# THINKING ABOUT HOW TO FINANCE NEW PARENTAL BENEFITS

## I. THREE KINDS OF PROGRAMMES: SOCIAL INSURANCE, UNIVERSAL PROGRAMMES, ASSISTANCE

Public income security programmes for individuals can take three forms. Each kind targets different kinds of beneficiaries and requires a different type of financing. Here the different kinds of programme will be defined relative to the objective of providing maternity, paternity, adoption and parental benefits for new parents and eventually for all parents with dependent children.

### Social insurance

The purpose of an (income) **insurance** programme is to **replace the employment income** of those covered in the case where they are affected by an unpredictable event: unemployment, work accident or illness, death of a spouse or a parent, unknown length of life in the case of a pension plan, etc. The concept of insurance also implies that benefits are **financed by the contributions of the plan members or their employers.**

In general, a **social (or public)** insurance programme, as opposed to a private plan, provides for a certain amount of **cross-financing between groups** who are subject to different levels of risk. For example, we know that certain groups – depending on the industry, the region or the type of occupation, etc. - are more likely to become unemployed than others. Nevertheless, all workers are obliged to contribute to unemployment insurance because society considers that the high risk of workers in the construction, fashion or teaching industries is endemic to an industrial economy or a characteristic of a seasonal occupation and not the result of individual behaviour. The UI contributions of people who have a low risk of becoming unemployed represent their share of the cost that is born disproportionately by those who have a high risk. For the same reason, in a public pension plan women pay the same rate of contribution as men and receive the same benefits even though, on average, they live longer. In contrast, when a person converts an RRSP into an annuity at retirement, a woman has to pay more to obtain the same benefit as a man because this is a form of private insurance.

Strictly speaking, with few exceptions **becoming a parent is not an unpredictable or random event**. For this reason, certain analysts have criticized the use of an insurance scheme to provide parental benefits. However, for historical reasons related to the way in which our social safety net has developed, and in order to promote women's equality in the labour market, parental benefits are provided as part of the unemployment insurance programme in Canada. The **social - rather than the insurance - element is dominant:** men of all ages and older women agree to contribute to this programme because they consider that it is their way of sharing the economic burden borne mainly by young women in the period surrounding birth or adoption. Obviously the granting of paternity or parental benefits to new fathers helps reinforce social solidarity and

spreads the economic burden more fairly. In most European countries, a single social insurance programme covers several different risks and, in exchange for parental benefits, young women contribute to the higher risk of disability to which older men are subject. In Canada, because of the division of powers between the federal and the provincial levels of government where income security is concerned, our insurance plans are separated into different programmes.

In general, **social insurance plans are more generous** than universal or assistance programmes and they are **more politically stable** because people, having contributed to the plan, feel that they have a right to benefits.

**Universal programmes**

A **universal programme** provides a **benefit either to the entire population** (ex : health care) **or** to a **particular demographic group** (children, the elderly, new parents, etc.) because society considers either that there is a **basic need** or that such a benefit is a kind of **citizenship right**. In Canada, the main universal programmes are health and educational services and during certain periods, family allowances and the Old Age Security benefit (OAS).

At different moments and to different degrees, these programmes may have been financed by a specific tax or by employee-employer contributions (ex : Old age security tax from the 1950s to the 1970s or health-insurance taxes in many of the provinces). However, in general, it is fairer, simpler and more logical to finance them from the government's general funds.

Over the years, there have been various kinds of universal family allowances targeted to the newborn, particularly in Quebec: for example **birth allowances** from 1986 to 1996 of **$**500 for a first child, $1,000 for a second and $8,000$ (spread out over 5 years at $1,600 per year) for children of subsequent rank. It was this last amount, in particular, which resembled a kind of recognition – minimal nonetheless - of the work done by at-home mothers.

There was also the **Quebec Maternity Allowance** (**Programme d'allocation de maternité** or **PRALMA**) which gave $360 to compensate for the two-week waiting period for unemployment-insurance benefits. This programme - that was no longer needed after 2006 when the Quebec Parental Insurance Programme took effect – was neither an insurance programme because there were no contributions, nor a universal programme because only those women who were eligible for unemployment insurance received it. In addition, in its latter years, it was partly an assistance programme because women with a family income above $55,000 were not entitled to it.

The **Canada Universal Child Care Plan,** which provides $100 a month of taxable benefits for each child under six, is another example of a universal program targeted not only to newborns but to all young children. Although it is completely ineffective as a way of providing child care, as a support program, the fact that it is universal – paid both to mothers at home and employed mothers – means that it does not constitute a major obstacle to women's entering the labour market in the same way that a benefit given only to women at home would be.

### Assistance Programmes

The purpose of an assistance programme is to **help poor households** and, for that reason, it has an **income test**. Above a certain threshold, the benefit is "clawed back" at a specified rate. Eventually, the benefit is reduced either to the level of a universal floor (ex: Support for children in Quebec) or to $0 (ex: Canada Child Tax Benefit – CCTB).

Assistance programmes are financed by general government revenues and they are generally rather meagre.

Over the last 30 years, the Canadian government and most of the provincial governments have converted a number of universal programmes to assistance plans (ex : Old Age Security, federal family allowances converted to the CCTB). Claw-back thresholds may be low to exclude the middle class or fairly high as in the case of OAS.

The obligation for people with an income a little higher than the average to reimburse part or all of their unemployment benefits is another example of this tendency. Between 1979 and 1999, people – mainly women - with income above a certain threshold had to reimburse part or all of their UI maternity, adoption or parental benefits. For persons who had received more than 20 weeks of benefits (of any kind) during the preceding 5 years, the clawback rate was as much as 100% of income above $39,000. In 2000, this provision was abolished for special benefits and relaxed somewhat for unemployment benefits.

We might also note that provincial social welfare programmes can be considered as a form of assistance for mothers with newborn or young children, especially single mothers. In these cases, eligibility is based on family, rather than individual, income as was the case in Employment Insurance. Most provinces give a little more to parents with very young children than to other welfare recipients but the definition of a child young enough to justify the mother not working varies from six months in Alberta to five years in Quebec.

## II. THE STRUCTURE AND FINANCING OF NEW PARENTAL BENEFITS IN CANADA

### Improving Unemployment Insurance Benefits

The platform developed by the NAWL working committee calls for an improvement of existing EI benefits as a first step. This proposal takes as a given that these benefits will take the form of social insurance and that they will continue to be financed mainly by employee-employer contributions.

*Is it possible for the government to contribute?* Up until 1990, the federal government contributed quite large sums to the unemployment insurance programme either to pay for the

extension of the duration of certain kinds of benefits, or to finance special measures, particularly training and reinsertion programmes. Since 1989, it no longer contributes anything. Although it was never formally admitted, this withdrawal is probably linked to the Free Trade Agreement (FTA – the predecessor of NAFTA) with the United States.

In the United States, unemployment-insurance programmes are under state jurisdiction and employer contributions are fixed as a function of their layoff record (experience rating). In other words, the plan considers that a firm is able to control the rhythm of its production over the year. If it decides to layoff part of its manpower for a certain period each year, it gains a competitive advantage because it doesn't have to pay full-year salaries. For that reason, it is required to pay the cost of unemployment insurance for its workers. The Americans are therefore of the opinion that any governmental contribution to our UI plan constitutes a subsidy to firms and an unfair trade advantage. They raised this question specifically with regard to fishing benefits during the free-trade negotiations. After the treaty was signed, we heard no more about this issue but it was at that point that the Conservative government adopted Bill C-21 which withdrew all public contributions to UI.

*Would the American government consider a government contribution for parental benefits an unfair trade advantage?* The answer is not obvious because American unemployment programmes don't provide parental benefits. On the other hand, the only maternity benefits women may receive, with few exceptions, come from private health-insurance programmes paid for entirely by employers and their employees.

*How much would the NAWL proposals cost?*

Without the data and the time required, it's not possible to do an actuarial analysis of the NAWL proposals. Here, however, are some reference points:

For the fiscal year running from April 1, 2005 to March 31, 2006, maternity and parental benefits cost $3,128.3 million or 19,5 % of the total cost of EI benefits.[1]

| | Millions |
|---|---|
| Maternity benefits | $ 941.4 |
| Parental benefits (biological parents) | $ 2,156.9 |
| Parental benefits (adoptive parents) | $ 30.0 |
| Total | $ 3,128.3 |

For 2007, the Chief Actuary projects expenditure of $2,571 million for these benefits or 15.7% of the total, a decline because Quebec has withdrawn from this component of EI.[2]

[1] Canada Employment Insurance Commission, Monitoring and Assessment Report, p. 70, 88-90. Note that Quebec parents who had begun to receive EI benefits in 2005 may have continued to receive them in 2006. Nevertheless, these figures represent a decrease relative to what a full year of benefits would have cost.

Table 1 below compares the rates of contribution in Quebec with the reduction of 0.34% granted by EI to Quebec residents in 2007, a reduction which represents the cost of maternity and parental benefits in the EI programme. Note, however, that maximum insurable earnings in Quebec are $59,000 whereas the EI ceiling is $40,000. A higher level of contribution would therefore be necessary to insure the same level of benefits in EI than in the Quebec plan. In addition, the NAWL platform contains a number of improvements over the Quebec programme.

In sum, the NAWL proposals would cost somewhat more than the 0.416% paid by employees in Quebec, a figure which represents an increase of 0.076% relative to the current rate of contribution to EI.

**Table 1 : Comparison between the Quebec Parental Insurance Plan contribution rate and the reduction granted by the Employment Insurance programme by type of contributor and income level, 2007**

| Salary level | Contribution Québec | Employment insurance reduction | Difference |
|---|---|---|---|
| **Employees** | **0.416 %** | **0.340 %** | **0.076 %** |
| $ 20,000 | $ 83.20 | $ 68.00 | $ 15.20 |
| $ 40,000 | $ 166.40 | $ 132.60 | $ 30.40 |
| $ 59,000 | $ 245.44 | $ 132.60 | $ 109.44 |
| **Employers** | **0.583 %** | **0.476 %** | **0.107 %** |
| $ 20,000 | $ 116.60 | $ 95.20 | $ 21.40 |
| $ 40,000 | $ 233.20 | $ 190.40 | $ 42.80 |
| $ 59,000 | $ 343.97 | $ 190.40 | $ 153.57 |
| **Self-employed** | **0,737 %** | do not contribute | |
| $ 20,000 | $ 147.40 | | |
| $ 40,000 | $ 294.80 | | |
| $ 50,000 | $ 434.83 | | |

Source : web site of the Conseil de gestion du Régime québécois d'assurance parentale : www.cgap.gouv.qc.ca.

*Is it necessary to raise the Employment Insurance contribution rate?*

[2] *Report of the Chief Actuary to the Employment Insurance Commission on the Employment Insurance Premium Rate and Maximum Insurable Earnings.*

In spite of the cost estimates presented above, an increase in EI contribution rates is not compulsory, at least not initially.

In 2005-2006, with a contribution rate of 1.87% (2.62% for employers), this programme racked up a surplus of $2.269 billion.[3] In 2007, the rate has been fixed at 1.80% (2.52% for employers), which, according to the projections of the Chief Actuary, should generate neither a surplus nor a deficit.

In addition, we should recall that the Employment Insurance account has an accumulated surplus of more than $50 billion, money which was collected in order to provide benefits to Canada's workers. It would be entirely possible to finance improvements to maternity and parental benefits for a long time with this money. In 2005-2006, the Canadian government recorded interest payments of $1.352 billion but these are virtual payments. Isn't it time for Canadian workers to actually see this money?

**Financing a universal minimum benefit**

As is the case for other universal programmes and the other benefits for children, this kind of programme should be financed from **general government funds.**

In certain other countries (Germany, Sweden, Finland for example), these benefits are financed inside a social insurance programme. The logic is that parents, mothers mainly, who are not eligible for benefits based on income earned during the period immediately preceding the birth or the adoption, have nevertheless contributed to the programme or will do so in the future. The idea of social solidarity or cross financing between groups also applies to the life cycle.

However, it is not very probable that this kind of logic could be applied directly to the Canadian employment insurance programme because the link between benefits and contributions in the short term is well established. Would it be possible for the government to finance a minimum benefit and have EI administer it???

*How much would such a programme cost?*

It is impossible to answer this question without knowing at what level the benefit would be fixed. Note, however, that the improvements proposed to EI would increase the number of persons eligible and the level of benefits, so that the number of people requiring a minimum benefit or a complementary benefit would be significantly reduced. Table 2 indicates the percentage of mothers who receive benefits in Canada and in Quebec as well as the average weekly benefit.

[3] *Monitoring and Assessment Report*, p. 70.

This table shows that in Quebec where the eligibility rules are more generous – to have earned $2,000 rather than to have worked 600 hours plus coverage of the self-employed – 18,0% more new mothers receive benefits than in the rest of Canada. In addition, the average benefit paid to Quebec mothers is about 27% higher than that of other Canadian mothers. Although in Canada, the parental benefit paid to mothers is about the same amount as their maternity benefits, this is not true in Quebec because a large part of parental benefits are calculated at a rate of 55% whereas all of maternity benefits are paid at a rate of 70% or 75%.

**Table 2 : Number of births, number of women receiving maternity benefits and average parental benefits, Canada 2005 and Quebec 2006**

| | **Canada 2005** (a) | **Quebec 2006** (b) |
|---|---|---|
| **Number of births** | 337,856 | 82,100 |
| **Mothers receiving maternity benefits** | 191,690 | 61,290 |
| **Ratio mothers/births** (c) | 56.7 % | 74.7 % |
| | | |
| **Average weekly maternity benefit** | $ 318 | $ 408 |
| **Average parental benefit - mothers** | $ 323 | |
| **Average parental benefit - fathers** (d) | $ 376 | $ 508 |

Notes :

a) The number of mothers receiving maternity benefits (new applications) and the average benefit are measured for the fiscal year running from April 1st 2005 to March 31st, 2006 (*Monitoring and Assessment Report 2006*). The number of births (preliminary data) are measured for the calendar year 2005 (Statistics Canada, CANSIM table 051-0013).

b) The number of births (preliminary) is taken from the web site of the Institut de statistique du Québec (ISQ). Note that for 2000 to 2005, the number of births estimated by the ISQ is slightly different from that given by Statistics Canada. The other data for Quebec comes from the web site of the Conseil de gestion du Régime québécois d'assurance parentale. The average benefit applies to all benefits received by mothers and not just maternity benefits.

c) These figures do not include the number of adoptions or the number of parents receiving adoption benefits.

d) In the Quebec regime, this category includes paternity benefits as well as parental and adoption benefits received by fathers. These may be calculated at a rate of 75%, 70% or 55%.

## III. IN SUM

Improving maternity and parental benefits and creating a paternity benefit in the Canadian Employment Insurance Plan would cost a certain amount. Such benefits would, in the normal logic of the plan, be financed by employer and employee contributions. However, given that the

EI fund has an enormous accumulated surplus, it would be possible to finance these benefits partly or entirely without increasing the contribution rate in the immediate future.

At the same time, it would be normal for the government to finance the cost of a minimum maternity benefit from general revenues as it does with other family benefits. In this case, the cost for Quebec women also needs to be included.

For both elements, it would be necessary to negotiate how the programmes would be applied in Quebec, given that the two basic regimes are not, and will not be, the same.