Canadians Need a Medium-Term Sickness/Disability Income Benefit

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Introduction

There is a serious weakness in Canada's social foundation of income security. Much more than a crack, the problem concerns the absence of a social insurance program for millions of working Canadians whose work and earnings are interrupted because of illness or disability. Presently, the interruption of employment income and economic security due to a moderate disability and recurring illness is, to a large degree, a matter of individual responsibility with the possibility, for some people, of private insurance plans and, for others, provincial and territorial welfare programs.

Working-age Canadians with disabilities who do not qualify for Employment Insurance (EI) sickness benefits or the Canada Pension Plan disability (CPP-D) program include many of the self-employed, those in nonstandard employment and people battling numerous kinds of recurrent and cyclical health conditions. Not covered by either program, people experience stress, a loss of dignity and may be forced to divest assets in order to meet the cost of living and added expenses associated with their impairment. Unable to access federal social insurance programs to which they have made contributions, some people are compelled to apply for provincial/territorial social assistance, the welfare program of last resort in Canada's social foundations.

The current collection of public programs, at the federal and provincial/territorial levels, does not provide income protection to Canadians for medium-term illnesses and moderate disabilities, a problem of government social policies internationally too [OECD 2003b]. This paper's focus, therefore, is on people with moderate to severe disabilities in the medium term.

The problem is compounded by the incomplete coverage of Canadian workers through disability insurance protection plans. Moreover, the problem is not declining over time. Trends in the nature of employment and the hazards of modern life suggest the social risks of sickness and disability, and thus of economic vulnerabilities, likely will increase in significance.

It is time to take a step forward in modernizing federal employment services and income security for this group of Canadian workers.

The aim of this paper is to assist in exploring new directions for income security for Canadians, by examining existing relations between EI sickness and CPP disability, and explore the need and possibilities for stronger linkages between these programs. More specifically, the purposes are to identify gaps in coverage that currently exist for some clients and thus to consider if a new program is required and/or whether reforms should be made to EI sickness, CPP disability or both. By documenting the extent and nature of gaps in coverage and the risks to Canadians, the paper raises the profile of this issue and seeks to stimulate policy discussion on possible solutions.

Federal Disability and Sickness Income Programs

common features of CPP disability and EI sickness benefits

The CPP disability and EI sickness programs share a number of features. Both programs rest on clear federal jurisdiction under the Canadian constitution; EI is an exclusive federal jurisdiction, while the CPP is under the joint stewardship of federal and provincial governments. Medical assessments and certificates are required for both programs to determine eligibility, though in greater detail for the CPP-D program.

A key goal of both programs is the protection of income stability or continuity. As social insurance measures, contribution requirements and benefit eligibility in both programs are related to earnings and labour force attachment. Funding is based on designated contributions rather than general taxation from the consolidated revenue fund, with the funds administered and reported as a separate account by the Government of Canada. Both plans are in a surplus position with annual revenues exceeding annual benefit payouts.

As work-related and contributory-based benefits, these programs are considered "earned rights" although people must apply for them. Both programs have elaborate systems of review and appeals for disputed decisions. Both benefits are indexed automatically, adjusted annually and treated as taxable income.

The Canada Pension Plan disability benefit and Employment Insurance sickness benefits have similar histories and contexts, introduced in the early 1970s as supplementary provisions within much larger social programs.[1] The disability program is linked with the CPP retirement pension plan (and related survivor and death benefits), while the sickness program is one of a number of special benefits (along with adoption, fishing, maternity, parental and compassionate care) under the Employment Insurance scheme.

As a share of total spending under their particular systems, CPP disability benefits account for 12 percent of CPP payouts. EI sickness benefits, by contrast, account for about 6 percent of total EI income benefits in recent years.

notable differences

While the EI system covers the entire country, the CPP covers all provinces and territories other than Quebec, which has its own contributory pension plan with retirement, disability and survivors benefits.[2]

For the most part, EI sickness beneficiaries are employable while CPP disability beneficiaries are deemed unemployable. For EI sickness benefits, applicants are required to prove inability to work but also would otherwise be available for work. For CPP disability benefits, applicants must

demonstrate they have a severe, long-term disability that prevents them from working regularly at any gainful employment. This difference is further reflected in the outflow rates from each program. Since EI sickness is a short-term benefit, by design the annual outflow is virtually 100 percent, although not all clients return immediately to the labour market. Given that the CPP disability is a long-term benefit for people with severe and prolonged impairments, there is a very low rate of annual outflow from the program. In fact, less than one percent of beneficiaries leave the program each year as a result of recovery or a return to work [Canada 2003; OECD 2003a: 58].

A related difference is that EI sickness beneficiaries are less likely to require aids and devices for daily living, because of their milder conditions and younger profile, than CPP disability beneficiaries, most of whom are between ages 45 to 64 and with severe health conditions.[3] A recent survey found that 69 percent of CPP disability recipients require some kind of assistive aid or device in their daily activities, compared to 52 percent of EI sickness beneficiaries [PALS 2001].

On eligibility requirements related to labour force attachment for EI, employees normally must have 600 hours of insurable earnings in the last 52 weeks. For CPP disability, applicants must have participated in the labour force with four years of valid CPP contributions in the last six years.

Chart 1 summarizes further details on qualifying conditions for both benefits. While the two programs share similar types of qualifying conditions, the specifics are in many respects quite different given the distinctive purposes of the two programs. Consequently, some individuals may qualify for the EI sickness benefit but not qualify for CPP disability benefits (and the other way).

Contribution rates for employee and employer premiums to the plans are dissimilar in that the rates have been altered more frequently (and up and down) for the EI program – indeed, by law, the EI employee and employer premium rates are set each year – than for the CPP over the history of the programs. The EI and CPP programs also diverge on the way the funds for the programs are managed. Since 1999, with the creation of the CPP Investment Board, surplus contributions for that program are invested in public and private equities. A related difference in administrative structure is that employer and employee representatives are directly involved as commissioners in the administrative structure of the EI program, a feature absent in the governance of the CPP.

Waiting periods to receive benefits is another difference: a two-week period for EI benefits and a three-month period before CPP disability benefits begin. Indeed, the longer waiting period for the CPP disability benefit rests on the belief that other short-term income benefits are available to applicants from other public programs (such as EI), employment-related plans (sick leave and sickness insurance) and personal resources.

On income replacement rates, the EI sickness program provides 55 percent of weekly insurable earnings compared to an approximate 30 percent of covered earnings at average income for the CPP disability program.[4] The duration of EI sickness benefits is to a maximum of 15 weeks compared to up to 45 weeks for EI regular benefits, while CPP disability benefits are *de facto* permanent until age 65 or retirement.

Chart 1
Eligibility Conditions for CPP Disability and EI Sickness Benefits

Conditions	CPP Disability	EI Sickness
Age	Between 18 and 64 years old	——
Earnings	Earned a specified minimum amount: $4,100 in 2005	Weekly earnings have decreased by more than 40 percent due to sickness or injury
Labour force attachment	Sufficient contributions[5] to CPP in four of the last six years	Accumulated 600 hours of insurable employment in the last 52 weeks (or since last claim)
Work incapacity	Have a severe and prolonged disability • Severe = incapable of regularly pursuing any substantially gainful occupation • Prolonged = likely to be long continued and of indefinite duration (at least the next 12 months) or likely to result in death	Incapable of performing the duties of regular or usual employment or of other suitable employment because of sickness, injury or quarantine AND would otherwise be available for work
Health assessment	A fairly detailed and specific process: Various forms of evidence required and to be verified by medical assessment(s)	A relatively straightforward process: A one-page medical certificate completed by a physician attesting to the claimant's inability to work and for how long

On overall program size, the CPP disability program has between four to five times the annual number of beneficiaries and benefit expenditures than the EI sickness benefit. CPP-D is the single largest disability insurance scheme in the country.

Another difference that has implications for possible policy reforms concerns the constitutional regime for each program. The EI program, the topic of a constitutional amendment in the early 1940s, established exclusive federal jurisdiction over unemployment insurance. A recent Supreme Court opinion (to be discussed later in this paper) has affirmed the competence of the federal government to deliver various special benefits through this social insurance program.

The CPP program, also the result of a constitutional amendment in the 1960s, granted the federal government concurrent jurisdiction with the provinces over contributory pension plans, but with paramount authority over this field remaining with the provinces. Thus the federal and provincial governments are the joint stewards of the CPP and any major changes to the CPP require consent of the federal Parliament as well as the legislatures of at least six provinces representing two-thirds of the Canadian population. The CPP legislation, as amended in 1997, stipulates that any enhancements to existing benefits (be they for retirement, survivor or disability benefits) must be fully funded which, depending on the cost impact of the change, could mean the benefit enhancement would be accompanied by a corresponding increase in the legislated contribution rate to ensure the financial soundness of the plan.

EI regular and EI sickness benefits

EI sickness benefits joined the then unemployment insurance scheme in 1971 as part of a suite of major reforms, this new special benefit targeted for workers with at least 20 weeks of insured employment. The maximum duration for the sickness benefits was set at 15 weeks, a feature that has remained constant over the subsequent 35 years of the program's history. Indeed, through much of this period marked by considerable legislative changes and political attention devoted to regular UI benefits and other special benefits, the sickness benefit has remained relatively untouched and overlooked.

In 1989, changes to UI allowed for a total of 30 weeks of combined special benefits of sickness, maternity and parental benefits. In 1996, with the shift from UI to EI, the system changed from a weeks-worked to an hours-based system to determine eligibility, and the qualifying condition for sickness benefits changed to 700 hours of insurable employment. Amendments to EI in December 2000 reduced the number of insurable hours required to qualify for special benefits to 600 hours, and the number of weeks of combined special benefits was raised from 30 to 50 weeks.[6]

The EI regular and EI sickness benefit schemes share legislation, departmental administration and appeals systems. Both have a two-week waiting period, are treated as taxable income and have a basic benefit rate of 55 percent of average insured earnings to a maximum of $413 in 2005. Individuals can work part time while in receipt of either benefit and must report any earnings while collecting benefits.

People not covered under EI include the long-term jobless (12 months or longer unemployed); persons without insured employment (i.e., workers who do not pay EI premiums); people with a "minor labour force attachment" (i.e., less than the minimum 600 hours of insured employment over the last year); individuals who leave their job to attend school; people who quit their job for a reason considered invalid under EI rules; and self-employed workers, independent consultants or contractors for services, and sole owners or partners of a business. This last category can include commissioned salespersons, real estate agents, tradespeople in construction and various professionals, such as accountants, physicians and lawyers.

There are several significant differences between EI regular and sickness benefits: the duration of sickness benefits is a maximum 15 weeks while regular benefits can range from 14 to 45 weeks; the specific duration of sickness benefits does not depend on the number of hours worked (beyond the minimum entrance requirement) as it does with regular benefits; and a medical certificate is required for the sickness benefit and not for the regular benefit. In addition, although an EI client can work while in receipt of either benefit, under regular benefits workers can earn $50 per week or 25 percent of their weekly earnings (whichever is higher)[7] and any amount above that is deducted dollar for dollar. For the sickness benefit, *any amount* earned is deducted dollar for dollar.

Chart 2 provides a summary of key features of the EI regular and sickness benefits. In terms of sheer size, the sickness benefit was one-fifth the size of the regular benefit caseload in 2003-04. The general age profile of both benefits is similar, with about half the claimants in both programs in the 25 to 44 age group, and nearly another quarter of claimants in the 44 to 54 age group. A number of differences by gender exist on coverage, average number of weeks in sickness benefits, average weekly benefit and total amounts paid.

Program Interactions

EI sickness benefits

For EI sickness, earnings from sickness plans, disability wage-loss indemnity plans and workers' compensation plans (a disability pension or lump-sum payment) are not taken into account in the determination of earnings for benefit purposes. Neither are CPP disability benefits treated as earnings for EI benefit purposes [Canada 2003: 21]. In fact, a person may apply separately for the EI sickness benefit and the CPP (or QPP) disability benefit at the same time. Earnings that are taken into account for EI sickness include payments from a paid leave plan for sickness, a group wage-loss indemnity plan and motor vehicle accident insurance.

Individuals can apply for the EI sickness benefit while waiting for a provincial workers' compensation decision on a claim but, in such circumstances, they must sign an understanding to repay the sickness benefits when the workers' compensation claim is finalized. Likewise, if individuals receive financial support from a provincial/territorial social assistance program while waiting for EI benefits to start, they may have to reimburse that money out of their EI benefits.[8] By contrast, employer-provided programs that offer supplemental payments to EI sickness benefits during a period of unemployment due to illness, injury or quarantine are not deducted from the employee's EI benefits.

The average duration of EI sickness benefits is just over nine weeks, though about 30 percent of clients exhaust the full 15 weeks. After the final payment, if a person does not have a job to which to return, he or she may apply for and possibly receive EI regular benefits, up to 50 weeks of combined benefits (i.e., 15 weeks of sickness benefits and 35 weeks of regular benefits). Similarly, a person on EI regular benefits who becomes ill while on that claim can apply for and may receive sickness benefits.

Chart 2
EI Regular and EI Sickness Benefits: An Overview Comparison, 2003-04

	EI Regular	EI Sickness
Claimants		
Total	1,493,000	293,990
Men	900,000	122,040
Women	593,000	171,950
Age		
Under 25	184,000	30,630
25-44	782,000	148,150
44-54	342,000	71,440
55 and over	186,000	43,750
Average Weekly Benefits ($)		
National	312	280
Men	340	320
Women	271	252
Amount Paid ($millions)		
Total	8,768.9	778.5
Men	5,852.5	366.0
Women	2,916.4	412.4

Source: Canada Employment Insurance Commission (2005).

CPP disability benefits

The existence (actual or assumed) of other public and private programs influences several design elements of CPP disability – specifically, the income replacement rate of a reasonable minimum, with additional benefits to come from other sources; the three-month waiting period; being the payer of first resort; and the offset of some or all of CPP disability benefits by other programs. For example, the Guaranteed Income Supplement, the Spouse's Allowance and Allowance for the survivor, War Veterans Allowance and provincial/territorial social assistance take into account CPP disability benefits.

CPP disability benefits differ from provincial and territorial disability (i.e., social assistance) benefits in important ways. Unlike provincial disability benefit programs, CPP disability benefits are not asset-tested; there is no limit on personal assets. Receiving income from other sources (except for a certain level of employment income) will not disqualify a person from receiving CPP disability. Also in contrast to provincial/territorial disability income benefits, if CPP disability clients become involved in a dependent relationship, such as a marriage or common law relationship, their benefits are unaffected. CPP disability benefits are portable across the country whereas that is not the case with provincial and territorial social assistance. CPP disability benefits are indexed and taxable, while provincial/territorial welfare benefits are neither taxed nor indexed automatically. Provincial and territorial disability income benefits are funded through general revenues while the CPP-D is funded through contributions. Since CPP benefits rest on a social insurance foundation, there is the element of an earned right to the benefit and therefore not the same extent of stigma associated with provincial and territorial welfare programs.

Within the CPP itself, there are some benefit offsets and interactions. A person eligible for the CPP disability and CPP survivor benefit can receive both in a combined payment, although the total amount is adjusted based on the survivor's age and other benefits received. For insured workers between ages 60 and 65 who receive a CPP disability benefit, they cannot at the same time get the CPP retirement pension.[9]

Gaps in Coverage and Consequent Risks

Who in Canada is left out of current programs – public and private – for disability income support? How many people, and what groups, may face gaps in income security (and return-to-work services) when they experience an illness or disability? What social and economic risks do they consequently face?

According to the 2001 Participation and Activity Limitation Survey (PALS), of the 3.42 million adults with disabilities in Canada, a substantial proportion does not receive support from federal or provincial income programs or private insurance plans. Chart 3 presents information on the share of adults with disabilities receiving each of six disability-related income programs.

Research on disability and income in the non-senior population shows that 27 percent of persons with disabilities have low income in contrast to 14 percent of the remainder of the population [Spector and Kapsalis 2005: 9]. The presence and type of disability-related income support are significant in explaining some of the variations in the likelihood of low income among persons with disabilities. Recipients of workers' compensation or private disability insurance benefits are much less likely to have low income than persons who receive only the C/QPP disability benefit, veterans' pension or social assistance. Furthermore, persons with disabilities who receive only the C/QPP

Chart 3
Adults with disabilities who are recipients of income support programs
(percentage of 3.42 million)

Program	%
Canada/Quebec Pension Plan	10.0
Social assistance	9.9
Veterans' benefits and other assistance	6.4
Private disability insurance plans	6.2
Workers' compensation	5.1
EI sickness benefits	4.3

Source: Participation and Activity Limitation Survey (PALS) 2001.

disability benefit or social assistance were found to be more likely to experience 'persistent poverty' (i.e., continued low income over the period 1994-2000) than individuals in receipt of workers' compensation benefits.

gaps in public income support programs

In social insurance programs such as CPP and EI that cover only the labour force (and not all of that), non-coverage is an issue, resulting in a sizeable number of working people with illnesses and disabilities excluded from public disability support programs.

The public program alternative is provincial/territorial social assistance – in effect, a welfare-based disability benefit. As Chart 3 shows, in Canada about as many adults with disabilities receive social assistance as receive a C/QPP disability benefit. A worrisome implication of this is "the fact that individuals have to exhaust other sources of income and a share of their assets before being entitled to Social Assistance benefits" [Grey 2002]. One-third of EI sickness beneficiaries exhaust their entitlements each year [Canada Employment Insurance Commission 2004].

Research further suggests that many unemployed people not eligible for EI benefits or who have exhausted their EI benefits are likely without income support for some time. Moreover, since few individuals combine social assistance and short-term work, there appear to be barriers (absence of needed supports, financial disincentives, inability to work, lack of training or work opportunities), once a person becomes a social assistance recipient, to reintegrating into the workforce [Grey 2002].

Even for many workers with sufficient labour force attachment, access to CPP disability benefits can be challenging and frustrating, often because their health condition is assessed to be not severe enough and of a sufficiently prolonged nature, as required by the program's eligibility criteria.

One of every two applicants to the CPP disability program has their application rejected. In 1999, the applicant rejection rate was 55 percent, up from 42 percent in 1990 and well above the OECD average of 39 percent in 1999. On appeals, just one in nine (11 percent) rejected applications eventually are granted a CPP disability benefit – a lower rate of successful appeals than most other countries [OECD 2003a: 87].

The CPP disability program has always been among the least generous public schemes with rather modest levels of benefits. Other distinguishing features of Canada's national disability insurance program, in a cross-country context, is the absence of partial benefits and the limited linkages between the government sickness benefit and disability benefit programs.

No doubt, the partial connection between EI sickness and CPP disability, compared to a number of other countries, arises from the fact that the CPP program's definition of disability is stricter than in several other social security systems that define disability in terms of a work-capacity or earnings-capacity reduction specified in a percentage rate (often a 33.3, 50 or 66.6 percentage rate).

People who may not qualify for CPP disability include workers with mild or moderate physical and mental disabilities, and probably workers with certain kinds of severe disabilities not well recognized by the medical community.

People can have quite serious medical conditions that are recurrent, episodic or cyclical – be they different types of cancer, an assortment of musculoskeletal conditions, respiratory infections, multiple sclerosis or schizophrenia, for example, but may not meet the criterion of 'prolonged' for the eligibility purposes of CPP disability. As noted, to qualify initially for CPP disability, applicants must demonstrate that they have a severe disability and one that is likely to be long continued and, at the same time, of indefinite duration lasting for at least 12 months with no possibility of a return to any work within the year.

gaps in private disability insurance plans

Private disability insurance plans promise financial protection to individual employees and their families in the event of income loss from unexpected injuries, illnesses or disabilities. These disability

benefit plans are sponsored mainly by employers or professional associations, and administered by private insurance companies.

The qualifying conditions for long-term disability (LTD) plans are usually more straightforward than for CPP disability [Torjman 2002; House of Commons 2003], and benefit levels typically insure at about 70 percent of earnings replacement rate – a rate comparable to provincial workers' compensation plans, somewhat higher than for EI and much higher than for CPP.

Not all LTD plans, however, are indexed for annual adjustments as are the public programs. In addition, it is important to remember that LTD benefits are reduced by any CPP disability payments that a plan member may receive.

How many Canadians in the labour force have access to disability insurance? Coverage by LTD income replacement plans had grown from 5.8 million Canadians in 1990 to 8.4 million Canadians by 2001. For 2001, this represents an LTD coverage rate of 56 percent of all employed workers in the labour force, up from about a 43 percent coverage rate in the early 1980s (see Chart 4). This means that 6.5 million employed Canadians in 2001 did not have long-term disability coverage at their place of employment (and just over 7.6 million in the total labour force).

A study of benefit coverage of full-time and part-time Canadian workers in 1998-99, by sex, reveals further insights. Chart 5 presents information on the distribution of benefit coverage of life/ disability as well as supplemental medical benefits which often go hand in hand with disability plans.

Chart 4
Proportion of Labour Force and Paid Workers Covered by Long-Term Disability Plans, 2001

Number of LTD plan members	8,422,000
Canadian Labour Force	16,111,000
LTD members as a % of labour force	52.4%
Employed workforce	14,947,000
LTD members as a % of employed workforce	56.5%

Sources: CLHIA (2003: 9) and Statistics Canada, Labour Force Survey.

Most full-time employees, male and female, had life/disability insurance protection, with a notable difference in levels of coverage by sex. In terms of overall gaps in income protection, at least one-third of full-time employees and more than three-quarters of part-time employees lacked private disability insurance coverage.

Chart 5
Incidence of Life/Disability Benefit Coverage for Full-Time and Part-Time Workers by Sex, 1998-99 (percentage)

Benefits	Full-time Female	Part-time Female	Full-time Male	Part-time Male
Life/Disability	60.4	23.6	67.6	19.8
Supplemental medical	56.0	18.8	64.9	20.8

Source: Adapted from Comfort, Johnson and Wallace (2003).

The Survey of Labour and Income Dynamics offers further details on employer-sponsored life/disability insurance benefits. An analysis of this data set found that 44 percent of employees in 2000 did not have this life/disability benefit coverage from their main paid job. This represented a 56 coverage rate for nearly 7.7 million employees and a gap rate of just over 6 million workers that year [Marshall 2003: 7]. Low levels of coverage by life and disability insurance was apparent, in relation to job characteristics, among part-time workers, temporary workers, non-unionized staff, employees in small firms (under 20 employees) and workers with low hourly earnings (less than $10/hour). By personal characteristics, low levels of private disability benefit coverage were most evident among young workers (ages 16 to 24), those with less than high school and those workers with less than two years work experience. By industry, relatively lower coverage rates exist in accommodation and food, trade, construction and primary industries. Stated plainly: "The better the job, the better the benefit package" [Marshall 2003: 12].

Self-employment is a growing trend in the Canadian labour force, with more than 2 million people now self-employed, and the Survey of Self-employment offers information on the availability of health and disability insurance benefits for self-employed workers. Results from the 2000 survey are shown in Chart 6.

In 2000, of the self-employed, 787,000 or 38 percent had insurance coverage for disability, usually obtained through direct purchase or membership in an association.

For the 62 percent of self-employed workers without disability coverage, the main reason for non-coverage was affordability, followed by the fact that they had not thought about it and the belief that it was not good value. Interestingly, the major reasons for unmet needs for aids and devices for Canadians with disabilities are financial barriers. The supports are too expensive and are not covered by insurance [Fawcett et al. 2004; Chaykowski 2005].

Chart 6
Health and Disability Insurance Coverage and Non-Coverage of the Self-employed, 2000

	Health	Disability
Covered	881,000	787,000
Not covered	1,196,000	1,285,000

Source: Akeyeampong and Sussman (2003: 15).

In summary, more than half of the Canadian labour force, 57 percent or 7.3 million people, have no disability insurance coverage as a workplace benefit.

putting a face to those left out

Drawing these various elements together, Canadians more likely to be at risk from having little or no coverage of income support or private insurance for serious illnesses and disabilities include the following:

- new entrants and those with only periodic labour force attachment, estimated for C/QPP disability to be around 20 percent of contributors [Puttee 2002: 88]
- self-employed workers, with some exceptions, excluded from EI coverage
- persons with chronic diseases, including recurrent, episodic and cyclical conditions such as arthritis, cancer, diabetes, heart problems and rheumatism
- clients who exhaust their EI sickness benefits
- persons who receive only CPP disability or social assistance as income support
- workers in 'nonstandard' jobs – temporary, part-time, self-employed and contractual/ casual work
- people out of the paid labour force for the past year or more
- families with one-income earners and families headed by a single parent
- women returning to the labour force after some absence

- recent immigrants who may not have coverage
- workers in the agriculture, accommodation and food service, construction, recreation and culture industries [Akyeampong and Sussman 2003; Marshall 2003].

True, there are patterns of non-coverage, with determinants of gaps associated with levels of education and income, age and gender, among other factors. Even so, serious illness and disability can strike anyone. Risks are present to a significant extent across all sociodemographic groups, including older, well-educated, long-term and full-time employed people with higher incomes. Just as not all workers in nonstandard jobs are inevitably vulnerable, neither are all workers in 'good jobs' invariably secure from economic risks.

The fundamental point is that participation in the labour force does not exempt Canadians from the vulnerabilities of income insecurity.

Risks to individuals and families, communities and the economy, arising from inadequate coverage of workers from sickness and disability include financial insecurity and hardship from disrupted earnings and no income protection; depleting personal and household assets before qualifying for social assistance; and persistent poverty (low income) for a number of years. Risks to the self-employed include the loss not only of income but also conceivably their credit worthiness and business.

Canadians in these circumstances face tremendous financial and emotional stresses, struggling to afford the necessities of life and to balance family roles and responsibilities, all too often with diminished morale, sense of hope and health status.[10] In addition, individuals face barriers to participation in the labour market, and other aspects of community living, due to lack of affordable disability-related supports and insurance.

There can be little doubt that sickness and disability, with attendant risks of interrupted earnings and additional expenses of care, are contingencies beyond the capacity of many Canadian workers and families to finance adequately from their household resources or from public and private insurance programs.

Strengthening Employment Services and Social Insurance

policy objectives

A medium-term income benefit for working Canadians with illnesses and disablements would have three policy objectives:

- To assure continuity of income against interruptions of earnings in case of illness or disablement.

- To provide an incentive to work – i.e., to retain or secure employment and, where appropriate, to enhance work-related skills and capacities.
- To prevent workers from falling into dependency on social assistance.

The focus is on income through employment *and* income through insurance measures. A medium-term benefit, when combined with ongoing (albeit reduced) earnings, would provide a reasonable level of income stability. It would also seek to support the willingness and ability to work, such that the person would be better off working than not at all.

the case for extending income protections against sickness and disability

Major changes to Canada's labour force over the past three decades. These changes include the rising education levels of workers, the growing participation rate of women in the labour force, and increasing productivity and standards of living in overall terms. Other trends are the increase in nonstandard employment (part-time, temporary, multiple jobs and self-employment), a persistence of low-paid work and wider disparities in earnings from employment [Saunders 2006]. Research reviewed here shows that low-paid jobs tend to have low access to extended health and life/disability insurance. Moreover, many better-paid workers have no disability coverage at work: One in two wage earners of $10 to $20 per hour and one in four workers with a $20 or more hourly wage lack access to disability insurance as an employment benefit [Marshall 2003].

Limitations in the coverage of the EI sickness and CPP disability programs. Unless substantial extension is undertaken, thousands of workers and families remain not covered by social insurance protection for the risks of significant illnesses and disabilities. In 2003-04, for example, close to one-third of EI sickness beneficiaries (17,120) exhausted their entitlement to sickness payments, and only 10 percent of this group (approximately 1,700) later received CPP disability benefits [Canada Employment Insurance Commission 2005].

Old program boundaries make less sense in today's world of work, and create unintended restrictions and hardships because support is something which happens for just 15 weeks or only for severe and prolonged disabilities, when other workers with equally onerous impairments and pressing needs go uncovered [OECD 2003a: 35].

Another example is that when an individual works while in receipt of the EI sickness benefit, any earnings are deducted at a marginal tax rate of 100 percent – or dollar for dollar from their benefits – representing a strong discouragement to beneficiaries to improve their own situation and contribute to the productivity of the labour force.

Existing public and private programs fall well short against values of Canadians. These values include fairness, income security, employment opportunity, personal responsibility and pooling resources against known and widespread social risks. Canadians should be able to avoid serious disruptions of their living standards because of illness or disability. Employers should be encouraged

to institute disability and extended medical insurance coverage, and public programs should provide a reasonable minimum income, without stigma and a loss of dignity, in the event of earnings disruption arising from sickness and disabilities. There should also be access to employment services and supports for all working-age Canadians who want to find work, keep a job or re-enter the labour market "regardless of their work situation, insurance status or benefit receipt" [OECD 2003a: 156]. Measured against these principles, it is clear there is considerable distance today between these social values and our social arrangements.

Sickness benefits in Canada, as provided through EI, are not very long by international standards. Canada has one of the shortest durations for sickness benefits among industrial nations [European Commission 2005, 2003; OECD 2003a]. Few countries provide less than six months of income protection against sickness: Canada, Korea and the United States. Some countries offer up to 26 weeks (Greece, Italy and the United Kingdom), while several offer sickness benefits for up to one year (Austria, Belgium, Norway); others offer between one to one-and-a-half years of benefits over a multi-year period (Denmark, France, Finland and Germany) or an even longer duration of sickness benefits (Netherlands, Portugal and Switzerland).

closing the gap: design elements and reform options for medium-term coverage

In the context of modernizing the architecture of social policy, reform options should seek to better match temporary income support to individual circumstances of those in need; provide access to disability coverage and related employment benefits, at a minimum, to all full-time permanent workers; reinforce social insurance principles of EI and CPP; and address diverse employment patterns, varied functional capacities, and episodic and moderate disabilities.[11]

Program design features of the reform options presented here would include the following elements. The core policy technique would be compulsory social insurance for employees with earnings-related benefits. Program funding would be self-financing from employee and employer contributions, given that it is a work-related program and both parties benefit from such schemes. Eligibility would be for people with a certain level of labour force attachment and for workers who face one or more restrictions that together have a substantial impact on their working lives and earnings, requiring some health assessment. The waiting period for the benefit might be the same as for EI – two weeks, maybe longer – but it would not be necessary or desirable for it to be the three-month period for CPP disability benefits.

The duration of the benefit would be from 16 plus weeks to 35 weeks (or another option could be up to 52 weeks). The basic value of the benefit might not be as high as CPP disability because recipients would be assumed to be employable to some degree, even while in receipt of income support, and thus be earning some income from employment.

The new benefit would have an earnings exemption, as generous as that for EI regular benefit or the EI parental benefit, so that the marginal tax rate on any earned income was not prohibitively

high, in order to encourage clients to take advantage of employment opportunities. The benefits would be treated as taxable for income purposes. Benefit payments would be indexed like other federal social benefits for inflation protection.

The new medium income benefit could be structured as one of three policy reform options: an extension of the EI sickness benefit; a distinct new program that bridges EI sickness and CPP disability; or the introduction of benefits for 'partial disabilities' within the CPP disability program.

All three options are public income protection programs in which there is replacement of some portion of earnings lost due to sickness or disability. As a result, each has the intended result of mitigating sharp reductions in living standards; enabling workers to secure, retain and advance in suitable employment; and preventing dependency on social assistance programs, thus avoiding the stigma of welfare and maintaining personal dignity.

Option 1: extending the duration of EI sickness benefits

As an expansion to the EI sickness program, the new medium-term benefit could be for at least 26 weeks, as is the practice in some other countries, or using a Canadian benchmark, up to 35 weeks like the EI parental benefit or to 45 or 50 weeks. This reform would add between 11 to 20 further weeks to the current maximum duration period of the sickness benefit.

Increasing the maximum duration of the sickness benefit to, say, 50 weeks could be delivered in at least two different ways: all at once up to 50 weeks consecutively, or access to a maximum of 50 weeks over a specified period, such as two years, with automatic access to the remaining portion of the 50 weeks through that specified period until the full amount was used. The rationale underlying this feature is to offer flexible person-centred income protection that could also be readily linked with rehabilitation and employment services. This could be done, in part, by having periodic interviews or employment planning sessions with recipients to review their work experiences, plans and personal circumstances.

It would be expected that eligibility would include 600 hours of insurable earnings in the previous 52 weeks for the first 15 weeks (the status quo qualifying condition) and either no additional labour force attachment requirements for any additional weeks under the new benefit or some further number of insurable hours over, say, the past 78 weeks. Such a two-phase eligibility structure could mirror a two-phase benefit structure.[12]

This option lies clearly within federal jurisdiction, and does not legally require involved intergovernmental negotiations and consensus as does the third option, although advance notice to the provinces and territories, and some consultations would likely occur. Moreover, a recent Supreme Court of Canada reference, which is a leading constitutional case on the validity of the *Employment Insurance* legislation, affirms that this type of reform would be an appropriate manner to use EI for social policy purposes [Supreme Court 2005]. Locating a new benefit within EI situates the reform

within the federal department charged with labour market and skills development, ensuring institutional attention to employment and return-to-work services.

Option 2: creating a new sickness/disability program

A new distinct federal income program would be separate from, but associated with, EI sickness and CPP disability. In principle, it could have the same kind of features as the first option. This second reform option, however, raises myriad concerns about administrative and policy coordination, and the creation of yet another 'program silo' in an already complex and fragmented disability income system. What would be the statutory basis for the new benefit – a new piece of legislation or an amendment to the EI legislation?

What is the value added to creating such a separate program? If funded by a new earmarked tax or through general revenues, it would likely not raise the opposition of business and employer groups of adding another social program to the EI program.

A new program that effectively bridges the EI sickness benefit and the CPP disability benefit could, in theory, be an innovative hybrid of program elements. At the same time, such a unique program would pose questions as to the need for consent by the provinces if the benefit were viewed as representing an example of, or encroaching on, supplementary pension benefits.

Option 3: adding benefits for 'partial disabilities' to the CPP disability program

The third option is a benefit for partial disabilities in the CPP disability program. It represents a basic change to the CPP program and legislation – a move away from the 'all-or-nothing' nature of this program – toward a functional approach to eligibility based on the potential of applicants to continue to participate in the labour force, taking into account economic and social factors along with personal circumstances. A new intermediate category of impairment would be formulated that recognizes disabilities that are significant and cyclical or recurrent and not only prolonged and continuous.

Obviously, core design issues for this option include how 'partial disability' would be defined and by whom; whether nonmedical factors are taken into consideration (e.g., age, education, employment experience and local/regional labour market conditions); what would be the benefit level (or levels); and the role of vocational rehabilitation and other employment services.

While the Canada, Quebec and American public disability insurance plans do not cover partial disabilities, many European systems do, including France and Germany. These plans typically define partial disabilities as 50 to 60 percent of earnings capacity – i.e., a partial yet still significant ability to earn income through employment [OECD 2003a]. One approach could involve the provision of partial benefits that would be for a limited time period only, such as 52 weeks maximum, perhaps

available over a two-year interval. After this specified time had elapsed, the recipient would be reassessed to determine whether she or he qualified under the stricter criterion for full CPP disability benefits.

This reform option would require the agreement not only of Parliament but also of two-thirds of the provinces representing at least two-thirds of the Canadian population, and an increase in the contribution structure to finance the new benefit commitments. Another obvious barrier to this option is the federal government's expressed resistance to expanding eligibility and benefits of CPP disability. The caveat to this resistance is that any reforms must ensure the continued long-term solvency of the program [Canada 2003].

overall review of the reform options

Chart 7 outlines potential program design parameters of the three policy reform options. In terms of the scope of coverage, Option 3 is the widest. It includes the self-employed as well as virtually all wage earners in the labour force (the population covered by C/QPP). Option 1, using the EI clientele definition, does not include the self-employed and Option 2 could incorporate one or the other of these approaches.

On eligibility and entry, the first and second options are based on relatively immediate coverage, while the third option is an approach where eligibility and thus entry into the program would require more time to take effect. The longer waiting period for coverage under Option 3 conceivably could be reduced and the criterion of 'prolonged,' as that term is understood under the CPP legislation, could be removed for the purpose of partial disability benefits.

The definition of illness and disability, in any of the options, could adopt a wider or more narrow meaning for program purposes. Rather than concentrate exclusively on the person's impairment and inability to work, the focus here is on the individual's earning capacity that, even though diminished, is assumed to be at a level which, with the appropriate supports and counselling, could maintain an attachment to the labour force.

The income replacement rate for the first and second options comes directly from the current rules in the EI program.

For the third option a modified CPP formula could be designed for partial disability benefits, providing prorated benefits based on an individual's loss of earnings capacity. The formula might be to replace 60 percent of the insured claimant's lost earnings up to the current maximum of 30 percent of covered earnings at the average income level – i.e., 60 percent of 30 percent, producing a replacement rate of about 18 percent of average income. In 2005, that would have been an average monthly payment of about $475.

For Option 3, cost projections could be done on the 'four of the last six years' contributions approach as compared, say, to a 'career average' approach or a 'best five years' approach for determining benefit payment levels. The logic behind the 'career average' or 'best five years' approaches is to smooth out fluctuations and interruptions in earnings due to cyclical and recurrent chronic diseases and health conditions. A 'drop-out' provision could be another way of handling periods of low or no earnings.

An important assumption behind these options is that existing disability income programs, such as veterans' benefits, certain tax measures, workers' compensation, social assistance, provincial auto insurance and private LTD plans all remain in place. The options presented are meant to complement these other arrangements and to address gaps in the overall disability system. The ongoing operation of other programs raises the matter of the offset of benefits from these reform options. This is a topic for future consideration in any costing of options and for consultations with other governments.

The extended EI sickness benefit, Option 1, could be viewed as the least disruptive to the existing systems of federal and provincial government, and private sector disability income programs. There would be concern, no doubt, as to the effect of this option (and also the others though perhaps less so) on EI regular benefits and the EI Fund.

Option 3, modelled on the CPP disability program would extend income protection to partial long-term disabilities. This could be done in a way like that used by workers' compensation plans across Canada for on-the-job illnesses. The scope, however, of on- and off-the-job partial disabilities would be notably larger for a federal scheme than for any workers' compensation plan, thus adding administrative complexities, a larger caseload and program costs to the CPP.

It must be acknowledged that while all these options yield improvements, gaps remain in income protection and employment services. The options are all modifications to existing programs and policy frameworks. None are a radical restructuring of the disability income system as a whole. Most critically, these options do not attend to the needs of persons with disabilities or illnesses who are non-wage earners. This population, by and large, has been the subject of recent federal/provincial/territorial discussions by officials on income and disability supports, and work by Caledon!

improving employment opportunities and work incentives

Over the last decade, to encourage the return to work of CPP disability clients there has been the introduction of a vocational rehabilitation service, an earnings exemption provision and an automatic reinstatement of benefits policy [Canada 2003; Prince 2002]. Nonetheless, fewer than one percent of the 290,000 CPP disability clients return to work each year. Some beneficiaries do return to work from the CPP vocational rehabilitation program, but an even greater number return to work without any direct assistance from the CPP disability program. From a federal policy perspective, it seems we do not know who these people are or why and how they leave the CPP program. The

Chart 7
Program Design Features of Three Disability Policy Reform Options

	Extended EI sickness benefit	Medium-term income program	Partial disability benefits in CPP
Population coverage	EI clientele (virtually all employed persons)	EI or CPP clientele	CPP clientele (virtually all employed persons and self-employed)
Eligibility/entry	600 hours of insurable work	600 hours of insurable work	Contributions to CPP in 4 of last 6 years
Definition of disability	Continuing serious illness that results in a 60 percent loss in earnings capacity	Chronic illness or disability that results in a 60 percent loss in earnings capacity	Partial disability of a prolonged nature Modified concept of severe so as to incorporate a continued partial capacity to work
Rehabilitation and employment services	Partly in place but would be expanded	Would need to be linked with expanded services in EI regular and special benefits	Minimal and voluntary vocational rehabilitation in place would need to be expanded and with regular assessments
Income replacement rate	EI basis: 55 percent of weekly insurable earnings	EI basis: 55 percent of weekly insurable earnings	Modified CPP basis: 60 percent of earner's wage loss up to an average income ceiling
Benefit duration	20 to 35 weeks beyond existing sickness benefit	50 weeks maximum over a two-year period	Paid until recipient returns to full-time work, disability ends, condition worsens and recipient qualifies for CPP disability full benefit, or turns age 65
Administration	Federal department of HRSDC through EI program	Federal department of HRSDC	Federal department of HRSDC through CPP program, provinces would have the option to create a similar and autonomous plan

health of some clients may have substantially improved, some may overestimate their recovery and some may need the employment income given the relatively low replacement rate of the CPP disability benefit.

International experience suggests that with political and bureaucratic leadership on employment supports, the proportion of CPP disability clients returning to work annually could increase from the current one percent to four or five percent. This percentage may seem small, but in the context of present practice, it would be a significant improvement from about the current 2,500 clients to more than 10,000 clients a year.

A new medium-term benefit can make available work incentives through a number of measures. These include encouraging people to retain a level of employment while in receipt of a benefit; ensuring recipients are actively making use of employment services; setting a benefit level that replaces only a modest percentage of previous earnings (e.g., 35 percent) and exempting a portion of the recipient's income while the remaining portion reduces benefits (e.g., a benefit reduction rate of 50 percent). The objective is to have people better off working to their potential capacity than not at all.

Under Options 1 and 2, it would be possible to implement pilot or demonstration projects under the EI Act, something not available under the CPP legislation, to test various employment incentives and supports to assist clients to remain in or return to the workforce. Early intervention measures and disability management programs in workplaces could be assessed, for example, with a view to improving accommodation and the take-up of return to work opportunities. At present, it seems vocational rehabilitation and training measures are introduced later than earlier in the process of income support in Canada as well as a number of other countries [OECD 2003b: 109-10].

A stronger emphasis on health, social and vocational rehabilitation, and earlier in the program delivery cycle, joined with periodic reassessments of recipients is warranted on a number of grounds. First, evidence shows that such efforts work, especially for persons with partial and temporary disabilities. Second, those covered by a new medium-term benefit would be expected to return to work or, if not, keep working at some reduced capacity. Finally, an enhanced employment focus would help offset any real or perceived work disincentive effects associated with income benefits [Puttee 2002: 86-87].

A key policy question is whether such employment services to assist benefit recipients to reintegrate more readily to the labour force should be mandatory to undertake or a voluntary choice by recipients. Certainly, from the perspective of the disability community in Canada as elsewhere, the concern about a mandatory approach is that it denies individuals their right to self-determination. It also raises worries among employers and employees about forcing recipients into training programs or work settings that are not always appropriate.

Expected results of a more active social security policy would not be solely full-time employment or necessarily complete removal of clients off caseloads. Rather, in view of the variable mix of health conditions and the diverse world of work, criteria for success could include a gradual

reduction in benefits with an incremental increase in earnings, and reducing the number of low-income workers from falling on provincial/territorial social assistance because of illness or disability.

Strategic Considerations

How best to advance reform of disability income policies along these lines? In addressing this question, this section offers observations and advice in respect of the federal role and exercising leadership, intergovernmental relations on the disability agenda, likely responses from the disability community and reactions of other stakeholders.

Parliamentary recommendations and Government of Canada responses

A 2005 Parliamentary review of EI recommended among other items, that "the government consider developing a framework for extending EI coverage, both in terms of regular and special benefits, to self-employed-workers;" and that "the government study the possibility of extending sickness benefits by 35 weeks for those who suffer from a prolonged and serious illness" [House of Commons 2005: 52-53]. On the suggestion of extending EI coverage to self-employed workers, the Conservative Party of Canada issued a dissenting opinion, arguing that this recommendation and several others in the report posed dramatic long-term costs that first needed to be financially assessed by the responsible federal department.

On possibly extending sickness benefits by 35 weeks, the Conservative Party went on record as supporting this recommendation and some others "because they addressed inequities in the system, made the system function more efficiently or addressed matters of compassion. They would not result in massive spending increases and would be supportable within the current premium rate" [House of Commons 2005: 62].

In response to the 2005 Parliamentary review recommendation on sickness benefits, the (then) Liberal federal government stated:

> Currently, the EI program includes a 15-week sickness benefit which is designed to provide temporary income support to individuals who are injured or too sick to work. The 15-week maximum for EI sickness benefits is based on an examination of the availability of sickness benefits in the private sector and in other countries, and on discussions with representatives of the medical profession. In the event a worker's illness or injury extends beyond that period of time, long-term income protection may be available through the Canada Pension Plan (CPP) and other employment related benefits, if applicable. The division between EI sickness and CPP disability resembles industry practice used by employers who typically provide short- and long-term income protection to their sick or injured employees through separate plans [Canada 2005: 11].

The government reply went on to say: "While it is recognized that 15 weeks may not be sufficient to cover those with a longer term illness … for the majority of workers who turn to EI when they are unable to work due to illness or injury, 15 weeks is meeting the objective of providing temporary income support" [Canada 2005: 11].

This response is problematic in several respects. First, it does not acknowledge that the 15-week maximum duration for sickness benefits has remain unchanged since the inception of the benefit in 1971, while the duration for other EI special benefits, such as maternity and parental benefits, have been extended at some point. Second, the availability of sickness benefits and disability insurance in the private sector, as discussed earlier, is quite uneven by gender and full-time or part-time status, and overall quite incomplete for the employed labour force in Canada. Third, the provision of statutory sickness benefits in virtually all other advanced industrial nations is longer than is the benefit in Canada. Fourth, industry practice for long-term coverage is usually only for total disability, leaving aside circumstances of partial disability, and relatively few private plans provide regular indexation against cost of living increases. Fifth, the government response does not address directly the issue of those inside or outside the labour force ineligible for EI benefits.

Parliamentary studies and the annual departmental monitoring and assessment exercises are necessary for reviewing the EI program, but they are insufficient as complete and independent evaluation processes for determining the necessity for EI program enhancements or innovations.

intergovernmental relations in disability policy

A new income benefit addressing medium-term illnesses and disabilities fits well with the vision of a more inclusive society and renewed social policy, articulated by the federal, provincial and territorial governments [FPT 2000; 1998]. Improving income protection coverage of Canadian workers relates directly to two of the building blocks of the *In Unison* policy framework: income and employment.

In Canada, a significant share of public expenditures on disability cash benefits is delivered through provincial and territorial social assistance programs, a share higher than in most other OECD nations. In the mid-1990s, it was estimated that people with disabilities accounted for 20 to 25 percent of social assistance caseloads and expenditures [Puttee 2002: 81-82]. Today, a decade later, it is believed that 40 to 50 percent (or higher in some jurisdictions) of social assistance caseloads and expenditures are composed of persons with disabilities. With the elimination of the Canada Assistance Plan and adoption of the Canada Health and Social Transfer (CHST) in 1996, succeeded by the Canada Social Transfer in 2004, there is "virtually no federal involvement" in social assistance for people with disabilities [Puttee 2002: 94-95].

A new income benefit for medium-term illnesses and disabilities would relieve provinces and territories of some expenditure on social assistance, since at least a portion of their clients with disabilities would qualify for this new federal benefit. This would become increasingly important when a slowdown in the Canadian economy was to occur. At the same time, though, there would be

concern, no doubt raised by disability and welfare rights groups, of "the loss of extended medical coverage in some provinces for individuals who transfer from provincial social assistance to CPP Disability, and the implications of moving from a tax-free benefit to one which is taxable" [Canada 2003: 33].

Indeed, together with a safety net income program for people with disabilities, this social insurance reform offers a balanced approach to adults with disabilities in and out of the labour force, and to addressing income protection and employment participation.

disability community perspectives

Responses from national disability organizations to the reform options presented here would include a mix of positive reactions and negative or at least cautious considerations.

That there might be federal leadership on income matters, through a program not stigmatizing to clients, would generally be viewed as a constructive step. A new program that was part of a mainstream policy, such as EI or CPP, would encourage disability activists worried about the formation of segregated programs for people with disabilities. Of course, disability groups would expect to be involved in any policy development processes associated with a review and possible reform of income benefits.

The disability community would want to be assured that any federal initiative was not a diversion or substitute for initiatives in the intergovernmental arena that deal with supports, the expressed top priority for reform by the movement. Moreover, the movement would be interested to see how such a reform fit within a larger 10-year time frame for advancing the disability agenda in Canada. While an increased emphasis on work-oriented measures would be welcome, groups would want assurances that it was not at the expense of shifting away from a focus on rights to services – i.e., that reform was about reintegration and not the regulation of people with disabilities.

On the all-important topic of eligibility criteria, disability groups would scrutinize carefully the medical assessment procedures and definitions of capacity and employability to be used with a new benefit. Disability organizations would look for recognition that the same disability can have different effects depending on the person, the occupation and the socioeconomic context – i.e., that any notion of disablement was not based solely on biomedical criteria but encompassed functional and environmental principles as well.

employers, private insurers and workers' compensation plans

All three income reform options are a version of social insurance that guarantees a measure of earnings-related disability income support; it requires individuals to provide for some of their own income security and not rely completely on government transfers, private plans or personal resources. Employees and employers both have funding obligations through the payment of mandatory premiums,

making both parties responsible, in part, for the social risk and need. This is an approach to social policy that, historically and still today, has broad public support in Canada.

Still, some groups in the Canadian economy will wonder if an extended sickness benefit or new medium-term sickness/disability benefit is compatible with the core social insurance function of the EI program. An historic dichotomy of viewpoints on the purpose and role of EI prevails [House of Commons 2005; 2001]. In particular, employer associations may view the reform as a deviation from the "sound insurance" aspect of EI. That was their response to the introduction of the sickness benefit in 1970-71 and remains the position of major business groups today.[13]

On the other side, employee groups are likely to see such reform as a worthwhile income security measure. The EI program has a stable fund and sickness is a risk of involuntary unemployment. An important way to defuse criticisms to an expanded sickness benefit is through enhancing, at the same time, work incentives and vocational rehabilitation services.

Clearly, there would be a need to explore implications for sick leave plans provided by employers in Canada, perhaps resulting in adjustments to articulate these plans with a new medium-term public benefit at the national level. The goal would be to ensure that these would be complementary in nature. In all likelihood, the industry might also welcome (or initiate) discussion on public policy measures, such as tax incentives, to enhance access to disability income insurance plans.

In recent years, CPP disability program officials have worked with private insurers and workers' compensation agencies to improve relationships, share information and deal with issues concerning joint clients. Agreements in place between private insurers and workers' compensation providers, and the federal government on the reimbursement of retroactive payments would need to be reviewed and possibly revised. This could be an opportunity to enhance both the transparency and the accountability of these agreements.

Two additional issues concern the relation of workers' compensation systems to this reform. One is that workers' compensation systems have considerable experience in administering distinctions of partial and total disability and short- and long-term incapacities [Jennissen, Prince and Schwartz 2000]. These systems also provide a range of income benefits along with medical care, and social and vocational rehabilitation services that would be worth looking at for possible lessons and promising practices. The second issue is the fact that most provinces offset all or part of CPP disability benefits when deciding the amount of workers' compensation benefits for a client [House of Commons 2003]. This is an old issue and one not limited to this part of the income security system, but it warrants renewed intergovernmental attention if reforms are to move ahead in a consistent and equitable fashion for Canadians.

costs, savings and affordability

On the affordability of reforming federal disability programs, contributory disability benefits (C/QPP) as a percentage of Canada's GDP in 1999, was 0.67 percent, lower than in the United

States (0.71) and well below the OECD average of 1.52. Contributory disability, sickness and workers' compensation as a share of Canada's GDP was 1.27 percent in 1999, again lower than in the United States (1.37) and well below the OECD average (2.70).

As a share of total public social spending, disability-related income programs accounted for seven percent in Canada, compared to 10 percent in the United States and the 11 percent average of European Union countries [OECD 2003a: 17]. The evidence therefore suggests Canada does not devote much public expenditure to sickness and disability insurance, and that a new program for ill and disabled workers would start from a relatively low base [OECD 2005: 3].

The reform options outlined here would increase the numbers of people protected against illness/moderate disabilities, and receiving income benefits. In many cases, the reform options would significantly increase the financial security of individuals and their families. There would, in all likelihood, be cost reductions for other programs, such as workers' compensation, long-term disability plans, social assistance and perhaps even CPP disability, although further analysis is needed to estimate the interactions with these programs and any potential savings.

Furthermore, it is reasonable to expect a high outflow rate each year from such a new medium-term benefit, due to several factors. The benefit itself is time-limited; there would be strong emphasis on vocational rehabilitation and employment counselling services for return to work; the beneficiary population would likely be younger than for the CPP disability program; and there could be other possible innovative features, such as periodic reviews of the work capacity and supportive environments of recipients.

In addition to cost savings to the EI and CPP programs associated with early and active rehabilitation efforts, there are potentially positive revenue effects by keeping people in the paid labour force who otherwise might exit at some point.

Social assistance savings to the provinces and territories would not be insignificant. These savings could be redirected as investments to enhance the quality and supply of employment services or other disability-related supports for people in each jurisdiction.

Conclusions

The absence of a social insurance program for employed Canadians whose work and earnings are interrupted because of a prolonged illness or moderate disability is an important weakness in Canada's social security for working people. At present, the interruption of employment income and family security arising from moderate disability or recurring illness is largely a matter of individual responsibility with the possibility, for some people, of private insurance plans and, for others, provincial or territorial welfare programs.

Social Security Payments are Investments

"… Social security payments are not money lost. The social insurances … are investments in morale and health, in greater family stability, and from material and psychological viewpoints, in human productive efficiency. They demand personal and community responsibilities; but in the eyes of most of the people, who are beneficiaries, give a more evident meaning to the idea of common effort and national solidarity. It has yet to be proved that any democracy which underwrites the social minimum for its citizens is any the weaker or less wealthy for doing so."

Source: Marsh Report 1943: 273-74.

The degree of interaction or overlap in clientele between EI and CPP disability is quite limited; less than one percent of EI regular beneficiaries and less than three percent of EI sickness beneficiaries each year go on to CPP disability benefits. Over the 1997 to 2001 period, the overlap between EI and CPP disability declined both in absolute numbers and as a share of total EI claimants.

The EI sickness and CPP disability programs are examples of public policies that rest on conceptions of the labour market and work histories, and of the employability of people with illnesses or disabilities, which are somewhat outdated. It is essential to ensure that federal programs are responsive to the diverse and changing needs and life situations of Canadians.

There have been improvements in the coverage of employed workers by private disability insurance plans and service improvements in the administration and delivery of CPP disability benefits in recent years. Nonetheless, shortcomings remain throughout the disability income system.

More than 7.3 million workers in the Canadian labour force – 62 percent of self-employed workers and 44 percent of employed workers – had no private disability insurance coverage in 2000. Still other Canadians with poor access to sickness and disability insurance protection are those unable to qualify for EI or CPP, such as recent entrants or re-entrants to the labour force. Even employees with reasonable earnings can suffer economic hardship if they have a sickness or disability and lack private insurance coverage or are unable to access public income support programs.

Too much of the burden rests on the shoulders of workers and their families. There is too much reliance on social assistance to support Canadians with disabilities. These welfare systems are needs-tested and, to be eligible, clients must divest themselves of most of their assets.

Canadian social policy needs to include one or more measures that provide income support to workers with medium-term illnesses or disabilities, and that help these workers retain or regain participation in paid employment. Medium-term coverage can be accomplished through an extension of the duration of EI sickness benefits; the introduction of a distinct new program between EI sickness and CPP disability; or the introduction of partial benefits within the CPP disability program.

Endnotes

1. CPP disability benefit payments began in 1970 and EI sickness benefits began in 1971. Compared to most other OECD countries, Canada was a latecomer in the national provision of sickness and disability cash benefits through social insurance. By contrast, social insurance for work-related injuries and disabilities appeared in Canada starting in Ontario in 1914.

2. The two programs are closely coordinated. At present QPP disability benefit rates are almost identical to CPP benefits, with a monthly maximum rate in 2006 of $1,031.05. The CPP and QPP programs also have the same flat-rate and earnings-related portions to their disability benefits.

3. A high proportion of persons aged 45 and over in disability benefit programs, in the 60 percent or higher range, is a feature in the social security systems of a number of countries including Australia, France, Germany, Norway and the United States [OECD 2003b].

4. In public programs in Germany, Mexico, United States and Sweden, the income replacement rate for sickness benefits is higher than for disability benefits [OECD 2003b].

5. At least 10 percent of each year's maximum pensionable earnings.

6. The maximum duration of benefits varies across the individual special benefits under EI: six weeks for compassionate care, 15 weeks for sickness and maternity, and 35 weeks for parental benefits. The different special benefits do share, however, the two-week waiting period and the 600 hours of insured work in the last 52 weeks as a qualifying period.

7. As of December 11, 2005, if the person is living in one of 23 participating economic regions, the amount is the greater of $75 or 40 percent of weekly benefits.

8. Federal studies report that only a small portion of individuals who exhaust their EI regular benefits move on to social assistance within a year [Grey 2002] and that the EI reforms of 1996 had little impact on the take-up rate of social assistance [HRSDC 2002].

9. "If you have already been receiving a retirement pension when your application for disability benefits is approved, we will switch you to disability benefits if it is clear to us that your disability started before your retirement pension began. If you are receiving CPP disability benefits when you turn 65, they will automatically be changed to a retirement pension" [Social Development Canada 2005a: 7].

10. One year after a job separation, one in eight households in Canada experience a decline in consumer spending; the decrease is, on average, 24 percent of monthly household income and 31 percent for single parents [HRSDC 2003].

11. As a recent OECD [2003b: 4] report expresses this idea: "Societies need to change the way they think about disability and those affected by it. The term "disabled" should no longer be equated with "unable to work." Disability should be recognized as a condition, but it should be distinct from eligibility for, and receipt of, benefits. Likewise, it should not automatically be treated as an obstacle to work."

12. Varied rates in sickness benefits are the practice in a number of countries including France, Germany and Italy [OECD 2003a: 196]. For example, the Incapacity Benefit in the UK has a short-term benefit at a lower rate for persons who are incapable of work for up to 28 weeks in a row, a short-term benefit at a higher rate for persons sick for more than 28 weeks and less than 52 weeks, and a long-term benefit for those sick for more than 52 weeks.

13. The Canadian Council of Chief Executives, on their website, says that programs like maternity, parental, fishing and sickness benefits, now delivered through the EI system, should be funded out of general revenues and that EI should be returned to its core purpose of providing insurance against short-term and unexpected job loss [CCCE 2006].

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