

For all workers with concurrent benefits affected by the offset provisions, the data show that those with low predisability wages and those with several dependents are likely to have far greater offset of their benefits than other workers do. The wage replacement of concurrent benefits for these workers is much higher than it is for other workers and is generally greater than the amount of wages earned before disability. But, though the percentage of wage replacement is high, the actual dollar amount of combined benefits may be low in terms of an adequate income, even before offset reduction.

Social Security Abroad

Canada's New Unemployment Insurance Act*

A new and liberalized unemployment insurance plan, containing substantial changes in coverage, contributions, and benefits and providing a new sickness and maternity feature, was established under Canada's Unemployment Insurance Act of 1971. Although certain coverage and benefit provisions went into force on June 27, 1971, new premium rates and the extension of coverage will not become effective until January 2, 1972. Other provisions involving extensive administrative changes will be phased into operation over the next 2-3 years.

The reorientation of Canada's unemployment insurance program comes as Canada faces increasing levels of unemployment—exceeding 7 percent at the end of 1971. This rise is ascribed to a growing population, a sharp increase in labor force participation without a corresponding rise in the number of new jobs, and the fluctuating international monetary situation.

The new Act incorporates all the major proposals contained in the Government's *White Paper on Unemployment Insurance* of June 1970, as well as recommendations of the Committee on Labor, Manpower, and Immigration of the House

of Commons. The first major overhaul in the unemployment insurance system since its inception 30 years ago, the Act increases the proportion of all employees protected by unemployment insurance from 80 percent to 96 percent.

BACKGROUND

Unlike the situation in the United States, where unemployment insurance is a State function, in Canada it is a Federal responsibility. This authority is derived from a 1938 amendment to the British North America Act of 1867 that specified unemployment insurance as a subject within the jurisdiction of the Federal Parliament. Until the current legislation, the Unemployment Insurance Act of 1940 and its amendments provided the basic structure of the Canadian program.

Despite amendments and improvements, the system had a number of shortcomings. Periods credited for benefits under the former law emphasized length of time worked, allowing only limited flexibility in providing protection for those workers with short work histories or seasonal occupations. Although the Act was supposed to include all persons employed under a contract of service, a number of specified occupations were excluded, such as certain categories of government workers, teachers, certain employees in charitable institutions or nonprofit hospitals, certain director-officers of corporations, workers earning more than \$7,800 a year, and professional athletes.

Rapid economic and technological change, combined with the mobility of labor, has outdated many of the principles on which these exclusions were originally based. For example, the improvement of wages in hospitals (brought about, in part, because hospitals now receive government financing and no longer must depend on charity or gifts) removed grounds for the exclusion of hospital workers from coverage by unemployment insurance. The exclusion of persons earning over \$7,800 annually was, likewise, recognized as inequitable since this group also faces the hazards of unemployment.

Furthermore, there was a need to relate unemployment benefits more closely to the programs and services of the National Employment Service—counseling, testing, and placement—and to

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shift the emphasis from relieving financial difficulties to a training and placement program. By extending coverage to practically all employees, workers are no longer able to refuse a job because it is not in covered employment.

THE NEW LEGISLATION

The changes in coverage, contributions, and benefits under the Unemployment Insurance Act of 1971 can be summarized as follows:

(1) The extension of coverage, without an income ceiling, to all employees under 70 years of age who are not self-employed (effective January 2, 1972);

(2) the gradual increase in the maximum benefit from the previous ceiling of \$53 a week to \$100 a week (effective June 27, 1971);

(3) the provision of sickness and maternity benefits up to 15 weeks for anyone who qualifies for full unemployment insurance benefits (effective June 27, 1971);

(4) the extension of the benefit period to a maximum of 51 weeks, depending upon the claimant's employment record as well as national and regional unemployment rates (effective June 27, 1971);

(5) a reduction of the contribution rate for employees, with varying rates for large firms, depending upon their average layoff rates over a 3-year period;

(6) an opting-out provision for companies having private sickness plans that meet Federal standards and a provision for a corresponding reduction in employer and employee contributions to the new unemployment insurance plan (effective January 1, 1973);

(7) an automatic annual adjustment of benefits and contributions by wage indices and other factors;

(8) the development of a Claimants Assistance Program that requires claimants to attend interviews designed to help them find jobs; and

(9) the right to a 3-week unemployment benefit before the commencement of their annuity for persons between ages 65 and 70 who opt for retirement under the Canada or Quebec Pension Plans.

Coverage

Under the new Act, all wage and salary workers are covered, as are all Federal Government workers, and those previously excluded workers with incomes above \$7,800 a year. About 1.2 million individuals will be added to the unemployment insurance plan, bringing the total to about

6.5 million wage and salary workers or 96.3 percent of all employees.

Although some self-employed were included under the former Act, all self-employed are excluded under the new Act (except self-employed fishermen, who are covered). Casual workers and persons earning less than \$25 per week are also excluded. Employees of Provincial Governments (who may opt for coverage) and several other special categories of workers are still excluded. In addition, the Act is not applicable to an employed person who is over age 70 or to whom a retirement pension under the Canada Pension Plan or the Quebec Pension Plan has become payable. Previously, workers on other than an hourly, daily, or piece rate who earned more than \$7,800 a year were excluded, unless they elected coverage.

Excluding pensioners under the Canada Pension Plan and the Quebec Pension Plan affects only a small segment of the working force, although the number is expected to grow as the system matures. At present there are only 125,000 persons over age 65 who receive wage-related retirement benefits under these plans as compared with 1.25 million persons who receive universal flat rate benefits under the Old-Age Security Act. Since no retirement test is required for the universal flat-rate pension, persons between ages 65 and 70 will continue to be eligible to receive both this pension and an unemployment benefit.

Contributions

Beginning January 2, 1972, all workers contribute about 0.8 percent of their earnings up to a ceiling of \$7,800 a year or \$150 per week. This ceiling may be adjusted annually according to wage indices. The employer contributions for small enterprises (those with insurable payrolls of less than \$78,000 in 1972) are 140 percent of the employee contributions. Large enterprises contribute from 100–200 percent, depending upon the firm's average layoff rate over a 3-year period. Under the merit-rating system employers with a low dismissal record will find their insurance premium rate reduced.

Eligibility and Benefits

Under the new plan, eligibility for benefits is more closely related to earnings than to contribu-

tions; less emphasis is placed on length of employment. The reduction of the qualifying period permits coverage of workers with short work histories and makes protection available to a far wider range of employees.

After a 2-week waiting period, insured workers can collect cash benefits for as long as 51 weeks, depending upon the length of the claimant's employment history as well as national and regional unemployment rates. The ceiling for cash benefits has been increased from a previous maximum of \$53 a week to \$100 a week.

For a claimant with no dependents, benefits are calculated on the basis of 66⅔ percent of average weekly insurable earnings during the qualifying weeks with a minimum benefit of \$20. A low-income claimant with several dependents or a claimant with dependents whose duration of unemployment is prolonged can draw up to 75 percent of his average weekly earnings.

Eight weeks in insurable employment in the preceding 52 weeks is required for minimum benefits ("minor attachment"), and 20 or more weeks are needed for full benefits ("major attachment"). The claimant must be registered and capable, willing and available for work, but unable to obtain suitable employment, or unable to work because of sickness or maternity. He may be disqualified from receiving benefits for up to 3 weeks if his unemployment is due to voluntary withdrawal from his job, dismissal for misconduct, refusing a suitable employment offer, or failure to undergo directed training. He may be also disqualified for the entire period if his unemployment is due to a labor dispute, imprisonment, or change of residence whether temporarily or permanently outside of Canada.

The new law makes all unemployment insurance benefits taxable. Previously, benefits were tax free.

Sickness and Maternity Benefits

Under the previous legislation, illness was only partially covered and a claimant could only draw benefits if he became ill while claiming compensation or during the 1-week waiting period. The former Act also disqualified pregnant women from unemployment benefits 6 weeks before and 6 weeks after confinement.

A new feature of the 1971 Act provides unemployment cash benefits for temporary loss of earnings due to illness or maternity. The qualifying period in both cases is the same as for full unemployment benefits, 20 weeks of employment during the preceding 52 weeks. Benefits at the rate of two-thirds of weekly earnings up to a maximum of \$100 are payable after a 2-week waiting period and for up to 15 weeks.

The new law does not replace existing public and private programs in the field of sickness and maternity, but is intended to complement them within specific limits. In the case of prolonged illness, for example, the disability provisions of the Canada Pension Plan and the Quebec Pension Plan do not begin until 15 weeks after the disability occurs. The sickness benefit under the new unemployment insurance plan bridges this gap.

FINANCING AND ADMINISTRATION

As under the past legislation, the new Act has a tripartite financial arrangement involving the employer, the employee, and the Federal Government. Under the new Act, however, employees and employers finance the costs of unemployment benefits up to a 4-percent rate of unemployment. (It is estimated that under this arrangement employers will pay approximately 57 percent of the costs and the employees will pay about 43 percent.) The Federal Government subsidizes the plan when the national unemployment rate exceeds 4 percent. (Formerly, the Government paid about 20 percent of the combined contributions of the employer and employee plus the administrative costs, regardless of the level of unemployment.) The Government will also contribute when regional unemployment is 5 percent or more. The duration of these benefits will be extended (up to a maximum of 51 weeks) according to the difference between the national and regional rates.

During the 1960's Canada had an average unemployment rate of 5.1 percent. The Economic Council considered that an unemployment level between 4 percent and 5.1 percent could be regarded as the normal range of full employment.

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TABLE M-3.—Selected social insurance and related programs: Beneficiaries of cash payments, 1940-71

[In thousands. For explanatory footnotes on programs, see table M-1]

At end of selected month	Retirement and disability				Survivor				Railroad temporary disability ⁴	Unemployment			
	OASDHI ¹		Railroad ¹	Federal civil service	Veterans	OASDHI	Railroad	Federal civil service		Veterans ³	State laws ²	Railroad ⁴	Training allowances ⁵
	Retirement ²	Disability											
December													
1940.....	148		146	65	610	74	3			667	74		
1945.....	691		173	92	1,534	597	4			1,743	13		
1950.....	2,326		256	161	2,366	1,152	142	25	1,010	838	35		
1955.....	5,788		427	234	2,707	2,172	206	74	1,156	912	48		
1960.....	10,599	687	553	379	3,064	3,558	256	154	1,393	2,165	102		
1961.....	11,655	1,027	567	408	3,137	3,812	262	167	1,547	1,993	75	(7)	
1962.....	12,675	1,275	585	438	3,177	4,103	270	182	1,653	1,585	59	3	
1963.....	13,262	1,452	594	465	3,195	4,321	278	197	1,750	1,609	49	21	
1964.....	13,697	1,563	600	494	3,204	4,539	286	214	1,848	1,351	41	51	
1965.....	14,175	1,739	620	522	3,216	4,953	291	227	1,924	1,035	30	67	
1966.....	15,437	1,970	630	564	3,194	5,360	299	240	1,995	936	18	65	
1967.....	15,907	2,141	641	588	3,175	5,659	309	258	2,077	989	39	67	
1968.....	16,264	2,335	647	613	3,171	5,963	318	274	2,151	941	19	61	
1969.....	16,595	2,488	651	636	3,179	6,229	321	288	2,208	1,084	16	52	
1970.....	17,100	2,666	653	697	3,210	6,469	326	308	2,301	2,045	21	60	
1970													
October.....	17,028	2,622	652	682	3,201	6,420	325	304		24	1,484	21	64
November.....	17,058	2,645	653	690	3,205	6,444	326	306		24	1,660	19	64
December.....	17,100	2,666	653	697	3,210	6,469	326	308	2,301	22	2,045	21	60
1971													
January.....	17,124	2,687	655	700	3,193	6,500	327	309		24	2,461	27	68
February.....	17,244	2,701	656	701	3,195	6,522	327	310		25	2,319	36	72
March.....	17,183	2,726	656	703	3,202	6,521	328	312	2,311	27	2,503	30	74
April.....	17,278	2,766	658	706	3,211	6,554	328	314		25	2,260	55	75
May.....	17,270	2,773	658	708	3,216	6,576	329	316		21	1,908	28	73
June.....	17,332	2,788	656	711	3,222	6,582	330	315	2,333	24	1,858	32	74
July.....	17,411	2,799	656	738	3,228	6,571	329	317		21	1,603	45	73
August.....	17,515	2,832	657	741	3,233	6,599	330	318		22	1,606	47	69
September.....	17,579	2,882	660	742	3,236	6,610	330	319	2,297	21	(6)	76	68
October.....	17,608	2,890	659	744	3,241	6,646	329	321		21	(8)	56	68

¹ Includes dependents

² Beginning Oct. 1966, includes special benefits authorized by 1966 legislation for persons aged 72 and over and not insured under the regular or transitional provisions of the Social Security Act

³ Monthly number at end of quarter

⁴ Average number during 14-day registration period

⁵ Average weekly number. For programs included see table M-1, footnote 10

⁶ Unemployed workers in training under the Area Redevelopment Act of 1961 (November 1961-June 1966) and the Manpower Development and Training Act of 1962

⁷ Less than 500

⁸ Data not available.

Source: Based on reports of administrative agencies.

SOCIAL SECURITY ABROAD

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The Government therefore begins subsidization when the unemployment rate is at the lower limit of the range.

All contributions to the new unemployment insurance plan are tax deductible, as are contributions to the Canada Pension Plan and the Quebec Pension Plan. Employees will pay contributions at the new rates ranging from 0.71-0.88 percent of insured earnings (depending on the average

unemployment rate) beginning January 2, 1972.

The program is administered by the Unemployment Insurance Commission, an agency located outside the Department of Labor, but directly responsible to the Labor Minister. The Commission is composed of three persons appointed by the Governor in Council—a Chief Commissioner and two other Commissioners (one of whom is appointed after consultation with employer organizations and the other after consultation with employee organizations).