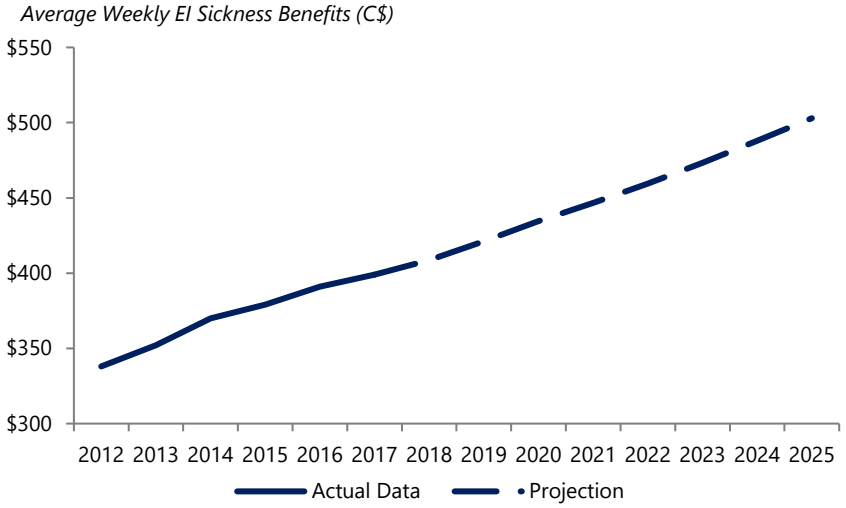
2.1. Extending the Duration to 50 Weeks

We estimate the additional cost from the extension of sickness benefits as:

$$\begin{aligned} Additional\ Cost\ &= Average\ Weekly\ Benefit \\ &\times Average\ Benefit\ Duration\ above\ 15\ weeks \\ &\times Total\ Number\ of\ Claims \end{aligned}$$

As of January 1, 2019, EI sickness benefits entitle eligible claimants to receive 55% of their average insurable weekly earnings.[3] The average insurable weekly earnings are capped at maximum yearly insurable earnings of $53,100. This translates to a maximum weekly benefit of $562 in 2019.

Figure 2-1 Projected Average Weekly Benefit, 2012-2025



Sources: PBO and ESDC

Notes: Figure 2-1 shows the actual average weekly benefit paid to claimants who exhausted the 15 weeks of sickness benefits between 2012-2017 and the PBO's projected average weekly benefit between 2018-2025.

Of the individuals that used the maximum 15 weeks, the mean weekly sickness benefit paid out was $399 in 2017. We project forward the average weekly benefit to 2025 based on the PBO's economic forecast.

To estimate the future number of claimants, we grow our population proportional to the labour force. As proof of illness must be verified by a medical practitioner to receive sickness benefits, we anticipate that

behavioural changes are unlikely in those who did not previously qualify for the maximum benefit. Therefore, we only consider the subset of claimants that received the full 15 weeks of benefits.

Table 2-1

Working Lapse Following 15 Weeks of Benefits	Distribution
1 - 8 Weeks	11%
9 - 16 Weeks	7%
17 - 25 Weeks	5%
26 Weeks +	77%

Source: ESDC

Notes: Working lapse refers to the interval of time between sickness, injury or quarantine and when the claimant can return to work after receiving the 15 weeks of sickness benefits. This table shows the distribution of the working lapse for claimants that exhausted the full 15 weeks of sickness benefits and did not immediately return to work afterwards.[4]

It is estimated that 23% of sickness benefit recipients return to work immediately following the 15 weeks of benefits. Therefore, 77% of the total claimants that exhausted the full 15 weeks of benefits do not return to work immediately.

Table 2-1 shows the distribution of the average working lapse of the 77% of claimants that were unable to return to work immediately.[5] Of the 77% of claimants that do not return to work immediately, about three quarters of these claimants took at least an additional 26 weeks off work. The estimated total number of claims used to calculate the additional cost is based on this subset of the claimants.

2.2. Assumptions

2.2.1. Behavioural Effects

We do not anticipate behavioural effects to have a material impact on the total number of claimants in future years. Additionally, this report does not consider the potential behavioural effects of individuals extending their benefits longer than medically necessary. For this cost analysis we assume no newly eligible recipients and the total number of eligible claimants grows proportionately to the labour force.

2.2.2. Tax Implications

EI payments are taxable income. Accordingly, a portion of benefits are paid back in taxes which the government collects as revenue. However, increases in the associated premium will partially offset the additional tax revenues.

Therefore, the impact of tax revenues associated with higher EI benefits represents an upside risk not included in our estimate.

3. Results

3.1. Population

In 2017, a total of 151,470 claimants used the full 15 weeks of sickness benefits, representing roughly 36% of total EI sickness benefit claimants.

Of all the claimants that exhausted EI sickness benefits, we estimate that 23% returned to work immediately and 77% did not. In this section we focus our analysis on the latter subset.

Of the claimants that exhausted the 15 weeks of sickness benefits:

- 64% of claimants received sickness EI benefit only;
- 31% combined their sickness benefit with regular EI; and
- 5% combine sickness benefit with another benefit.

In our estimate, we assume only the individuals whose combined claims ended with EI sickness benefits will qualify for extended benefits. Therefore, individuals who end their claim with a benefit other than sickness are excluded from this cost estimate.

Under these assumptions, we estimate that approximately 94,000 claimants would benefit from the extension in 2017. We then project forward the total number of eligible claimants as a proportion of the labour force.

3.2. Estimated Cost of Extension

On average, it is estimated that claimants would receive an additional 26 weeks of EI sickness benefit. The average weeks per claimant is estimated by taking a weighted average of the distribution of the working lapse for the subset of recipients that did not return to work following the collection of 15 weeks of sickness benefits.

Assuming an implementation year of 2020, the estimated cost of the proposed extension would be an additional $1.10 billion in 2020.[6]

Table 3-1 shows the projected additional cost per year from the extension of EI sickness benefits.

Table 3-1 Additional Cost from the Extension of Sickness Benefits

	2020	2021	2022	2023	2024	2025
Average Cost (Billions $C)	$1.10	$1.13	$1.17	$1.21	$1.25	$1.30

Sources: PBO and ESDC

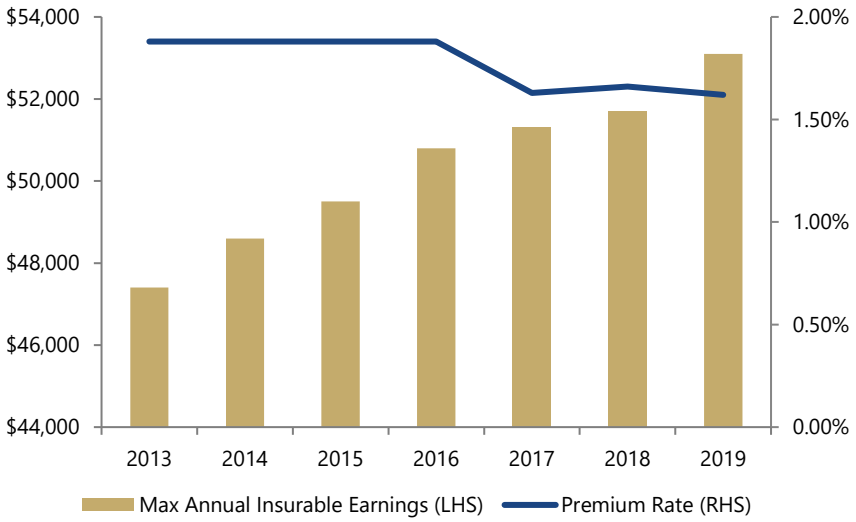
Notes: Table 3-1 provides the additional yearly cost, in billions of dollars, from the extension of EI sickness benefits from 15 weeks to 50 weeks.

3.3. Impact on EI Premiums

EI is a self-financing program. This means the program is financed entirely through the collection of premiums paid by employees and employers.

As of 2019, the premium rate is set at $1.62 per $100 of insurable earnings for employees.[7] The employer pays 1.4 times what the employee pays.

Figure 3-2 Historical Maximum Insurable Earnings and Premium



Sources: PBO and ESDC

Notes: Figure 3-2 shows the relation between the maximum annual insurable earnings and the premium rates paid by employees.

Given that EI premiums are set for 2019, changes in premiums will apply from 2020 onwards. EI premiums are calculated based on a 7-year forecast break-even rate. This means that the premium rate is determined such that at the end of the seven-year period, the EI Operating Account is balanced. Additionally, the premium rate is constrained to a 5-cent annual increase or decrease from one year to the next.[8]

Assuming this program is implemented in 2020, using our economic forecasting model, we estimate that the duration extension would lead to a markup of the premium rate by 6 cents. However, this does not consider the 5-cent constraint.

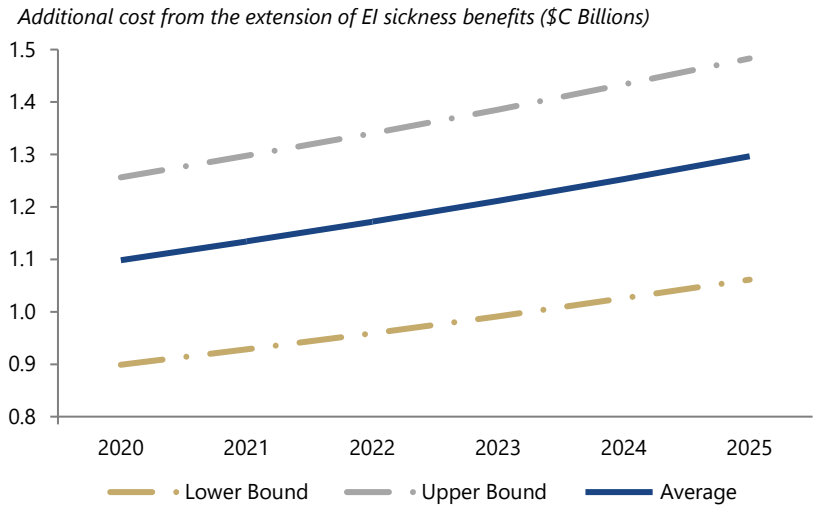
Taking into consideration a 7-year forecast and maintaining the 5-cent constraint, we estimate that the premium will increase by 5-cents in 2020 and an additional 1-cent in 2021. Therefore, extending the duration of sickness benefits from 15 weeks to 50 will raise the premium rate by a total of 6-cents between 2021-2026, assuming no other changes in the EI program.

4. Sensitivity Analysis

4.1. Sensitivity Analysis on the Additional Cost from the Extension of Sickness Benefits

Section 3 presented the approximated additional cost from the extension of sickness benefits. This resulted in roughly 26 weeks of additional EI sickness benefits, on average, per claimant. In this section we consider a range of potential costs by taking the minimum and maximum durations provided in Table 2-1. Under these assumptions, claimants will take, on average, between 22 to 30 additional weeks of sickness benefits.

Figure 4-1 Upper and Lower Bounds on the Estimated Additional Cost



Sources: PBO and ESDC

Notes: Figure 4-1 shows the upper and lower bound for the additional cost from the extension of sickness benefits. The average refers to the additional cost provided in Table 3-1.

The estimated additional cost of the extension is approximately $1.1 billion in 2020. Taking into consideration the distribution for the additional duration in benefits, the additional cost of the program extension is estimated to be between $899 million and $1.26 billion dollars in 2020. By 2025, this results in an lower and upper bound of $1.06 and $1.48 billion, respectively.

The respective premiums recalculated for the upper and lower bounds results in an total markup between 5 to 7-cents.

4.2. Working While on Claim

This impact can be even greater when taking into consideration working while on a claim. The survey results which this report uses were collected prior to the legislation that allows claimants to work while they are on a claim. Thus, the distribution in Table 2-1 may underestimate the working lapse associated with the extension of benefits. As of 2017, approximately 14% of individuals that claimed 15 weeks of sickness benefits worked while on claim. These individuals had a slightly higher average weekly benefit than individuals that did not work while on a claim. Therefore, these results may underestimate the duration that claimants may claim and thereby represent a downside risk to the estimated cost.

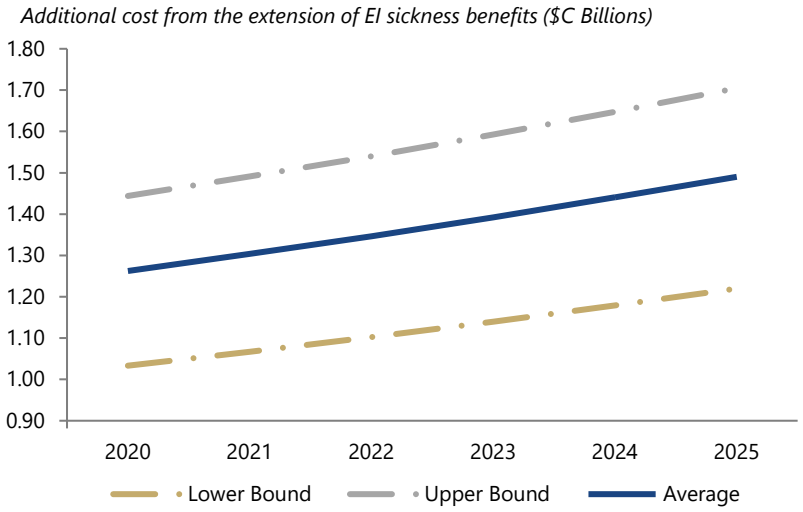
4.3. Sensitivity Analysis on the Population

In our original estimation, we assume that the 23% of individuals that return to work immediately following the 15 weeks of benefits will continue to do so under the extension.

In this section, we assume that only half of these claimants return to work immediately and the other half will follow the distribution patterns detailed in Table 2-1.

Figure 4-2 shows the projected additional cost under the extension. In 2020, the additional cost is estimated to be between $1.03 and $1.44 billion. On average we estimate that individuals will take an additional 26 weeks of EI sickness benefits which will cost approximately $1.26 billion in 2020, this is a $160 million increase from the base scenario.

Figure 4-2 Sensitivity analysis of the additional cost



Sources: PBO and ESDC

Notes: Figure 4-3 shows the projected additional cost of the extension of EI sickness benefits to 50 weeks when assuming that half of the individuals initially surveyed to return to work will instead remain on EI.

Taking into account the impact of the extension of sickness benefits on premiums, the increase in our subset results in an increase of premiums between 5 to 7-cents above the baseline.

Notes

1. For more information about eligibility criteria for sickness benefits, visit: https://www.canada.ca/en/services/benefits/ei/ei-sickness/eligibility.html
2. 2019 Actuarial Report on the Employment Insurance Premium Rate http://www.osfi-bsif.gc.ca/Eng/Docs/EI2019.pdf
3. Specifications regarding maximum insurable earnings and weekly benefit calculation can be found at: https://www.canada.ca/en/services/benefits/ei/ei-sickness/benefit-amount.html
4. This table is based on a survey of respondents. We assume that claimants continue to follow this distribution. However, there may be new trends that have impacted these distributions, such as the legislative introduction of working while on claims or the age of the workforce, which may underestimate the working lapse.
5. This is based on survey data results provided to ESDC. EI data does not provide any insight into working lapse should there be an extension in the duration of sickness benefits.
6. We assume an implementation year of 2020 onwards. This is chosen given that 2019 premiums and earnings have been determined.
7. Government of Canada EI premium rates and maximums https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/payroll-deductions-contributions/employment-insurance-ei/ei-premium-rates-maximums.html
8. 2019 Actuarial Report on the Employment Insurance Premium Rate http://www.osfi-bsif.gc.ca/Eng/Docs/EI2019.pdf