

Focusing on Fairness

Small Business Perspective on Potential Reforms to the EI System

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Prior to the pandemic, the federal government was mulling over changes to the Employment Insurance (EI) system. Now that COVID-19 has profoundly changed the environment in which small businesses are operating, the government must consider the new needs and realities of small business – as well as ensuring that the system remains fair to those who pay for it. The government should also ask itself whether now is the best time to impose significant changes that could have an impact on costs, training and hiring for small businesses, many of which are still struggling to stay afloat.

Introduction

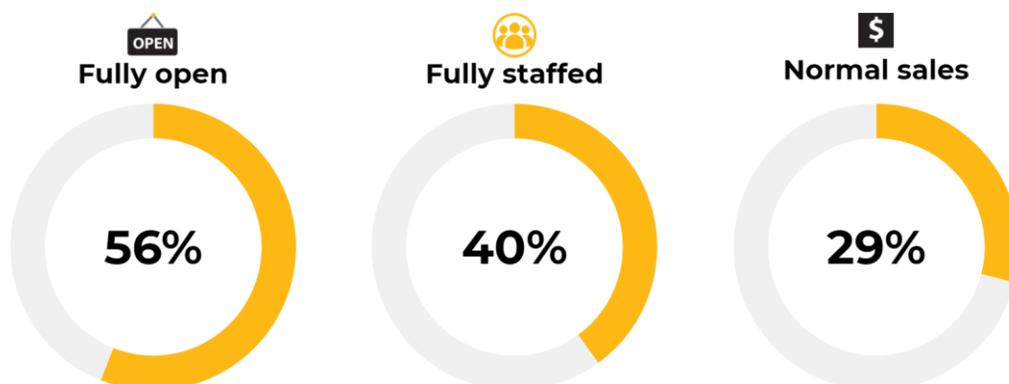
The state of small businesses

More than a year into the pandemic, small- and medium-sized enterprises (SMEs) have been forced to significantly shift the way they operate and do business. While vaccination campaigns are now under way, restrictions could likely be in place for the foreseeable future, meaning that it will not be business as usual for some time. As a result, undertaking significant changes to the EI system at this time could have unintended consequences on the recovery of small business and the economy. Understanding that small businesses are more payroll intensive than larger firms, any increase in EI premiums hits them harder. Furthermore, payroll taxes like EI are profit insensitive, meaning that the business must pay them regardless of whether they make any revenue or not.

As of April 2021, 56% of businesses are now open, only 40% are fully staffed and 29% are reporting normal sales.¹ This means that most small businesses across the country are still facing major cash flow issues. CFIB's March Business Barometer shows that 51% of small businesses consider wages to be a major cost constraint for their business, and 49% reported

¹ CFIB, Your Voice Survey – April 2021 preliminary results, April 8-13 2021, n=3,744.

that taxes and regulations were a constraint.² Cashflow issues have forced a large number of SMEs to take on additional debt in order to stay open. Recent CFIB research found that 73% of small business owners have taken on new debt due to COVID-19, with an average debt load of \$170,000.



Source: CFIB, Your Voice Survey – April 2021 preliminary results, April 8-13 2021, n=3,744.

In the midst of the pandemic, small businesses were dealt another financial blow in the form of another round of Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) increases as of January 1st, 2021. Payroll tax increases such as these make it more expensive for struggling business owners to rehire staff they were forced to lay off, provide training or hire new staff. Post-pandemic, connecting employers and employees will be one of the key elements to economic recovery. Therefore, governments must ensure that small businesses can afford to hire and train their workers.

The impact of COVID on the EI system

Small business owners understand that the government was forced to take immediate and significant actions to protect the livelihoods of employers and employees as a result of the pandemic. The Canada Emergency Response Benefit (CERB), which then became the Canada Recovery Benefit (CRB), was a necessary program for many Canadians. In fact, 28% of small business owners reported accessing one of these programs themselves.³ While these programs are necessary in the context of the pandemic, we strongly caution against making them permanent.

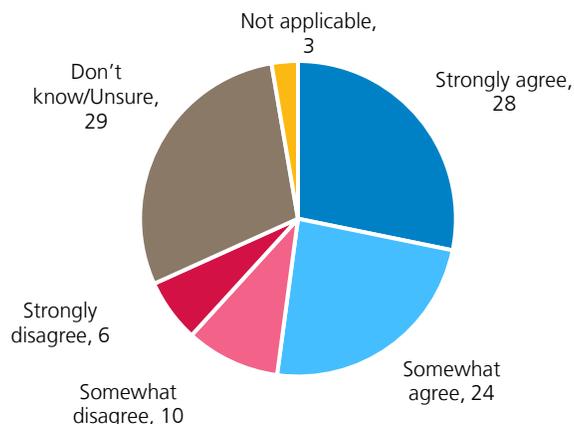
There are also concerns around the costs of these programs being folded into the EI system. Just over half of small businesses (52%) say they do not want general COVID-19 emergency programs, such as the CERB and any new EI measures to address COVID-19 impacts, to be paid for through the EI system (Figure 1).

² CFIB, Business Barometer, March 2-15, 2021, n=985.

³ CFIB, Your Voice – January 2021 Survey, Jan. 12-31, 2021, n = 7, 096.

Figure 1

“General COVID-19 emergency programs, such as CERB and any new Employment Insurance (EI) measures to address COVID-19 impacts specifically, should not be paid for through the EI system.” (% response)



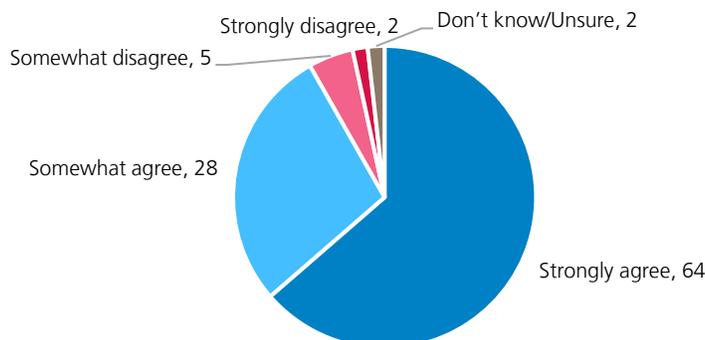
Source: CFIB, Your Business and COVID-19 Survey, August 13 - August 26, 2020, n=5,487.

SME views on the current EI system

The vast majority of small business owners (92%) see the EI system as primarily a job-loss insurance program and should only cover those who pay into it (Figure 2). Unlike other government programs, the EI system is entirely funded by employers and employees who contribute by paying EI premiums on their payroll. Employers pay 60% of EI premiums and employees pay the remaining 40%. For employees, EI is an insurance system they can tap into if needed, but it is a payroll tax for employers. Making the decision to lay off an employee is never an easy one to make, therefore, they want to ensure that their employees have support should they ever need it.

Figure 2

“The EI system should remain primarily a job-loss insurance program and cover only those who pay into it.” (% response)



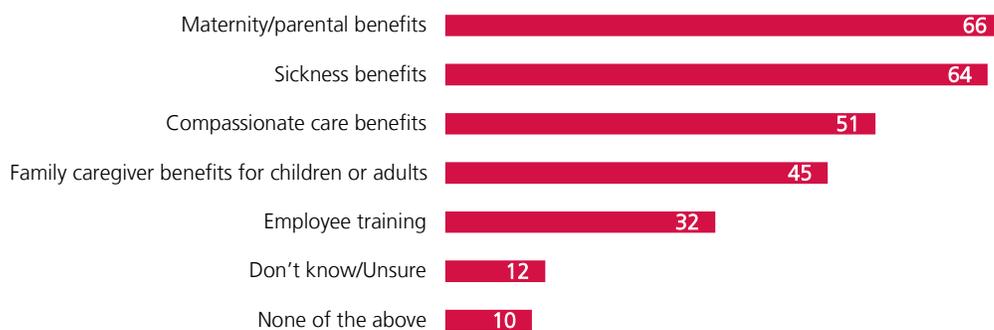
Source: CFIB, EI Survey, Jan. 28 – Feb. 17, 2021, n=4,901.

Support for special benefits and training

A portion of the EI fund is also dedicated to funding special benefits. Small business owners are largely supportive of having EI include maternity and parental benefits (66%), and sickness benefits (64%), which have been part of the EI system for a long time. Support is more muted for newer benefits such as compassionate care (51%) and family caregiver (45%) (Figure 3).

Figure 3

Which of the following special benefits should be financed through the EI fund? (Select as many as apply) (% response)



Source: CFIB, EI Survey, Jan. 28 – Feb. 17, 2021, n=4,901.

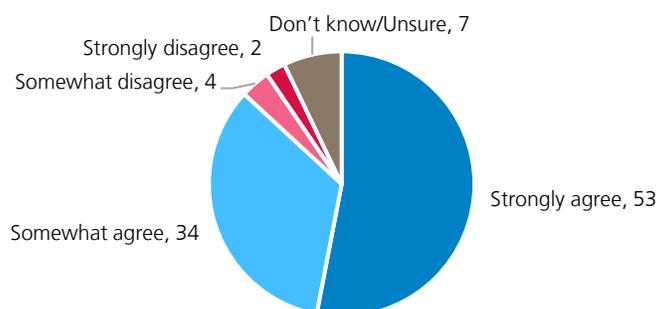
However, support for training benefits is lower (32%) among small businesses. This lack of support likely reflects the fact that small business owners are largely unaware of the various programs offered through the EI system. Previous CFIB research found that 71% were unaware of the Canada Job Grant; 64% were unaware of the Work-Sharing Program; 59% were unaware of the Canada Job Bank; and 53% were unaware of apprenticeship tax credits.⁴ For example, over \$2 billion per year from the EI fund is invested through provincial and territorial Labour Market Development Agreements (LMDAs); however, it is often unclear where the funds are invested. More transparency is needed around how these funds are used and efforts are needed to increase awareness of how to access them among small business owners.

Furthermore, SMEs most often provide on-the-job informal training that is not recognized by government training programs. It is therefore important that training programs funded through the EI system are designed to meet the needs of employers who pay for them by matching the skills training most needed, and recognizing informal training. Eighty-seven percent of small businesses believe that EI-funded training programs must be aligned with the needs of employers (Figure 4).

⁴ CFIB, Employment Insurance Survey, March-April 2016, n=7,880.

Figure 4

“Training programs paid for by the EI system should be aligned with business needs and priorities.”
(% response)



Source: CFIB, EI Survey, Jan. 28 – Feb. 17, 2021, n=4,901.

In the 2019 federal budget, the government announced the creation of the Canada Training Benefit (CTB), however few details have been released since then. This benefit could be positive for both employers and employees during the post-pandemic recovery if the government includes the needs of small businesses in its design. However, if employers are required to provide leave and job-protection to employees regardless of the type of training an employee wishes to pursue, it could have significant negative impacts on many employers still focused on trying to salvage their business.

Reforms to the EI system

As small businesses continue to struggle in the midst of the pandemic, now is not the time for the government to introduce significant reforms to the EI system which could result in additional costs. We are concerned that such changes could result in higher EI premiums down the road for small businesses who will not likely be able to easily absorb new costs to hiring for years to come. To ensure the future sustainability of the EI system, the government must not overload it with additional costs related to the pandemic. According to the Parliamentary Budget Office (PBO), the EI Operating Account will go from having a slight surplus in 2019-2020 to having a cumulative deficit of \$52 billion by the end of 2024.⁵

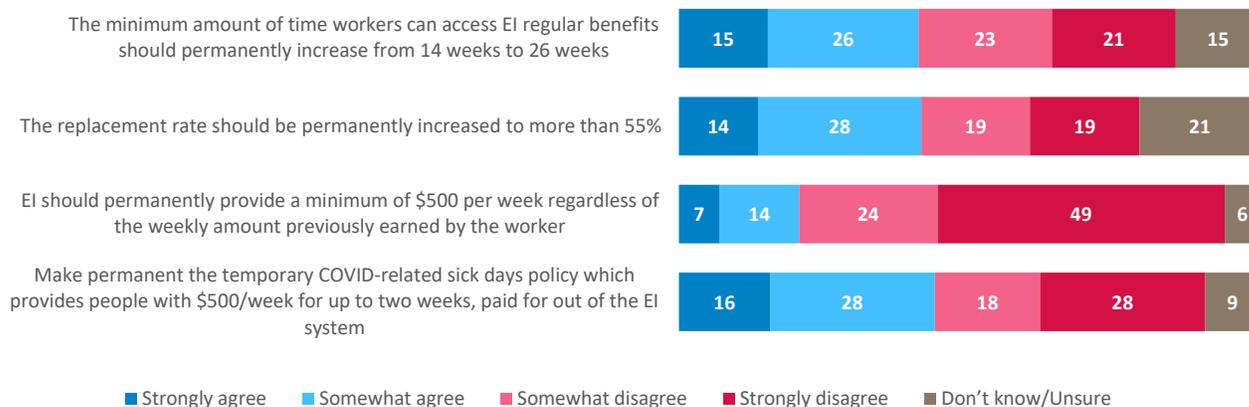
COVID-related supports

While the temporary supports and modifications to EI have been necessary to help many workers cope with COVID-19, these should not be made permanent without a rigorous cost analysis and significant consultations with employers who would bear a lot of the costs. Small businesses are quite split on whether most initiatives introduced during COVID-19 should be made permanent (Figure 5).

⁵ Office of the Parliamentary Budget Officer, Fall Economic Statement 2020: Issues for Parliamentarians, December 10, 2020.

Figure 5

To what extent do you agree or disagree with making each of the following COVID-19 EI related measures permanent? (Select one for each line) (% response)

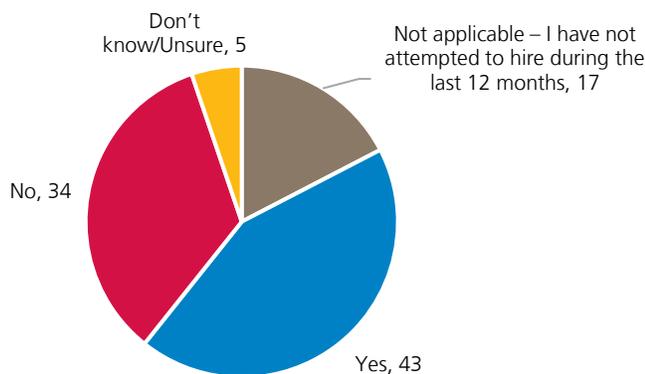


Source: CFIB, EI Survey, Jan. 28 – Feb. 17, 2021, n=4,901.

However, there is strong opposition to whether there should be a minimum amount of EI coverage (e.g., \$500) regardless of what an employee previously earned. Seventy-three per cent of small business owners do not think that the government should make this a permanent aspect of the EI system as it could be a disincentive to returning to the workplace. When asked whether they had difficulty hiring people because they suspected would rather collect EI or other COVID-related benefits, 43% said this was the case (see Figure 6). This number was especially high in the hospitality sector, where 64% of business owners said they had experienced this difficulty.

Figure 6

During the last 12 months, did your business have any difficulty retaining and/or hiring people because you suspect they would rather collect EI or other COVID-related income support benefits? (Select one answer only) (% response)



Source: CFIB, EI Survey, Jan. 28 – Feb. 17, 2021, n=4,901.

It is important that EI benefits not make anyone better off than if they were working. In order to work as intended, the EI system needs to be a temporary bridge that helps to support employees between jobs and enable them to look for work.

“I saw SO many people sit on CERB instead of go back to work because it was such easy money, and the abuse is appalling. It should be a safety net for those who have been employed and contributed to it to fall back on while searching for work, or for those same contributors to utilize during illness, injury or parental leave. But it must not be so easily accessible by those who haven't contributed to it, and we must incentivize people to get back to meaningful work. Extending the benefits could be made possible, but circumstances must dictate the need.”

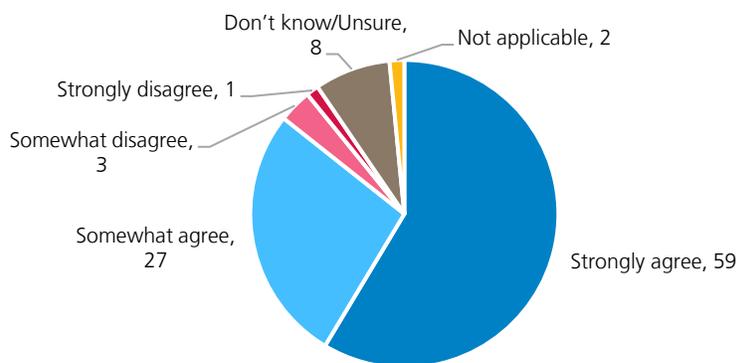
Financial services, Alberta

Consultations are essential

If the government contemplates any permanent changes to the EI system, consultations with those who pay for it – employers and employees – must come first. Eighty-six per cent of small businesses agree that any EI reforms should require full consultation with workers and employers, as well as a detailed cost analysis (Figure 7). Providing a detailed cost analysis of any proposed changes is important to ensuring that employers are fully aware of the implications on their business and what it could mean for their ability to hire and train workers.

Figure 7

“Any permanent changes to EI (such as easier access or more generous benefits) should require full consultation with workers and employers and detailed cost analysis.” (% response)



Source: CFIB, Your Business and COVID-19 Survey, August 13 - August 26, 2020, n=5,487.

EI coverage for the self-employed

Currently, self-employed individuals (this includes entrepreneurs and those working in the gig economy) are able to access special benefits such as maternity leave on a voluntary basis but cannot qualify for regular EI. Those who chose to opt in and use these special benefits must

then pay EI premiums for the remainder of their working lives. The vast majority (89%) do not want mandatory EI coverage for the self-employed, only 8% would support mandatory coverage (Figure 8). Support for mandatory coverage was highest in in Quebec (14%) and New Brunswick (12%), as well as among those in the administrative sector (13%). Those who are open to voluntary coverage (73%) believe that those who choose to be covered should pay both the employer and employee portion.

Figure 8

What best describes your opinion on regular EI coverage for the self-employed? (Select one answer only) (% response)



Source: CFIB, EI Survey, Jan. 28 – Feb. 17, 2021, n=4,901.

If made mandatory, expanding this safety net without careful consideration may have significant unintended consequences. Self-employed individuals pay into the Canada Pension Plan (CPP), but they are required to pay both the employer and the employee portions of the premium. As this would likely also be the case for EI, it could have significant cost implications for small business owners, particularly as they recover from the effects of the pandemic. As such we are strongly urging the government not to make any EI option for the self-employed mandatory.

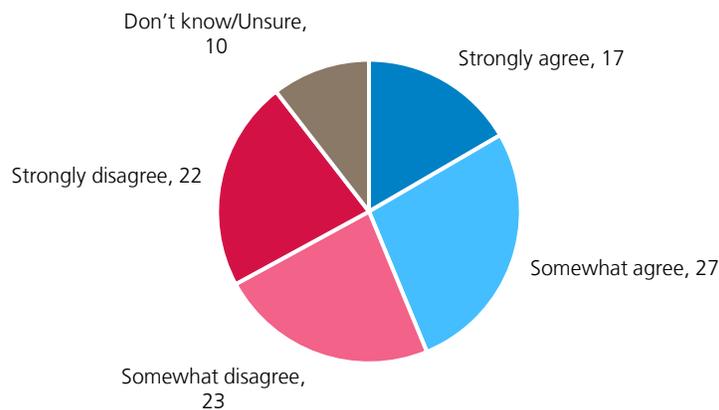
Expanding sickness benefits

As shown above, small business do support funding sickness benefits through the EI system. However, they are split almost 50:50 on the idea of expanding sickness benefits from 15 to 26 weeks (Figure 9). Newer businesses (those in business 4 years or less) tend to be slightly more supportive than older businesses (those in business longer than 11 years). Many small employers either cannot afford or are unable to access health insurance for their employees and may see a benefit to have it offered through EI. Others may worry about the cost implications on the EI system and increases in premiums if benefits were expanded to 26

weeks. In order to fully understand what such a change could mean for their business, the government should provide small business owners with further details on what this would look like, including a detailed cost-analysis, in advance of any consultations.

Figure 9

“Expand the sickness benefit from 15 weeks to 26 weeks.” (% response)



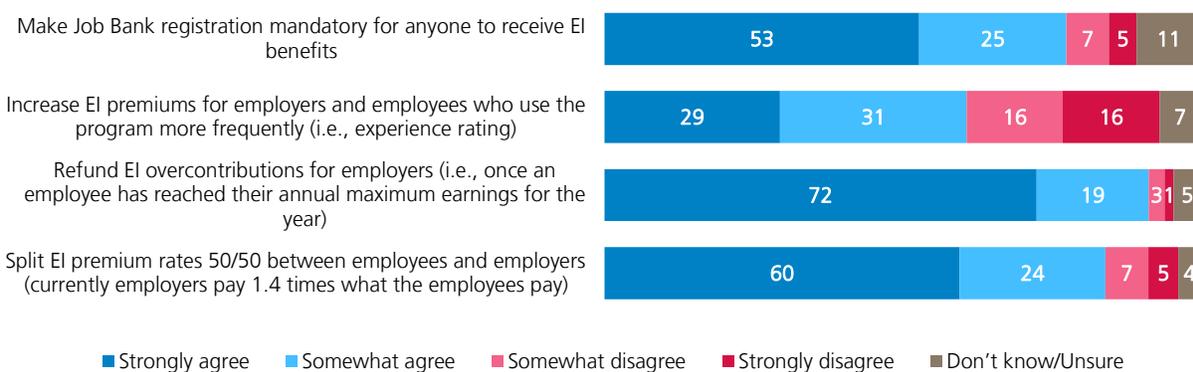
Source: CFIB, EI Survey, Jan. 28 – Feb. 17, 2021, n=4,901.

Bringing fairness to the EI system

One of the things that small business owners want the most in the EI system is fairness. Small business owners currently contribute 1.4 times the employee rate for EI, despite it being a program primarily designed for employees. A move to split EI premiums 50:50 between employers and employees would see significant support from small business owners (Figure 10).

Figure 10

To what extent do you agree or disagree with each of the following potential initiatives to modify the EI system? (Select one for each line) (% response)



Source: CFIB, EI Survey, Jan. 28 – Feb. 17, 2021, n=4,901.

In addition, EI over-contributions (once an employee has reached their annual maximum earnings for the year) by employers are not refunded, but instead are added to the EI account. Conversely, overcontributions by employees are refunded to them at the end of the year on their annual income tax return. Over 90% of employers want governments to refund their overcontributions (Figure 10). At the very least, these funds should be reallocated to a training or job credit for employers. As these issues revolve around fairness, the government should seek to address them as soon as possible if it decides to move forward with any reforms.

Another initiative that employers would like to see is to require employees receiving regular EI benefits to sign up for the Job Bank (78% support). As EI is primarily meant to be a job loss insurance program, small business owners believe that requiring those receiving benefits to register with the Job Bank will help those people search for new employment opportunities.

“The system can be confusing to navigate on one's own. Particularly for employment assistance when someone is first on EI. Service Canada funds numerous programs and projects, and these programs are always looking for people. It should be mandatory for EI recipients of Regular EI to register in at least one of these programs to assist them with the return to work. This will also ensure people are aware of opportunities that are available to them through the EI fund (skills training funding, wage subsidies, transition to work supports, etc.). As we recover out of this Pandemic, these programs can provide an economic boon to job seekers and employers without the government having to spend more money we don't have. Use the programs that are already in place and are being under utilized at the moment.”

Employment agency, British Columbia

Sixty per cent of employers are also supportive of having employers and employees who most frequently access EI (usually in seasonal businesses) pay higher EI premiums (such as an experience rating). Just over half (51%) of seasonal business owners themselves would also be supportive of this initiative.⁶

“As a seasonal business that closes for the month of January, my staff should not be forced to look for a new job while they are on EI if I know that they will be hired back in February. Maybe some sort of percentage payments by both to retain regular staff for business.”

Garden centre, British Columbia

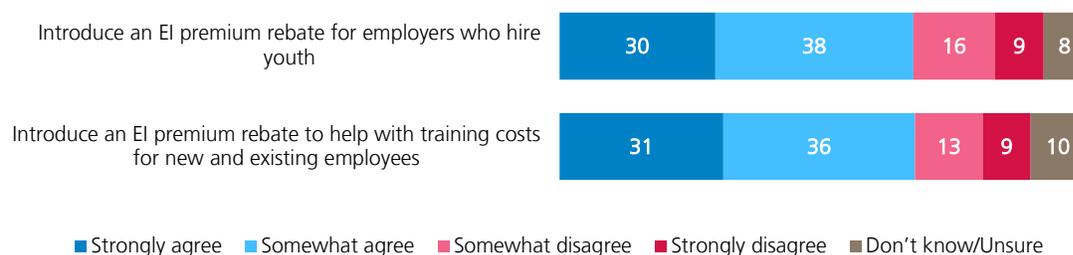
⁶ CFIB EI Survey, Jan. 28 – Feb. 17, 2021, n=4,901.

Hiring and training support

Reuniting employers and employees will be a key part of economic recovery post-pandemic. However, as mentioned above, increases in CPP/QPP premiums will make it more costly to hire back workers. Additionally, young workers with less work experience will have a harder time finding employment opportunities, as it is costlier to train them and takes longer for them to become productive in the workplace. Providing significant hiring incentives can be a way to help encourage investments in hiring and training, as well as offset the cost of CPP/QPP increases. An EI premium rebate to help with training costs for current and new employees would be welcomed by a majority of small businesses (67%) (Figure 11).

Figure 11

To what extent do you agree or disagree with each of the following potential initiatives to modify the EI system? (Select one for each line) (% response)



Source: CFIB, EI Survey, Jan. 28 – Feb. 17, 2021, n=4,901.

Close to seven in ten small businesses would also support an EI premium rebate for hiring youth. This was also a promise made in the 2015 Liberal Election platform that has yet to be acted on. The changes made to the Canada Summer Jobs program in light of the pandemic, namely the 75% wage subsidy, extending it to year-round and allowing part-time work, are helpful to small businesses looking to hire younger workers. Making these permanent could be another way to incent youth hiring post-pandemic.

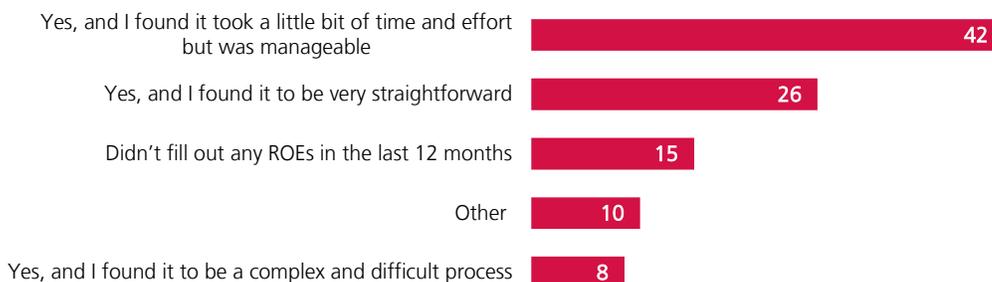
If the government does not implement a 50:50 split in premiums, as suggested above, we recommend that it implements a small business EI job credit which effectively lowers the EI rate for small employers from 1.4 times the employee rate to 1.2 times to reflect the higher impact payroll taxes have on smaller employers. It is also important for policymakers to keep in mind that, when implementing initiatives such as these, any EI rebate or credit should be easy to access and require a minimal amount of red tape from employers.

Reducing red tape

In addition to the direct costs of EI premiums, dealing with the associated red tape (i.e. Records of Employment (ROE), payroll remittances) can be costly and time consuming for small business owners. Only about a quarter of business owners said that they found the ROE process to be very straight forward (Figure 12). While the ROE process and the forms themselves have improved over the last few years, particularly with the introduction of E-ROEs, there are still improvements to be made in simplifying the process.

Figure 12

Has your business had to fill out any Records of Employment (ROE) in the last 12 months and if so, what was your experience completing the ROEs? (Select one answer only) (% response)



Source: CFIB, EI Survey, Jan. 28 – Feb. 17, 2021, n=4,901.

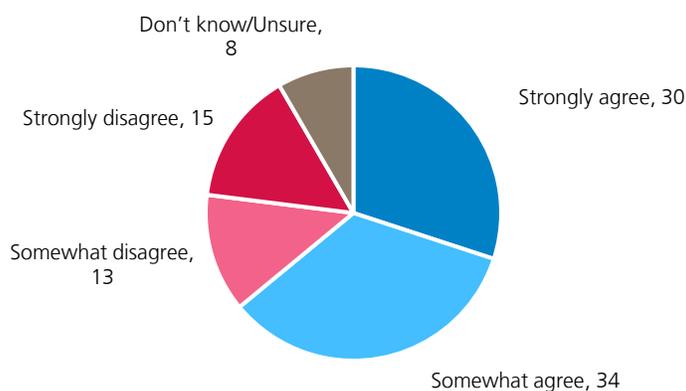
“Processing an ROE for an employee was most difficult especially considering the employee that was heading for an apprenticeship was right before Christmas. The Government lines are always busy and the contact numbers they have posted on the website are not accurate.”

Garage door supplier, Alberta

The government recently explored the potential of introducing an e-payroll initiative which would automatically send payroll information to the government from employers. The majority of businesses (64%) said that they would be comfortable with sharing this information with the government electronically if this meant reducing their administrative and paper burden (see Figure 13). Support for information sharing was highest in Quebec (84%) and those in the arts and recreation sector (75%). However, any e-payroll system adopted by the government must be simple to use and implement and not impose a significant cost burden on small employers.

Figure 13

I'm comfortable with sharing my payroll information electronically with the federal government if it will reduce my administrative and paper burden.” (% response)



Source: CFIB, EI Survey, Jan. 28 – Feb. 17, 2021, n=4,901.

While simplifying processes and forms is important to reducing red tape, ensuring that business owners can quickly access accurate information is also essential. In 2018, CFIB evaluated the level of service from the Service Canada Call Centre,⁷ which is often accessed by employers looking for information on ROEs. We found that several improvements could be made including creating more awareness of specialty phone lines like the Employer Contact Centre (the information for which is under the ESDC Corporate information web page, where most business owners are unlikely to look). Further improvements can also be made to agent accountability, such as a mandatory ID system similar to CRA's call centres, as well as ensuring agents are aware of any changes in policies or practices and can answer questions accurately. Ensuring that information on the website is accurate, in plain language and easy to find can also go a long way to reducing red tape and improving small business owners' overall experience.

“EI pre-COVID appeared to run smoothly. Post-COVID, there was so much confusion between EI and CERB. Even now for quarantine, EI has been challenging to file and extremely difficult to reach someone. It's common to wait on hold for 2 hours to be hung up on.”

Physiotherapist, Ontario

Conclusion and recommendations

Small businesses will continue to be in a precarious position for the next few years after the pandemic is over, meaning that any additional costs will only prolong their recovery. While there are certainly positive reforms that can immediately be brought to the EI system to increase fairness and reduce red tape, any permanent changes with significant cost implications should not be considered until after the pandemic when the economy has had a chance to recover.

If changes are eventually brought to EI, it is essential that businesses and workers are fully consulted prior to their implementation. The EI system is entirely paid for by employers and employees; therefore, they must have a say in how it operates. As such, CFIB is ready and willing to work with the government on helping to reform the EI system so that it serves the needs of all Canadians who need it.

Summary of Recommendations

- Do not implement any permanent changes to the EI system until the economy has recovered.
- Ensure there is robust consultation with small business and a detailed cost analysis before moving forward with any proposed changes to EI.

⁷ See CFIB's Service Canada Call Centre Report Card: https://www.cfib-fcei.ca/sites/default/files/2019-01/Service%20Canada%20Report%20Card_FINAL_0.pdf

- Make sure that the EI system remains sustainable so that employers and employees are not burdened with eventual increases in EI premiums.
- Ensure that no additional costs related to CERB or CRB are added to the EI system.
- Additional generosity in the EI system introduced during the pandemic should not be paid for through EI premiums.
- Ensure that income support measures do not make anyone better off than when they were working so as not to disincentivize the safe return to work.
- Better align and increase awareness of EI training programs and initiatives with small business needs and ensure they recognize the realities of running a small business. This includes matching the training with the skills small employers need and recognizing informal, on-the-job training and ensure they remain easy to access with a limited amount of associated red tape.
- Do not make EI for the self-employed mandatory.
- Increase the overall fairness of the EI system by:
 - Implementing a 50/50 split in EI premiums so that both employers and employees contribute equally;
 - Allowing business owners to claim employer overcontributions;
 - Requiring employees to sign up for the Job Bank in order to access EI benefits;
 - Considering the proposal to increase EI premiums for employers and employees who use the program more frequently.
- Provide significant hiring and training incentives to employers to help them recover post-pandemic. Any incentives should be easy to access and require a minimal amount of red tape from employers. These could include:
 - An EI premium rebate to help with training costs for new and existing employees;
 - An EI premium rebate for employers who hire youth;
 - An EI credit which effectively lowers the rate that small businesses pay from 1.4 times the employee rate to 1.2 times; and,
 - Make the changes to the Canada Summer Jobs Program permanent (i.e., 75% wage subsidy, allowing part-time work, extending it to year-round).
- Reduce red tape for employers through measures such as:
 - Moving forward with implementing an e-payroll system;
 - Improving customer service at the Service Canada Call centres; and,
 - Ensuring that information provided on the Service Canada website is easy to find and written in plain language.