

informing you



Supplement to – adequacy of the allowance payment system for job seekers, the appropriateness of the allowance system as a support into work, and the impact of the changing nature of the labor market – submission

for the Commonwealth of Australia, Senate Education, Employment and Workplace Relations Committee

informing you

informing is a consulting firm

ABN 25 736 872 835

Post PO Box 176 Surrey Hills 3127

Email info@informingyou.com.au

www.informingyou.com.au

Phone 03 9890 8007

August 2012

© Copyright 2012 informing you

This supplement is subject to copyright and is not to be copied, including scanning or photocopying or resending by email or other electronic means without prior consent of Informing You. It is not to be used for any other purpose than as a supplement to the submission to the Senate Committee. Information is put together with care. No liability is taken for errors or omissions, nor for actions taken by the recipient.

Unemployment insurance lifts work search payments and standard of living

Unemployment insurance raises a person's living standards during work search. This ends the necessity to increase the Newstart payment to lift the standard of living during work search for up to six months and ends the cost of managing the Newstart allowance for the person unemployed for this time. The cost for insurance for up to six months of involuntary unemployment for the person is low. Insuring for:

- \$2,000 per month costs \$11 per week, or \$7.42 per week after tax for a person earning average ordinary full-time earnings. Receipts during involuntary unemployment are 87 per cent above the Newstart allowance and 11.5 per cent above the Henderson Poverty Line, at \$461.53 per week;
- \$3,000 per month costs \$15.54 per week, or \$10.48 per week after tax for a person earning average ordinary full-time earnings. Receipts when voluntarily unemployed lift to 2.61 times the Newstart allowance and 7.8 per cent more than the Henderson Poverty Line for a single parent with child(ren) to \$692.30 per week (excluding family payments). A person receiving the minimum wage may make these payments, but receipts of \$3,000 per month exceed this wage; and
- \$2,000 per month is \$8.91 per week after tax for a person earning the minimum wage.¹ This is high. A combination of insurance and the Newstart allowance lifts income to the Henderson Poverty Line for:
 - a single person earning the minimum wage. The cost to insure for \$1,000 per month is \$5.94 per week and \$4.73 per week after tax for this person. When \$1,000 per month is combined with the Newstart

allowance, income lifts 14.8 per cent above the Henderson Poverty Line;
and

- a single parent with two children. A combination of insurance and a Newstart payment of \$180.40 per week lifts income for the parent to the Henderson Poverty Line (excluding family payments). Receipts of \$1,000 per month when unemployed combined with the Newstart allowance and \$146.27 per week equates income for the parent to the Henderson Poverty Line.

Unemployment and redundancy insurance can be increased by:

- the Commonwealth of Australia levying unemployment insurance for employees, similar to the medicare levy. The policy and funds are organised by the private insurer;
- the Commonwealth of Australia encouraging employees to take out private unemployment and redundancy insurance;
- trade unions encouraging their members to take voluntary unemployment and redundancy insurance; and
- firms being levied unemployment insurance for their employees. Outcomes are optimal, according to Blanchard, O. and Tirole, J., when firms voluntarily or involuntarily pay severance payments, that may include employer-funded employment insurance.ⁱⁱ

Conclusion

Private insurance provides effective cover for unemployment at low cost to almost all employees. Levied unemployment insurance returns to the person, payments for up to six months that are above the Henderson Poverty Line. This covers all unemployed for up to six months and the full unemployed time frame for 65 per cent of short-term Newstart recipients. Private insurance, when combined with the Newstart allowance for a person earning the minimum wage and a single person with children, gives effective cover above the Henderson Poverty Line. A person can be encouraged to pay insurance. Employers can be encouraged to pay unemployment insurance or levied the cost of insurance. Private insurance ends the cost of raising the Newstart allowance so the person has a better standard of living during work search for up to six months and ends the cost to manage the Newstart allowance for all unemployed persons, excluding those earning a low income, for up to this time.

- i The estimates are based on quotations listed in the submission.
- ii Olivier Blanchard, and Jean Tirole, *The optimal design of unemployment insurance and employment protection: A first pass*, Working Paper 10443, National Bureau of Economic Research, April 2004