

*Unemployment-Related Benefits System
in the United Kingdom*

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EXECUTIVE SUMMARY

1. The United Kingdom (UK) established the first unemployment insurance programme through enacting the National Insurance Act in 1911 to provide financial assistance to the unemployed. Since then, the government had several major reforms. In mid-1990s, the government reformed the former two-tier unemployment benefits system, consisting of the Unemployment Benefit and the Income Support schemes, as part of the restructuring of the social security system programme.
2. The Jobseekers Act which reformed the unemployment benefits system was passed in 1995. The Act replaced the Unemployment Benefit and modified the Income Support for unemployed people with a Jobseeker's Allowance from October 1996. The Jobseeker's Allowance has two components, contribution-based Jobseeker's Allowance and income-based Jobseeker's Allowance. The government stressed that this would be more clearly focused on helping unemployed people into work. All unemployed people would be required to enter a Jobseeker's Agreement, committing them to a plan of action to seek work.
3. The contribution-based Jobseeker's Allowance is available as a matter of right (i.e. without a means test) to unemployed workers who have demonstrated their attachment to the labour force by a specified amount of National Insurance contributions. The contribution-based Jobseeker's Allowance has not covered the self-employed. Approximately 24 million workers (82% of the active labour force) were covered by the contribution-based Jobseeker's Allowance at the end of 1998.
4. The contribution-based Jobseeker's Allowance is paid at a flat rate based on the claimant's age. After a 3-day waiting period, eligible claimants are entitled to contribution-based Jobseeker's Allowance for up to six months. About 259 000 unemployed people received the contribution-based Jobseeker's Allowance (about 14% of the unemployed) at the end of 1998.
5. The income-based Jobseeker's Allowance is a means-tested benefit which modified the Income Support for the unemployed. After a 3-day waiting period, people on a low income are entitled to the income-based Jobseeker's Allowance payable as long as the jobseeker requires support and continues to satisfy the qualifying conditions (i.e. hours of work and saving or capital restrictions).
6. The income-based Jobseeker's Allowance comprises an age-related personal allowance and allowances for dependent children. About 1.2 million unemployed people (about 65% of the unemployed) received the income-based Jobseeker's Allowance at the end of 1998. The income-based Jobseeker's Allowance is entirely financed by government expenditures.

7. The Jobseeker's Allowance are taxable. Recipients of the Jobseeker's Allowances can benefit from a Back to Work Bonus. This is intended to enhance incentives to take up or keep part-time work, and encourage people to move off benefit into employment.
8. The Inland Revenue Contributions Agency administers National Insurance contributions and records while the Employment Service and Benefits Agency administers and delivers jobseeker's benefits via local job centres.
9. The UK government provides a number of social security programmes to secure a basic standard of living for people in financial need by providing income during periods of instability to earn (including periods of unemployment) and help for families. The most important social security programme in the UK is the Income Support, designed to provide financial help to those whose net income falls below a set minimum level. In addition, there are a number of other assistance-linked, means-tested benefits, including Working Families' Tax Credit, Housing Benefit, Council Tax Benefit, and concessions. The social security benefits are not taxable.
10. The majority of social security benefits (including Income Support, Working Families' Tax Credit and concessions) in the UK is handled by the Benefits Agency of the Department of Social Security. The Housing Benefit and the Council Tax Benefit schemes are administered by local authorities.

UNEMPLOYMENT-RELATED BENEFITS SYSTEM IN THE UNITED KINGDOM

PART 1 - INTRODUCTION

1. Background

1.1 In October 1999, the Panel on Manpower and the Panel on Welfare Services requested the Research and Library Services (RLS) Division of the Legislative Council (LegCo) Secretariat to conduct a study on unemployment-related benefits systems.

2. Objectives and Scope

2.1 The objectives of the study are:

- to examine the experience of Mainland China, Taiwan, Malaysia, Singapore, South Korea, the United Kingdom (UK), and the United States (US) in implementing their unemployment-related benefits systems; if any
- to outline the research findings of the Organization for Economic Co-operation and Development (OECD) and the Conventions and Recommendations of the International Labour Organization (ILO) in unemployment benefits systems; and
- to make an overall comparative analysis of the experience in the above places in implementing their unemployment-related benefits systems, and study current provisions in helping the unemployed in Hong Kong.

2.2 The scope of the research, as agreed by the Panels, covers

- historical development;
- main features and components;
- eligibility requirements;
- types of benefits and amounts;
- duration of payment of benefits;
- tax treatment of the benefits;
- source of funds for the benefits; and
- administration of the unemployment-related benefits systems.

2.3 In this report, we outline the experience of the UK in the establishment and operation of the unemployment-related benefits system. The UK was chosen because the country has a long history in implementing its unemployment-related benefits system. The UK is a member country of the International Labour Organization and ratified the *Ensuring Benefit or Allowances to the Involuntarily Unemployed Convention, 1934, (No. 44)* and the *Social Security (Minimum Standards) Convention, 1952 (No. 102)* regarding unemployment benefits system. However, the UK has not ratified the *Employment Promotion and Protection (Unemployment) Convention No. 168*.

2.4 This report is part of the series of studies discussing unemployment-related benefits systems. There are 11 separate research reports (RP13/99-00 to RP23/99-00) on this subject.

2.5 In this research, "unemployment-related benefits" refer to unemployment benefits and related welfare benefits. Unemployment benefits comprise unemployment insurance and unemployment assistance. Unemployment benefits are available to the unemployed only. In other words, these benefits are not available to people who are not unemployed. The recipient must be currently unemployed, able to work, willing to work and looking for work. Where there are no unemployment benefits or where these benefits are exhausted, welfare benefits may be made available to provide subsistence for those in need. These related welfare benefits, as defined in the 1996 OECD study of *Benefit Systems and Work Incentives*, include family benefits, housing benefits, child-care benefits and social assistance. They are made available to all citizens subject to a means-test, and are not specifically targeted at the unemployed.

3. Methodology

3.1 The research involves a combination of information collection and analysis. In addition to materials available in the Legislative Council Library, reference materials were acquired and borrowed externally. Requests for the necessary information have also been obtained from the UK Department of Social Security. This research report is based on the information obtained from these sources.

3.2 In this report, we use the 1999 average exchange rate of £1 = HK\$12.6 to convert the British pound into Hong Kong dollar.¹

¹ Census and Statistics Department, *Hong Kong Monthly Digest of Statistics*, February 2000, p. 117.

PART 2 - HISTORICAL DEVELOPMENT OF UNEMPLOYMENT INSURANCE SYSTEM

4. The 1911 National Insurance Act

4.1 The United Kingdom (UK) established the first unemployment insurance programme through enacting the National Insurance Act in 1911 to provide financial assistance to the unemployed. Prior to the enactment of the National Insurance Act, only limited assistance was available to unemployed workers. In the early 1900s, the number of unemployed people increased continuously against the background of industrial restructuring. The government thus had to review the ways in helping the unemployed. After a major review which was completed in 1909, the government decided to provide more protection to the unemployed and enacted the first unemployment insurance programme as part of the National Insurance Act of 1911 which also included sickness insurance. (Please see Appendix I for the experience in helping the unemployed prior to the enactment of the unemployment insurance law in the UK.)

4.2 The unemployment insurance portion of the National Insurance Act covered only about 2.5 million workers² in some industries that had a high incidence of unemployment. Examples of these industries included building and construction, shipbuilding, machine shops, foundries, and saw-milling. The programme was limited in coverage because it was considered to be experimental in nature.

4.3 The original unemployment insurance programme was also quite limited as to benefits. A modest flat-rate weekly benefit was payable. The duration of benefits was limited to a maximum of 15 weeks in a year and payable on the basis of one week of benefit for each five weeks of contributions. The minimum requirement to qualify for any benefits was ten weeks of paid-up contributions. The insured worker had to be capable of work. Disqualification from unemployment insurance benefits was imposed for six weeks if the worker lost a job because of labour disputes, misconduct, or refusal of suitable work, leaving work voluntarily without just cause. Employers and workers contributed equal amounts, with a government contribution equal to one-fourth of the system's total revenue.

4.4 The National Insurance Act also provided subsidies for voluntary plans covering workers outside the insured trades. This provision induced very few new plans. Plans already in existence covering workers in the insured trades were allowed to continue with a subsidy of one-sixth of benefit costs, and these plans expanded considerably.

² We do not have information about the size of labour force at that time period.

4.5 The unemployment insurance programme was extended in 1916 to munitions workers (among whom unemployment was expected after the war) and to workers in certain other industries. This extension enlarged the coverage to over 3.7 million workers. The programme was extended further in 1920, bringing most wage earners under its coverage.

5. The 1920 Amendments

5.1 In 1920, coverage was extended to most of the workers (not covering those working in agriculture and domestic service) aged between 16 and 65 years earning over a specified amount in a year. The benefit-contributions arrangement was changed. One week of benefit was allowed for each six weeks, instead of five weeks, of contributions.

5.2 Although the 1920 amendments were enacted in a favourable economic climate, unemployment began to rise after they took effect. The UK faced a continuing large volume of unemployment during the 1920s, with only local relief as an alternative to unemployment insurance to provide income for the unemployed. With a duration limit of 15 weeks, many of the unemployed exhausted their insurance benefits and remained jobless or unable to obtain sufficient work to qualify for further unemployment insurance. The conditions for receipt of local relief were onerous and local governments were unable to finance it for the large numbers who were unemployed and uninsured.

5.3 The government thus relaxed the qualifying requirements for unemployment insurance benefits and extended the duration of the benefits to provide income for the unemployed. However, these changes caused the unemployment insurance fund financial difficulties.

6. The Unemployment Act of 1934

6.1 The provisions for the unemployed were drastically changed by the Unemployment Act of 1934. Owing to financial difficulties in the unemployment insurance system, the government increased unemployment insurance contributions, decreased the weekly benefit amount, shortened the duration of standard benefits, and introduced a requalifying requirement after exhaustion of benefits. These changes resulted in reductions in unemployment insurance expenditures.

6.2 A new unemployment assistance system was also established to provide support for the unemployed who were unable to draw unemployment insurance and were still in need. This unemployment assistance scheme was nationally administered.

7. Reforms of the Unemployment Insurance System from 1940s to Mid-1990s

7.1 Following World War II, the 1946 National Insurance Act unified all types of social insurance in the UK into a comprehensive scheme. In 1948, unemployment assistance was absorbed into a new national public assistance programme by the National Assistance Act, which evolved further into a general supplementary benefit system in 1966. The National Insurance scheme was subsequently restructured by the Social Security Act of 1975.

7.2 Since then, the UK government had not changed the structure of the unemployment insurance system until the mid-1990s. The unemployment insurance system covered all workers who earned certain wages and were not self-employed. Unemployment insurance benefits were financed through an over-all wage-related contribution for all types of social insurance, payable by employers and workers, and supplemented by a government contribution.

7.3 The minimum qualifying requirement for unemployment insurance benefits called for contributions paid on earnings equal to at least 25 times the weekly lower earnings³ in any one of the last two years, and contributions on earnings equal to at least 50 times the weekly lower earnings in the last two years. Workers who earned less than the weekly lower earnings were not required to pay any National Insurance contributions. Unemployed workers were protected by a means-tested benefit programme, known as the Income Support. This programme was financed entirely by the government.

7.4 To be eligible for obtaining unemployment insurance benefits, the unemployed worker was required to register at the employment office and be available for and seeking work. Benefit disqualifications applied up to six weeks for voluntary separation from work, discharge for misconduct, and refusal of suitable work or training opportunity.

7.5 The weekly benefit consisted of a personal flat rate plus an allowance for dependent spouse. Unemployment insurance benefits were payable after a three-day waiting period for up to a maximum of one year.

³ The government determined weekly lower and upper earnings based on the results of the annual earnings survey.

8. Reforms of the Unemployment Insurance System as Part of the Restructuring of the Social Security System Programme in mid-1990s

8.1 According to the United Kingdom (UK) government, the social security system in the country is designed to secure a basic living for people in financial need by providing income during periods of inability to earn (including periods of unemployment), and help for families and disabled people. Thus, the government operates a number of social security programmes to provide financial help for people who are unemployed (if their incomes are less than the weekly lower earnings limit), elderly, sick, disabled, widowed, bringing up children, or on very low incomes.

8.2 Some social security benefits depend on the payment of contributions by employers and employees to the National Insurance Fund, from which benefits such as unemployment benefit, retirement pension, sickness benefit, and maternity allowance and widow's benefit are paid. Some social security benefits such as income support and family credit are non-contributory and are financed from general taxation; these are income-related.

8.3 The government began reforming the structure of social security system in the mid-1990s because the expenditures rose continuously. There were two major reasons for the increased expenditures: (i) the number of beneficiaries rose, and (ii) the value of benefits appreciated in real terms from 1980. Spending on social security was £83,000 million in the 1994 - 1995 fiscal year which accounted for a third of government expenditure.

8.4 As part of its review of public spending, the government started to reform the structure of social security system in 1994 to (i) target better those in need; (ii) encourage more self-support; and (iii) provide more incentives to work.

8.5 One of the major reforms was the restructuring of the two-tier unemployment benefits system, consisting of the Unemployment Benefit and the Income Support schemes. In April 1994, the government proposed to introduce a new type of unemployment benefit (i.e. Jobseeker's Allowance) to replace the Unemployment Benefit and modifying the Income Support⁴ schemes. The government stressed that this would be more clearly focused on helping unemployed people into work. All unemployed people would be required to enter a Jobseeker's Agreement, committing them to a plan of action to seek work.

⁴ Until October 1996, the Income Support was also available to unemployed people on low incomes, capable of, available for, and actively seeking work. These people now qualify for assistance under the Jobseeker's Allowance.

9. Jobseekers Act 1995

9.1 The Jobseekers Act which reformed the unemployment benefits system was passed in 1995. The Act replaced the Unemployment Benefit and modified the Income Support for unemployed people with a Jobseeker's Allowance from October 1996. The Jobseeker's Allowance has two components, contribution-based Jobseeker's Allowance and income-based Jobseeker's Allowance. It is worth noting that the previous unemployment insurance benefits could be carried forward when implementing the Jobseeker's Allowance.

9.2 The government cited three objectives in introducing the Jobseeker's Allowance:⁵

1. To improve the operation of the labour market by helping people in their search for work, while ensuring that they understand and fulfil the conditions for receipt of benefit.
2. To ensure better value for money for the taxpayer by a streamlined administration, closer targeting on those who need financial support and a regime which more effectively helps people back into work.
3. To improve the service to unemployed people themselves by a simpler, clearer, more consistent structure, and by better service delivery.

Jobseeker's Agreement⁶

9.3 Following the introduction of the Jobseeker's Allowance, claimants have to sign a Jobseeker's Agreement as a condition of benefit receipt. It is a personal agreement detailing the steps each claimant intends to take to find employment. By making jobseeking activity a condition of benefit receipt, it is intended to enable the Employment Service staff to monitor jobseeking activities and to sustain claimant's motivation to find employment.

9.4 The Agreement includes information on (i) the claimant's availability for work; (ii) the kind of work the claimant is looking for; (iii) what the claimant will do to look for work and improve the chances of finding work; and (iv) the services the Employment Service provides to help.

⁵ Employment Department and Department of Social Security, *Jobseeker's Allowance*, London: 1994, p. 5.

⁶ The Agreement replaces the Back to Work Plan previously completed by new claimants. The Back to Work Plan was an advisory and voluntary document.

9.5 If the claimant and the Employment Service advisor cannot agree on the content of the Jobseeker's Agreement, an adjudication officer will review and decide if the proposed contents are reasonable. If the claimant still does not agree with their decision, the claimant may appeal to a social security appeal tribunal. We do not have information on the number of cases of disagreement between the claimant and the Employment Service.

PART 3 - CURRENT UNEMPLOYMENT BENEFITS PROVISIONS

10. Jobseeker's Allowance

10.1 The Jobseeker's Allowance is a benefit for people needing financial support because of unemployment. It was introduced in October 1996⁷ to replace the Unemployment Benefit scheme and modify the Income Support scheme. The Jobseeker's Allowance can be either contribution-based or income-based.

Eligibility Conditions for the Jobseeker's Allowance

10.2 A claimant is entitled to receive the Jobseeker's Allowance if he --

1. is available for employment;
2. is actively seeking employment;
3. is capable of work;
4. is under pensionable age (60 for women and 65 for men);
5. has entered into a Jobseeker's Agreement (see paragraph 9.3 - paragraph 9.5 above for details)
6. satisfies either the additional conditions listed in the contribution-based Jobseeker's Allowance (see paragraph 11.1 - paragraph 11.10) or the income-based Jobseeker's Allowance (see paragraph 12.1 - paragraph 12.4).

Disqualifications from the Jobseeker's Allowance

10.3 There are disqualification provisions that restrict Jobseeker's Allowance eligibility of the unemployed workers under specified conditions. The major causes for disqualification from Jobseeker's Allowance eligibility are voluntary separation from work, discharge for misconduct, refusal of suitable work, and labour disputes. The disqualification may last up to six months. The disqualification provisions are in line with relevant International Labour Organization (ILO) Conventions.

⁷ The rules are set out in the Jobseekers Act 1995 and the Jobseekers Allowance Regulations.

Waiting Period

10.4 Eligible claimants receive the Jobseeker's Allowance after a 3-day waiting period. The waiting period requirement is also in line with relevant ILO Conventions.

11. Contribution-based Jobseeker's Allowance

Coverage of the Contribution-based Jobseeker's Allowance

11.1 Employed persons who earn the weekly lower earnings (£66 in 1999, amounting to HK\$832) or more are covered by the contribution-based Jobseeker's Allowance scheme. In the UK, neither employees nor employers need to pay National Insurance contributions on earnings below the lower earnings limit.

11.2 Self-employed persons are excluded from the contribution-based Jobseeker's Allowance scheme. This arrangement is in line with relevant ILO Conventions.

11.3 Approximately 24 million workers (82% of the active labour force⁸) were covered by the contribution-based Jobseeker's Allowance at the end of 1998.

11.4 Workers who earn less than £66 (HK\$832) a week and self-employed persons may be able to get income-based Jobseeker's Allowance if they meet the eligibility requirements.

Qualifying Conditions for Receiving the Contribution-based Jobseeker's Allowance

Hours of Work

11.5 Eligible claimants must be out of work or working less than 16 hours a week. The claimant's earnings, if any, reduce the amount of contribution-based Jobseeker's Allowance received.

⁸ At the end of 1998, the size of labour force and the level of total unemployment stood at 29.2 million and 1.83 million, respectively. Hence, the unemployment rate was 6.3%.

Contribution Conditions

11.6 Contribution-based Jobseeker's Allowance is funded by part of the National Insurance contributions that finance the whole national insurance system.⁹ Employees and their employers are required to pay National Insurance contributions if employees who earn at or above the lower earnings limit (£66 (HK\$832) a week in 1999).

11.7 Employees and their employers pay the same rate of National Insurance contributions. National Insurance contributions on earnings at or above the lower earnings limit of £66 (HK\$832) a week are at the rate of 2% of the first £66 (HK\$832) and rise in stages to 10% of the balance.

Amount of National Insurance Contributions

11.8 The qualifying conditions for receiving the contribution-based Jobseeker's Allowance required contributions paid on earnings equal to at least 25 times the minimum weekly earnings limit (i.e. £66 a week in 1999) in any one of the last two years, and contributions on earnings equal to at least 50 times the minimum weekly earnings limit in the last two years. It should be noted that there is no difference in contribution requirement between the former Unemployment Benefit scheme and the current contribution-based Jobseeker's Allowance scheme.

11.9 We use the following example to illustrate the contribution requirement. In order to qualify for the contribution-based Jobseeker's Allowance, a person has to pay sufficient National Insurance contributions as follows --

- (i) at least £1,650 (£66 x 25; amounting to HK\$20,790) in any one of the last two years; and
- (ii) at least £3,300 (£66 x 50; amounting to HK\$41,580) in the last two years.

11.10 Claimants who have paid enough National Insurance contributions are entitled to the contribution-based Jobseeker's Allowance, regardless of any personal assets and savings.

⁹ Entitlement to the National Insurance benefits include Retirement Pension, Maternity Allowance, and Widow's Benefit.

Benefit Amount Payable by the Contribution-based Jobseeker's Allowance

11.11 The contribution-based Jobseeker's Allowance is paid at a flat rate based on the claimant's age. Table 1 provides the current rates of the contribution-based Jobseeker's Allowance in a week which range from £30.95 (HK\$390) for a person under aged 18 to £51.4 (HK\$648) for a person aged 25 or over.

Table 1 - Rates of the Contribution-based Jobseeker's Allowance

Contribution-based Jobseeker's Allowance	Rates of the Contribution-based Jobseeker's Allowance
Person under aged 18	£30.95 (HK\$390)
Person aged 18 - 24	£40.7 (HK\$513)
Person aged 25 or Over	£51.4 (HK\$648)

Source: Department of Social Security, *Social Security Benefit Rates*, October 1999, p. 13.

11.12 In the UK, the national minimum wage is £3.6 (HK\$45.4) an hour. If a person works 35 hours a week, the weekly minimum wage is equivalent to £126 (HK\$1,588). The contribution-based Jobseeker's Allowance for a person aged 25 or over in a week is £51.4 (HK\$648). Hence, the ratio of the level of contribution-based Jobseeker's Allowance to the income of a worker who earns minimum wage is 41%. It is important to note that the contribution-based Jobseeker's Allowance recipients may be able to receive other social security benefits if they meet specific eligibility requirements (see Part 4 for details).

11.13 The ILO has recommended that the replacement rate (i.e. unemployment benefits amount relative to the worker's gross earnings) should be set at least 45%. In the UK, the amount of the unemployment insurance benefit (i.e. the contribution-based Jobseeker's Allowance) is based on the claimant's age, rather than the earnings of previous employment.

Duration of Receiving the Contribution-based Jobseeker's Allowance

11.14 Eligible claimants are now entitled to contribution-based Jobseeker's Allowance for up to six months. In the former Unemployment Benefit system, the period of entitlement was 12 months. The shortened benefit duration is in line with relevant ILO Conventions.

Number of Beneficiaries Receiving the Contribution-based Jobseeker's Allowance

11.15 At the end of 1998, about 259 000 unemployed people received the contribution-based Jobseeker's Allowance and around 1.83 million people were unemployed. In other words, about 14% of the unemployed received the contribution-based Jobseeker's Allowance.

12. Income-based Jobseeker's Allowance

Coverage of the Income-based Jobseeker's Allowance

12.1 The Income-based Jobseeker's Allowance is a means-tested benefit which modified the Income Support for the unemployed.

Qualifying Conditions for Receiving the Income-based Jobseeker's Allowance

Hours of Work

12.2 Eligible claimants must be out of work or working less than 16 hours a week. The claimant's earnings reduce the amount of the income-based Jobseeker's Allowance received.

12.3 Claimants may not qualify for the income-based Jobseeker's Allowance if their spouses work 24 hours a week or more. If the claimants' spouses work less than 24 hours a week, their earnings reduce the amount of the income-based Jobseeker's Allowance claimants can receive.

Saving or Capital Restrictions

12.4 The income-based Jobseeker's Allowance scheme sets a limit to the amount of savings or capital a person may have and still remains entitled to. People with savings or capital worth more than £8,000 (HK\$100,800) are ineligible; savings or capital between £3,000 (HK\$37,800) and £8,000 (HK\$100,800) reduces the amount received.

Financing the Income-based Jobseeker's Allowance

12.5 The income-based Jobseeker's Allowance is entirely financed by government expenditures.

Benefit Amount Payable by the Income-based Jobseeker's Allowance

12.6 The amount a claimant receives comprises an age-related personal allowance and allowances for dependent children. The current rates of the income-based Jobseeker's Allowance range from £30.95 (HK\$390) a week for a single person under aged 18 to £80.65 (HK\$1,016) for a couple both aged 18 or over. The rate for each dependent child varies with age (see Table 2 below).

Duration of Receiving the Income-based Jobseeker's Allowance

12.7 The Income-based Jobseeker's Allowance is paid as long as the claimants meet the eligibility requirements discussed above.

Number of Beneficiaries Receiving the Income-based Jobseeker's Allowance

12.8 At the end of 1998, about 1.2 million unemployed people received the income-based Jobseeker's Allowance and around 1.83 million people were unemployed. In other words, about 65% of the unemployed received the income-based Jobseeker's Allowance.

13. Back to Work Bonus

13.1 Recipients of the Jobseeker's Allowances can benefit from a Back to Work Bonus. This is intended to enhance incentives to take up or keep part-time work, and encourage people to move off benefit into employment.

13.2 Those who have been unemployed for three months or more and are working part-time may keep the first £5 (HK\$63) of their earnings, £10 (HK\$126) for couples; £15 (HK\$189) for lone parents, disabled people and some people in special occupations in any week in which they work while receiving benefit.

Table 2 - Rates of the Income-based Jobseeker's Allowance

Income-based Jobseeker's Allowance	Rates of the Income-based Jobseeker's Allowance
Single Person	
Person under aged 18	£30.95 (HK\$390)
Person aged 18 - 24	£40.7 (HK\$513)
Person aged 25 or over	£51.4 (HK\$648)
Couple	
Person under aged 18	£30.95 (HK\$390)
One person under aged 18, one person aged 18 - 24	£40.7 (HK\$513)
One person under aged 18, one person aged 25 or over	£51.4 (HK\$648)
Both persons aged 18 or over	£80.65 (HK\$1,016)
Dependent Children	
Dependent child under aged 11	£20.2 (HK\$254)
Dependent child aged 11 - 16	£25.9 (HK\$326)
Dependent child age 16 - 18	£30.95 (HK\$390)

Source: Department of Social Security, *Social Security Benefit Rates*, October 1999, p. 13.

13.3 When an unemployed person moves off the Jobseeker's Allowance because of an increase in earnings or hours of work, he will be able to claim a tax-free lump sum of up to £1,000 (HK\$12,600). The part-time (up to 24 hours a week) earnings of a spouse can also contribute towards building up a Back to Work Bonus, which can be paid if the couple leaves the Jobseeker's Allowance as a result of the spouse moving into work.

13.4 The government is to evaluate the effectiveness of the Back to Work Bonus in contributing to its Welfare-to-Work objectives by the end of year 2000 (Please see Appendix II for the details of Welfare-to-Work programme implemented in April 1998).

14. Tax Treatment of the Jobseeker's Allowance

14.1 The Jobseeker's Allowance (unemployment benefits which replace lost earnings) are taxable. Various income tax reliefs and exemptions are allowed on account of age or need to support dependants.

15. Administration of the Jobseeker's Allowance

15.1 The Inland Revenue Contributions Agency administers National Insurance contributions and records while the Employment Service and Benefits Agency administers and delivers jobseeker's benefits via job centres. The job centre therefore provides a single point of contact for jobseekers to receive help and advice on their search for jobs, to obtain access to job vacancies, training and employment programmes, and to claim the Jobseeker's Allowance.

16. Penal Provisions

16.1 The penalties for non-compliance are set out in the Jobseekers Act 1995. Any person who makes a false statement or produces any false document for obtaining a Jobseeker's Allowance is liable to a fine not exceeding £5,000 (HK\$63,000), or to imprisonment for a term not exceeding three months, or both.

16.2 Any person who fails to answer any question or produce any documents when required to do so is liable to a fine not exceeding £1,000 (HK\$12,600). The person who is convicted of such offence is liable to a fine not exceeding £40 (HK\$504) for each day on which it is continued.

PART 4 - SOCIAL SECURITY SYSTEM

17. Overview of the Social Security System

17.1 The government of the United Kingdom (UK) provides a number of social security programmes to secure a basic standard of living for people in financial need by providing income during periods of instability to earn (including periods of unemployment) and help for families.

17.2 The most important social security programme in the UK is the Income Support, designed to provide financial help to those whose net income falls below a set minimum level. In addition, there are a number of other assistance-linked, means-tested benefits, including Working Families' Tax Credit, Housing Benefit, Council Tax Benefit, and concessions.

18. Income Support

Coverage of the Income Support

18.1 The Income Support is payable to certain people aged 16 or over who are not required to be available for work, and whose income and savings are below certain set levels. They include lone parents, pensioners, long-term sick and disabled people.

Qualifying Conditions: Savings or Capital Restrictions

18.2 The Income Support scheme sets a limit to the amount of capital that a person may have and still remains entitled to the benefits. People with savings worth more than £8,000 (HK\$100,800) are ineligible for Income Support benefits; and savings between £3,000 (HK\$37,800) and £8,000 (HK\$100,800) reduce the amount they may receive. People living permanently in residential care or a nursing home with savings over £16,000 (HK\$201,600) are ineligible; and savings between £10,000 (HK\$126,000) and £16,000 (HK\$201,600) also reduce the amount they may receive.

Benefit Amount Payable by the Income Support

18.3 The Income Support is made up of: a personal allowance based on age and on whether the claimant is single, or a lone parent; age-related allowances for dependent children, and premiums (see Table 3 below for details). The claimants' income and social security benefits reduce the amount of the Income Support receivable.

18.4 The current rates of the Income Support range from £30.95 (HK\$390) a week for a single person under aged 16 - 17 to £80.65 (HK\$1,016) for a couple both aged 18 or over. The rate for each dependent child varies with age

Table 3 - Rates of the Income Support

Income Support	Rates of the Income Support
Single Person	
Person aged 16 -17	£30.95 (HK\$390)
Person aged 18 - 24	£40.7 (HK\$513)
Person aged 25 or over	£51.4 (HK\$648)
Couple	
Person under aged 18	£30.95 (HK\$390)
One person under aged 18, one person aged 18 - 24	£40.7 (HK\$513)
One person under aged 18, one person aged 25 or over	£51.4 (HK\$648)
Both persons aged 18 or over	£80.65 (HK\$1,016)
Lone parents	
Person aged 16 -17	£30.95 (HK\$390)
Person aged 18 or over	£51.4 (HK\$648)
Dependent Children	
Dependent child under aged 11	£20.2 (HK\$254)
Dependent child aged 11 - 16	£25.9 (HK\$326)
Dependent child aged 16 or over	£30.95 (HK\$390)
Premiums	
Disabled child	£21.9 (HK\$276)
Severe disability - paid for each adult who qualifies	£39.75 (HK\$501)

Source: Department of Social Security, *Social Security Benefit Rates*, October 1999, p. 9.

Duration of Receiving the Income Support

18.5 Income Support is paid for as long as the claimant's income is less than the applicable amount and the conditions for receipt are met.

Number of Beneficiaries Receiving the Income Support

18.6 At the end of 1998, approximately 4.1 million recipients received the Income Support whereas the population size was about 59.3 million. Hence, 6.9% of the population received the Income Support.

19. Working Families' Tax Credit

Qualifying Conditions of Receiving the Working Families' Tax Credit

19.1 The Working Families' Tax Credit¹⁰ is a tax-free benefit payable to low-income working families with children. It is payable to couples or lone parents. At least one parent must work for at least 16 hours a week.

Tax Credit Amount of the Working Families' Tax Credit

19.2 The amount payable depends on a family's net weekly income; the number and ages of the children in the family; the amount of certain childcare charges paid; and the number of hours worked.

19.3 A maximum amount of the Working Families' Tax Credit (consisting of an adult credit, plus a credit for each child varying with age, and an extra credit if one parent works for at least 30 hours a week), is payable if the family's net weekly income is less than £81 (HK\$1,020). If the income is more than £81 (HK\$1,020) a week, 55 pence (HK\$7) of every £1 (HK\$12.6) of the excess is deducted from the maximum payable (70% as with former Family Credit). By introducing a higher income threshold, the Working Families' Tax Credit is designed to improve work incentives and to encourage people to move into and remain in employment.

19.4 At the same time, a new childcare tax credit, forming part of the Working Families' Tax Credit, is introduced to improve help with the cost of childcare. It is worth 70% of eligible childcare costs but limited up to £100 (HK\$1,260) a week for families with one child and £150 (HK\$1,890) for families with two or more children.

¹⁰ The government replaced the Family Credit by the Working Families' Tax Credit in October 1999. At the end of 1998, about 831 000 people received the Family Credit.

20. Housing Benefit

Qualifying Conditions of Receiving the Housing Benefit

20.1 The Housing Benefit is an income-related benefit which helps people on low incomes meet the cost of rented accommodation. The Housing Benefit scheme sets a limit of £16,000 (HK\$201,600) on the amount of capital a person may have and still remain entitled to claim benefit.

20.2 Single people under 25 years old who are not lone parents and who rent privately have their Housing Benefit limited to the average cost of a single non-self-contained room (i.e. shared use of kitchen and toilet facilities) in the locality. In other words, he does not have to pay any rent if he rents a single non-self-contained room. This arrangement is intended to reduce disincentives to work.

Determination of the Amount of the Housing Benefit

20.3 The Housing Benefit can pay up to 100% of rent, depending on the claimant's circumstances such as income, savings, and rent.

20.4 The Housing Benefit for most private sector tenants is calculated by reference to the general levels of rents for properties with the same number of rooms in the locality. This is intended to ensure that private sector tenants receiving benefit have an incentive to choose better value accommodation at the outset of a tenancy.

Number of Beneficiaries Receiving the Housing Benefit

20.5 At the end of 1998, about 4.5 million people (or 7.5% of the population) received Housing Benefit.

21. Council Tax Benefit

Qualifying Conditions of Receiving the Council Tax Benefit

21.1 The Council tax is a tax on the domestic property. Each dwelling is allocated to one of the eight valuation bands, based on its capital value. The Council Tax is a main source of revenue income of local authorities in the UK.

21.2 The Council Tax Benefit helps people to meet their council tax payments. The scheme offers help to those claiming the Income Support and the income-based Jobseeker's Allowance and others with low incomes.

Determination of the Amount of the Council Tax Benefit

21.3 People may receive rebates of up to 100% of their council tax, depending on the claimant's circumstances such as income and savings.

22. Concessions

22.1 Other benefits for which unemployed people and those on low incomes may be eligible include exemption from health service charges, grants towards the cost of spectacles, legal aid and free school meals. People on low incomes receive extra help to meet the cost of their fuel bills.

22.2 Reduced charges are often made to unemployed people, for example, for adult education and exhibitions, and pensioners are usually entitled to reduced transport fares.

23. Tax Treatment of Social Security Benefits

23.1 The social security benefits are not taxable.

24. Administration of Social Security Benefits System

24.1 The majority of social security benefits (including Income Support, Working Families' Tax Credit and concessions) in the UK are handled by the Benefits Agency of the Department of Social Security.

24.2 The Housing Benefit and the Council Tax Benefit schemes are administered by local authorities.

Appendix I

The Experience in Helping the Unemployed Prior to the Enactment of the National Insurance Act in the United Kingdom

A.1 The original unemployment insurance law (i.e. the National Insurance Act) was passed in 1911. For about 75 years prior to this event, unemployed workers in the United Kingdom (UK) were treated largely under the Poor Laws adopted in 1834. This system, which was operated locally, distinguished between the able-bodied poor and those unable to work. The former were made "less eligible" for relief and subjected to the "workhouse test." If relief applicants could work but did not, they were required to accept employment under harsh workhouse conditions. Increasingly, urban industrial poverty towards the end of the nineteenth century made more apparent the severity of the Poor Laws and their inadequacy for dealing with the unemployed.

A.2 Voluntary charities seeking to offer an alternative to the workhouse were also inadequate to cope with the growing problem, as were the out-of-work benefit funds of the trade unions which covered only a small proportion of the labour force. Political unrest stirred as the socialist and labour movements in early-1900s focused heavily on the problem. It was the era of social critics and reformers who challenged the view underlying the Poor Law system that the able-bodied unemployed were responsible for their own destitution, the result of their personal inadequacies. The emerging counter-view was that they were the victims of industrial and social insufficiency and, therefore, the responsibility of industry and society.

A.3 A Royal Commission was established in 1906 to review the Poor Laws. After three years of review, in 1909, the Royal Commission on the Poor Laws recommended reforms which urged more vocational-oriented education, a public labour (employment) exchange system, and the promotion of employment in industry. For the unemployed who were unable to find work, the Commission urged to establish public assistance programme. The Commission also recommended the establishment of some form of unemployment insurance, especially among unskilled and unorganised labour.

A.4 Many of the recommendations made by the Royal Commission found their way into law. A system of public labour exchanges was adopted in 1909. The government enacted the first national compulsory unemployment insurance programme as part of the National Insurance Act of 1911 which also included sickness insurance.

Appendix II

WELFARE-TO-WORK PROGRAMME

A. Background

A.1 The government's Welfare-to-Work programme is a series of measures designed to tackle youth and long-term unemployment, promote employability and develop skills, and move people from welfare into jobs. The programme is being funded by a windfall tax¹¹ on the excess profits of the privatised utilities.

A.2 The government plans to invest some £5,200 million in the Welfare-to-Work programme, in a number of 'New Deals' including:

- £2,590 million for young unemployed people;
- £480 million for the long-term unemployed;
- £190 million for lone parents;
- £1,300 million for schools; and
- £210 million for disabled people;

B. Young Unemployed

B.1 The New Deal for young people was first introduced in April 1998. It is available to young people aged 18 - 24 who have been unemployed for more than six months, through four options:

- a job attracting a wage subsidy of £60 a week, payable to employers for up to six months;
- a work placement with a voluntary organisation;
- a six-month work placement with a new Environmental Task Force; and
- for those without basic qualifications, a place on a full-time education and training course, which might last for up to one year.

¹¹ The windfall tax is a one-off tax on the excess profits of the privatised utilities, payable in two installments, in 1997 and 1998. The tax is used to finance the government's Welfare-to-Work programme. The tax is charged at a rate of 23% on the difference between a company's value at flotation and the value calculated by reference to profits over a period of up to four years following privatisation. The windfall tax is expected to yield £5,200 million.

B.2 All the options include an element of training. For each young person the programme begins with a 'Gateway' period of career advice and intensive help with looking for work, and with training in the skills needed in the world of work. By October 1998, over 160 000 young people had joined the programme, of whom more than 30 000 had moved into jobs. Over 9 000 employers are participating in the employer option. The programme is expected to help around 250 000 people.

C. Long-term Unemployed

C.1 Under the New Deal for the long-term unemployed, which started in June 1998, employers receive subsidy of £75 a week for six months if they employ anyone who has been unemployed for two years or longer. From November 1998, a series of pilot schemes offers 90 000 opportunity for the long-term unemployed aged 25 and over, with similar arrangements to the New Deal for the young employed, including a 'Gateway' period of intensive help with looking for, and preparing for, work.

D. Other Groups

D.1 The New Deal for Lone Parents provides job search help, advice and training for lone parents whose youngest child is aged over five. It was extended to all lone parents on Income Support from October 1998.

D.2 In the March 1998 Budget a New Deal for spouses of the unemployed was announced, so that they have the option of help needed to return to work.

Source: Office for National Statistics, *Britain 1999*, p. 155 - 156.

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