

***Unemployment-Related Benefits Systems:  
Overall Comparison***

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# UNEMPLOYMENT-RELATED BENEFITS SYSTEMS: OVERALL COMPARISON

## 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 Organisation for Economic Co-operation and Development (OECD) and the Conventions and Recommendations of the International Labour Organisation (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 arrangements 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 This report is part of a series of studies discussing unemployment-related benefits systems. There are ten other separate research reports (RP13/99-00 to RP22/99-00) on this subject.

2.4 In this report, we make an overall comparative analysis of the experience in Mainland China, Taiwan, Malaysia, Singapore, South Korea, the United Kingdom and the United States in implementing their unemployment-related benefits systems, if any. Apart from Malaysia and Singapore, the five other places studied have established unemployment insurance systems. We will first summarize the experience of these five places in implementing their unemployment insurance systems and unemployment assistance systems. We will then summarize ILO recommendations and OECD findings. The Conventions and recommendations of the ILO provide reference about the relevant international guidelines while the research findings of the OECD have often been quoted by HKSAR Government in discussions about manpower and welfare policies. Then we will summarize the systems in Malaysia and Singapore, which do not have unemployment insurance systems, in providing related welfare benefits to the unemployed in their countries. At the same time, we will summarize the current relevant arrangements in Hong Kong for reference purpose. Lastly, we will also provide estimates of some relevant figures for reference in the event that Hong Kong were to consider adopting an unemployment insurance system.

2.5 The ILO has emphasised that each member State should maintain an unemployment benefits system to protect the persons who are involuntarily unemployed. Each State may determine the method or methods of protection, whether by a contributory or non-contributory system, or by a combination of these two systems. The ILO recognizes that unemployment-related benefits may take a variety of forms, namely, unemployment insurance, unemployment assistance, or where the benefits of these two are not adequate or have been exhausted--social assistance. The former two are unemployment-specific whereas social assistance is open to all subject to a means test, regardless of their employment status.

### **3. Terms and Definitions**

3.1 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, other welfare benefits are made available to ensure that the individual recipient has the means for subsistence. 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, lone-parent benefits, and social assistance. They are made available to all subject to a means-test, and are not specifically targeted at the unemployed.

3.2 In the Republic of Korea (South Korea), the unemployment insurance system is called "employment insurance" as it integrates a traditional unemployment benefits programme with active labour policy programmes for the purposes of preventing and alleviating unemployment.

### **4. Methodology**

4.1 This report is mainly based on the information available from ILO publications, OECD publications and other relevant literature available from books or the Internet.

4.2 The United Kingdom reformed the previous unemployment-related benefits system in October 1996. Hence, data reported in the 1996 OECD study have been superseded by events. In this overall comparison, when we make reference to the United Kingdom, we will use the latest information, which is detailed in the report on the Unemployment-Related Benefits System in the United Kingdom (RP15/99-00).

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## PART 2 - KEY FEATURES OF UNEMPLOYMENT INSURANCE SYSTEMS

### 5. Unemployment Insurance System

5.1 The ILO has emphasized that each member State should maintain an unemployment benefits system to protect the persons who are involuntarily unemployed. Each State may determine the method or methods of protection, whether by a contributory or non-contributory system, or by a combination of these two systems. If the system is contributory, it is an unemployment insurance system.

5.2 The 1996 OECD study shows that 25 out of 29 member countries operated an unemployment insurance system.

5.3 Of the five places selected for this comparative study which operate an unemployment insurance system, i.e. Mainland China, Taiwan, South Korea, the United Kingdom and the United States, four except Taiwan are member countries of the ILO; and of the five selected places, only the United Kingdom has ratified two of the three ILO Conventions which are related to unemployment benefits. These two conventions are the *Ensuring Benefit or Allowances to the Involuntarily Unemployed Convention, 1934 (no.44)* and the *Social Security (Minimum Standards) Convention, 1952 (No. 102)*. The former convention requires ratifying States to set up a system for the payment of benefits to the involuntarily unemployed. The latter details provisions regarding the calculation of periodical payment of unemployment benefits<sup>1</sup>. Nonetheless, in practice, the protection offered to employees in all of these five places is all in line with ILO recommendations.

5.4 Malaysia and Singapore are member countries of ILO but they have not ratified any of the three related ILO Conventions. Hong Kong is a member of China's delegation to ILO. The three ILO Conventions mentioned above were neither applied to Hong Kong before 1997, nor has Hong Kong enacted any legislation since 1997 to apply these three Conventions.

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<sup>1</sup> The third ILO Convention is the *Employment Promotion and Protection (Unemployment) Convention* (No. 168) adopted in 1988 which provided for benefits in cases of full unemployment and partial unemployment.

## **6. Persons Protected by the Unemployment-Related Benefits System**

6.1 The ILO identifies "people who are in paid employment" as the subject of protection in an unemployment-related benefits system because they are exposed to the risk of involuntary unemployment. If deemed necessary, member States may make exceptions in respect of some categories of employed people, such as the self-employed, persons employed in domestic service, permanent public servants, seasonal workers, occasional workers, non-manual workers whose income is sufficiently high to ensure their own protection, young workers under a prescribed age, old workers who exceed a prescribed age and who are in receipt of a retirement or old-age pension, and members of the employer's family. Foreign employees may be excluded if they have not made any contribution to the unemployment insurance fund.

6.2 The ILO differentiates between benefits paid in the cases of unemployment and underemployment<sup>2</sup>. In cases of unemployment, unemployment benefits should be provided in the form of periodical payment calculated in such a way as 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. In cases of underemployment, unemployment benefits should be payable in a way to be determined by national laws or regulations to those persons whose employment has been reduced.

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<sup>2</sup> 'Underemployment' is defined as working less than 35 hours in a week. For details, please see paras. 3.19 to 3.22 of the research report "The Measurement of Unemployment and Underemployment" (RP05/98-99 published 4 February 1999) which is extracted at Appendix I of this report.

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6.3 Table 1 below summarizes the situation in the places selected for this research:

**Table 1 - Persons Protected in the Unemployment Insurance System**

Place	Persons protected
Mainland China	All employees in state-owned enterprises, township collective enterprises, foreign-invested enterprises, private enterprises in townships and other township enterprises. Excludes employees of pensionable age. Total number: 137 million.
Taiwan	All employees in public sector and private enterprises. Excludes those under 15 or over 60 years of age, enterprise owners, trainees in training schools; temporary workers, part-time workers or hourly workers with no definite employer; foreign workers. Total number: 4.8 million.
South Korea	All employees, regardless of the size of their employer-companies, including part-time and hourly workers. Excludes newly employed workers aged 60 or older; workers aged 65 or older, temporary part-time workers; government and private school employees; or illegal foreign workers. Total number: under 20 million.
United Kingdom	All workers who are under pensionable age, earn a minimum weekly earnings amount and who are not self-employed. Total number: 24 million.
United States	Employees in private or public employment which had one or more employees in 20 weeks during the current or preceding calendar year, or if the employer pays wages of US\$1,500 or more during any calendar quarter in the current or preceding calendar year. Excludes self-employment, service for relatives, service for patients in hospitals, and certain seasonal camp-workers. Total number: 123.5 million.



## 7. Forms of Unemployment Insurance Benefits Provided

7.1 The ILO recommends that unemployment insurance benefit be payable in cash.

7.2 The 1996 OECD study found that 21 member countries paid unemployment insurance benefits in the form of cash benefits.

7.3 The following table summarizes the forms of unemployment insurance benefits provided in the places selected for this research. The names of the scheme are different but they all pay cash benefits.

**Table 2 - Forms of Unemployment Insurance Benefits**

Place	Forms of Unemployment Insurance Benefits
Mainland China	Unemployment insurance payments, medical subsidies, allowances for funeral expenses and bereavement payments to dependant spouses and family members.
Taiwan	Unemployment Benefits.
South Korea	Employment insurance benefits which include Job-seeking Allowance (comprising Job-seeking Allowance, Extended benefits, Sickness Benefits) and Employment Promotion Benefits (comprising Early Re-employment Allowance, Vocational Training Promotion Allowance, Nationwide Job-seeking Allowance, Moving Allowance).
United Kingdom	Contribution-based Jobseeker's Allowance.
United States	Unemployment Insurance benefits.

## **8. Conditions for Payment of Unemployment Insurance Benefits**

8.1 The ILO recommends the claimant to be an unemployed person who is capable of work, available for work, and willing to work. At the same time, the claimant must be seeking work by having registered at a public employment exchange or at some other offices approved by the competent authority, and must be attending there regularly.

8.2 The 1996 OECD study found that the 25 countries which operated an unemployment insurance system all required the claimants to be involuntarily unemployed and looking for employment in the period when they received unemployment insurance benefits.

8.3 The United Kingdom required claimants 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. It includes details of (a) the claimant's availability for work; (b) the kind of work the claimant is looking for; (c) what the claimant will do to look for work and improve the chances of finding work; (d) the services the Employment Service provide to help. The Employment Service provides an adviser who works closely with the claimant. Appeal channel is also available in case of disagreement between the claimant and the Employment Service Adviser.

8.4 All five places selected in this study, i.e. Mainland China, Taiwan, South Korea, United Kingdom and United States, require the claimants to be involuntarily unemployed and looking for employment in the period when they receive unemployment insurance benefits. In addition, the United Kingdom requires claimants to sign a Jobseeker's Agreement as detailed in the preceding paragraph.

## 9. Conditions which Disqualify Claimants for Unemployment Insurance Benefits

9.1 The ILO recommends that a claimant may be disqualified for the receipt of unemployment benefits for an appropriate period if he: (a) has lost employment as a direct result of a stoppage of work due to a labour dispute or misconduct, or (b) has left it voluntarily without a just cause; or (c) has tried to obtain fraudulently any unemployment benefits; or (d) fails to comply with the instruction of a public employment exchange or competent authority with regard to job search, or if it is proved by the competent authority that the claimant has failed or neglected to avail himself of a reasonable opportunity of suitable employment.

9.2 The 1996 OECD study found that all 25 countries which operated an unemployment insurance system disqualify claimants on the ILO recommended conditions.

9.3 The following table summarizes the situation in the places selected for this research. They are all in line with ILO recommended conditions.

**Table 3 - Conditions which Disqualify Claimants for Unemployment Insurance Benefits**

Place	Disqualifying Conditions
Mainland China	Expiry of entitlement period of unemployment insurance benefits, engagement in a new job, enrolment in schools, living abroad, being in the army, being entitled to old age insurance benefits, voluntary resignation, refusal to accept a job recommended by an agency designated by the local government without proper reasons, having committed offences during unemployment.
Taiwan	Refusal to accept the referred jobs or the arranged vocational training programmes without proper reasons; having another job during the unemployment period and the monthly income of the new job is in excess of the basic salary; or receiving a subsistence allowance.
South Korea	Refusal to accept job placement services provided by the public employment office, or refusal to participate in a job skill development programme recommended by the public employment office, or attempting to receive or having received the payment of unemployment benefit by means of fraudulent or other unfair conduct.
United Kingdom	Voluntary separation from work, discharge for misconduct, refusal of suitable work, and labour disputes.
United States	Voluntary separation from work, discharge for misconduct, refusal of suitable work, and labour disputes.

## 10. Qualifying Period

10.1 The purpose of the qualifying period is to ensure that the claimant has made unemployment insurance contributions for a definite period of time before he may claim the insurance benefits or has remained in employment preceding the submission of the claim to unemployment benefits. The ILO recommends the length of the qualifying period to be 26 weeks of employment in the past 52 weeks.

10.2 The 1996 OECD study found that except for Norway and the United Kingdom, 23 OECD countries require the claimant to have contributed for a prescribed period in a certain length of time. The qualifying period varied from 20 weeks in one year (Austria) to 18 months in two years (Switzerland).

10.3 The following table summarizes the situation in the places selected for this research:

**Table 4 - Qualifying Period**

Place	Qualifying Period
Mainland China	Claimant must have contributed at least one year.
Taiwan	Claimant must have contributed at least two years.
South Korea	Claimant must have contributed 12 months out of 18 months preceding the submission of the claim.
United Kingdom	Claimants of contribution-based Jobseeker's Allowance must have contributed at least £1,650 in any one of the last two years or £3,300 in the last two years preceding the claim.
United States	Claimants or their employers must have contributed for 26 weeks in the past 52 weeks.

## 11. Unemployment Benefit Rates

11.1 The ILO recommends that where the unemployment benefits are based on the contributions of or on behalf of the person protected or on previous earnings, they should be fixed at not less than 45% of previous earnings or the statutory minimum wage of an ordinary worker, or at a level which provides the minimum essential for basic living expenses, whichever is the highest. The ILO observes that the most common levels of unemployment benefits are 50% to 60% of a claimant's previous earnings, with maximum and minimum limits. This proportion of previous earnings being replaced by unemployment benefits is also known as "replacement rate" or "replacement ratio". For details on 'replacement ratio', please see Appendix II.

11.2 The 1996 OECD study found that the average aggregate gross replacement rates (unweighted) for two types of family, i.e. single person and couple with no children, in 17 OECD countries studied were 50% and 51% respectively. This means that between 50% and 51% of the beneficiary family's previous income was replaced by its unemployment benefit payment.

11.3 The 1996 OECD study found that 21 member countries paid an Unemployment Insurance benefit which varied from 40% (Greece) to 90% (Denmark) of previous gross earnings while four member countries paid a flat rate (Iceland, Ireland, Poland, United Kingdom). All 21 member countries, except Norway and the United Kingdom<sup>3</sup>, required the claimant to have worked a prescribed period within a certain length of time preceding the claim for Unemployment Insurance benefit.

11.4 The following table summarizes the situation in the places selected for this research. They are all in line with ILO recommendations.

**Table 5 - Unemployment Benefits Rates**

Place	Unemployment Benefits Rates
Mainland China	At a level lower than the local minimum wage standard but above the level of the minimum living standard of urban residents.
Taiwan	60% of the average insured monthly salary of workers.
South Korea	50% of the claimant's average salary during the last three months preceding the day of unemployment.
United Kingdom	Contribution-based Jobseeker's Allowance: £30.95 per week for aged under 18, £40.7 for aged 18-24, and £51.4 for aged 25 or over. Replacement rate of 41% at minimum wage. Lower than ILO's recommendation. Claimants may be able to receive other social security benefits if they meet specific requirements.
United States	Replacement rate of between 45% and 60%.

<sup>3</sup> The United Kingdom introduced this requirement in October 1996.

## 12. Duration of Payment of Unemployment Benefits

12.1 The ILO recommends that the duration of payment of unemployment benefits may be limited to 26 weeks in each spell of unemployment, or to 39 weeks over any period of 24 months. In the event of the unemployment continuing beyond the initial period of benefits, the duration of payment of unemployment benefits, which may be calculated in the light of the resources of the beneficiary and the respective family, may be limited to a prescribed period.

12.2 The 1996 OECD study found that the duration of payment of unemployment benefits varied from six months to 84 months or even an indefinite period. The maximum duration of benefit payments might depend on the employment history (Belgium, France, Japan, the Netherlands, Switzerland) and age (Austria, France, Germany, the Netherlands, Sweden) of the claimant.

12.3 The following table summarizes the situation in the places selected for this research:

**Table 6 - Duration of Payment of Unemployment Benefits**

Place	Duration of Payment of Unemployment Benefits
Mainland China	12 months for those who have contributed for one to under five years; 18 months for those who have contributed for five to under ten years; 24 months for those who have contributed for ten years or over.
Taiwan	6 months for those who have contributed for less than 5 years; 12 months for those who have contributed for five to under ten years; 16 months for those who have contributed for ten years or over.
South Korea	Varies from 60 days to 210 days, depending on the age of the claimant and the insured period. Extensions are possible for claimants in particular circumstances.
United Kingdom	6 months for Contribution-based Jobseeker's Allowance.
United States	26 weeks in a benefit year.

### 13. Tax Treatment of Unemployment Insurance Benefits

13.1 The ILO has made no recommendation on the tax treatment of unemployment benefits.

13.2 The 1996 OECD study found that of the 25 countries that provided unemployment insurance benefits, 18 countries treated these benefits as taxable income.

13.3 The following table summarizes the situation in the places selected for this research:

**Table 7 - Tax Treatment of Unemployment Benefits**

Place	Tax Treatment of Unemployment Benefits
Mainland China	Not taxable.
Taiwan	Not taxable.
South Korea	Not taxable.
United Kingdom	Taxable.
United States	Taxable.

## 14. Funding for Unemployment Benefits

14.1 The ILO allows funding to be sourced from either employee's contribution or employer's contribution or a combination of both.

14.2 The 1996 OECD study did not cover this aspect of an unemployment insurance system.

14.3 The following table summarizes the situation in the places selected for this research:

**Table 8 - Funding for Unemployment Insurance**

Place	Funding
Mainland China	The unemployment insurance premium to be paid by an enterprise is 2% of the total payroll; the unemployment insurance premium to be paid by an individual is 1% of his wage.
Taiwan	The premium for unemployment benefits has been set at 1% of the monthly salary of the workers, and has been allocated from the 6.5% premium for ordinary injury. While 20% of the insurance premium has to be borne by the worker himself, the enterprise has to pay 70% and the Taiwan government and provincial (municipal) government are each responsible for paying 5%.
South Korea	The base of calculation is total payroll.  Unemployment Benefits : 0.5% by employee, 0.5% by employer  Employment Stabilisation Programme: 0.3% by employer  Job Skill Development Programme: 0.1% to 0.7% by employer
United Kingdom	2% of the first £66 weekly earnings and rise in stages to 10% of the balance of earnings. Contribution rate same for employee and employer.
United States	Payroll taxes paid by employers on the employees' wages. Employers are charged 6.2% of the first US\$7,000 annually for each worker's covered wages. Employers receive a 5.4% tax credit, leaving a net effective tax rate of 0.8% of taxable wage. In Alaska, New Jersey and Pennsylvania, employees are also required to contribute.



## 15. Penalty for Cheating

15.1 The ILO has recommended that tribunals or other competent authorities be tasked to determine questions arising on applications for benefit made by the unemployed.

15.2 The 1996 OECD study did not cover this aspect.

15.3 In Mainland China, according to the Unemployment Insurance Regulations, where persons who are ineligible to enjoy unemployment insurance benefits fraudulently obtain unemployment insurance payments or other unemployment insurance benefits, they should be ordered by the social insurance agencies to repay the same. In serious cases, a fine of not less than one time and not more than three times the fraudulently obtained sum should be imposed by the Labour Protection Department.

15.4 In Taiwan, the Labour Insurance Act provides that in case a person receives insurance benefits through fraudulent or other improper act, or makes false certification and report, he shall be penalized. He shall be fined an amount equivalent to twice the insurance benefits received and also be liable for compensation for damages under civil law. If criminally liable, he shall also be referred to the court for indictment.

15.5 In South Korea, the claimant who receives the Job-seeking Allowance by means of fraudulent or other unfair conduct is to return all or part of such benefit and may, in addition to this, be charged with a levy of the amount of money equivalent to the amount of the benefit paid. If the above mentioned misbehaviour was due to a false notification, report or certification by the business owner concerned, this owner shall be jointly responsible with the person who has received the benefit.

15.6 In the United Kingdom, 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, or to imprisonment for a term not exceeding three months, or to both. 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. The person convicted of such offence is liable to a fine not exceeding £40 for each day on which it is continued.

15.7 In the United States, any person who knowingly makes a false statement to obtain any unemployment insurance benefit payment will be fined not less than US\$100 and not more than US\$500 or imprisoned not more than 90 days, or both.

## 16. Waiting Period

16.1 The purpose of the waiting period is to reduce the administrative cost brought about by short spells of unemployment as the claimant might be able to find a suitable job during that period. The ILO expresses the view that the waiting period may be waived if a spell of unemployment starts very soon after a previous spell ends. The waiting period for seasonal workers in general may be adapted to their particular conditions of employment. The ILO recommends a waiting period of the first seven days in each case of suspension of earnings.

16.2 The 1996 OECD study found that 18 countries had waiting periods, the majority of which ranged from three to seven days. The longest was 14 days for Canada and South Korea.

16.3 The following table summarizes the situation in the places selected for this research:

**Table 9 - Waiting Period**

Place	Waiting Period
Mainland China	7 days
Taiwan	14 days
South Korea	14 days
United Kingdom	3 days
United States	7 days

## 17. Administration of Unemployment Benefits System

17.1 The ILO recommends a close liaison between the employment exchange office and the social security office since claimants are required to attend the former to prove their eligibility for benefits and to collect their unemployment benefits from the latter.

17.2 The 1996 OECD study found that the ILO recommendation was followed in the 25 countries under study.

17.3 The following table summarizes the situation in the places selected for this research:

**Table 10 - Administration of Unemployment Benefits System**

Place	Government Agency(ies)
Mainland China	State Council's Labour Protection Department and social insurance agencies set up at local level under the Labour Protection Department of local governments from the level of county and above.
Taiwan	Public employment service agency and Bureau of Labour Insurance.
South Korea	Bureau of Employment Policy in the Ministry of Labour
United Kingdom	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.
United States	The federal Department of Labour (Unemployment Insurance Service of the Employment and Training Administration) administers the federal programme. The federal Department of Treasury collects payroll taxes and maintains the Unemployment Insurance Trust Fund. Most states designate an employment security agency in their state labour department to administer its unemployment insurance law.

### **PART 3 - KEY FEATURES OF UNEMPLOYMENT ASSISTANCE SYSTEMS**

18.1 The ILO recommends giving to the unemployed an allowance which is neither a benefit nor a grant under the ordinary arrangements for the relief of destitution, but which may be remuneration for employment on relief work organised by a public authority. The payment of allowances may be made in kind. This allowance is different from unemployment insurance benefits as it is non-contributory. The ILO also recommends the duration of unemployment assistance for the unemployed to be at least 26 weeks of employment in the past 52 weeks.

18.2 The 1996 OECD study found that two member countries, Australia and New Zealand, operated an unemployment assistance system which offered eligible recipients indefinite unemployment assistance that had the characteristics of social assistance. The study also found that 12 member countries paid unemployment assistance benefits.

18.3 Payment of unemployment assistance was conditional on previous employment in eight OECD countries. In Austria and Spain, unemployed workers could claim unemployment assistance benefits when they had exhausted unemployment insurance benefits. In the remaining 19 OECD countries under study, unemployment assistance benefits were paid to all unemployed persons without requirement of prior employment.

18.4 The amount of unemployment assistance benefits was calculated as a fraction of previous unemployment insurance benefits in two OECD countries (36% of UI in Greece and 92% of UI in Austria) while it was flat in nine OECD countries. In nine countries a minimum level was set while in four countries a maximum level was set. The duration in which unemployment assistance benefits might be paid varied from five months to an indefinite period.

18.5 South Korea provides other unemployment-related benefits in the Employment Insurance System. They include (a) Grant to Promote Employment of Displaced Workers, which provides subsidies for employers to hire displaced workers; (b) Grant to Promote Re-employment of Aged Workers, which provides subsidies for employers to re-employ workers aged between 45 and 55 within two years of their job dismissal (the reason for dismissal must be due to economic reasons); (c) Vocational Training Subsidies for Insured Employees, which gives an employee who is aged 50 or over or about to be dismissed; and (d) Assistance for training the Unemployed, which provide (i) training allowance for insured employees and (ii) subsidies to training institutes to cover the costs of training for unskilled youth.

18.6 The United Kingdom has introduced since 1996 an Income-based Jobseeker's Allowance which is a means-tested benefit for the unemployed and underemployed. Eligible claimants must be out of work or working less than 16 hours a week. The scheme sets a limit to the amount of savings or capital which a person may have. This scheme is financed entirely by government funds. The amount of benefits paid is determined by the age and family status of the claimant. Duration of this benefit is indefinite: as long as the claimant's income is less than the applicable amount and other conditions for receipt are met. In 1998-1999 fiscal year, about 1.06 million unemployed people received this allowance. The claimant is also required to sign a Jobseeker's Agreement to receive this benefit. Please see para. 8.3 above for details of this Agreement.

18.7 There is no unemployment assistance programme in the United States, Malaysia or Singapore.

#### **PART 4 - KEY FEATURES OF OTHER RELATED WELFARE BENEFIT SYSTEMS**

19.1 Other related welfare benefits are also made available to the unemployed in all the countries and places studied in this research. They include family benefits, housing benefits, child care benefits and lone parent benefits. Social welfare assistance was made available in all countries to all subject to a means-test, regardless of their employment status. This offers means of subsistence to the unemployed and others who are in need.

19.2 The ILO has made no recommendations on this provision as it is not considered relating to unemployment specifically.

19.3 The findings of the 1996 OECD study are summarized as follows:

(a) family benefits

All 25 countries provided family benefits to the unemployed with dependant spouse and children. With few exceptions, family benefits were paid as fixed amounts per child and were not means-tested. In some countries, families were subject to a means test. Family benefits were also paid for dependants other than children, for example, dependant spouse.

(b) housing benefits

A total of 21 countries provided housing benefits to help people on low income pay their private rents and housing costs. Some countries administered housing benefits as a separate benefit, some as tax credit and some as social assistance. Payments depended on rent and family composition. The maximum amount of rent covered by the systems varied among countries, from 30% to 100%.

(c) child-care benefits

A total of 16 countries provided child-care benefits to parents or lone parents. The payment would cover in full or partly the cost of sending children to approved day care nursery centres. Some countries administered a separate benefit system for child-care benefits; some provided tax allowances; some reduced the child-care fees according to the parents' income.

(d) lone-parent benefits

A total of 16 countries provided lone-parent benefits which were all paid at flat rates. Some countries such as Australia, France, Ireland, Japan and Sweden required applicants to be means-tested and to be looking for work. Some paid under the same conditions as family benefits.

(e) social assistance

All 25 countries provided social assistance to relieve destitution. Some countries had regional variation to reflect the different costs of living in different regions.

19.4 China administers a social welfare system to relieve destitution. Welfare benefits are provided for unemployment assistance, amongst other causes of poverty. Recipients are those unemployed who have exhausted 24 months of unemployment insurance benefits. It is also provided to employees who did not join the unemployment insurance programme before they lost their employment.

19.5 The labour insurance programmes in Taiwan provides comprehensive protection for workers. The coverage of Taiwan's labour insurance consists of two types, namely ordinary injury insurance and occupational injury insurance. Ordinary injury insurance provides benefits of seven kinds, viz. maternity, injury and sickness, medical-care, disability, unemployment, old-age and death, whereas occupational injury insurance provides benefits of four kinds, viz. injury and sickness, medical-care, disability and death. Even when unemployment benefits are exhausted, the unemployed workers are also entitled to other benefits under the labour insurance programme to meet their basic needs.

19.6 South Korea has a three-tier network of social safety protection. The first tier includes various social insurance systems, such as the Medical Insurance System and National Pension System; the second tier includes public aid and social welfare services; and the third tier is emergency aid. The Public Assistance Programme, which belongs to the second tier, is a means-tested programme providing benefits to low income people. To help poor families, a livelihood assistance was introduced in September 1999 which will be effective in October 2000. In addition, the South Korean Government runs a special loan programme for unemployed workers.

19.7 The United Kingdom runs a number of social security programmes to secure a basic standard of living for people in financial need. The most important programme is Income Support, which is payable to people aged 16 over whose income and savings are below certain set levels. They include pensioners, long-term sick and disabled people. The unemployed whose assets are below the ceilings are eligible. Other social security programmes include Working Families' Tax Credit, Housing Benefit, Council Tax Benefit, and concessions on expenses on health care, education and legal aid.

19.8 The United States administers public assistance programmes for the needy. Unemployed people who have exhausted their unemployment benefits can apply to the public assistance programmes, which are not targeted specifically for the unemployed. All applicants are required to pass a means-test. These public assistance programmes include (a) temporary assistance for needy families (TANF), which has strict work requirements--all adult recipients must work after two years of assistance or else their cash assistance will be reduced or terminated. Some exemptions may be granted for parents of young children; (b) food stamp programme, which issues to recipients coupons redeemable at retail food stores; (c) housing benefits, which include the provision of public housing and rental vouchers; (d) general assistance, which provides any residual support to the needy who does not qualify for assistance under the major assistance programmes; and (e) earned income tax credit, which is a refundable federal income tax credit for low income workers who will receive a direct payment if their tax liability is smaller than their tax credit.

19.9 Malaysia runs four related welfare benefits programmes: (a) a legal requirement of severance pay, which is known as retrenchment benefits or termination and lay-off benefits. It provides between 10 days and 20 days wages when an employee's contract is terminated by the employer. It is expected that this amount would be sufficient to secure the basic needs of an unemployed worker until he finds the next job; (b) an employees provident fund which provides benefits for old age, disability, death, and for those members of the fund who have savings in their accounts, funds to pay for medical treatment of critical illnesses; (c) a social security programme which provides benefits to workers in cases of employment injury and invalidity; and (d) a means-tested poverty eradication programme which provides assistance in cash or in kind for alleviating poverty and disaster relief.

19.10 Singapore runs a variety of related welfare benefits programmes which are all means-tested. Four main programmes are summarized here: (a) a public assistance scheme which provides benefits to Singaporeans who have no means of subsistence, no support from family, friends or relatives, and who are unable to work due to old age, illness, disability or unfavourable family circumstances; (b) an interim short-term financial assistance programme intended to provide funds to households who need short-term financial help to tide them over a difficult period; (c) a rent and utilities assistance scheme which provide financial aid to households who are in arrears of rent, utilities charges, services and conservancy charges; and (d) Medifund, a component of the Central Provident Fund (CPF), which provides the safety net for those CPF members who need to receive hospital treatment but who are unable to pay for the charges.



## **PART 5 - RELATED WELFARE BENEFIT SYSTEMS IN HONG KONG**

20.1 Hong Kong does not have an unemployment insurance system. Neither does it offer unemployment-specific assistance benefits.

20.2 Hong Kong runs a Comprehensive Social Security Assistance (CSSA) programme to help the needy. In this programme, applicants are required to pass a residency test and a means-test. For able-bodied adults without work, they are also required to participate in a Support for Self-Reliance Scheme. The Scheme requires applicants to participate in community work regularly and report job search progress and employment to the Social Welfare Department. Very similar to the United Kingdom, Hong Kong requires applicants to sign a Job Seeker's Undertaking to assume responsibility for job search.

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**PART 6 - SOME FIGURES FOR REFERENCE FOR HONG KONG**

21.1 In this part, we will provide estimates of some relevant figures for reference.

## 22. Number of Persons Protected

22.1 If Hong Kong were to establish an unemployment insurance system, the estimated number of persons who may benefit would be about 2 867 400 employees, say, **2.87 million** out of a total labour force of 3 358 600<sup>4</sup>.

## 23. Benefits

23.1 The ILO recommends that where the unemployment benefits are based on the contributions of or on behalf of the person protected or on previous earnings, they should be fixed at not less than 45% of previous earnings or the statutory minimum wage of an ordinary worker, or at a level which provides the minimum essential for basic living expenses, whichever is the highest. The ILO observes that the most common levels of unemployment benefits are 50% to 60% of a claimant's previous earnings, with maximum and minimum limits.

23.2 If an unemployment insurance system were established in Hong Kong, a person receiving the average monthly wage of \$11,407 might receive unemployment benefit between \$5,133 to \$6,844 when he becomes unemployed. The amounts of benefits that an unemployed person may receive at different replacement rates within the range of 45% to 60% are shown in Table 11.

**Table 11 - Possible Benefits Rates for Hong Kong**

Average Monthly Wage of \$11,407	Replacement rate			
	45%	50%	55%	60%
Amount of Benefits	\$5,133	\$5,704	\$6,274	\$6,844

Source : Source of average wage statistics of all selected occupations in survey carried out by Census and Statistics Department : Table 6, page 30, *Quarterly Report of Wage Statistics, Sept. 1999* and Table 7J, page 63, *Quarterly Report on General Household Survey, October - December 1999*.

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<sup>4</sup> Table 2.5, page 20, *Hong Kong Annual Digest of Statistics 1999*

## 24. Contributions

24.1 The ILO has made no recommendation on contribution rates. The ILO also consider it appropriate for the contribution to come from the employer alone, from the employee alone, or from a combination of both. Most countries with unemployment insurance systems have fixed contribution rates between 0.5% and 2%, with contribution made by either the employer alone, or jointly by the employer and the employee. The amounts of contributions that should be made at different rates within the range of 0.5% to 2% mentioned above in respect of a person earning the average monthly wage of \$11,407 are shown in Table 12.

**Table 12 - Possible Contribution Amounts at Different Contribution Rates for Hong Kong**

Average Monthly Wage at \$11,407	Contribution rate			
	0.5%	1%	1.5%	2%
Amount of Contributions	\$57	\$114	\$171	\$228

Source : Source of average wage statistics of all selected occupations in survey carried out by Census and Statistics Department : Table 6, page 30, *Quarterly Report of Wage Statistics, Sept. 1999* and Table 7J, page 63, *Quarterly Report on General Household Survey, October - December 1999*.

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**Appendix I****Extract from the research paper on  
"The Measurement of Unemployment and Underemployment; RP05/98-99"**"Underemployment"

3.19 The concept of **underemployment** has been introduced for identifying the situations of **partial lack of work**. According to the ILO, the "underemployed" comprise all persons in paid or self-employment, involuntarily working less than the normal duration of work determined for the economic activity, who were seeking or available for additional work during the reference period. Thus, the definition sets forth **three criteria** for identification of "**underemployed**": (i) **working less than normal duration**; (ii) **doing so on an involuntary basis**; and (iii) **seeking or being available for additional work during the reference period**. All three criteria must be satisfied simultaneously before a person can be classified as "underemployed". It should be noted that the "**underemployed**" is a **subgroup** of the "**employed**".  
*Determination of Normal Duration of Work*

3.20 The ILO suggests that a uniform conventional norm (e.g. 35, 40 hours) be used for the normal duration of work. Such a norm is to be defined in the light of national circumstances, and to be applied to all activities and all categories of workers. By doing so, the difficulties in assessing the normal hours of work for different types of workers can be avoided.

*Involuntary Nature*

3.21 Once being identified as working shorter than the normal duration, the person has to be assessed whether his situation is involuntary or not. This may be determined in surveys by asking for the reason why a person works shorter than the normal duration. In certain situations, persons are forced to do so because they cannot find more work. However, there are also situations where persons decide voluntarily to work shorter hours. This is the case with many working women with children, or young persons combining studies with employment. The term "involuntary reason" should be interpreted in the sense that people cannot find employment for the normal duration owing to the economic situation, so as to exclude other involuntary reasons such as illness and disablement.

*Seeking or Available for Additional Work*

3.22 Finally, to be considered as underemployed, a person involuntarily working shorter than normal duration must be seeking or available for additional work during the reference period. The meaning of additional work should be interpreted in a broad sense and is meant to refer to all work arrangements and types of work that could increase a person's total working hours."

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**Appendix II****"Replacement Ratio" or "Replacement Rate"**What is "Replacement Ratio" or "Replacement Rate"?

A.1 Replacement ratio or replacement rate is an index which summarizes unemployment benefits entitlements relative to earnings. It can be expressed in brief by the following mathematical expression:

$$\text{Replacement ratio} = \text{Unemployment benefits entitlements} \div \text{Earnings}$$

A.2 This index shows in brief how much of a person's previous earnings is replaced by his or her unemployment benefits entitlements when he or she is unemployed. If 60% is replaced, it means this unemployed person loses 40% of his or her previous earnings through unemployment.

A.3 This index is also an indicator of how generous the unemployment benefits system is. The higher the proportion of previous earnings is replaced, the more generous the system is.

What Determines the Generosity of Unemployment Benefits System?

A.4 The "unemployment benefits entitlements" in the nominator of "replacement ratio" comprises all incomes to which an unemployed person is entitled. It can be mathematically expressed as follows:

$$\text{Unemployment benefits entitlements} = \text{Incomes out of work}$$

A.5 Incomes out of work include: Unemployment Insurance payment until exhaustion of benefit duration where applicable + Unemployment Assistance payment until exhaustion of benefit duration where applicable + Social Assistance (which must be measured with care as Social Assistance is usually of indefinite duration)

A.6 It can be seen that the longer the benefit duration is, the higher the nominator becomes, and in turn, the higher the replacement ratio is. Similarly, the higher the level of benefit payment is, the higher the nominator becomes, and in turn, the higher the replacement ratio is.

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### Is there One Replacement Ratio for One Country?

A.7 It should be noted that replacement ratio differs for different types of household: single individual, couple and couple with children. The aggregate replacement ratio of a country is arrived at only after complicated statistical applications.

A.8 Replacement ratios are commonly used to compare the generosity of the unemployment benefits system of different countries. It is also a commonly used index to determine domestic unemployment benefits.

### Net Replacement Ratio or Net Replacement Rate

A.9 Where the effect of taxation is not included in either the denominator or the nominator, the replacement ratio summarizes gross unemployment benefit entitlements relative to gross earnings.

A.10 Taxation (including Social Security contributions), benefits to children (i.e. Family Benefits), Social Assistance and Housing Benefits can have large impacts on the level of replacement rate. The net replacement ratio can be expressed in brief by the following mathematical expression:

A.11 
$$\text{Net replacement ratio} = \frac{(\text{Unemployment benefits entitlements} - \text{tax} - \text{social security contributions} + \text{Family Benefits} + \text{Social Assistance} + \text{Housing Benefits})}{(\text{Earnings} - \text{tax} - \text{social security contributions} + \text{Family Benefits} + \text{Social Assistance} + \text{Housing Benefits})}$$

A.12 It should be noted that net replacement ratio differs for single individual, couple and couple with children. The aggregate net replacement ratio of a country is arrived at only after complicated statistical applications.

### What is the Significance of Net Replacement Ratio?

A.13 As tax and social security contributions lower both the nominator and denominator in the net replacement ratio, it may result in different replacement ratios before and after tax, depending on the taxation structure. In most Organization for Economic Co-operation and Development (OECD) countries, the net replacement ratio is about ten percentage points higher than the gross replacement ratio. This means that the unemployed effectively loses less income if he or she becomes unemployed. In other words, taxation effectively increases the generosity of the unemployment benefits system. Sometimes, taxation may act in the other direction and will penalize the unemployed by resulting in lower unemployment benefits. This index is useful where there is a need to study the relationship between taxation, unemployment benefits system and the level of unemployment.

Is there any Effect of the Replacement Ratio on the Level of Unemployment?

A.14                   The unemployment benefit system provides insurance against job loss which individuals would find extremely difficult, if not impossible, to obtain from private insurers. Benefits also allow the unemployed to search for a job which matches their abilities, rather than being forced by financial hardship into accepting the first available job offer. Having the right people in the right jobs raises productivity and reduces the chance of them becoming unemployed in future. In this way, unemployment benefits can help labour markets work more effectively.

A.15                   But unemployment benefits can also have negative effects on labour markets and social welfare. By “freeing” the unemployed from having to take less ideal jobs, they increase the duration of unemployment spells. Unemployment benefits also alter incentives in wage bargaining. If the financial consequences of unemployment are harsh, workers will be wary of pushing up wages and so risking their jobs. Furthermore, unemployment benefits can subsidise seasonal employment patterns. Without countervailing factors, the higher benefits are relative to earnings, the higher unemployment will be.<sup>5</sup> Hence, a higher replacement ratio might result in due course in higher unemployment.

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<sup>5</sup> OECD, *Employment Outlook*, July 1996, p. 28.