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## INFORMATION NOTE

### Supplementary Information on Unemployment Insurance Systems

#### 1. Background

1.1 On 13 June 2000, the Legislative Council Panel on Welfare Services requested the Research and Library Services (RLS) Division to provide supplementary information on unemployment insurance systems<sup>1</sup>. The Panel is interested to know the following issues:

- (a) Number of member countries in the International Labour Organization where there are no unemployment insurance systems;
- (b) Number of cases in the unemployment category of the Comprehensive Social Security Assistance (CSSA) scheme;
- (c) An estimate of the savings that the Hong Kong Special Administrative Region (HKSAR) Government could achieve by spending less on the CSSA if an unemployment insurance system were established in Hong Kong; and
- (d) An estimate of the contribution rate required to enable the unemployed in Hong Kong to receive a level of unemployment insurance benefits at a replacement rate of 50% of previous earnings for a maximum period of six months.

#### 2. Number of Member Countries in the International Labour Organization Where There Are No Unemployment Insurance Systems

2.1 Currently, the International Labour Organization (ILO) has 174 member countries. Among them, there is no unemployment insurance system in 101 countries while 52 countries have established such systems. We do not have information on the remaining 21 countries as to whether or not there are unemployment insurance systems. Please see Table 1 for the list of ILO member countries.

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<sup>1</sup> For the discussion of unemployment-related benefits systems, please refer to the series of research reports, RP13/99-00 to RP23/99-00.

**Table 1 - List of International Labour Organization Member Countries**

<b>There is no unemployment insurance system in the following ILO member countries:</b>						
Afghanistan	Congo	Guyana	Mali	Rwanda	Tanzania	
Antigua- Barbuda	Costa Rica	Haiti	Mauritania	Saint Kitts and Nevis	Thailand	
Australia	Cote D'Ivoire	Honduras	Mauritius	Saint Lucia	Togo	
Bahamas	Cuba	Hungary	Mexico	Saint Vincent and the Grenadines	Trinidad and Tobago	
Bahrain	Dominica	India	Morocco	San Marino	Tunisia	
Bangladesh	Dominican Republic	Indonesia	Myanmar	Sao Tome and Principe	Turkey	
Belgium	El Salvador	Iraq	Nepal	Saudi Arabia	Uganda	
Belize	Equatorial Guinea	Jamaica	New Zealand	Senegal	Vietnam	
Benin	Estonia	Jordan	Nicaragua	Seychelles	Yemen	
Bolivia	Ethiopia	Kazakhstan	Niger	Sierra Leone	Zambia	
Botswana	Fuji	Kenya	Nigeria	Singapore	Zimbabwe	
Burkina Faso	Gabon	Kiribati	Oman	Slovakia		
Burundi	Gambia	Kuwait	Pakistan	Solomon Islands		
Cameroon	Georgia	Lebanon	Panama	Somalia		
Cape Verde	Ghana	Liberia	Papua New Guinea	Sri Lanka		
Central African Republic	Grenada	Madagascar	Paraguay	Sudan		
Chad	Guatemala	Malawi	Peru	Swaziland		
Colombia	Guinea	Malaysia	Philippines	Syria		
<b>The following ILO member countries have established unemployment insurance systems:</b>						
Albania	Bulgaria	Egypt	Italy	Poland	Turkmenistan	
Algeria	Canada	Finland	Japan	Portugal	Ukraine	
Argentina	Chile	France	Kyrgyzstan	Romania	United Kingdom	
Armenia	China	Germany	Latvia	Russia	United States	
Austria	Croatia	Greece	Lithuania	South Africa	Uruguay	
Azerbaijan	Cyprus	Iceland	Luxembourg	South Korea	Uzbekistan	
Barbados	Czech Republic	Iran	Malta	Spain	Venezuela	
Belarus	Denmark	Ireland	Netherlands	Sweden		
Brazil	Ecuador	Israel	Norway	Switzerland		
<b>We do not have information on whether there is unemployment insurance system in the following ILO member countries:</b>						
Angola	Comoros	Guinea- Bissau	Libya	Mongolia	Qatar	Tajikistan
Bosnia and Herzegovina	Djibouti	Laos	Macedonia	Mozambique	Slovenia	United Arab Emirates
Cambodia	Eritrea	Lesotho	Moldova	Namibia	Suriname	Yugoslavia

### **3. Number of Cases in the Unemployment Category of the Comprehensive Social Security Assistance Scheme and Comprehensive Social Security Assistance Expenditure**

3.1 Table 2 shows the number of Comprehensive Social Security Assistance (CSSA) Scheme cases in the unemployment category<sup>2</sup> and CSSA expenditure from 1997-1998 to 1999-2000. In the CSSA Scheme, able-bodied adults with monthly earnings less than a specific amount (i.e. HK\$1,610 in 1999-2000) are put in the unemployment category.

3.2 The number of cases in the unemployment category increased from 3 876 cases in 1993-1994 to 31 942 cases in 1998-1999; there were 26 185 cases in 1999-2000. The proportion of unemployment CSSA cases relative to all CSSA cases increased from 4.1% in 1993-1994 to 13.7% in 1998-1999; it was 11.5% in 1999-2000.

3.3 CSSA expenditure increased from HK\$2.4 billion in 1993-1994 to HK\$13.6 billion in 1999-2000.

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<sup>2</sup> There are 10 categories of CSSA cases, namely old age, blind, deaf, physically disabled, mentally ill, temporary disability/ill health, single parent family, low earnings, unemployment and others. The "others" category includes mainly abandoned children, families with the breadwinner being imprisoned/admitted to drug treatment centre.

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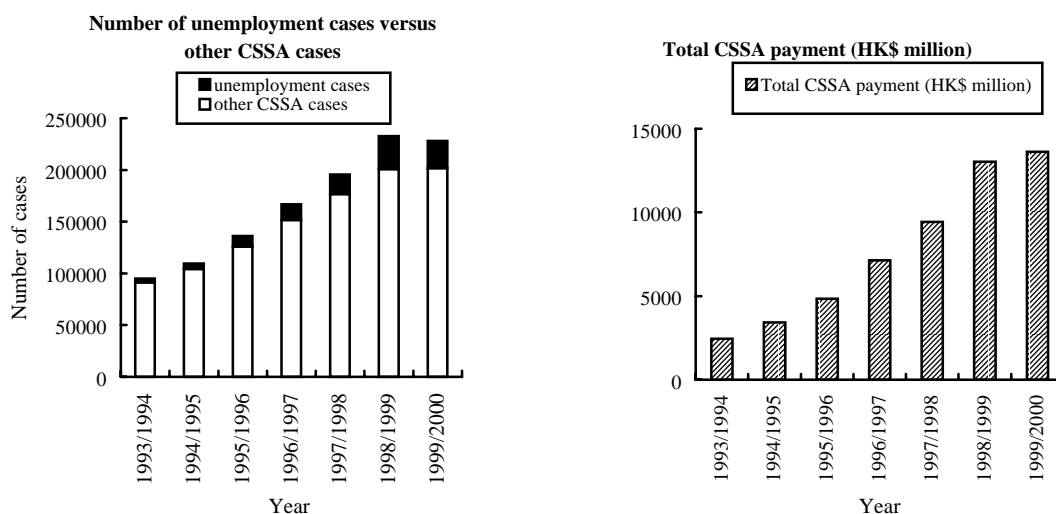
**Table 2 - Statistics on the Number of Cases in the Unemployment Category of the Comprehensive Social Security Assistance Scheme and Expenditure of the Comprehensive Social Security Assistance Scheme from 1993-1994 to 1999-2000**

Year <sup>1</sup>	Number of cases in the unemployment category	Total number of CSSA cases	Percentage among all CSSA cases (%)	Amount of total CSSA payment (HK\$ million) <sup>2</sup>
1993-1994	3 876	95 104	4.1	2,443
1994-1995	5 302	109 461	4.8	3,427
1995-1996	10 131	136 201	7.4	4,831
1996-1997	14 964	166 720	9.0	7,128
1997-1998	19 108	195 645	9.8	9,441
1998-1999	31 942	232 819	13.7	13,029
1999-2000	26 185	228 015	11.5	13,623

Notes:

1. Fiscal year from 1 April to 31 March.
2. As from 1 July 1993 onwards, the Public Assistance Scheme has been replaced by the CSSA Scheme which includes payments of Disability Allowance and Old Age Allowance to CSSA recipients. Hence, figures as from 1993-1994 and those of previous periods are not strictly comparable.

Sources: Census and Statistics Department, Hong Kong Special Administrative Region, *Hong Kong Annual Digest of Statistics 1999* and *Hong Kong Monthly Digest of Statistics: June 2000*.



**4. An Estimate of the Savings that the Hong Kong Special Administrative Region (HKSAR) Government Could Achieve by Spending Less on the Comprehensive of Social Security Assistance (CSSA) if an Unemployment Insurance System Were Established in Hong Kong**

4.1 We are unable to estimate the savings that the HKSAR Government could achieve by spending less on the CSSA if an unemployment insurance system were established in Hong Kong and if some of the CSSA beneficiaries were to claim their unemployment insurance benefits instead. The reasons are detailed below.

4.2 The number of eligible unemployment insurance claimants is determined by the parameters within which an unemployment insurance system operates. These include coverage of the system, conditions for payment of unemployment insurance benefits, conditions for disqualifying the claimants for unemployment insurance benefits, qualifying period, unemployment insurance benefit rates, duration of benefits, and waiting period.

4.3 The International Labour Organization (ILO) has made general recommendations on some of these parameters, but they are not followed by member countries which have their individual and varied social and economic circumstances. Furthermore, statistics are not available in Hong Kong to enable computation to be made meaningfully on the basis of ILO's recommendations. For those parameters on which the ILO has not made specific recommendations, e.g. coverage of the system or amount or duration of benefits to be provided, our previous studies (RP13-23/99-00) have shown that practice varies from places to places. In view of the large number of variables involved and the lack of data, we have not attempted to make assumptions in order to estimate the number of eligible unemployment insurance claimants among those 26 185 cases in 1999-2000. Details are summarized in Table 3 for easy reference.

**Table 3 - Attempted Applications of ILO Recommendations on Unemployment Insurance System in Hong Kong**

<b>Parameters</b>	<b>ILO recommendations</b>	<b>Situation in Hong Kong</b>
Persons protected	Exemptions may be given to certain categories of workers, e.g. who are under or over certain prescribed ages, or who work in certain fields or occupations.	Assumptions not appropriate. Data not available as to previous employment of CSSA recipients in the unemployment category.
Benefits to be provided	(a) Should be able to provide the beneficiary with partial and transitional wage replacement and at the same time to avoid creating disincentives either to work or to employment creation. (b) Benefits should be provided to the unemployed as well as the underemployed.	(a) Assumptions not appropriate. (b) Statistics not available to differentiate the unemployed and the underemployed among the CSSA recipients in the unemployment category.
Conditions for receiving unemployment insurance benefits	Recipient may have to comply with the requirements of being (a) capable of work, available for work, and willing to work; and (b) registering at a public employment exchange to seek work.	CSSA recipients in the unemployment category are required to comply with these two requirements.
Conditions for disqualifying claimants for unemployment insurance benefits	Recipient disqualified if he lost work due to labour dispute or left it voluntarily without just cause, or has tried to obtain any unemployment insurance benefits fraudulently.	Data not available to show how many cases among those CSSA recipients in the unemployment category may be disqualified for the reasons recommended by the ILO.
Qualifying period	26 weeks of employment in the past 52 weeks.	Data not available to indicate how many CSSA recipients in the unemployment category have worked 26 weeks in the past 52 weeks.
Benefit rates	Not less than 45% of previous earnings or the statutory minimum wage or at a level which provides the minimum essential for basic living expenses, whichever is the highest.	Data not available on previous earnings of CSSA recipients in the unemployment category.
Duration of benefits	Payment of the unemployment insurance benefits may be limited to 26 weeks in each spell of unemployment.	Not applicable in the CSSA scheme.
Waiting period	Recipient has to wait seven days in each case of suspension of earnings.	Not applicable in the CSSA scheme.

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4.4 We have also attempted to find out the maximum possible government savings that could be achieved if **all** CSSA recipients in the unemployment category (i.e. all of 26 185 cases in 1999-2000) were to claim unemployment insurance benefits instead. However, until the beginning of October 2000 the Social Welfare Department (SWD) has not had a breakdown of the amount of payment for the unemployment category of the CSSA scheme. The old accounting system only produced the total payment figure for all CSSA cases as it was mainly designed for budgetary control purpose and provided no breakdown by categories. The SWD has advised that the Computerised Social Security System<sup>3</sup> (CSSS) which went live in the beginning of October 2000 will show the amount of expenditure for each category of the CSSA scheme in the future. Data generated from this CSSS system are of little use for the purpose of this research as they are less than a month old up to the date of the publication of this information note.

4.5 We have considered using the results of the SWD annual sample study of CSSA recipients as a substitute to make an estimate of the expenditure for the unemployment category under the CSSA scheme. However, since the sample is drawn on a certain day in September of each year, the data collected represent only the characteristics of the sample on that day. As CSSA cases fluctuate considerably throughout the year in terms of payment received and the number of recipients in each category, the data collected on the day of the annual sample study cannot be used to project without bias the characteristics of the whole population of CSSA recipients throughout the year. Hence, we have not used the SWD annual sample study to make any estimate of the expenditure for the unemployment category under the CSSA scheme.

## **5. An Estimate of the Contribution Rate Required to Enable the Unemployed in Hong Kong to Receive a Level of Unemployment Insurance Benefits at a Replacement Rate of 50% of Previous Earnings for a Maximum Period of Six Months**

5.1 We are unable to give an estimate of the contribution rate required to enable the unemployed in Hong Kong to receive a level of unemployment insurance benefits at a replacement rate of 50% of previous earnings for a maximum period of six months if an unemployment insurance system were established. The limitations are detailed below.

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<sup>3</sup> The SWD began to develop the CSSS in 1997 aiming to meet the SWD's operational and management information needs. The CSSS is able to support the processing of all the social security schemes including investigation, assessment and payments.

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5.2 To estimate the required contribution rate to finance the unemployment insurance scheme, it is necessary to calculate the income and expenditure sides of the unemployment insurance scheme. Each side of the scheme is affected by a number of factors. On the income side of the scheme, these factors include the number of contributors, monthly employment earnings of the contributors, contribution rate, labour force participation rate, population growth, and economic performance. On the expenditure side, these factors include the number of unemployed persons, duration of unemployment, last monthly employment earnings of unemployed persons, economic performance, and administrative expenditure. Moreover, although the ILO has recommended that beneficiaries of unemployment insurance must have worked for at least 26 weeks in the 52 weeks immediately before they become unemployed, we have not made a projection of the financial viability of an unemployment insurance scheme because of the large number of variables involved, the difficulty in making assumptions in some cases, and lack of data in others. Details are summarized in Table 4.



**Table 4 - Attempted Estimate of Financing of Unemployment Insurance Scheme**

<b>Factors</b>	<b>ILO recommendations</b>	<b>Situation in Hong Kong</b>
<i>Income side</i>		
Number of contributors	No specific recommendation.	Not appropriate to make any assumptions.
Monthly employment earnings of contributors	No specific recommendation.	Statistics available for those who are employed but uncertain if all would qualify as persons protected.
Contribution rate	No specific recommendation.	Not appropriate to make any assumptions.
Labour force participation rate	No specific recommendation.	Not appropriate to make any assumptions. Difficult to predict future changes.
Population growth	No specific recommendation.	Estimate available.
Economic performance	Not applicable.	Economic growth may raise wages and reduce the number of unemployed. Difficult to predict future economic performance.
<i>Expenditure side</i>		
Number of unemployed persons	No specific recommendation.	Current statistics available but difficult to assume if all would qualify as persons protected to receive unemployment insurance benefits. Difficult to predict the number of unemployed persons in the future.
Duration of unemployment	26 weeks in 52 weeks	Current statistics available but difficult to assume if all would qualify as persons protected to receive unemployment insurance benefits. Difficult to predict the duration of unemployment in the future.
Last monthly employment earnings of unemployed persons	Not applicable.	Statistics not available.
Economic performance	Not applicable.	Economic stagnation may result in large number of unemployed. Difficult to predict future economic performance.
Administrative expenditure	No specific recommendation.	Not appropriate to make any assumptions.

5.3 We have attempted to draw a profile of the last monthly employment earnings of the unemployed. However, the Census and Statistics Department (C&SD) does not collect data on the last monthly earnings of the unemployed persons with a previous job for the following reasons:

- (a) The period and duration of unemployment varies among unemployed persons. Hence, the last monthly employment earnings of different unemployed persons would relate to different time points. This makes the interpretation and comparison of such earnings data difficult;
- (b) Some unemployed persons had been unemployed for quite some time. There are also some who had remained economically inactive<sup>4</sup> for some time before re-entering the labour market and becoming unemployed. For these persons, it may be difficult to ask them to recall information on their last monthly employment earnings accurately due to memory lapse; and
- (c) The last monthly employment earnings of an unemployed person might differ from his normal monthly employment earnings because of a number of irregular factors, including fewer working days in the month concerned, the receipt of severance payment or other compensation payments.

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<sup>4</sup> The economically inactive population is made up of those persons who have not had a job and have not been at work during the seven days before enumeration, excluding persons who have been on leave/holiday during the seven-day period and persons who are unemployed. Persons such as home-makers, retired persons and all those below the age of 15 are thus included.

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5.4 The C&SD does not plan to collect these data in the General Household Survey owing to the following considerations:

- (a) It is by no means easy to collect reliable and useful data on this item in view of the limitations mentioned above. This would greatly increase the survey cost and respondents' burden; and
- (b) It is believed that most data users are more concerned with the monthly employment earnings of employed persons instead of unemployed persons. It may not be cost-justified to collect such data.

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