

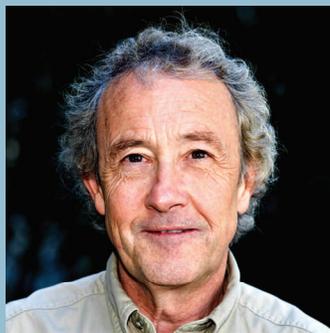


Labour Market Matters

Special points of interest:

- Options for Employment Insurance (EI) reform examined in new report that finds long-tenure workers disadvantaged in the current EI system.
- Many displaced workers found to be working for lower wages than in pre-displacement jobs. Workers at a firm for 5 or more years found to suffer greater wage-losses post-displacement than short-tenure workers.

“[A] major flaw in the current EI program is that it does not provide benefits that reflect the cost of job loss. Long tenure displaced workers who suffer dramatic wage-cuts from permanent job loss are not treated any differently than displaced workers who have been employed for brief periods of time.”



Craig Riddell
(University of British Columbia)

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Employment Insurance (EI) system reform examined in new report to protect high earnings losses suffered by displaced high-seniority workers

High-seniority workers are found to more adversely affected by job displacement than low-seniority workers. A report entitled “*Economic Change and Worker Displacement in Canada: Consequences and Policy Responses*” ([CLSRN Working Paper no. 33](#)) by CLSRN affiliate Craig Riddell finds that long-tenure displaced workers – those who have been with the same employer for many years—experience disproportionately high losses particularly since many are re-employed at significantly lower wages than they received in their pre-displacement positions. Canada’s current EI system does not take workers’ tenure beyond one year into account, but rather treats long and short-tenured employees in the same way. Riddell recommends that “aligning benefits more closely with magnitude of loss” can improve the social insurance dimension of Canada’s EI program.

Riddell likens late-career job loss for long-tenure workers to other catastrophic life-events such as “having one’s house burn down,” and notes that a major part of earnings losses for long-tenure workers arises from post-displacement employment at wages substantially below pre-displacement levels. These wage losses appear to be long-lasting or possibly permanent. Riddell argues that the “a major flaw in the current EI program is that it does not provide benefits that reflect the cost of job loss. Long

tenure displaced workers who suffer dramatic wage-cuts from permanent job loss are not treated any differently than displaced workers who have been employed for brief periods of time.” Traditional wage schemes are generally structured so that “workers earn less than their value to the firm early in their career and more than their value to the firm later in their career.” Such schemes make workers vulnerable to drastic wage cuts if displaced late in their careers. Older displaced workers are also less likely to be reemployed, than their younger counterparts. Recent Canadian data indicates that 83% of men aged 25-44 are reemployed within 5 years of job loss, but only 64% of men aged 45-59 are reemployed within the same time-period.

Permanent job loss has also been found to have negative health consequences. A recent North American study found that displacement leads to 15% - 20% increase in death rates¹. Parental job loss has been found to reduce the likelihood that teenagers will pursue post-secondary education. Children whose fathers were displaced have approximately 9% lower annual earnings and a higher incidence of employment insurance (EI) and social assistance receipt.² As long-tenure workers are those who tend to have been paying into EI for a long period of time without having claimed benefits, the report argues that it would be

socially just to recalibrate the EI system in order to provide additional benefits, and longer benefit periods to those who have been contributing to the system longer, but have not recently claimed benefits, rather than treating all workers, long and short-tenured, the same. Enhanced benefits could take the form of higher benefit levels, longer benefit durations, or access to funds for training or mobility assistance.

As enhanced EI benefits do not insure against an earnings decline in the post-displacement job, Riddell suggests that Canada implement a pilot “Wage Insurance” program. Wage insurance is a way to supplement reduced earnings for displaced workers who find post-displacement jobs at significantly lower wages than in their previous position. As reduced earnings can continue for many years after permanent job loss, and are particularly problematic for workers with high-seniority in their previous jobs, wage insurance could help offset some of these losses by partially filling the gap between the post-displacement income and the pre-displacement earnings level.

¹Sullivan, D. and T. von Wachter. 2009. “Job Displacement and Mortality: An Analysis using Administrative Data” *Quarterly Journal of Economics*. August 2009.

²Oreopolous, P., M. Page, and A. Huff Stevens. 2008. “The Intergenerational Effects of Worker Displacement.” *Journal of Labor Economics* 26 (3): 455-83.

Study finds that many displaced workers will not make the same earnings in post-displacement job. Workers with 5 or more years at a firm found to suffer greatest earnings losses post-displacement.

The recent global recession was heavily laced with devastating stories of layoffs and firm closures – often affecting workers who have been with the firms such as GM and Chrysler for many years. A recent study by CLSRN Affiliates René Morissette, Xuelin Zhang, and Marc Frenette entitled “Earnings Losses of Displaced Workers: Canadian Evidence from a Large administrative Database on Firm Closures and Mass Layoffs” ([CLSRN Working Paper no. 42](#)) find that five years after displacement, many workers will be making significantly less money than they did in their pre-displacement jobs, and “long-tenure” or “high-seniority” displaced workers - described in the study as having worked 5 or more years at a given firm - are found to suffer greater wage losses post-displacement than other workers. The analysis suggests that these earnings losses can be permanent if labour market conditions are unfavourable.



Xuelin Zhang
(Statistics Canada)

The study uses Statistics Canada’s Longitudinal Worker File to document the short- and long-term losses for a large (10%) sample of Canadian workers who lost their job through firm closures or mass layoffs during the late 1980s and 1990s. The study found that high-seniority displaced men experience long-term earnings losses that represent between 18% and 35% of their pre-displacement earnings, while high-seniority women are even worse off, suffering earnings losses between 24% and 35%. In contrast, earnings losses for displaced men of all groups suffered earnings losses between 9% to 22% and 12% to 31% for displaced women of all groups.

“[D]isplaced men experience long-term earnings losses that represent between 18% and 35% of their pre-displacement earnings”

Employment Insurance (EI) covers unemployed workers up to one year, but earnings losses are found by numerous studies to extend well beyond this one year period. Earnings losses that extend over a one-year period are further exacerbated in a number of important ways.

Displacement and earnings losses often go hand-in-hand with loss of union coverage and benefits that often come from long-term employment in large firms. Extended earnings losses, also tend to indicate the loss of important firm-specific skills or industry-specific skills as displaced workers often take on “survival” employment unrelated to the strongest skills sets, which also indicates the loss of good job matches to both the industry and workers. All of these factors likely imply a permanent drop in workers’ earnings.



Marc Frenette
(Statistics Canada)

A large body of research documents the chain-reaction of negative events can follow permanent earnings loss. Permanent reductions in worker earnings can cause instability of family earnings, thereby influencing consumption patterns of the worker’s family. This can increase stress and anxiety for the displaced worker, reducing their sense of control over their lives and potentially increase their vulnerability to mental health problems in the longer run.

This in turn, can increase the chance of family dissolution, which affect the well-being of all family members. Finally, permanent earnings losses from displacement are further exacerbated as non-transferrable pension plans that workers have been paying into for years can become unrecoverable sunk costs, which can severely derail worker retirement plans.

“[P]ension plans that workers have been paying into for years can become unrecoverable sunk costs, which can severely derail worker retirement plans”

As the Canadian economy recovers from the global recession, many Canadians who were left displaced still struggle to make ends meet on reduced income. Many economists suggest exploring options for EI reform, to allow long-tenure workers who have been paying into EI, often for decades, without having to claim benefits; gain increased, and extended benefits to help with their difficult transitions into post-displacement occupations.

Endnotes

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