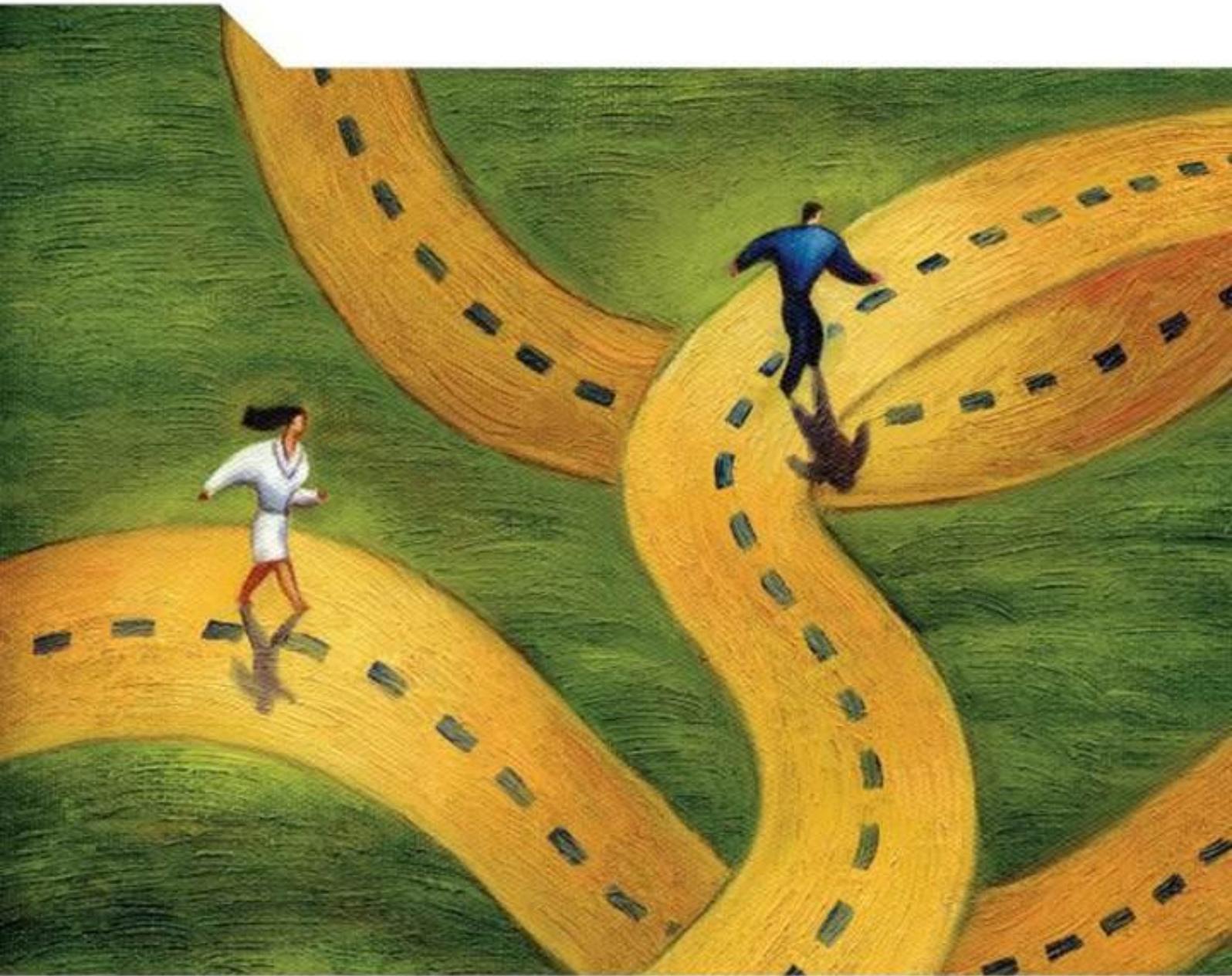




**Back to Work**

**CANADA**  
**IMPROVING THE RE-EMPLOYMENT**  
**PROSPECTS OF DISPLACED WORKERS**

EXECUTIVE SUMMARY AND ASSESSMENT AND RECOMMENDATIONS





## Executive summary

Workers who are involuntarily displaced from their jobs, as firms close or downsize in response to fluctuations in demand and production, face substantial economic and social costs. Around 2.2% of Canadian workers with at least one year of tenure are involuntarily displaced every year. About half are re-employed within one year and almost two-thirds within two years. However, many have to accept significant wage cuts and/or an often involuntary shift to part-time or temporary jobs. Older displaced workers face the poorest re-employment prospects, and those with long tenure bear the largest wage losses.

Overall, Canada has a sound set of policies and programmes to minimise the adverse consequence of displacement. Measures to avoid unnecessary redundancies in periods of weak economic activity are well-developed and play a useful role. Most of the emphasis is placed on early intervention measures for workers affected by mass layoffs and, especially, Employment Insurance benefits and employment services *after* workers have become unemployed.

Notwithstanding a relatively favourable policy set-up, areas of weakness exist. Programmes offering intensive adjustment assistance are not universal, leaving some displaced workers with insufficient re-employment support. In particular, early intervention services that could accelerate the adjustment process are too often not available to workers affected by small-scale and individual displacements or, more generally, to workers receiving advance notice or a large severance package. More could also be done to combine adequate financial support to older long-tenured displaced workers with effective re-employment measures.

The OECD recommends that policy makers in Canada:

- Improve the effectiveness of early intervention services in the case of mass dismissals, while extending these services as much as possible to workers affected by small-scale and individual displacements.
- Connect people receiving severance pay to employment services earlier by delinking such services from eligibility for Employment Insurance benefits.
- Experiment with several policy options to address large and persistent earning losses borne by older long-tenured workers, including through wage insurance to moderate wage losses.
- Promptly assess displaced workers' needs and provide those who need it with greater access to more intensive re-employment counselling and retraining.

## Assessment and recommendations

### Displaced workers bear an important share of the costs resulting from structural adjustments of the economy, in particular during recessions

Job displacement – defined as involuntary job loss due to economic reasons such as firm closure or downsizing – affects many workers over the course of their working lives. Around 2.2% of Canadian workers with at least one year of tenure are displaced on average every year. Once displaced, some workers find suitable new jobs relatively quickly while others experience long periods of unemployment. In Canada, just under half of displaced workers are re-employed within one year after displacement, and almost two-thirds are re-employed within two years. In an international comparison, re-employment rates for displaced workers are lower in Canada than in Australia, New Zealand, Sweden and the United States, about the same as in Japan and Korea, and well above the re-employment rate in France.

Even displaced workers who find a new job within the first year tend to experience important earning losses. One in five displaced workers face hourly wage cuts of 25% or more. On average, real annual earnings fall by 60% in the year following displacement, not taking benefit payments into account. This reflects the combined effects of three components: a lower hourly wage in the new job (around 2% decline compared with the previous hourly wage); fewer annual working hours after displacement due to unemployment; and fewer working hours in the new job. The latter two taken together represent the equivalent of almost seven months of the previous annual wage in the year following displacement. The brunt of these costs are borne by older long-tenured workers who face significantly greater challenges finding new jobs after displacement than other displaced workers, and when they do find a new position, they face significantly higher and longer-lasting wage losses. Job quality along a number of other dimensions also tends to be lower in the post-displacement job. For example, there is a shift into involuntary part-time and temporary jobs.

While job displacement is an important source of insecurity for workers, it is also an inescapable part of a dynamic labour market. Accordingly, an important policy priority could be to try to limit the adjustment costs associated with displacement whilst encouraging efficiency-enhancing labour reallocation.

### **The labour market system is difficult to navigate for displaced workers**

The responsibility for income support and employment in Canada is divided between different jurisdictions. The federal government provides *Employment Insurance* (EI) to eligible displaced workers, while re-employment support for displaced workers is delivered by the provinces and territories and co-funded by the federal and the provincial levels. This setup can lead to a number of problems if the governments do not put in place co-ordination mechanisms to reach potential clients as early as possible. One consequence is that job-search monitoring and sanctioning of jobseekers for the non-fulfilment of requirements is in different hands than the provision of job-search assistance and services. This can delay access to re-employment services while also making it more difficult to implement an efficient activation strategy that conditions the provision of re-employment assistance on active job search. Problems can also arise because training provision differs from province to province, implying differences in certification practices which can be a significant barrier to greater mobility between booming and declining provincial economies.

Significant design and delivery responsibilities have been transferred to provinces and territories (P/T) under various labour market agreements, allowing P/Ts to design and deliver programmes and services according to local needs. Improved co-ordination between federal and provincial governments in the implementation and delivery of re-employment support could be pursued within existing systems. Even though a first step has been made in most P/Ts in bringing together re-employment services for recipients of Employment Insurance benefits and of social assistance, bringing the delivery of EI benefits and employment services closer together would be particularly beneficial. Delivering all services in a “one-stop-shop” either relying on Service Canada or on the provincial/territorial Public employment service (PES), would be ideal but is not a precondition for improved co-ordination of a fragmented system. Further efforts to improve labour market information and to reconcile differences in occupational standards across provinces would facilitate the geographic mobility of the unemployed.

### **Employment protection is not very restrictive, and the Canadian authorities responded well during the global financial crisis**

Compared with their counterparts in other OECD countries, Canadian employers face relatively few legislative or regulatory restrictions on layoffs that are deemed necessary. While this makes Canadian workers potentially more vulnerable to job loss, the displacement rate is not especially high and the light-touch approach to regulating hiring and firing also promotes higher labour

mobility with most unemployed workers finding their way back into jobs relatively quickly. Employment protection rules are also well-designed in that employers planning mass layoffs face additional requirements to provide their employees and labour market authorities with additional advance notification. This provides an opportunity to explore alternatives to layoffs and, when displacements cannot be avoided, it allows the affected workers and local labour market authorities to start early in preparing for a smooth adjustment.

The federally-run Work-Sharing (WS) programme provides a useful incentive for employers confronting a temporary reduction in business activity to retain valuable employees by temporarily reducing working hours, and paying workers a partial unemployment benefit for unworked hours. During the recession that followed the global financial crisis (GFC), the Canadian Government and P/Ts reacted very quickly to increase access by: offering temporary flexibilities; extending the maximum duration during which the WS benefit would be paid; and reducing associated administrative burden. Like Short-Time Work schemes in other OECD countries the WS programme enabled jobs to be preserved in Canada.

Overall the WS operates relatively well albeit further improvements can be made to minimise associated deadweight and displacement costs. Unlike in most OECD countries, Canadian firms do not bear any direct cost relating to the number of workers using the scheme. While this feature should help to encourage firms to participate in the scheme, shifting a modest share of the direct costs towards employers may make employers more careful to enrol only workers they are quite sure they will wish to retain after the subsidy ends. Further research and engagement with employers may be required to determine the appropriate employer share in costs and to determine what factors may contribute to programme uptake.

### **Well-developed early intervention policies following mass dismissals should be extended to individually dismissed workers**

When mass layoffs are announced, considerable priority is given to adjustment support to workers early on via the so-called *transition* or *rapid response* services to facilitate their transition into new jobs. These early intervention services provided by Action centres in Ontario through programmes such as the Adjustment Advisory Program and *Comité d'aide au reclassement* (CAR) in Quebec are typically organised by public employment services working closely with the employer, labour representatives and other stakeholders to provide job-search assistance, career counselling and personal counselling to displaced workers to deal with the stress of job loss. Despite the potential benefits associated with early intervention, however, co-operation is not always forthcoming from employers.

Even when employers co-operate, the services offered before the layoff can be quite limited because of organisational difficulties. Employers are sometimes reluctant to co-operate with authorities to go beyond basic informational meetings during the notice period, for example by offering re-employment services, since doing so could disrupt production. Similarly, the public employment services are reluctant to intervene too extensively early on in the process, because some announced layoffs never occur due to unexpected improvements in sales or other factors. Participation in such services also remains voluntary, providing few incentives to some displaced workers such as older workers who are likely to be in receipt of large severance payments and other workers who may hope their jobs can be saved and hence may be reluctant to participate in active job search or retraining.

An additional challenge is to extend early intervention programmes to workers who are dismissed individually and therefore miss out on tailored adjustment support early on. Quebec is an exception. Workers affected by individual or small-scale displacements in Quebec can be referred to a reclassification committee known as the *Comité d'aide au reclassement à entrées continues* (CREC), designed to meet the distinct needs of this group that are not met by core labour market programmes. This appears to be a promising approach, but its effectiveness is difficult to assess in the absence of rigorous evaluation.

### **Addressing wage losses of older and long-tenured displaced workers**

Most Canadian displaced workers with stable work histories have relatively good access to income support from the EI system whilst they look for new jobs. But benefit durations, at around ten months, are shorter than in other OECD countries and, as a result, displaced workers experiencing long spells of unemployment are at risk of a sharp fall in their living standards. While the shorter benefit payment duration potentially encourages more rapid re-employment, it may also increase the risk of poverty among the more vulnerable displaced workers, especially given the strict eligibility criteria for “last-resort” benefits such as social assistance. Thanks to the recent temporary increase in the duration of unemployment benefit, protection for unemployed workers increased during the global economic recession.

One particular concern is the adequacy of EI benefits for two (overlapping) groups: older and long-tenured workers. Older displaced workers are particularly at risk of exhausting their EI entitlement before they become re-employed while their long-tenured counterparts experience the largest wage losses after displacement; the average wage loss is three times larger for workers with long tenure. In addition, the current design of EI – notably the requirement to exhaust

severance pay awards before becoming eligible for EI benefits – disadvantages this latter group as they are most likely to be in receipt of sizeable severance payments. While this requirement is not a disadvantage from an income adequacy perspective, the resulting delay in EI benefits can in turn leave long-tenured jobseekers without effective re-employment support during extended periods of unemployment as they are not required to register with employment services during this period.

The federal government took temporary steps to improve the accessibility to EI and related employment support for long-tenured workers in 2009 during the GFC. The *first* measure, *Extension of Employment Insurance Benefits for Long-Tenured Workers*, extended the duration of EI by up to 20 additional weeks. The *second* measure known as *Career Transition Assistance (CTA)* offered two types of benefit packages. The first option extended the maximum duration of EI benefit receipt to up to two years, conditional upon participation in training. The second option allowed earlier access to EI to workers using all or part of their severance pay package to invest in training. While the CTA was a promising initiative to expand income support and expedite re-employment support to the sub-group of displaced workers incurring the biggest losses, the take-up was very low.

Policy makers in Canada may wish to consider two alternative policy options to help address issues related to wage losses among older long-tenured displaced workers. The *first* is to extend duration of EI payment with a replacement rate that falls with the duration of unemployment. This can be a useful policy tool where individual search behaviour is an important influence on the likelihood of finding a job but income adequacy during unemployment is also a central policy consideration. *Another option* is to pilot several versions of a *Wage Insurance (WI)* scheme (an earnings subsidy that replaces a fraction of the difference between the wage in the old and the new job to workers who accept new jobs at lower pay) which is increasingly advocated as a good way to compensate part of the persistent earnings losses faced by some displaced workers, particularly older long-tenured workers. While WI is attractive in theory, there is limited experience available with large-scale schemes and the prudent approach would be to conduct pilot studies along the lines of the Earnings Supplement Project some years ago. Pilots should combine wage insurance with targeted job-search assistance and retraining options, a combination that reduces earnings losses by improving re-employment prospects and compensating some of the loss that remains. Such a combination has also led to improved take-up of similar earning supplement schemes in the past.

### Providing effective re-employment support to find good-quality jobs quickly

Some displaced workers, especially those involved in mass layoffs, will benefit from the services offered before actual displacement by an Action centre (Ontario) or a CAR (Quebec). Some other displaced workers involved in smaller layoffs in Quebec can also benefit from the services offered by a CREC. But many displaced workers – especially those involved in small-scale or individual layoffs – will only have access to basic job-search assistance and will be left on their own to make use of the job-matching resources available through Service Canada or the local employment service agencies and providers. Furthermore, the interaction between severance payments and eligibility to EI means that some of these displaced workers are likely to delay their contact with Service Canada, and most likely also with the PES, until long after they become unemployed. This could delay their access to even basic re-employment support, such as job-matching services. These delays could help to explain why 52% of displaced workers do not find a job in the first year after displacement.

Policy makers therefore face two main challenges. The first challenge is to reach displaced workers earlier in their unemployment spell. A considerable share of displaced workers has not had to look for a job in many years. These workers would benefit from the early provision of information on the income support system, as well as about mainstream employment services and targeted programmes available to help them find a suitable new job. Such information sessions should explain the potential benefits of using self-service job-search support and offer basic training on how to use such support and how to prepare CVs. Follow-up could be encouraged by requiring participants in these information sessions to register with the PES.

The second challenge is to identify displaced workers who face above-average adjustment difficulties and to improve their access to more intensive employment support, while avoiding that unnecessarily intensive (and expensive) services are provided to jobseekers not needing them. Systematic early needs assessment for displaced workers can help to achieve this goal, especially when the outcome of the assessment is formalised in an individual action plan that can lead to early intervention when specific barriers to re-employment have been identified.

Needs assessment can also help in identifying training needs and targeting training subsidies to those with the biggest barriers. This is particularly relevant for the recently implemented *Canada Job Fund* (CJF) agreements with P/Ts, which include the delivery of the *Canada Job Grant* (CJG) to directly connect skills training with employers and help Canadians gain the skills required for available

jobs. CJF provides incentives to employers to train individuals currently employed, underemployed or unemployed who could be a good fit for the firm with some level of training. Nevertheless, CJG risks subsidising training that is provided already as employers can also apply to train current employees who require training or retraining for either their current job or another position in the organisation. Tight targeting of publicly-funded training to vulnerable groups of workers and low-skilled unemployed who often miss out is critical for the success of the agreement, while also making sure to appeal to smaller companies that may lack the resources to provide training. For that reason, funding under the CJF also supports a broad range of employment services by helping those at the margin of the labour market by giving priority to individuals who are not eligible for EI and low-skilled employees. In addition, small businesses may benefit from flexible arrangements of the CJG.

In recent years, the federal and provincial governments have made considerable efforts to reach out to groups of displaced workers in greater need of re-employment support and training, especially older long-tenured workers which face larger barriers and suffer higher losses than their younger counterparts. Some of these programmes have shown considerable potential to fill the gap in the provision of more intensive re-employment services to displaced workers, provided they are made permanent and achieve adequate scale. For example, the *Second Career* programme in Ontario which provides additional adjustment assistance for older or long-tenured workers affected by economic restructuring and the *Targeted Initiative for Older Workers* (TIOW) programme that supports unemployed older workers with their reintegration into the labour market. The targeting of these programmes and the range of services that they offer differ somewhat, but they illustrate how a well-designed co-ordinated package of income and re-employment support can help reduce the adjustment costs associated with displacement. However, these schemes are often of a temporary nature with no guarantee that they will be continued in the future and, for some of them, have reached relatively few displaced workers, or in the case of TIOW, prior to Budget 2014, only applied to communities that have high unemployment or rely to a large extent on single industries.

Extra re-employment services for displaced workers are likely to be particularly desirable during an economic downturn, when the number of workers experiencing layoffs increases and their job-search prospects deteriorate. It is important that governments quickly scale up Active Labour Market Programmes (ALMPs) in a recession, while also shifting the mix of services away from immediate job placement towards more general types of training and counselling. Following the global financial crisis, the federal and provincial governments successfully reoriented and expanded existing employment and training programmes in an effective manner. That model should be held ready for future downturns.

### Key policy recommendations

#### Easing the navigation of displaced workers through the multi-layered institutional system providing re-employment support

- Improve the co-ordination between federal and provincial governments in the design, implementation and delivery of re-employment support. Employment services need to be more client-oriented.
- Make steps towards bringing federal delivery of EI benefit and provincial delivery of employment service operations closer together. Co-location of federal and provincial services would be a first step but in the medium run a “one-stop-shop” structure, as put in place in many other OECD countries, would be ideal.
- Promote geographic mobility through the timely provision of labour market information and a reconciliation of differences in occupational standards across provinces.

#### Improving the effectiveness of prevention and early intervention measures

- Enhance the effectiveness of early intervention services offered to displaced workers affected by mass dismissals by raising incentives to co-operate for employers, employment services and workers who have been notified that they will be displaced.
- Experiment with extending early intervention services to workers affected by small-scale and individual displacement. For example, consider expanding permanent services such as the Comité d'aide au reclassement à entrées continues currently in use in Quebec.
- Connect people receiving severance pay to employment services earlier by delinking such services from eligibility for Employment Insurance benefits.
- Increase obligations for workers to actively search for a new job and register with the PES during their notice periods or as soon as workers are dismissed irrespective of whether they are in receipt of severance payments. Non-compliance should have consequences for access to *Employment Insurance*.
- Engage with employers to determine the appropriate employer share in the costs of the *Work-Sharing* programme and to determine what factors may contribute to programme uptake.

**Key policy recommendations (cont.)****Addressing income adequacy needs of older long-tenured workers while maintaining work incentives**

- Consider extending the duration of Employment Insurance benefits with a net replacement rate that falls with the duration of unemployment (similar to degressive benefit schemes that exist in several other OECD countries). Such extensions however should be accompanied by systematic monitoring of job search and mandatory participation in active labour market programmes.
- Develop and implement *Wage Insurance* pilot schemes for displaced workers with a focus on combining wage insurance with job-search support and other labour market programmes.

**Providing early and effective re-employment support to displaced workers who need more intensive help**

- Deliver systematic early information to displaced workers on income support, mainstream employment services and targeted programmes available to help them find a suitable new job. Make registration to the PES during these information sessions compulsory.
- Implement systematic early needs assessment for displaced workers, formalised in an individual action plan that can lead to an early intervention when specific barriers to re-employment have been identified.
- Expand the access of older long-tenured displaced workers to more intensive job-search assistance, case management and training, building on the experience with *Second Career* and the *Targeted Initiative for Older Workers*.
- Increase expenditures on active labour market programmes and strengthen the activation of displaced workers. Stand ready to ramp up ALMP spending, particularly for general skills training, should a deep economic downturn occur.