



## 1. Introduction

1.1 In Hong Kong, there are concerns that the Comprehensive Social Security Assistance ("CSSA") Scheme cannot provide adequate support to unemployed persons, due to allegedly tight eligibility criteria and the stigma effect. In the fourth quarter of 2020, only one-tenth of those unemployed staying out of job for at least one month applied for CSSA. As such, there have been continued calls in society to set up a contributory unemployment insurance ("UI") scheme in Hong Kong, with reference to the practice seen in at least 86 places in the world. As UI benefits are based on past contributions, it is argued that the scheme should help the unemployed to weather short-term financial difficulties in a dignified manner and enable them to find jobs matching their capabilities, relative to means-tested unemployment assistance ("UA") systems. Yet others raise concerns over the moral hazard problem under the UI scheme, which may cause behavioural changes in both employers (e.g. more layoffs) and employees (e.g. work disincentives).<sup>1</sup> The Government has also expressed doubts on financial sustainability of the UI system in the past.<sup>2</sup>

1.2 At its meeting on 3 March 2021, the Subcommittee to Study the Setting Up of an Unemployment Assistance System in Hong Kong will discuss UI systems in selected places. At its request and based on a tight schedule, the Research Office ("RO") has conducted quick research on UI schemes in four selected advanced places. They include the United Kingdom ("UK"), Germany, Canada and Japan, all with a long implementation history of at least 70 years. This information note begins with a brief account of recent global trends in UI systems, along with conceived social benefits and costs. It will then discuss the salient features of UI systems in the four selected places one by

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<sup>1</sup> World Bank (2004), Organisation for Economic Co-operation and Development (2014) and IZA Institute of Labor Economics (2014 and 2020).

<sup>2</sup> Financial Services Bureau (2001) and 勞工及福利局 (2020 年 6 月 7-28 日).

one, along with three summary tables (**Appendices I-III**). This piece can be read in conjunction with another research note entitled "Financial support measures for unemployed persons in Hong Kong" to be discussed at the same meeting, which touches upon local discussions on the UI system in recent decades.<sup>3</sup>

## 2. Recent global developments of UI systems

2.1 First initiated in UK in 1911, UI has spread to almost half of the economies in the world by now. According to the International Labour Organization ("ILO"), 98 out of 203 places in the world had set up some forms of unemployment protection systems (e.g. contributory UI or/and means-tested UA systems) by 2015. Amongst them, UI is the most dominant, as seen in 86 places.<sup>4</sup> ILO estimated that 32% of global workers were covered by mandatory UI schemes in 2017, with higher coverage ratios of 93% in Eastern Europe and 88% in North America.<sup>5</sup> For more advanced places as represented by 37 member states of the Organisation for Economic Co-operation and Development ("OECD"), 35 have set up UI systems by 2020.<sup>6</sup>

2.2 The ***primary objective of UI is to pool together contributions from employers and/or workforce and to offer protection to individual workers against the risks of income loss at times of unemployment***, with income redistribution or cross-subsidy from the employed to the unemployed. Yet ***its operating mechanism varies widely across places, taking into account unique labour market conditions and existing welfare provisions***.<sup>7</sup> For instance, some UI schemes are named as employment insurance schemes (e.g. Canada), insuring maternity leave, sick leave and family care leave as well.

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<sup>3</sup> Legislative Council Secretariat (2021).

<sup>4</sup> International Labour Organization (2017).

<sup>5</sup> International Labour Organization (2017).

<sup>6</sup> Organisation for Economic Co-operation and Development (2020a) and International Labour Organization (2020).

<sup>7</sup> Organisation for Economic Co-operation and Development (2014) and International Labour Organization (2019).

2.3 Here is a brief summary of the key features of UI systems:

- (a) **Mandatory participation of covered sectors:** For risk pooling and avoidance of risk adverse selection, UI schemes are usually mandatory and cover as many employees in formal employment as possible.<sup>8</sup> Based on an ILO study on 32 UI systems, half of the places did not cover self-employed persons, while the other half allowed participation of the self-employed mostly on a voluntary basis. In fewer cases, public servants, part-time workers and household workers were excluded;<sup>9</sup>
  
- (b) **Contributions from employers and employees:** In the aforesaid ILO study, more than two-thirds of the studied places required bipartite contributions from both employers and employees calculated in terms of monthly wages (e.g. 2.21% for employers and 1.58% for employees in Canada), subject to a wage ceiling. The bipartite contributions taken together were below 3% in a majority of the studied places (e.g. Japan and South Korea). However, for the remaining one-third of the studied places, only employers need to make contributions (e.g. 2.94% in the Netherlands).

The contribution rate is subject to periodic review and can change from time to time, hinging on (i) financial position of the UI system; (ii) labour market conditions; and (iii) macroeconomic performance;<sup>10</sup>

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<sup>8</sup> One rare exception is the voluntary UI system in Denmark, but the government provides 70% cost subsidies to attract participation. See International Labour Organization (2019).

<sup>9</sup> International Labour Organization (2019).

<sup>10</sup> Organisation for Economic Co-operation and Development (2014) and International Labour Organization (2017 and 2019).

- (c) **Centralized fund without individual saving accounts:** In most of the places, contributions are put in a centralized fund for pooling risks and allocation of UI benefits. As there is little relation between individuals' contributions and benefits, this leads to concerns of moral hazard. As an innovation, some places (e.g. Chile) have established individual saving accounts and limit one's UI benefits by his or her past contributions;<sup>11</sup>
- (d) **Financial support from governments:** While the UI systems are usually managed by the public agencies, the form of fiscal assistance provided by governments varies widely. While some governments match-fund bipartite contributions (e.g. 0.25% in Thailand), some fund a certain share of the annual cost of the UI system (e.g. 2.5% in Japan). Others cover deficits of the UI system (e.g. €6.9 billion (HK\$61.1 billion) in Germany in 2020);
- (e) **Eligibility for claiming UI benefits:** To prevent abuse of the UI system and to contain expenditure, there are many requirements for claiming benefits. *First*, 94% of places studied by ILO required workers to have contributed to the UI system for a minimum period, with a median value of 12 months. *Secondly*, only involuntary unemployment (e.g. layoffs and redundancies) entitled workers to UI benefits in 58% of the studied places, while quitting jobs on personal grounds did not. *Thirdly*, some OECD countries require a waiting period of 3-20 days before any UI payment, letting the insured workers bear a part of the risks of getting unemployed;<sup>12</sup>

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<sup>11</sup> Taking Chile as an illustration, the UI scheme requires workers to accumulate savings in individual accounts, which then determine the upper ceiling of UI benefits to be received upon job loss. Yet ILO considers that the UI system there lacks risk-pooling function and is largely "insufficient". See International Labour Organization (2019).

<sup>12</sup> Organisation for Economic Co-operation and Development (2020a).

- (f) **Amount of UI benefits:** UI benefits are usually calculated as a percentage of the previous monthly earnings of the unemployed workers (i.e. replacement rate ("RR")).<sup>13</sup> For the 15 advanced places covered in the ILO study, the median value of RR was 61% in the beginning of unemployment, but would drop to 51% after one year;
- (g) **Maximum duration of UI benefits:** Most of the member states of OECD set a maximum period for claiming UI benefits, generally in the region of 6-24 months. The amount of UI benefits may also vary during the benefit duration. Taking Spain as an example, RR falls from 70% in the first six months to 50% afterwards;
- (h) **Relationship with Active Labour Market Policies ("ALMPs"):** Almost all the UI systems make the UI benefits conditional on job-seeking efforts to enhance employability (e.g. registration at the employment office, participation in training or other job seeking activities). Repeated refusal of job offers or no evidence of job seeking might lead to reduction or suspension of benefits. As such, some commentators consider that ALMPs and UI systems are complementary and must work together;<sup>14</sup> and
- (i) **Relationship with means-tested UA and severance pay ("SP"):** While contributory UI has played a key role in providing financial protection to the unemployed, some places still maintain the general social assistance or means-tested UA for the long-term unemployed or those laid-off workers failing to meet the UI eligibility criteria, as a supplementary "safety net". According to the ILO, co-existence of UI and UA is seen in 24 places.<sup>15</sup> For OECD, co-existence of both systems is seen in 12 places.<sup>16</sup>

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<sup>13</sup> While most countries (e.g. Canada and Japan) calculate the benefits based on gross employment earnings, some (e.g. Germany) only consider net earnings (i.e. income minus tax and other social contributions). See International Labour Organization (2019) and Organisation for Economic Co-operation and Development (2020a).

<sup>14</sup> Organisation for Economic Co-operation and Development (2006).

<sup>15</sup> International Labour Organization (2017).

<sup>16</sup> Organisation for Economic Co-operation and Development (2020a).

The level of SP in other advanced places is generally lower than that in Hong Kong, because the local SP was the key unemployment protection and to some extent served the function of retirement protection when it was legislated in 1974.<sup>17</sup> ILO noted that "almost all countries complement UI with" SP, but the latter is considered to be "much less reliable and effective" in protecting workers against the financial impact of job loss due to its dependence on employers' financial capacity.<sup>18</sup> In Canada, UI and SP are integrated, with the former deducted from the UI benefits.

2.4 Conceivably, ***UI systems can give rise to a couple of socioeconomic benefits.*** *First*, contributory UI benefits can provide a higher level of and more dignified income support to the unemployed, relative to means-tested welfare benefits. They also help reduce poverty with wider worker coverage. *Secondly*, UI benefits can enable unemployed workers to spend more time to search for jobs that fit their skills, instead of rushing to accept first available jobs. With better job match, the employment duration of UI recipients is 10%-20% longer in the next jobs, according to a study of eight European countries.<sup>19</sup> *Thirdly*, some places (e.g. Canada and South Korea) have mingled ALMPs into their UI systems, providing active training and retraining to the UI recipients to enhance their employability. Arguably, this helps boost labour market efficiency. *Fourthly*, UI benefits for the jobless act as an automatic stabilizer in the wider economy, supporting consumer spending at times of high unemployment and economic recessions. Empirical studies show that UI benefits have helped reduce GDP loss during downturns by as much as 10%-15% in North America.<sup>20</sup> *Fifthly*, the proponents argue that UI system can contribute to socioeconomic stability, and hence social sustainability.

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<sup>17</sup> ILO noted that for advanced places studied, the median severance pay for a worker with one year of service amounted to less than 10% of the monthly salary, compared with two-thirds in Hong Kong. See International Labour Organization (2019), GovHK (2015) and 劉遵義 (2016).

<sup>18</sup> International Labour Organization (2013 and 2019).

<sup>19</sup> IZA Institute of Labor Economics (2006).

<sup>20</sup> World Bank (2004) and IZA Institute of Labor Economics (2014).

2.5 On the other hand, ***UI systems also lead to a number of deficiencies and concerns.*** *First*, as UI benefits are not directly linked to past contributions of employees, these could result in higher unemployment. Based on an empirical study of Harvard University, a third of the unemployment in 2010 was due to "prolonged and more generous" UI benefits.<sup>21</sup> *Secondly*, UI systems could also lead to moral hazard of employers, as the cost of laying off workers is now shared by a common pool.<sup>22</sup> *Thirdly*, given their anti-cyclical nature, UI payments are bound to surge at times of economic recessions, leading to deficits in the annual or even cumulative balance of UI systems in Canada, France, Germany and the United States in the early 2010s.<sup>23</sup> This will be further discussed in Paragraph 2.7. *Fourthly*, the public agencies need to incur considerable administrative costs to prevent fraud.<sup>24</sup> *Fifthly*, UI systems could not effectively protect self-employed workers, who take up 15.3% of employment in the European Union ("EU") upon rapid development of sharing economy in recent years. *Sixthly*, there are concerns over the implications of employers' contributions on costs of doing business, despite empirical findings showing that employers' burden was largely passed on to employees through reduction of wages over time.<sup>25</sup>

2.6 ***Moral hazard has become a key topic of policy and economic research on UI systems over the past few decades.*** Some UI systems became financially unsustainable in the early 1990s, as the UI payments exceeded contributions when the average unemployment rate of EU reached a high of 12.3% in 1993. Also, generous UI benefits and moral hazard were also alleged to have resulted in prolonged unemployment and weaker economic performance in many advanced places.<sup>26</sup> They thus responded to these challenges by reforming their UI systems, such as (a) trimming generosity of UI benefits; (b) tightening eligibility for UI benefits; and (c) enhancing measures

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<sup>21</sup> Another study for Austria found that a 4.6% increase in the ratio of UI benefits to previous earnings led to a half week increase in unemployment duration. See IZA Institute of Labor Economics (2014), National Bureau of Economic Research (2016) and the Economist (2020).

<sup>22</sup> A study on UI of the United States during 1976-2007 found that a 10% increase in UI benefits increased layoffs by 18.1%. See IZA Institute of Labor Economics (2020).

<sup>23</sup> International Labour Organization (2013).

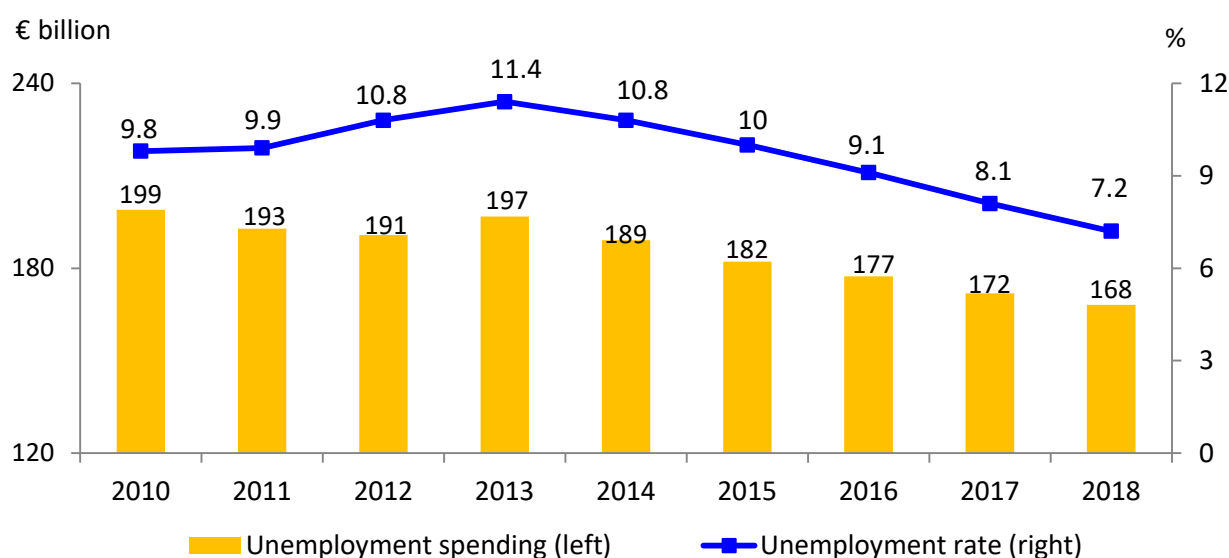
<sup>24</sup> Asian Development Bank (2020).

<sup>25</sup> International Labour Organization (2013).

<sup>26</sup> Organisation for Economic Co-operation and Development (1994).

for re-employment.<sup>27</sup> These reforms seemed to have borne some fruit, as an OECD study in 2006 concluded that a 4.7 percentage point reduction in RR could result in a fall in unemployment rate by 0.5 percentage point, while an increase of ALMP spending of a similar scale could reduce work disincentives of UI by 20%.<sup>28</sup> Partly because of this, the average unemployment rate of EU came down steadily from a high of 11.4% in 2013 to 6.7% in 2019, along with visible reduction in unemployment spending (**Figure 1**).<sup>29</sup> More specifically on moral hazard, ILO notes that the labour market economists have split into two camps supporting and opposing UI schemes, with each camp claiming "to have objective evidence and analysis to support its viewpoint". ILO opts for "a middle of the road position", suggesting "adequate but not overly generous" UI schemes on the one hand, and "sound enforcement of eligibility conditions" on the other.<sup>30</sup>

**Figure 1 — Average unemployment rate and public spending on unemployment in EU<sup>(1)</sup>**



Note: (1) Unemployment spending includes contributory UI, means-tested UA and others.

Source: Eurostat.

<sup>27</sup> Amongst OECD countries and during 1994-2004, 10 countries (e.g. Canada and Germany) reduced the duration of benefits, 10 (e.g. Denmark and UK) added requirements to attain training, and 11 (e.g. Austria and Finland) tightened eligibility conditions. See Organisation for Economic Co-operation and Development (2006).

<sup>28</sup> Organisation for Economic Co-operation and Development (2006).

<sup>29</sup> Eurostat (2020).

<sup>30</sup> International Labour Organization (2013).



2.7 ***Financial sustainability of the UI systems seems to have improved somewhat upon earlier reforms and falling unemployment rate over the past decade.*** An ILO study pointed out that the annual costs (mostly annual UI payments) of a typical UI system was in the region of 0.3%-1.8% of GDP, after excluding some outliers.<sup>31</sup> Before the late 2000s, many advanced places still relied on government funding to cover deficits in their UI systems, as seen in doubling of UI spending in ten OECD countries during 2007-2010.<sup>32</sup> After the global financial crisis in 2008 and on the back of aforesaid reforms of UI systems in the 1990s, the balance of UI systems in some advanced places has reverted to surplus position (e.g. Germany and Canada), along with distinct drop in unemployment during 2010-2019. Actually, some places even have attempted new initiatives in recent years (e.g. extending UI coverage to the self-employed in Greece and Italy, as well as lowering contribution rates in Germany and Japan).<sup>33</sup> Nevertheless, deficits are expected to re-emerge in 2020-2021 due to COVID-19, as seen in upsurge in unemployment rate and introduction of various relief measures (e.g. extending UI benefits periods and reducing UI contributions) in many places.<sup>34</sup>

### 3. **Jobseeker's Allowance in the United Kingdom**

3.1 On ***historical development***, the UI system was first introduced into the UK under the National Insurance Act in 1911. Yet both the UI system and other labour benefits have been subsumed into the National Insurance Fund ("NIF") in 1946, an umbrella system covering most major components of social insurance (e.g. pension and benefits for disabled workers, maternity leave and bereavement) as well. This is a unique feature of the UI system in the UK, making its UI statistics not comparable to the other selected places in this note (**Appendix I**). In view of rising unemployment rate and increased pressure on welfare expenditure, the UK government tightened the job search requirement and renamed UI benefits as Jobseeker's Allowance ("JA") in 1996.<sup>35</sup>

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<sup>31</sup> International Labour Organization (2013).

<sup>32</sup> International Labour Organization (2013) and Organisation for Economic Co-operation and Development (2014).

<sup>33</sup> International Labour Organization (2017).

<sup>34</sup> International Social Security Association (2020).

<sup>35</sup> Legislative Council Secretariat (2000).

3.2 On **employees' coverage and monthly contributions**, as JA is just an integral part of NIF, there is no statistical breakdown on the contribution rate for JA alone (**Appendix II**). While the monthly contribution rates of NIF stand at a very high level at 12.0% for employees and 13.8% for employers in 2020-2021, it is noted that JA payments took up just 0.1% of the annual pay-out of NIF in 2019.<sup>36</sup> While covered by NIF for most benefits, self-employed workers are not entitled to JA. The UK government needs not make monthly contributions, but it finances any deficits in the NIF system.<sup>37</sup>

3.3 On **eligibility and level of JA**, only involuntarily unemployed persons are entitled to JA, provided that they have worked for 26 weeks (i.e. about six months) in one of the two previous tax years and made a minimum amount of contributions (**Appendix II**). After a seven-day waiting period, JA is paid at a flat rate of £74.35 (HK\$741) per week in 2020-2021, up to a maximum of 182 days. The JA claimant must sign a job-search action plan, followed by weekly or fortnightly progress reviews. Non-compliance with the plan will lead to reduction or suspension of benefits for one to six months. Part-timers with less than 16-hour work within a week are also entitled to JA, but at a discounted rate for weekly income exceeding £5 (HK\$50).

3.4 On **financial sustainability**, overall JA payments were £104 million (HK\$1 billion) only in 2019, taking up just 0.1% of the overall expenditure of NIF, given that over nine-tenths of NIF expenditure goes to retirement pension at present (**Appendix III**). Low JA expenditure is largely because unemployed persons in the UK seek means-tested UA benefits for help instead, as briefly described below. In the absence of an independent UI system in the UK, it is impossible to evaluate the financial sustainability of JA as such.

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<sup>36</sup> For weekly earnings above £962 (HK\$9,582), employees need to contribute at a rate of 2% only.

<sup>37</sup> The UK government is committed to providing funding support to maintain a balance no less than one-sixth of the estimated annual benefit expenditure of NIF. While NIF accumulated a total surplus of £31.6 billion (HK\$440 billion) during 2000-2009, it witnessed a total deficit of £11.9 billion (HK\$176 billion) during 2010-2019. The accumulated reserve of NIF stood at £36.9 billion (HK\$369 billion) in 2019. See House of Commons Library (2019), HM Revenue & Customs (2021) and House of Commons Library (2014).

3.5 On ***effectiveness of the JA system***: Though NIF covers 82% of total labour force in the UK, very few unemployed workers claim JA payments, with just 24 000 persons (or 1.9% of the unemployed population) doing so in 2019.<sup>38</sup> To a considerable extent, this could be attributable to a wide range of non-contributory and means-tested benefits introduced in the UK for people in working age since the 1970s. For instance, 55% of the unemployed applied for means-tested "low-income support" in 2019, with more benefits for housing and children. However, there have been increased calls in the UK to strengthen the contributory JA as a "parallel and complementary offer" in recent years, as some are concerned that taxpayers are not given sufficient social protection.<sup>39</sup>

## 4. UI system in Germany

4.1 On ***historical development***, the compulsory UI was first introduced in Germany in 1927 and restored in 1951 after the Second World War. In view of a doubling of the unemployment rate from 5.3% to 11.2% after reunification and amidst concerns over welfare generosity and rigidity in the labour market during 1991-2005, the German government introduced a number of reforms onto the UI system during 2003-2005, including (a) tightening UI eligibility; (b) shortening the duration of UI payments; and (c) enhancing ALMPs.<sup>40</sup>

4.2 On ***employees' coverage and monthly contributions***, the UI scheme covering all employees is managed by the Federal Employment Agency ("FEA") with 95 000 staff. It is supervised by a 36-member board with equal tripartite representation from the Government, labour unions and business associations. Contribution rate is reviewed annually, with reference to developments in the labour market and financial position of the UI system. More recently, the monthly contribution rate has been lowered from 1.5% to 1.2% out of monthly income from employers and employees each during 2018-2020, subject to a maximum monthly salary ceiling of €7,100 (HK\$62,906). Self-employed persons can participate in the UI scheme, but on a voluntary basis only.

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<sup>38</sup> Department for Work and Pensions (2021).

<sup>39</sup> House of Commons Library (2020).

<sup>40</sup> For example, applicants for UI were required to pay contributions for 12 months in the past two years instead of three. Duration of payments for older workers was also shortened.

4.3 On **eligibility and level of UI benefits**, only involuntarily unemployed persons are entitled to UI benefits, provided that they have paid contributions for at least 12 months in 2.5 years.<sup>41</sup> Without any waiting period, UI benefits are equivalent to 60% of previous earnings for those without children and 67% for those with children, subject to a maximum monthly payment of €4,757 (HK\$42,147).<sup>42</sup> The UI payment lasts for 6-24 months (depending on age and length of contribution), whereas the unemployed can apply for means-tested UA afterwards. The UI claimant must register with an employment office and report quarterly progress of job search. Refusal of jobs or training may lead to suspension of benefits for 12 weeks.<sup>43</sup> Part-timers can claim UI benefits if their monthly earnings are less than €165 (HK\$1,462), but duration of claiming benefits will be shortened if earnings exceed this limit.

4.4 On **financial sustainability**, as the total tripartite revenue was more than the total expenditure in 2019, a net annual surplus of €2.1 billion (HK\$18.7 billion) was recorded. As a matter of fact, the reserve balance of the UI system after years of accumulated surplus reached €25.8 billion (HK\$226.3 billion) by 2019 (**Appendix III**). Yet this accumulated balance is achieved only after substantial government injection of a total €12 billion (HK\$135.8 billion) during 2005-2013 mainly for support to ALMPs, on top of annual subsidies.<sup>44</sup> In view of this surplus as well as the downtrend in unemployment rate in Germany from 11.2% to 3.1% during 2005-2019, it was decided to cut the combined bipartite contribution rate by phases, from 3% in 2018 to 2.4% in 2020 (**Figure 2**). However, the outbreak of COVID-19 in 2020 has profoundly changed the financial landscape of the German UI system, resulting in an annual deficit of €27.3 billion (HK\$241.9 billion) in 2020, depleting the reserve balance and requiring another government loan of €6.9 billion (HK\$61.1 billion).<sup>45</sup>

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<sup>41</sup> Those who resigned voluntarily need to provide legitimate reasons or be subject to suspension of benefit payments. See UNEDIC (2019).

<sup>42</sup> In addition, FEA pays for other social contributions (e.g. health and pension insurance) on behalf of beneficiaries.

<sup>43</sup> Organisation for Economic Co-operation and Development (2020c) and International Labour Organization (2013).

<sup>44</sup> BIAJ (2017) and Federal Employment Agency (2021) (various years).

<sup>45</sup> In view of COVID-19, the duration of benefits has been extended for six months and companies that reduce working hours to keep jobs are exempted from contributions. See BIAJ (2021).

**Figure 2 — Financial performance of UI system in Germany, 2000-2020**

	Unemployment rate (%)	Combined contribution rate (%)	Annual surplus/deficit (€ billion)
1. 2000	7.9	6.5	-0.9
2. 2005	11.2	6.5	-0.4
3. 2010	7.0	2.8	-8.1
4. 2015	4.6	3.0	3.7
5. 2016	4.1	3.0	5.5
6. 2017	3.8	3.0	6.0
7. 2018	3.4	3.0	6.2
8. 2019	3.1	2.5	2.1
9. 2020	4.3	2.4	-27.3

4.5 On **effectiveness of the UI system**, 33.4 million workers or 76.1% of the total labour force in Germany were insured by the UI system in 2019, whereas 655 980 unemployed workers (i.e. 47.6% of unemployed population) claimed UI benefits. Still, 20.6% of the insured unemployed did not receive UI payments, partly because of exceeding the duration limits. As some of these unemployed persons could not have access to means-tested UA, there are calls in Germany to extend the maximum duration of UI for older and disabled workers.<sup>46</sup>

## 5. Employment insurance in Canada

5.1 On **historical development**, the UI system was first introduced into Canada in 1940. With increased UI benefits in the 1970s but matched with persistently high unemployment, annual deficits of the UI system ballooned to C\$3 billion (HK\$18 billion) in the next two decades. This resulted in a tightening of UI benefits since the early 1990s.<sup>47</sup> Canadian UI was renamed as "Employment Insurance" ("EI") in 1996, reflecting its shift of focus to support re-employment. On top of unemployment, EI system also pays

<sup>46</sup> Nehra (2020).

<sup>47</sup> Reforms included reduction of benefit amount and duration, lengthening of qualifying period of contributions and elimination of government contributions. See Canadian Labour Congress (2018) and IRPP (2009).

benefits for maternity leave, parental leave, compassionate care leave and sick leave.

5.2 On **employees' coverage and monthly contributions**, the EI scheme is managed by Department of Employment and Social Development and overseen by the tripartite Employment Insurance Commission ("EIC").<sup>48</sup> Covering all employees, the EI system is financed by contributions from both employees and employers, split in a ratio of 1 to 1.4. While the contribution rate is reviewed annually, the latest contribution rate is 1.58% of monthly income from employees and 2.21% from employers, subject to maximum monthly insured earnings of C\$4,692 (HK\$27,167). The self-employed are not entitled to unemployment benefits in Canada.

5.3 On **eligibility and level of EI benefits**, only involuntarily unemployed persons are entitled to EI benefits, provided that they have made contributions for 420-700 hours (i.e. about 2.5-4 months of work) in the past year. After a waiting period of seven days, the EI benefits amount to 55% of previous earnings, subject to a maximum monthly payment of C\$2,583 (HK\$14,956) but with supplement for children of low-income families. The maximum duration of EI benefits is within a range of 14-45 weeks, depending on length of contribution and labour market situation.<sup>49</sup> The EI claimants must register with the employment office and submit biweekly written reports on job search. Failure to apply for suitable jobs and refusal of job offers may lead to suspension of benefits for 7-12 weeks.<sup>50</sup> Part-timers are eligible for EI benefits, though the EI benefits will be deducted proportionately in accordance with their earnings.

5.4 On **financial sustainability**, as revenue from bipartite contributions was more than the total expenditure, a net annual surplus of C\$2.0 billion (HK\$11.6 billion) was recorded in 2019, giving rise to an accumulated reserve balance of C\$4.9 billion (HK\$29.1 billion) by 2019 (**Appendix III**). However, due to economic impact of COVID-19, EI incurred an annual deficit of C\$1.0 billion (HK\$5.9 billion) by end-March 2020 (**Figure 3**).

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<sup>48</sup> Four members included two government officials, one labour representative and one employer representative.

<sup>49</sup> Organisation for Economic Co-operation and Development (2020d).

<sup>50</sup> Employment Insurance Commission (2020).

**Figure 3 — Financial performance of EI in Canada, 2000-2020<sup>(1)</sup>**

	Unemployment rate (%)	Combined contribution rate (%)	Annual surplus/deficit <sup>(1)</sup> (C\$ billion)
1. 2000	6.8	5.8	7.1
2. 2005	6.8	4.7	2.3
3. 2010	8.1	4.2	-5.1
4. 2015	6.9	4.5	3.3
5. 2016	7.0	4.5	2.4
6. 2017	6.3	3.9	0.0
7. 2018	5.8	4.0	0.0
8. 2019	5.7	3.9	2.0
9. 2020	9.5	3.8	-1.0

Note: (1) As at 31 March each year.

5.5 It is noteworthy that the accumulated surplus of the EI system once hit C\$57 billion (HK\$418 billion) in 2008, benefited from EI reforms in the 1990s and the downtrend in unemployment rate from 9.6% to 6.1% over two decades. In a controversial move, the Canadian government transferred all the surpluses to general revenue in 2008, as the statutory EI operated within the fiscal framework of general revenue and there was no legal restriction on the usage of EI surplus. Both Canadian employers and employees were outraged by the move, leading to legal challenges by labour unions against the decision.<sup>51</sup> While the Supreme Court ruled in favour of the government in a final judgment in 2014, the government responded with a "seven-year break-even mechanism" in 2017 to avoid excessive accumulation of surpluses in the future. Under the new mechanism, bipartite contribution rates are adjusted annually with a view to achieving a zero balance in seven years.<sup>52</sup>

5.6 On *effectiveness of the EI system*, some 16.2 million Canadian workers (78.2% of labour force) were insured under the EI system in 2019, with 449 000 unemployed workers (38.2% of the unemployed population) claiming EI benefits. For the remaining three-fifths of unemployed population, they did not claim EI benefits mostly because they had not worked in the previous

<sup>51</sup> EI is an operating account within the general revenue fund. While the Employment Insurance Act was believed to forbid use of EI contributions for non-EI-related purposes, the Supreme Court ruled in favour of the government in 2014 on the grounds that contributions belonged to the government and thus at its disposal. See Parliament of Canada (2004) and SLaw (2014).

<sup>52</sup> Employment and Social Development Canada (2020).



year or had no valid reasons for unemployment.<sup>53</sup> More recently, there are concerns that the EI system does not cover the self-employed. Also, other employment-related benefits (e.g. allowances for maternity and sick leave) took up 36% of the annual payment of the EI system in 2019, contrary to the original objective of EI, precipitating calls for funding these benefits by tax incomes instead.<sup>54</sup>

## 6. Employment insurance in Japan

6.1 On **historical development**, the UI system was first established in Japan in 1947, as a post-war measure for social stability. The Japanese government integrated ALMPs into the UI scheme and renamed the UI scheme as EI scheme in 1974, with a view to retraining Japanese workers to meet the manpower need for rapid industrialization. On top of unemployment benefits, EI system in Japan also provides allowances for carer's leave, training of general workers, and continued employment of elderly workers.<sup>55</sup> Japan does not have means-tested UA or legislated severance pay.<sup>56</sup>

6.2 On **employees' coverage and monthly contributions**, EI is managed by the Employment Security Bureau and overseen by a tripartite Labour Policy Council.<sup>57</sup> The Japanese EI system covers mainly regular employees in the private sector, excluding public sector employees, self-employed persons and part-timers working less than 20 hours a week. While the bipartite contribution rate is reviewed annually, the latest rate is 0.1% of earnings from the employee and the employer each starting in 2020. On top of this, the government was committed to 2.5% co-payment of costs, bearing in mind that the government funding once hit 25% of the annual benefit expenditure during 2001-2006.

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<sup>53</sup> Statistics Canada (2018).

<sup>54</sup> Fraser Institute (2020).

<sup>55</sup> This apart, EI also includes a scheme for employment promotion services which is funded by employers' contributions at a rate of 0.3%. This note will not cover this part as its income and expenditure are managed under a separate account.

<sup>56</sup> Mitani (2011) and International Labour Organization (2013).

<sup>57</sup> The Labour Policy Council has 30 members, equally representing the public, the labour and the business.



6.3 On **eligibility and level of EI benefits**, any unemployed person (both voluntary and involuntary) in Japan is entitled to EI benefits, provided that one has paid contributions for 12 months in two years.<sup>58</sup> After a waiting period of seven days, the EI benefit is equivalent to 50%-80% of previous earnings (with higher rates for lower-salary workers) subject to a monthly maximum of ¥247,500 (HK\$17,993), along with allowances for job-seeking activities. The maximum duration of EI benefits is in the range of 90-360 days, depending on factors like (a) age; (b) length of contribution; and (c) reasons for unemployment.<sup>59</sup> The beneficiary must visit the employment office and undertake at least two job-seeking activities every four weeks. Late visits, refusal of job offers or absence from training will lead to suspension of benefits for one month. If fully re-employed, the EI benefit claimants can receive a lump sum payment equivalent to 60%-70% of the remaining entitlement.<sup>60</sup>

6.4 On **financial sustainability**, as revenue from bipartite contributions and the government was less than the total EI expenditure in 2019, a deficit of ¥676 billion (HK\$48.6 billion) was recorded in that year. Yet an accumulated reserve balance of ¥4.5 trillion (HK\$323 billion) was still recorded by 2019. As a matter of fact, annual financial performance of the Japanese EI system hinges critically on varying government injection. For instance, even though unemployment rate fell from 5.1% to 2.4% during 2010-2019, the total deficit of the EI system amounted to ¥900 billion (HK\$50.8 billion) (**Appendix III**). This was partly because the government (a) cut the combined bipartite contribution rate from 1.2% to 0.6%; and (b) reduced its co-payment of the annual cost of EI system from 13.75% to 2.5% (**Figure 4**).<sup>61</sup> Hit by COVID-19, the reserve balance of EI was expected to plunge by 67% to ¥2.1 trillion (HK\$152.7 billion) in 2020, from a historical high of ¥6.4 trillion (HK\$409.6 billion) in 2015.<sup>62</sup>

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<sup>58</sup> For those who have voluntarily resigned, they have to wait additional three months before receiving benefits.

<sup>59</sup> For example, people who have lost jobs due to bankruptcy can receive benefits for a longer period. See Organisation for Economic Co-operation and Development (2020e).

<sup>60</sup> Ministry of Health, Labour and Welfare (2020).

<sup>61</sup> It should also be noted that other benefits such as allowances for general training, elderly workers and carers accounted for 58% of benefits expenditure in 2019 compared with 29% in 2010.

<sup>62</sup> In response, the government provided loans totalling ¥1.7 trillion (HK\$123.5 billion) for 2020-2021. See 厚生労働省(2020年10月).

**Figure 4 — Financial performance of EI in Japan, 2000-2020**

	Unemployment rate (%)	Combined contribution rate (%)	Annual surplus/deficit (¥ billion)
1. 2000	4.7	0.8	-1,042
2. 2005	4.4	1.6	1,201
3. 2010	5.1	1.2	225
4. 2015	3.4	1.0	167
5. 2016	3.1	0.8	-119
6. 2017	2.8	0.6	-552
7. 2018	2.4	0.6	-591
8. 2019	2.4	0.6	-676
9. 2020	3.0	0.2 <sup>(1)</sup>	-1,275

Note: (1) Starting 2020, contributions for benefits for childcare (amounting to 0.4% of monthly salary) are separated from the scheme.

6.5 On *effectiveness of the EI system*, the EI system covered 44.1 million workers (64.1% of labour force) in 2019, but only 387 000 unemployed (23.4% of the unemployed population) received EI benefits. Given that "non-regular staff" (e.g. part-time, temporary, agency workers) now take up nearly one-third (31%) of total employment in Japan, there are concerns over a lack of employment protection for them. A government survey in 2016 showed that only 68% of non-regular staff were covered by EI, lower than 93% for full-time workers.<sup>63</sup>

## 7. Observations

7.1 As noted by ILO and OECD, UI systems in 86 places across the globe show very wide variations in implementation details (e.g. bipartite contribution rate, government injection, eligibility and qualifications, benefit entitlements, interface with ALMPs and other employment benefits). Each UI system is "specific", depending on unique socioeconomic circumstances of each place.

<sup>63</sup> The Japan Times (2016).

7.2 For the four selected places, while JA is subsumed under an umbrella social insurance system in UK, EI systems in Canada and Japan cover workers' benefits (e.g. allowance for carer's leave) other than those for unemployment. Only Germany has a stand-alone UI system.

7.3 Recent policy discussion on UI systems largely focuses on the trade-off between insurance and moral hazard, apparently without consensus yet. As noted by ILO, the labour market economists are split into "two camps", with each camp claiming to "have objective evidence and analysis to support its viewpoint".

7.4 Financial sustainability of the UI systems is another major issue of concerns, but empirical results also seem to be inconclusive. While some UI systems recorded surpluses in recent years, they could be attributable in part to earlier reforms (e.g. tightening of eligibility and entitlements) introduced in the 1990s. Most recently, the outbreak of COVID-19 has exerted great pressure on the balance sheets of most of the UI systems.

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## Basic indicators on the labour market in selected places for 2019

		United Kingdom	Germany	Canada	Japan
<b>A. Basic indicators for 2019</b>					
1.	Size of labour force ('000)	34 639	43 871	20 744	68 839
2.	Unemployed population ('000)	1 296	1 378	1 174	1 652
3.	Unemployment rate	3.7%	3.1%	5.7%	2.4%
4.	Average monthly employment earnings	£3,096 (HK\$30,961)	€3,535 (HK\$31,003)	C\$5,765 (HK\$34,069)	¥366,852 (HK\$26,377)
5.	Statutory monthly minimum wage	£1,407 (HK\$14,066)	€1,557 (HK\$13,655)	C\$2,309 (HK\$13,645)	¥152,663 (HK\$10,976)
6.	Public spending on unemployment benefits <sup>(1)</sup>	£3.1 billion (HK\$31 billion)	€28.0 billion (HK\$247 billion)	C\$12.0 billion (HK\$72 billion)	¥840.7 billion (HK\$58 billion)
7.	Ratio of such spending to GDP <sup>(1)</sup>	0.15%	0.86%	0.56%	0.15%
<b>B. Support measures for the unemployed</b>					
8.	Contributory UI	✓	✓	✓	✓
9.	Means-tested UA	✓	✓	✗	✗
10.	Severance pay / long service payment	✓	✓	✓	✗
11.	Training and job matching assistance under active labour market policies	✓	✓	✓	✓

Note: (1) Including contributory UI benefits and non-contributory UA benefits. Figures are for 2017.

## Key features of UI systems in selected places in 2021

	United Kingdom	Germany	Canada	Japan	
<b>A. Legislation</b>					
1.	Year of introduction	1911	1927	1940	1947
2.	Current legislation	National Insurance Act	Social code (Chapter III)	Employment Insurance Act	Employment Insurance Act
3.	Periodic review of premium rate	Every five years	Annual	Annual	Annual
4.	Tripartite participation	x	✓	✓	✓
5.	Coverage of other benefits				
	(a) pension	✓	x	x	x
	(b) maternity/family care	✓	x	✓	✓
	(c) others <sup>(1)</sup>	✓	✓	✓	✓
<b>B. Contributions</b>					
6.	Monthly premium contribution rate				
	(a) by employee	n.a. <sup>(2)</sup>	1.2%	1.58%	0.1%
	(b) by employer	n.a.	1.2%	2.21%	0.1%
	(c) by government	n.a.	0%	0%	0%
7.	Maximum insured monthly earnings	n.a.	€7,100 (HK\$62,906)	C\$4,692 (HK\$27,167)	x
8.	Minimum insured monthly earnings	n.a.	€450 (HK\$3,987)	x	x
9.	Covering self-employed workers	x	✓	x	x
10.	Subsidies to low-income workers	✓	x	x	x
11.	Funding from government				
	(a) co-payment of benefits	x	x	x	2.5%
	(b) administration costs	x	✓	x	✓
	(c) top-up for deficits	✓	✓	✓	✓
<b>C. Eligibility for benefits</b>					
12.	Qualifying period of contribution	6 months in one year	12 months in 2.5 years	2.5 - 4 months in one year	12 months in two years
13.	Involuntary unemployment required	✓	✓	✓	x <sup>(3)</sup>
14.	Waiting period (days)	7	0	7	7
15.	Requirement of job search	✓	✓	✓	✓
16.	Permission for part-time work	✓	✓	✓	✓
17.	Prevention of abuse	✓	✓	✓	✓
<b>D. Payment of monthly benefits</b>					
18.	Monthly benefits (in terms of monthly income)	£318.6 (HK\$3,173)	60%-67%	55%	50%-80%
19.	Payment ceiling	x	€4,757 (HK\$42,147)	C\$2,583 (HK\$14,956)	¥247,500 (HK\$17,993)
20.	Supplement for family members	x	✓	✓	x
21.	Maximum duration of payment	182 days (6 months)	6-24 months (6-24 months)	14 - 45 weeks (3-10 months)	90 - 360 days (3-12 months)
22.	Benefits as taxable income	✓	x	✓	x

Notes: (1) Including benefits for bereavement (in UK), sick leave (in Canada), involuntary reduction of work hours (in Germany), training of general workers and continued employment of elderly workers (in Japan).

(2) Contribution rate of NIF in UK cannot be compared with UI systems in other places because of its wider coverage of benefits (especially pensions).

(3) Those who have resigned voluntarily are subject to a three-month waiting period.

## Operating and financial performance of UI systems in selected places in 2019

		United Kingdom <sup>(1)</sup>	Germany	Canada <sup>(2)</sup>	Japan
<b>A. Coverage of workers</b>					
1.	Number of insured workers ('000)	28 404	33 407	16 220	44 112
2.	Insured worker as % of labour force	82%	76%	78%	64%
3.	Number of UI benefit recipients ('000)	24	656	449	387
4.	UI recipients as % of the unemployed	2%	48%	38%	23%
<b>B. Annual revenue</b>					
5.	Total revenue, including: <sup>(3)</sup>	n.a.	€35.3 billion (HK\$309 billion)	C\$22.8 billion (HK\$135 billion)	¥1,139 billion (HK\$82 billion)
	(a) contributions	n.a.	€29.9 billion (HK\$262 billion)	C\$22.7 billion (HK\$134 billion)	¥1,110 billion (HK\$80 billion)
	(b) government funding	n.a.	€4.3 billion (HK\$37 billion)	-	¥24 billion (HK\$2 billion)
<b>C. Annual expenditure</b>					
6.	Total expenditure, including: <sup>(4)</sup>	n.a.	€33.2 billion (HK\$291 billion)	C\$ 20.8 billion (HK\$123 billion)	¥1,815 billion (HK\$131 billion)
	(a) UI benefits	£104.4 million (HK\$1,044 million)	€15.0 billion (HK\$132 billion)	C\$10.6 billion (HK\$63 billion)	¥699 billion (HK\$50 billion)
	(b) active labour market measures costs	n.a.	€8.2 billion (HK\$72 billion)	C\$2.3 billion (HK\$14 billion)	¥13 billion (HK\$1 billion)
	(c) administrative costs	n.a.	€5.8 billion (HK\$51 billion)	C\$ 1.8 billion (HK\$11 billion)	¥139 billion (HK\$10 billion)
<b>D. Annual balance</b>					
7.	Surplus/deficit	n.a.	€2.1 billion (HK\$19 billion)	C\$2.0 billion (HK\$12 billion)	- ¥676 billion (- HK\$49 billion)
8.	Surplus/deficit (without government funding)	n.a.	- €2.1 billion (- HK\$19 billion)	C\$2.0 billion (HK\$12 billion)	- ¥700 billion (- HK\$50 billion)
<b>E. Long-term financial performance</b>					
9.	Accumulated surplus/deficit (2000-2009)	n.a.	- €16.3 billion (- HK\$142 billion)	C\$37.0 billion (HK\$213 billion)	¥3,498 billion (HK\$241 billion)
10.	Accumulated surplus/deficit (2010-2019)	n.a.	€19.6 billion (HK\$167 billion)	C\$4.8 billion (HK\$21 billion)	- ¥900 billion (- HK\$51 billion)
11.	Cumulative reserve balance by 2019	n.a.	€25.8 billion (HK\$226 billion)	C\$4.9 billion (HK\$29 billion)	¥4,487 billion (HK\$323 billion)

Notes: (1) Most fiscal indicators are not applicable to UI in UK because the scheme mainly supports pension.

(2) Financial figures as at fiscal year ending 31 March 2019.

(3) Including other sources of revenues such as interests.

(4) Including payment of other benefits.

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