IS CANADA'S EMPLOYMENT INSURANCE PROGRAM ADEQUATE?

Executive Summary

As debate about how to stimulate the economy intensified in the weeks leading up to the January 2009 federal budget, a number of changes to Canada's Employment Insurance (EI) program were put forward by various groups. In response to these calls, the federal government unveiled almost $3 billion in EI spending measures over two years, with the centerpiece being a 5-week extension of benefits. In addition, the government introduced a temporary freeze on premiums.

While these enhancements were lauded as helpful and positive steps, many observers believe they are inadequate. There have been calls on the federal government to revisit some of the alternative proposals that relate to additional direct increases in EI benefits, such as boosting the replacement rate from the current level of 55% of insurable earnings and eliminating the two-week waiting period. Approximate annual costs for these measures range from $400 million to as high as $4 billion per year.

Still, much of the attention has revolved less around the size of the benefits themselves and more on what is widely seen to be EI's number one-failing – the weak "coverage" of the program. In particular, it is frequently cited that some 60% of unemployed in Canada aren't covered by benefits. Such a striking statistic has, in turn, cast attention on the system's variable entrance requirements (VER), which effectively link qualifying criteria to a region's rate of unemployment. Currently, workers in low unemployment areas require as many as 700 hours in order to qualify – and receive fewer benefits – compared to as few as 420 hours in high unemployment areas.

EI under-coverage often over-stated but still significant

In actuality, this number – which is drawn from a 2007 EI survey – overstates the degree of under-coverage of the system. For one, about 30% were ineligible because they did not contribute to the program (i.e., the long-term unemployed and self-employed). Moreover, another 16% of the unemployed did not qualify due to invalid job loss (i.e., voluntary quits). In fact, about four fifths of those potentially eligible for EI received benefits.

Nonetheless, this still leaves about one in five of those potentially eligible individuals who weren't receiving benefits. Moreover, a majority of these – about 15% of total unemployed EI contributors or at least 50,000 Canadians – have historically remained without coverage because of insufficient hours on the job. As nation-wide unemployment rises and the previously employed are laid-off, this element of under-coverage may well increase. Not surprisingly, rates of under-coverage attributable to inadequate qualifying hours were twice as high, on average, in the relatively low unemployment areas of western and central Canada as in Atlantic Canada.

A flattening in the VER structure urged

The federal government could accomplish the double aim of improving the equity of the system and increasing coverage rates by reducing the regional discrepancy in eligibility criteria and benefit duration. More specifically, we urge the government to immediately ease the VER (and extend benefit duration accordingly) in regions with unemployment rates of less than 10% from the current 560-700 hours to the lower floor of 560 hours. For all other regions, criteria would be unchanged. This measure would cost approximately $500 million per year.

Alternatively, the government could standardize the criteria for all EI contributors at 420 hours, which is the current minimum, or even reduce the bar for all, to 360 hours. Cost estimates for these options are $800 million and $1 billion, respectively.

Our preference for an immediate flattening of the system (rather than standardization) is based on assessment of benefits and costs. One important benefit that flows is increased fairness. The truth of the matter is that during an economic downturn, it is no easier to find a job in a

region with lower prevailing unemployment than in one with a higher unemployment rate. But while such a case is less compelling during periods of expansion, we still believe that such a sizeable discrepancy in the prevailing entrance requirements could be struck down based on the fairness argument. These benefits, however, must be balanced against the undesirable effects of the changes, including increasing long-term EI dependency and the added costs to the program. It is under these two tests in which the standardization option does not perform as well. The federal government could opt to standardize the VER on a temporary basis. However, Canadian governments have a poor track record allowing short-term measures to lapse.

The cost issue of EI program enhancements is a very important consideration. If EI is to remain a self-funding system, which we believe it should, increases in benefit outlays will require either higher premium rates or trimming of other program costs.

Altering the VER criteria

The flattening of the structure is only an intermediate step. Over the longer term, the unemployment rate as the primary benchmark of VER should be looked at due to its significant pitfalls. Most importantly, the unemployment rate is notoriously backward-looking, doesn't capture the direction of unemployment, and ignores the relative number of job vacancies. A new gauge should be considered to which the VER might be linked, such as the seasonally-adjusted change in employment, the job vacancy rate or the rate of employee turnover adjusted for the unemployment rate. These measures would work to better equalize eligibility and benefits on the basis of a worker's probability of employment.

Rate-setting formula

Lastly, the study also recommends changes to EI funding. Indeed, the recent ad-hoc premium freeze announced by the government in January, while laudable, highlights some of the inherent problems with the current framework. In particular, the present rate-setting formula needs to be amended to fund deficits in the EI program over a business cycle (say 7-10 years) rather than in the year for which they are anticipated. The greatest strike against the current requirement of targeting an annual balance is that it introduces a dangerous amount of pro-cyclicality to the system. In addition, we urge the government to consider removing the $2-billion odd in job training measures from EI and place them within general government spending for the primary reason that these expenditures should be open to all members of the labour force.

Grant Bishop
Economist
416-982-8063

Derek Burleton
AVP and Director of Economic Analysis
416-982-2514

TD Bank Financial Group

TD Economics

Special Report

April 30, 2009

IS CANADA'S EMPLOYMENT INSURANCE PROGRAM ADEQUATE?

Introduction

As debate about how to stimulate the economy percolated in the weeks leading up to the 2009 federal budget, a number of changes to the employment insurance (EI) program were put forward by various groups. In response to these calls, the federal government unveiled almost $3 billon in measures for EI over two years, with a 5-week extension of benefits and major new funding for worker training at the core. In addition, it was announced that EI premium rates paid by individuals and businesses would be temporarily frozen in 2010.

While these enhancements were lauded as helpful and positive steps, many observers believe they are inadequate. Yet much of the attention since the budget has revolved less around the size of the EI benefits themselves and more on what many consider to be EI's number-one failing – the weak "coverage" of the program. In particular, it is frequently cited that some 60% of unemployed in Canada aren't covered by benefits. In turn, there has been considerable ink spilt about the system's variable entrance requirements (VER), which effectively links qualifying criteria to the regions' level of unemployment.

EI FORECASTED REVENUES AND EXPENDITURES FOR STATUS QUO PROGRAM (2009)

	TD Forecast (Apr. 09)	EI Commission (Oct. 08)
Unemployment Rate	9.0%	6.5%
	($CDN Billions)	
Insurable Earnings	420.8	432.9
Revenues	16.5	18.3
Outlays	22.7	18.3
Regular Benefits	14.0	9.6
Other Costs	8.7	8.7
Deficit	(6.1)	(0.0)
Budgeted Reserve	2.9	
Deficit net of reserve	(3.2)	

Source: TD Economics, HRSDC

HIGHLIGHTS

- **While the oft-cited 40% beneficiaries-to-unemployment ratio overstates the degree of undercoverage, 15% of EI contributors have historically lacked sufficient hours to qualify and, while eligibility will automatically ease as unemployment rises, more than 50,000 unemployed EI contributors could be initially ineligible during this downturn.**
- **Access to EI should be improved with an immediate "flattening" of the Variable Entrance Requirement (VER) such that only 560 hours are required to qualify in any region with under 10% unemployment.**
- **The linking of the VER to the unemployment rate alone is inappropriate if equity between workers' employment prospects is the objective. The government should consider linking the VER to alternative gauges, such as job vacancy rate, employee turnover or change in employment.**
- **While the freeze on EI premiums was the right move, the rate-setting mechanism should be amended to remedy its current pro-cyclicality. Given the estimated cumulative $19 billion EI program deficits over the next three years, a move to a "business cycle" rate-setting framework should also ensure a sufficient reserve fund for future downturns.**

In this special report, we take a closer look at this challenge within the broader context of the EI reforms that have been recommended in recent months. In addition to

eliminating or flattening the VER, changes could be considered in the requirements themselves. In the last section, we assess the implications of recent and any future changes on the EI funding.

Canada's evolving EI system

Over the past decade, the EI program has gone through a seemingly-continuous evolution. The most recent overhaul occurred during in 1996, when qualification criteria were tightened and benefits reduced. Specifically, the 1990s changes to the EI Act amended the program such that:

- Eligibility would be on the basis of hours worked rather than weeks worked;
- Eligibility for new entrants and re-entrants to the workforce was tightened, requiring 910 insurable hours for the eligibility of such workers;
- Employees who were dismissed or quit without just cause became ineligible for EI;
- The Maximum Insurable Earnings were aligned with average earnings.

Assessing the proposals

Low unemployment over the past decade has kept the issue of EI off the front pages. But since late 2008, when it became increasingly clear that the economy was headed for recession and the federal government would orient its budget toward stimulating the economy, actions to improve EI as a so-called "automatic stabilizer" gained appeal. Notwithstanding the improvements to EI that were announced in the January budget, surging unemployment and mounting EI claims have maintained momentum for further EI reform. While not an exhaustive list, the various policy proposals can be summarized under the following key themes:

1. Freezing EI premium rates
2. Increasing the replacement rate from the current 55% of average earnings
3. Eliminating two-week waiting period
4. Increasing the duration of regular EI benefits
5. Standardizing or "flattening" the VER and benefit duration

In this paper, we examine each of these proposals and estimate the involved costs.

EI's Current Premium Rate-Setting Framework

2005 amendments to the EI Act again delegated the setting of premium rates to the EI Commission. The EI Commission is mandated to set a premium rate that will cover the anticipated payments under the program during the following year. The rate setting mechanism is largely formulaic with the Chief Actuary responsible for reporting the break-even rate, calculated based on forecast assumptions provided by the Minister of Finance. This actuarial estimate, public input, and the guiding principle that premiums should cover program costs are the basis for setting the premium rate. The EI Act stipulates that the rate cannot be increased or decreased by more than 0.15% in a single year. As well, the rate was capped at 1.95% in 2006 and 2007, but this transitional provision no longer applies.

Under the current premium structure, employers pay 1.4 times the premiums paid by their employees. Premiums are applied on every dollar earned up to a Maximum Insurable Earnings (MIE). As workers are covered by a separate provincial insurance plan in Quebec, employees in the rest of Canada pay higher premiums than in Quebec. In the rest of Canada, the premium rate for 2009 is 1.73%, unchanged from that in 2008. Employees pay $1.73 on every $100 earned up to the MIE. Employers pay $2.42 on every $100 of any employee's earnings (1.4 times the premium rate) up to the MIE. The MIE is presently set by formula, based on anticipated growth in average weekly earnings.[20] The MIE for 2009 is $42,300 – an increase of 2.9% over 2008. For 2009, the premium rate is 1.38% in Quebec and the MIE is the same as in the rest of Canada.

Freezing premium rates

Freezing premium rates had become a very common plea ahead of the budget, especially in view of the changes made to the funding of EI in 2005. The 2005 reforms required that premiums be raised to cover shortfalls in the account, (see text-box on "Premium Rate-Setting") but capped the annual increase at a maximum of 15 cents. The 2005 reforms stipulated a maximum premium rate of 1.95% for employees during 2006 and 2007, but this was a transitional provision and no longer applies. For 2009, the premium had already been set at 1.73% (2.42% for employers), but, given forecast unemployment rates, 2010 rates would have been required to rise to 1.88%.[1] Despite the cap on annual increases, even a 15 cent per $100 hike

would have been detrimental to an economy that was likely to be operating below par. As such, the federal government implemented a temporary freeze for 2010 in the January budget. While appropriate, the present freeze increases the shortfall in the EI Account. Against a 0.15% hike in the premium rate to 1.88%, we estimate the cost of this freeze for 2010 at $1.5 billion. As well, with the EI Act's provision capping annual increases at 0.15%, the 2010 freeze has implications for future rates (providing that government does not allow a one-time jump in rates to compensate for the effect of the freeze). Specifically, since rates could rise only to 1.88% in 2011 from 1.73% in 2010, rate increases are lagged and there is an additional effective fiscal cost through lost revenues. Note that we anticipate EI Account deficits until 2012 and we estimate the foregone annual revenues at approximately $1.6 billion for each of 2011 and 2012. We discuss the funding requirements to return the EI Account to balance over the next ten years in greater detail on page 10.

Enhancing benefits

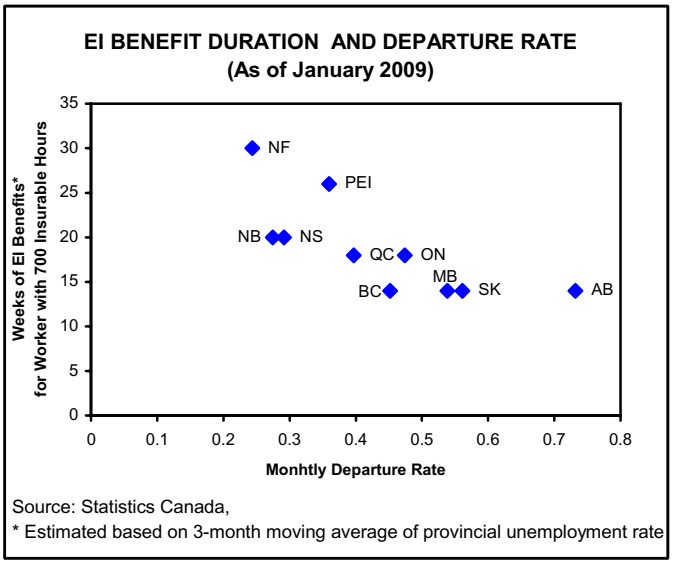
The next three proposals relate to raising benefits directly. In addition to the calls to extend the benefit duration by 5 weeks, a number of organizations recommended moves that would have effectively turned the EI clock back to pre-1990. The Centre for Policy Alternatives argued that the replacement rate should be raised back to its 60% level.[2] The Caledon Institute argued for an even higher increase, to a 70% replacement rate.[3] Other proposals involve calculating the weekly benefits on the best 12 weeks of the past 52 weeks rather than simply the average of the past 26 weeks.

Any increase in the replacement rate would increase total EI benefits by at least a proportional amount and would apply atop the cost of moves to enhance eligibility or duration of benefits. Since the replacement rate is presently 55%, an increase to 60% would imply a minimum 9% increase in total EI benefits and a hike to 70% would imply at least 27% in additional program costs. For instance, assuming no other changes, we estimate $14 billion in regular EI benefits for 2009 and an increase to a 60% replacement rate would then cost at least an additional $1.25 billion for that year. An increase to a 70% replacement would increase EI outlays by at least $3.75 billion.

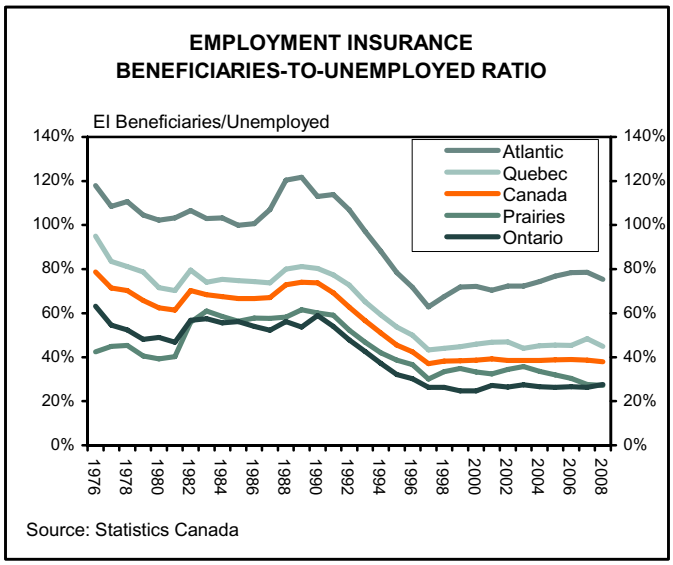
Any decision to change the replacement rate would require amendments to the program's funding structure. That is, after 1996, premium rates have been set with the assumption of a 55% replacement rate, and premium rates would thus need to increase substantially in order to maintain the self-funding of an EI program with a higher replacement rate. As well, a permanent move to boost the replacement rate could have behavioural implications, diminishing a beneficiary's incentive to seek new employment, and such behaviour would increase the costs of the system and add further to cost pressures. In the immediate term, with aggregate employment contracting and the number of job seekers certainly in excess of available positions, this potential disincentive is less relevant.

The calculation of average earnings over the past 26 weeks does result in averaging of variable patterns of earnings. Moving to a "best of X weeks," formula would certainly increase benefits for those with variable patterns of earnings. Such employed but variable-earnings workers tend to be lower paid and marginally attached. For a change to a "best of 12 weeks" benefit rate, we estimate that this would increase total outlays on regular EI benefits by 3%. For instance, in the absence of other changes, we estimate a roughly $400 million cost for 2009 for such a measure. However, such a move, if permanent, shares the same pitfalls as increasing the replacement rate.

Another popular proposal was eliminating the two-week waiting period. Presently, a laid-off worker must wait two weeks after filing a claim before benefits commence. From the view of the EI program's administrators, this waiting period acts as a "deductible": A potential claimant has an incentive to find a new job since they are initially without income for two weeks.[4] As well, it excludes workers who



Source: Statistics Canada,
* Estimated based on 3-month moving average of provincial unemployment rate

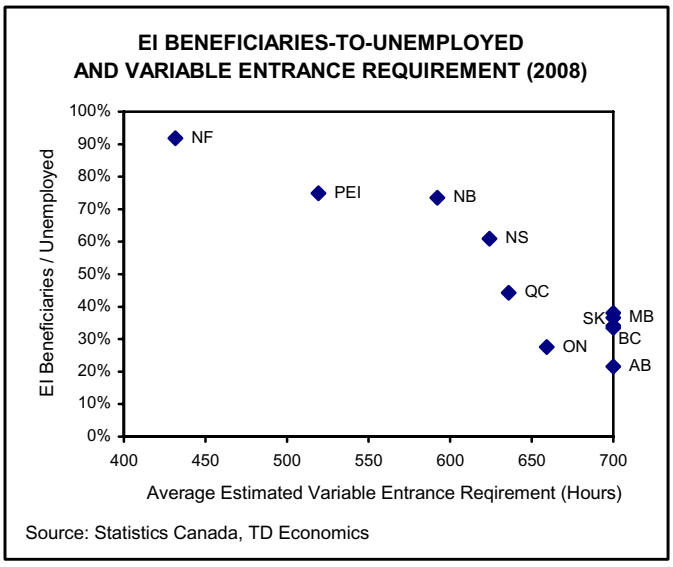


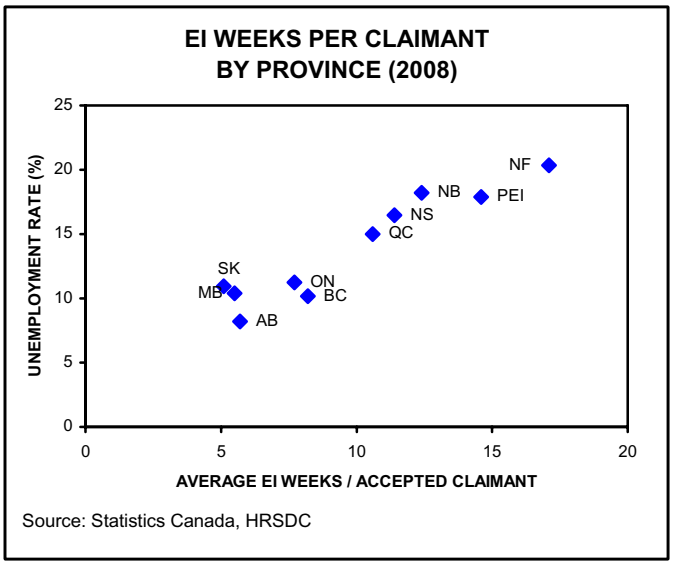
become unemployed but find new work within two weeks. During stable economic times, it may desirable to exclude such "turnover" from the EI system. Elimination of the waiting period would also add to cost since those EI beneficiaries who find new employment before their benefits expire would have received an additional two weeks of benefits.

At the same time, however, other factors might mitigate the cost of eliminating the 2-week waiting period during a recession. First, eliminating the waiting period is unlikely to affect the long-term unemployed since they will claim benefits for the maximum duration. In this period of contraction and lower turnover, we reason that employment prospects for the long-term unemployed are much diminished. Second, during a downturn, the proportion of unemployed "in transition" decreases since the newly unemployed will tend to stay unemployed. Although lacking worker-level data on gross employment losses and "turnover", we estimate from aggregate data on tenure and net job losses that at most 9% of those unemployed during December found new work within two weeks (in comparison, such "turnover" may have been as high as 12% from December 2007 to January 2008).[5] Certainly, this "turnover" decreases during economic downturns since the unemployed can less readily procure new jobs. From previous downturns, we forecast that average 2-week "turnover" will decrease to 12% during 2009 from 19% during 2008. Based on the anticipated 2009 composition of the unemployed pool, this would increase program costs by 7%.

Notwithstanding these mitigating factors, relaxing or removing the waiting period would come at a reasonably high price tag. By our estimates, the cost would be approximately $1 billion per year.

Ultimately, the federal government opted to pursue a temporary 5-week extension at a total cost of $1.2 billion over two years. This amendment came into effect on March 1st and extends the benefit period of all active and new claims, established between March 1st, 2009 and September 11th, 2010, by 5 weeks. That is, a worker who would have previously qualified for 14 weeks of benefits, now receives 19 weeks. The maximum benefit period was set at 50 weeks. Notably, certain high unemployment regions, where an "extra five weeks" pilot program had already provided for 45 weeks, also benefited from the extension to 50 weeks.





SELECTED EMPLOYMENT INSURANCE STATISTICS (2006)					
	Proportion of Nat'l Labour Force	Proportion of Nat'l EI Benefits	Unemployment Rate	% EI recipients of tax filers	EI Beneficiaries to Unemployed
CANADA	100%	100%	6.3%	13%	39%
Nfld.&Lab.	1%	7%	14.8%	38%	87%
P.E.I.	0%	2%	11.1%	31%	78%
N.S.	3%	6%	7.9%	20%	65%
N.B.	2%	7%	8.7%	26%	83%
Quebec	23%	34%	8.0%	18%	45%
Ontario	39%	27%	6.3%	10%	27%
Manitoba	3%	2%	4.3%	10%	37%
Sask.	3%	2%	4.7%	10%	36%
Alberta	11%	5%	3.4%	8%	26%
B.C.	13%	9%	4.8%	10%	33%
Source: Statistics Canada					

EMPLOYMENT INSURANCE COVERAGE Of Unemployed Workers (2003-2007)					
	2003	2004	2005	2006	2007
Unemployed (Thousands)	1,224	1,188	1,123	1,039	1,030
% of Unemployed					
EI Contributors	70.9%	68.6%	68.6%	68.0%	70.0%
EI Beneficiaries	44.8%	40.9%	43.3%	40.3%	41.0%
Eligible but did not collect	3.2%	2.2%	2.7%	3.1%	3.7%
Below VER	9.1%	10.5%	9.2%	9.1%	9.6%
Invalid job loss	13.9%	15.1%	13.4%	15.4%	15.7%
Non-Contributors	29.1%	31.4%	31.4%	32.0%	30.0%
No insurable employment	5.1%	5.7%	5.4%	5.7%	5.2%
Unemployed for >12 months	23.9%	25.7%	26.0%	26.3%	24.8%
% of EI Contributors					
EI Beneficiaries	63.2%	59.6%	63.1%	59.3%	58.6%
Eligible but did not collect	4.5%	3.2%	3.9%	4.6%	5.3%
Below VER	12.8%	15.3%	13.4%	13.4%	13.7%
Invalid job loss	19.6%	22.0%	19.5%	22.6%	22.4%
Source: Statistics Canada / HRSDC (EI Coverage Survey)					

Do EI Benefits last long enough?

The duration of EI benefits is also calibrated to the regional unemployment rate: Longer duration of benefits are available in higher unemployment regions. Across provinces, the number of weeks per claimant therefore shows a strong correlation with the regional unemployment rate. Certainly, this reflects better employment opportunities during 2008 in the low unemployment provinces.[6] Given that the number of weeks of benefits is capped at 50 weeks, the five-week extension will result in greater parity between the average number of EI weeks in each province.

In order to examine the cross-province differences in the frequency with which EI recipients depart the EI program, we estimate an EI departure rate.[7] For cross-provincial comparison, we plot this departure rate in each province against the number of weeks to which an average worker with 20 weeks of full-time work (i.e. 20 weeks at 35 hours = 700 hours) would have access in each province based on the provincial unemployment rate in January 2009.[8] The EI departure rate reflects both departures due to new employment and from exhaustion of benefits. HRSDC does not publish provincially-disaggregated statistics on the number of EI recipients exhausting their benefits. Therefore, it is unclear whether the higher departure rate in provinces, which currently have lower unemployment rates, results from beneficiaries exhausting benefits or being more successful in finding new employment.

Nonetheless, even during a period of contracting employment in all provinces, it does appear that departures still occur most rapidly in those provinces with fewer weeks of EI benefits.

EMPLOYMENT INSURANCE COVERAGE (2007)					
	Atlantic region	Quebec	Ontario	Western region and Territories	Total
Unemployed	104,000	287,000	433,000	205,000	1,030,000
Unemployed EI Contributors	86,200 *	210,300	286,400	137,600	720,400
Receiving or could receive	67,600 *	142,000 *	175,300	75,200 *	460,200
% of Unemployed	65%	49%	40%	37%	45%
% of Unemployed EI Contributors	78%	68%	61%	55%	64%
% of Potentially Elligible	91%	82%	82%	78%	82%
Did not meet VER	7,000 *	31,200 *	39,200	21,600 *	99,000
% of Unemployed	7%	11%	9%	11%	10%
% of Unemployed EI Contributors	8%	15%	14%	16%	14%
Not Potentially Eligible	29,800 *	113,900	218,300	108,400	470,300
Did not work in the last year	16,000 *	66,800 *	118,000	54,600 *	255,300
% of Unemployed	15%	23%	27%	27%	25%

* Data are of marginal quality with coefficients of variation ranging between 16% to 33%, and should be used with caution
Source: Statistics Canada, HRDSC (EI Coverage Survey)

Are too many unemployed outside the EI system?

The move to provide the benefit extension passes the test of getting more money into the hands of the unemployed and, in our view, marked a good compromise between providing short-term financial assistance to unemployed and cost. Still, since the budget, many observers have continued to argue that raising benefits alone does not get to the core of the problem plaguing Canada's EI program – that being, too many unemployed not qualifying for benefits. Statistics Canada data show the share of the unemployed receiving EI – the beneficiaries-to-unemployed ratio (B/U) – falling steeply from the mid-1990s to around 40% in 2008.[9] Most commentators have attributed this falling coverage nationally to the tightening in the eligibility criteria during the 1990s. The tightening especially affected those provinces with relatively low unemployment. As shown, this decline was severe in all provinces. Even so, coverage differs markedly between provinces: ranging during 2008 from over 90% in Newfoundland and Labrador to under 30% in Ontario and 22% in Alberta.[10] These coverage differences are reflected in the number of tax filers who are EI beneficiaries: For 2006, 38% in Newfoundland and Labrador relative to 10% in Ontario and 8% in Alberta.

Following job loss, workers who have accumulated the requisite number of hours over the past 52 weeks are able to claim benefits at 55% of their average insurable earnings for a period that is dependent on their accumulated hours. The eligibility for and duration of EI benefits depends on the unemployment rate in the region in which the unemployed worker resides at the time of filing. The number of hours required to qualify is referred to as the Variable Entrance Requirement (VER). The EI Act sets out a schedule for the VER as well as one for the duration of benefits, corresponding to the regional unemployment rate. The number of hours required to qualify for EI increases if the regional unemployment rate is in a lower range. If the regional unemployment rate is above 13%, only 420 hours in the last 52 weeks are required to qualify, while 700 hours are required in a region with under 6% unemployment.

It should be noted that an unemployed worker, who is initially ineligible for EI, can later qualify if the unemployment rate rises and the VER drops below their insurable hours. For instance, if a laid off worker has 630 hours at the time of a claim, she will not be initially eligible for EI in a region where unemployment is between 6% and 7% and thus 665 hours are required to qualify. However, her claim will be held open for several weeks and, if the unemployment rate rises above 7%, she will receive 22 weeks of benefits.[11]

Those provinces that have the highest VER had the among the lowest B/U ratio in 2008. The roughly 40% B/U ratio is often cited as evidence of the EI program's under-coverage. However, use of the figure does require some qualification – both for use the national-level and for comparisons between regions. While only 40% of unemployed received benefits, roughly 60% of unemployed EI contributors received benefits. This still flags concerning levels of ineligibility among unemployed EI contributors but

shows that the coverage has been higher historically than the oft-quoted 40% B/U ratio suggests. As well, in 2007, approximately 10% of unemployed workers nationally did not meet the hours criteria for receiving EI. Of the remaining unemployed, 16% left their job for an invalid reason, 5% did not have an insurable form of employment and 25% of the unemployed had not worked in the last year.

That is, 30% of unemployed workers in 2007 were not EI contributors within the last 52 weeks. The ineligibility of these workers was not a function of the VER but rather that they had not contributed to the system. As an insurance program, EI cannot reasonably be amended to cover non-contributors. However, this large plug of non-contributors reminds us that EI is but one component of the overall income security framework and that other robust "safety nets" are additionally required.

While the percentage of unemployed who have not worked in the past year diminishes the degree of coverage, the recent estimates of coverage still show a much greater exclusion of unemployed EI contributors from EI benefits in the rest of Canada relative to estimated coverage in the Atlantic region.[12]

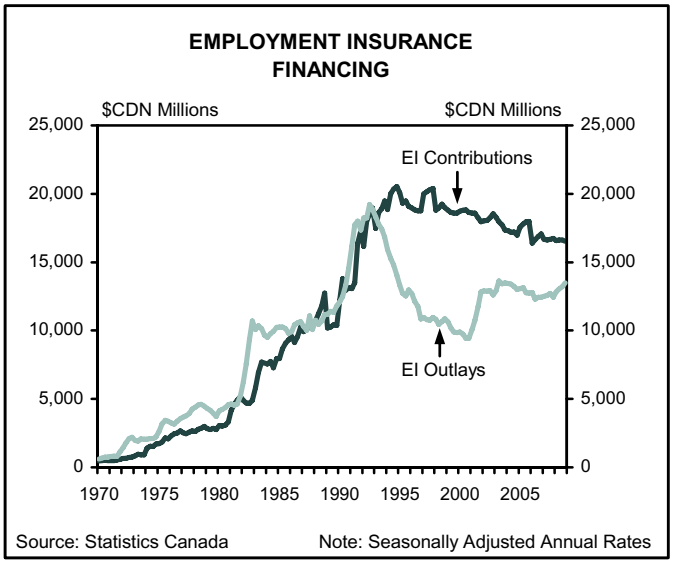
The figures also mean that any amendments to the existing hours-related eligibility structure would have improved the nation-wide B/U ratio by a maximum of 10 percentage points based on the 2007 data. Nonetheless, the historical exclusion of 14% of unemployed EI contributors from EI benefits due to insufficient hours does raise concerns.

As jobs are shed during 2009-2010, the pool of unemployed will increasingly consist of workers with previous employment. That is, since workers will be laid-off, EI contributors as a proportion of the unemployed will be greater in 2009 than the 70% recorded during 2007. Therefore, the percentage of unemployed workers ineligible because of their accumulated hours could also potentially increase.

During the initial stages of this recession, there is evidence of a concentration of lay-offs among employees with short tenure (see text-box on "Employment Trends"). This implies that workers with the lowest probability of coverage are being laid off when their regional VER is still high, further diminishing their likelihood of coverage.

Standardizing or "Flattening" Eligibility

Accordingly, proposals floated around ahead of the budget on VER would provide a boost to coverage but



perhaps not as much as some might hope. We examine three proposals in particular: 1) equalizing at 360 hours; 2) equalizing at 420 hours; and 3) a "flattened" structure with eligibility at 560 hours for all regions with less than 10% unemployment. All of our estimates for amending eligibility also assume that benefit duration is correspondingly modified. That is, in the standardization case, a worker with 700 hours qualifies for the same number of weeks of benefits in one region as in another.

For 2009, we estimate that a standardization of eligibility at 360 hours would add $1 billion in EI outlays against the status quo and standardization at 420 hours would cost an additional $800 million. A "flattening," such that only 560 hours were required in any region with less than 10% unemployment, would cost $500 million. As we anticipate that unemployment will rise beyond 9% in Ontario and Québec during the first half of 2009, a "flattening" would have its greatest effect on coverage in western Canada. Standardization at 420 hours would improve access for all regions except those with unemployment already above 13%. Again, the greatest enhancement would be felt in western Canada but EI coverage ratios would improve in Ontario, Québec and much of the Maritimes. Standardization at 360 hours would improve access most in Western Canada and Quebec. Ontario would see some additional improvement in coverage and the Atlantic would benefit as well.

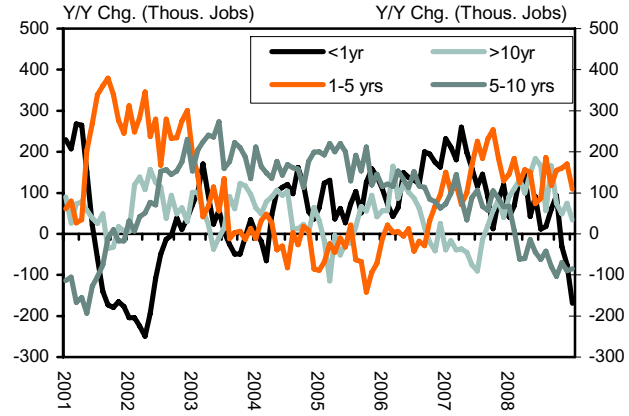
Our preference for an immediate flattening of the system (rather than standardization) is based on assessment of benefits and costs. One important benefit that flows is

Employment trends show vulnerability of marginally employed

Governments should be concerned that workers with the lowest number of hours will be the first to be unemployed and will not be covered by EI. Firms will likely first lay-off the workers with the least length of tenure: Length of service will increase any severance settlement and workers acquire firm-specific skills during their tenure with a firm, discouraging firms from shedding their most experienced workers. Moreover, collective agreements often stipulate that least senior workers are to be laid-off ahead of those with greater seniority.

There is a strong seasonality to changes in employment for workers with tenure of less than a year. This reflects a high degree of turnover amongst this group. Going forward, these workers will be less able to procure new employment. This is reflected in the year-over-year plunge in employment of individuals with less than one year's tenure. Indeed, recent job losses appear to be concentrated amongst those workers with less than one month and with 5 to 10 years tenure.

Moreover, of the 668,000 job losses nation-wide between October 2008 and January 2009, 26% were attributable to those with less than 3 months tenure in October 2008[19]. As of October 2008, those with less than 3 months tenure comprised only 8% of those employed.



This exhibits the particular concentration of job losses amongst those with short tenure. While a share of short-tenure, newly unemployed workers will have moved to new jobs, the employment for 1-3 months tenure shrunk by 3.9% nation-wide from October 2008 to January 2009, demonstrating diminished new hiring.

JOB LOSSES FROM OCTOBER 2008 TO JANUARY 2009

	All Workers Job Losses	Workers with <3 mths in Oct. 08			Change in Employees with <3 mths tenure
		Job Losses	% of Losses	% of Employees	
	(Thousands)	(Thousands)			
CANADA	-669.7	-178.5	26.7%	7.9%	-3.9%
Nfld.&Lab.	-21.9	-6	27.4%	9.7%	-9.9%
P.E.I.	-6.9	-2.1	30.4%	11.0%	-9.8%
N.S.	-22.7	-8.7	38.3%	9.3%	-4.9%
N.B.	-17.8	-7.6	42.7%	9.4%	-4.8%
Québec	-165.8	-55.8	33.7%	7.5%	-4.2%
Ontario	-291	-60.9	20.9%	7.4%	-4.3%
Man.	-14.1	-1	7.1%	7.6%	-2.3%
Sask.	-9	-10.4	115.6%	9.4%	-1.7%
Alberta	-41.3	-16.5	40.0%	9.1%	-2.0%
B.C.	-79.2	-9.5	12.0%	8.4%	-3.4%

Source: Statistics Canada (Labour Force Survey)

increased fairness. The truth of the matter is that during an economic downturn, it is no easier to find a job in a region with lower prevailing unemployment than in one with a higher unemployment rate. But while such a case is less compelling during periods of expansion, we still believe that such a sizeable discrepancy in the prevailing entrance requirements could be struck down based on the fairness argument. These benefits, however, must be balanced against the undesirable effects of the changes, including increasing long-term EI dependency and the added costs to the program. It is under these two tests in which the standardization option performs not as well. The federal

The Right Rate for the VER

Eligibility for EI benefits is presently based on a Variable Entrance Requirement (VER), calibrated to the unemployment rate in an unemployed worker's region. The stated objective of the VER is to equalize access based on a worker's probability of unemployment. While such a measure would still distort incentives for migration, equity considerations may nonetheless warrant calibrating eligibility with the probability of employment. If so, we argue that the unemployment rate alone is an inaccurate gauge of employment prospects – particularly during a period of increasing unemployment.

To see this, consider a stylized example. Consider two regions, each of 100 people, and assume no migration between them.[21] Region A has an initial unemployment rate of 5%, and Region B of 10%. Employment in each region contracts by a job each period. If no other current job-holders change jobs, any unemployed worker in either region has a 0% chance of finding a job. However, extend the example so that there is "turnover" each period. For illustration, assume a 5% probability that an employed worker in Region A separates from his or her job, and assume a higher turnover rate of 20% in Region B. During the period, there are then 4 available jobs (5 "turnovers" minus 1 lost job) for 10 job searchers in Region A (5 "turnovers" plus 5 initially unemployed) and 18 available jobs (18 "turnovers" minus 1 lost job) for 28 job searchers (10 "turnovers" plus 18 initially unemployed) in Region B. In this example, even though the unemployment rate is twice as high in Region B relative to Region A, a searcher in Region A has a probability under 40% for finding a job, compared with an over 60% probability in Region B. As an extension, consider another region, Region C, where unemployment is initially 10% but employment is on the rise, increasing by 1% each period. Furthermore, assume that "turnover" is 5%, equal to that in Region A. Note that the probabilities of finding a job are roughly equal in Region A and Region C, even though the initial unemployment rate is twice as high in Region C.

EXAMPLE OF EMPLOYMENT PROSPECTS

	Region A	Region B	Region C
Labour Force	100	100	100
Beginning of Period			
Employed	95	90	90
Initially Unemployed	5	10	10
"Turnover"	5%	20%	5%
Job Searchers	10	28	15
Gross job losses	5	18	5
Net job change	-1	-1	1
Available jobs	4	17	6
Probability of new job	38%	61%	38%
End of Period			
Unemployment Rate	6.0%	11.0%	9.0%

This example is obviously stylized but demonstrates that the unemployment rate is not necessarily the appropriate measure of an unemployed worker's chances of regaining employment. It is particularly poorly suited when unemployment is rising. Firstly, the unemployment rate doesn't capture the direction of unemployment, and, secondly, it ignores the relative number of job vacancies. This example then points to additional indicators to which a Variable Entrance Requirement might be linked: 1) the seasonally-adjusted change in employment; 2) the job vacancy rate[22]; or 3) the rate of employee turnover, adjusted for unemployment rate.

government could opt to standardize the VER on a temporary basis. However, Canadian governments have a poor track record allowing short-term measures to lapse.

The cost issue of EI program enhancements is a very important consideration. If EI is to remain a self-funding system, which we believe it should, increases in benefit outlays will require either higher premium rates or trimming of other program costs.

Time to look at the VER criteria

The flattening of the structure is only an intermediate step. For the longer term, if the federal government opts to keep some form of VER in place, at the very least it should consider shifting away from the unemployment rate as the key gauge. The use of unemployment rate as the sole basis for the VER is firstly problematic because the 3-month moving average is used.[13] This means that the adjustment of the VER substantially lags actual conditions in regional labour markets. Most problematic, though, is that unemployment rate is the wrong gauge for what the VER intends to equalize: the stated rationale for the VER is to maintain equity between alike workers given employment prospects between regions.[14] However, if this is the aim, the unemployment rate is the wrong indicator to which to calibrate the Variable Entrance requirement since it is

	Freeze EI premiums	Enhance EI Benefits				Ease Benefit Eligibility and Duration		
Action:	Maintain EI premium rate at 1.73% for 2010 (raise to 1.88% in 2011, instead of 2.03%; 2.03% vs. 2.18% in 2012)	Increase Replacement Rate to 60%	Increase Replacement Rate to 70%	Benefit Rate Calculation Best 12 weeks	Eliminate 2-week waiting period	"Flatten" VER at 560 hours (for <10% UR)	Standard at 420 hours	Standard at 360 hours
Estimated Proportional Cost		9% of reg. benefits	27% of reg. benefits	3% of reg. benefits	Est. 7% for 2009 (Higher during normal "turnover")			
Approx. Annual Cost*	$1.5 bn for 2010 ($1.6 bn in each 2011, 2012)	$1.25 bn	$3.75 bn	$400 mn	$1 bn	$500 mn	$800 mn	$1 bn

* All else held constant, and assuming 9% national unemployment during 2009 and 10% during 2010

not necessarily proportional to job prospects in a region (see text-box on "The Right Rate for the VER"). As we argue, some measure of "turnover" and job vacancies are necessary inputs if eligibility and benefits are to be equalized on the basis of a worker's probability of employment. However, even ignoring the issue of job turnover for explanatory simplicity, if employment is contracting and firms are not hiring, newly unemployed workers in a region with a current unemployment rate of 7% do not have any more access to jobs than do workers in a region with 14% unemployment. It is true that, as new jobs are created, the probability of employment is greater in the lower unemployment region since an unemployed worker competes with fewer other job seekers. However, when regional employment is contracting, the unemployment rate is not necessarily proportional to the probability of re-employment. Especially during a downturn, the unemployment rate is the wrong indicator to which to tie EI eligibility.

As well, during a period of increasing unemployment, tying benefit duration to the unemployment rate at the time of claim creates inequality between workers. Two workers with identical hours will have duration of coverage based on the moment at which they are laid-off. For example, consider two workers. The first is laid off on the 1st of January, after accumulating 700 insurable hours, when the unemployment rate in his region 6.9%. He receives 21 weeks of benefits. By February, the unemployment rate has risen to 7.1%. The second worker is laid off on the 1st of February, after accumulating 700 insurable hours. He qualifies for 23 weeks of EI benefits. During a period when unemployment is rising, the tying of the duration for EI benefits based at the time of job loss creates inequity between otherwise alike individuals.

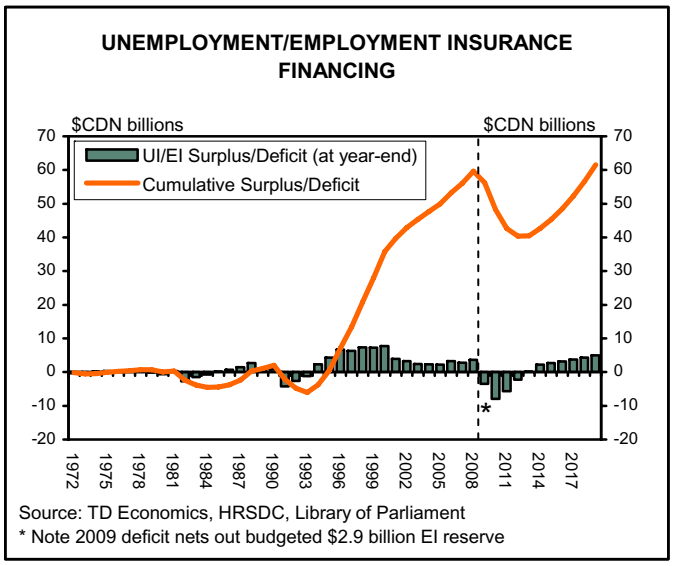
EI funding – achieving balance over a cycle

The current recession is exposing some holes in EI funding that should also be addressed. In 1990, the program went from being largely funded by premiums, but partly funded by from general revenues of the federal government, to fully self-financing – that is, funded fully on employer and employee contributions. Since 1993, EI premiums have exceeded program expenditures by an average of $4.4 billion annually, accumulating a notional surplus of over $58 billion (a total which notably does include compounded interest on past surpluses). This accumulated surplus was "notional" rather than real, since the funds were put in general revenues and allocated towards other purposes. In 2001, the Auditor General raised concerns about the size of the surplus within the Employment Insurance Account. Specifically, the cumulative surplus exceeded the $10 to $15 billion that was recommended by the Chief Actuary to cover liabilities over the business cycle. Still, the government did move to improve the system on a going-forward basis in 2005.[15]

That being said, in spite of falling EI premium rates, the annual excess of EI revenues over benefits stood at $3.4 billion as recently as last year, and these surpluses averaged $4.4 billion from 1996 to 2008.

The recent ad-hoc changes that have been required from the current rate-setting approach suggest that further reforms are required to account for business cycles in setting rates. Indeed, during the 2003 consultations around the new rate-setting mechanism, this very principle of funding over a "business cycle" was clearly articulated by both academic and business-sector commentators. Commentators recognized that a requirement for annual balance would induce a dangerous pro-cyclicality.[16] However, the ultimate legislation ignored this principle. The failure to include a "business cycle" approach, in which EI premiums freeze or lessen during recessions and increase once unemployment abates, was a mistake and should be amended.

While the cap on annual rate increases mitigates the degree, the current rate-setting mechanism nonetheless



creates pro-cyclicality in EI premiums: Firstly, to cover higher liabilities for the higher number unemployed in a given year, employed workers during a downturn face even higher rates. Fewer workers must pay for a higher number of unemployed. A payroll tax with a flat-rate above a maximum is regressive, and, since the MIE corresponds to the national average for individual earnings, workers in the lower half of the income spectrum will be the most proportionately affected. Secondly, higher premium costs for employers increase labour costs precisely when productivity is weakest. These higher labour costs would encourage further shedding of labour just as unemployment is already rising.

For these reasons, the government's decision to freeze 2010 premiums was very commendable. However, the rate-setting mechanism must be revisited in order to eliminate its pro-cyclical character as well as ensure that the fund maintains a balance over a business cycle. Notably, the 1996 EI reforms intended such a "business cycle" rate-setting mechanism, but the lack of constraint on the diversion of EI Account surpluses to general revenues generated understandable objections.

Notwithstanding the persistent surpluses in recent years, the recession – along with the additional $2.9 billion in benefits and the premium freeze – will quickly put the EI funds financial position to the test. We forecast that deficits will soon emerge. As per the most recent legislation, premium rates should be lifted in order to make up the shortfall in 2011 and beyond. However, in the January budget, the government indicated that it would not recover any of the deficits related to the $2.9 billion of enhanced EI benefits and training in 2009 and 2010.

We show a status-quo forecast of the EI fund's balance (i.e. excluding any additional measures, described above). Based on our long-run projections for the Canadian economy (see "Long-Term Economic Forecast", March 12th [17]) and assumptions about the structure of the program, we estimate that it will require at least a decade in order to return the EI accumulated surplus to its 2008-09 level. We have also reduced the deficit to account for the budgeted $2.9 billion reserve for 2009 that will not be compensated by future EI contributions. Holding the premium rate at 1.73% for the next two years, the rate would then have to increase to 1.88% in 2011 (0.15% being the statutory maximum for an annual increase) and 2.03% for 2012. Notably, under this status quo case, we forecast that the EI program annual deficits will still be incurred until 2012. These projections assume that non-benefit costs of the EI program are not trimmed and continue to grow at the rate of CPI inflation. Treating deficits as if bygones-are-bygones, we estimate that the EI Account will have incurred $19 billion in cumulative deficits over 2009-2012. This would reduce the EI Account's notional cumulative surplus to $40 billion as shown below. Under a "business cycle" rate-setting mechanism, this $19 billion could be recouped by maintaining a 1.95% premium rate for employees until 2019. Such a framework requires more extensive evaluation and consultation than we can provide here. However, the pro-cyclicality of the current framework requires redress, and the coming EI Account deficits demonstrate the need for a reserve fund of sufficient size.

EMPLOYMENT INSURANCE
Projected non-benefit costs for 2009

Item	Cost (Millions)
Pilot Projects	$57
Transitional Measures	$0
Fishing	$277
Work Sharing	$14
Parental	$2,958
Sickness	$987
Compassionate	$10
Employment Benefit & Support Measures	$2,136
Benefit Repayment	-$173
Wage Loss replacement	$806
Admin	$1,652
Bad Debts	$89
Penalties	-$63
Total Non-Benefit Costs	$8,750

Source: HRSDC

Pruning EI program costs

EI was developed as a social insurance program. However, over the years, the list of initiatives that has been funded through the program has burgeoned. Of the $17.5 billion budgeted for the EI program for 2009, $8.6 billion represents expenditures other than regular EI benefits. These include parental benefits and job training ("Employment Benefit and Support Measures" in the below table). The federal government must revisit the funding and expenditures of EI in order that it functions more appropriately as a social insurance program.

In particular, the $2.1 billion in job training measures should be removed from the EI program and placed within general government spending. While job training is very important, lumping it into EI is both inconsistent with the EI program's insurance goals and excludes a large proportion of the unemployed from assistance with job search.[18] Firstly, compulsory premiums to insure against unemployment are the wrong tax base on which to fund skill training and job assistance. As a government function, job training should be operated from general revenues, obtained through progressive personal income taxation, rather than on the back of a regressive payroll tax. Secondly, skill training and assistance with job search should be open to all members of the labour force, regardless of whether they are covered by EI. Promoting the employment of all unemployed workers is desirable – indeed, particularly if they are not covered by EI. As was argued by Courchene and Allan, such job training and employment support should be accessible as a right of citizenship rather than as a benefit of having previously held a "good job".[19] Labour Market Agreements (LMAs) with provinces have commendably extended $500 million annually in federal funding for such provincial job training and assistance initiatives, including for non-EI eligible workers. However, Employment support measures continue to drain the EI coffers. Financing for job training and assistance should be consolidated outside the EI program, rather than allocated through multiple channels and funded from different revenue streams. Such moves to prune EI program costs would bring down premium rates, although other taxes would need to rise to fund any expenditures that are transferred to general coffers.

Grant Bishop
Economist
416-982-8063

Derek Burleton
AVP and Director of Economic Analysis
416-982-2514

Endnotes

[1] In order to balance EI liabilities and revenues in 2010, we calculate a break-even rate of 2.61%, but, as noted, the EI Act caps annual increases at 0.15%. Based on our 2011 forecast, we calculate a 2.50% break-even rate – again well in excess of the maximum.

[2] Canadian Centre for Policy Alternatives. "Alternative Federal Budget 2009." January 2009 (http://www.policyalternatives.ca/~ASSETS/DOCUMENT/National_Office_Pubs/2009/AFB2009_Beyond_the_Crisis.pdf).

[3] Battle, K., Torjman, S. and Mendelson, M. "The Forgotten Fundamentals" Caledon Institute, December 2008 (http://www.caledoninst.org/Publications/PDF/727ENG%2Epdf).

[4] Audit and Evaluation Directorate, Human Resources and Social Development Canada "Summative Evaluation of EI Part I: A summary of Evaluation Knowledge to Date" HRSDC (SP-AH-685-06-06E), June 2006.

[5] This is admittedly a very rough approximation, but the best that can be imputed from the aggregate data. there were 810,000 employees with 1-3 months tenure in January. We assume an even distribution of hiring, implying that 135,000 (810,000/6) were hired in the past two weeks. In December, without seasonally adjustment, 1,145,300 workers were unemployed, and net employment contracted by 410,000 positions between December and January. Therefore, 135,000 new hirings per each two weeks represents 8.7% of the 1,555,000 unemployed in December. We consider this an upper bound for "turnover" but it is our best guess for the unemployed pool. Certainly, direct estimates from Labour Force Survey microdata would be preferable.

[6] Since we only have access to data on accepted new EI claimants and the number of weeks of benefits paid in a month, we can only reasonably estimate the average number of weeks per claimant on an annual basis. The minimum weeks of EI benefits (14) are in excess of a month. Therefore, the average weeks per beneficiary for each month would not be representative of the average number of weeks actually paid to each claimant. Moreover, Canada lack published data on the gross number of EI beneficiaries. The reported number of beneficiaries is a monthly average.

[7] The number of departures is calculated as the difference in EI beneficiaries between two months added to the number of new claimants. The "Departure Rate" is calculated as the number of departures divided by the beneficiaries in the previous month. For instance, assume 1000 beneficiaries in October and 900 in November but 200 new claimants were allowed during November. The number of departures is: 1000 – 900 + 200=300. The departure rate is 300/1000=30%. Note that the number of beneficiaries is a monthly average. Therefore, our estimate understates the departure rate during accelerating unemployment since the total number of EI beneficiaries at month-end will be greater than the monthly average.

[8] Eligibility and benefit duration are decided at the regional level but, since the available data does not allow our calculation of a departure rate for each region, we use to the provincial unemployment rate as a proxy for an average unemployed worker's access to EI.

[9] Note that our estimates of beneficiaries-to-unemployed differ from those provided in the EI Monitoring and Assessment reports, published by HRSDC (See: http://www.hrsdc.gc.ca/eng/employment/ei/monitoring_assessment/index.shtml). We use seasonally unadjusted data on unemployment and EI beneficiaries. HRSDC reports that they use seasonally adjusted unemployment data. Since we use seasonally unadjusted data on EI beneficiaries, we regard it preferable to use comparable seasonally unadjusted data for unemployment.

[10] Note that the calculated beneficiaries-to-unemployment ratio was above 100% in the Atlantic region before the mid-1990s. This is partially explained by differences in data sources: EI beneficiaries are reported totals from HRSDC's administrative database while unemployment is obtained from Statistics Canada's Labour Force Survey (LFS), representing an estimated total. However, since the estimation errors for the LFS are relatively small for annual unemployment, we do not regard the difference as statistical. Rather it is definitional: In the LFS, an EI beneficiary could report that they are not seeking work, and that respondent would be coded as "not in the labour force". That is, while "unemployed" from the perspective of the EI program, that individual is "not in the labour force" from the perspective of the LFS.

[11] A precise figure for the number of weeks that an initial claim is held open was not available from HRSDC at the time of this publication. The length of time that a claim is held open would have obvious equity implications: in absence of accumulating additional hours, a worker laid off earlier in a downturn who was initially ineligible and whose claim closed would remain ineligible even if unemployment rose and the VER lowered.

[12] The estimates of EI coverage for the Atlantic are of marginal quality with coefficients of variation ranging between 16% and 33%.

[13] The use of the 3-month moving average is needed to smooth statistical errors in the monthly estimation of unemployment for small areas using the Labour Force Survey (LFS).

[14] Audit and Evaluation Directorate, Human Resources and Social Development Canada "Summative Evaluation of EI Part I: A summary of Evaluation Knowledge to Date" HRSDC (SP-AH-685-06-06E), June 2006.

[15] In 2002 and 2003, the EI Act was amended to delegate rate-setting to the Governor in Council until the government had established a new rate-setting process. Consultations had not been completed by 2004 and the new framework was not in place for 2005. In 2004, parliament itself set the premium rates. However, for 2005, cabinet set the rates.

In Conféderation des syndicats nationaux (CSN) v. Canada (2008), the Supreme Court of Canada upheld the delegation of rate-setting powers to

the EI Commssion, as well as found that parliament's rate-setting in 2005 represented an appropriate exercise of its taxation powers. However, the Court found that the process followed during 2002, 2003, and 2005 was unconstitutional. In delegating rate-setting to the EIC, Parliament had included specific criteria on which the EIC was to make its decision. Since the delegation of authority to the Governor in Council did not include any such criteria and since any surplus flowed to the government's consolidated revenue fund, the relationship between the levy and regulatory scheme disappeared. Parliament had effectively delegated its authority over taxation to cabinet. The court viewed this as a violation of the "no taxation without representation" principle and observed that parliament may only delegate its taxation authority expressly and unambiguously. Since the 2002 and 2005 amendments to the EI Act did not explicitly provide for delegation of taxation authority, these processes were unconstitutional.

[16] Summaries of these consultations were prepared by the Department of Finance and are available at: http://www.fin.gc.ca/consultresp/Summaries/eiratesSum_-eng.asp

For a discussion of the new mechanism and its rationale, see Kerr, K.B. (2005) "Employment Insurance Premiums: In Search of a Genuine Rate-Setting Process." Library of Parliament, PRB 03-41E (http://www.parl.gc.ca/information/library/PRBpubs/prb0341-e.htm).

[17] We use these forecast for the next five years and assume 6.9% unemployment (the average rate from 1999-2008), 2% inflation (the Bank of Canada's target for core inflation) and 4% nominal wage growth for the 2014-2019 horizon.

[18] In the Supreme Court decision on CSN v. Canada (2008), the Court upheld the constitutionality of including of these programs into EI, observing that active intervention in labour markets was a "natural evolution" of the unemployment insurance power conferred on the Parliament of Canada. However, while constitutional, we contend that the inclusion of these measures within EI is not appropriate from a public policy perspective.

[19] Courchene, T.J and Allan, J.R. "Finding a Balance: Assessing Budget 2009." *Policy Options*, March 2009.

[20] In order to compute the MIE, the average weekly earnings for the previous two years are provided directly by StatCan from time series 281-0026. The projection of average weekly earnings for the coming year is forecast by applying growth rate between the past two years to the average weekly earnings of the past year. The yearly amount is then rounded down to the nearest multiple of 100.

[21] Obviously one of the chief economic benefits of mobility rights is that labour migrates in search of employment, equalizing job prospects between regions. Indeed, one of the main arguments against the VER structure of EI is that it acts as a disincentive to labour migration. In our stylized example, job prospects are actually better in the high unemployment region than in the lower employment region. This example is therefore consistent with our contention that, even if workers do migrate, the unemployment rate is the wrong indicator for the VER.

[22] While Statistics Canada does not presently produce a job vacancy rate, Both the U.S. and Australia produce job vacancy statistics on a regional basis. A job vacancy is defined according to two criteria: 1) an employee job exists that is available for immediate filling on the survey day; and 2) employers have undertaken active recruitment. Jobs of less than one-day duration are excluded from the vacancy count, as are contract positions, positions to be filled by contract agencies, or those to be filled by internal transfers or only posted internally.

[23] This estimate uses data from CANSIM Table 282-0041 (LFS estimates job tenure by NAICS and sex). If still employed in their October 2008 job, those with 1-3 months tenure in October 2008 would be assumed to hold 4-6 months tenure in January 2009. The difference between these two datapoints then represents the change in employment within the group with 1-3 months employment in October 2008.