# Principles and practicalities

## in aligning Employment Insurance Benefits and Contributions

**Miles Corak**
Department of Economics, and Stone Center on Socio-Economic Inequality
The Graduate Center, City University of New York
MilesCorak.com @MilesCorak

**Presentation for the Employment Insurance Financing Workshop**

Institute for Research on Public Policy
Employment and Social Development Canada

Ottawa, June 29th 2022

# Motivating questions and a nuance

# Defining the problems we need to solve

1. How should "sustainability" of the EI Operating account be defined?
2. What are the problems with the current EI financing model? Can it support EI modernization? Is it stable in response to economic shocks?
3. How much of an increase in premiums is too much? Annually? Over a 5-7 year period?
4. How should financing be linked to policy objectives and support the modernization of the program?
5. Does the post-pandemic deficit limit the government's capacity to make changes and ensure the sustainability of the program?
6. What factors should the government consider in decision making on changes to financing and EI modernization?

# An important nuance in framing the discussion

The nature and the structure of contributions are also part of the "modernization" of Employment Insurance

- think not just of how to finance benefits by adjusting the parameters of the existing structure of contributions

rather

- think also about changes to that structure and how it can itself change to enhance program objectives

"Modernization" is calling for better insurance, and implies changes not just in benefits but also in contributions

# A guiding principle

# If "modernization" is calling for better insurance then . . .

## Align the structure of contributions to the underlying nature and causes of the risk being covered

Contributions should be structured to most efficiently and equitably cover:

1. **Job risks** associated with idiosyncratic business decisions about layoffs and closures
2. **Family risks** associated with household decisions about respite, care-giving, and skills
3. **Collective risks** associated with the interconnectedness and uncertainty of a global economy, and with social choices

# 1. Job risks

# Business contributions should finance regular benefits

**Job risks** associated with idiosyncratic business decisions about layoffs and closures

1. temporary layoffs
2. permanent layoffs
3. closures and mass layoffs

"Modernization" calls for better insurance of

- business closures and mass layoffs by instituting "wage" insurance
- contingent gig work and self-employment associated by expanded coverage

Finance with

- an increase of Maximum Insurable Earnings
- expanded coverage and contributions from "T5ers"

# 2. Family risks

# Individual contributions should finance "special" benefits and some fraction of Part II

**Family risks** associated with household decisions about respite, care-giving, and skills

1. maternity and parental
2. sickness, care-giving, but also other respite
3. skills development

"Modernization" calls for broader coverage and for agency, transparency, and better governance

- individual accounts (using the model of the Q/CPP) as an incentive compatible way to expand coverage to quitters to cover any contingency associated with wellness and respite

# 3. Collective risks

# Government contributions should finance big shocks

**Collective risks** associated with the interconnectedness and uncertainty of a global economy, and with social choices

1. Business cycles
2. Commodity price and other regional shocks
3. Social priorities like free trade or a priority to address inflation

"Modernization" calls for more timely automatic stabilization

- the Consolidated Revenue Fund should finance a benefit extension based on changes in provincial employment rates

# The “Fund” as a metaphor

# Two extreme positions

- A vision of a "hard" account leads to imagined policy choices—associated with the rate at which contribution rates are changed; the length of the horizon; a "reserve" fund—that risk losing sight of the underlying goal of providing an automatic stabilizer
- Aligning contributions to risks suggests
  - employer and employee contributions be fixed at a rate to finance regular and special benefits associated with an underlying average unemployment rate, say a seven-year moving average, or say 6 %
  - the Consolidated Revenue Fund handles all the contingency associated with deficits and surpluses from a higher or lower unemployment rate

**Miles Corak**

Department of Economics and

The Stone Center on Socio-Economic Inequality

The Graduate Center, City University of New York

@MilesCorak

MilesCorak.com