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Responses to questions by Senator Siewert as part of  
the Inquiry into the adequacy of the allowance payment  
system

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

informing you

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14 September 2012

The responses are put together using material in English and desk research.

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## Responses to questions by Senator Siewert as part of the Inquiry into the adequacy of the allowance payment system

Senator Siewert posed questions about the affects of insurance for unemployment for people in insecure work and the long term unemployed. A description of insurance-based approaches in other countries is requested. The questions are:

*Q1 I assume that this insurance method will only work if people have long periods of employment between shorter periods (3-6 months) of (un)employment. Is that correct? If so, how will this approach assist people who are in and out of insecure work?*

*Q2 Do other countries utilise a similar insurance based approach? Do you have any case studies?*

*Q3 I understand that this model will work for people who are unemployed for short periods of time, but what about the long-term unemployed? In such a system how will they get assistance and will it be an improvement over the Newstart allowance?*

These questions are answered below.

*Q1 I assume that this insurance method will only work if people have long periods of employment bwetwen shorter periods (3-6 months) of (un)employment. Is that correct? If so, how will this approach assist people who are in and out of insecure work?*

A person who is insured for involuntary unemployment is eligible for receipts

when he or she is involuntarily unemployed after a very short to moderate time. The eligibility period after unemployment varies from one day to twelve months of continuous employment. It varies according to the insurer, and package. The length of time that insurance is paid varies from three to six months, according to the insurer. The person is eligible for receipts from the insurer up to three times in total. Receipts are offered once in one year by one insurer. Receipts once per year and for a total of three times may have sufficient support for a proportion of people who are in insecure work.

A person's financial position is stronger when he or she has unemployment insurance. Savings are more likely to be kept in tact when receiving unemployment insurance receipts because receipts are more than the Newstart allowance. The person's savings are not part of eligibility criteria. The income of the partner is irrelevant to receipts. These two aspects improve the quality of life of people in insecure work. If savings are \$3,000 or the person is married or has a partner, he or she is not eligible for the Newstart allowance.

Receipts of \$2,000 per month (\$461 per week) for \$3,000 per month (692 per week) during unemployment is more than for the Newstart allowance of \$245 per week. The person has more money to improve the quality of his or her job search and take a course, should this be relevant. The causes of insecure work are not addressed by unemployment insurance.

*Q2 Do other countries utilise a similar insurance based approach? Do you have any case studies?*

In many countries unemployment is insured for by the employee and employer, and by the employer alone. Several systems are described below.

### *Unemployment insurance – selected European and North American countries*

Systems of unemployment insurance in selected European and Northern American countries include part-payments by employers and employees, and full payment by employers. A levy or tax is prevalent. Sweden has a voluntary system. For employee and employer payments, the rate is salary-based. For employer-only payments, payments are a percentage of total salaries paid. For these systems, a person who is unemployed receives between 47% and 80% of earnings for 26 weeks to three years, and usually for one year. The systems are not fully paid for by the employer and employee and are government subsidized. Countries included are the United States of America, Canada, France, Switzerland and Sweden. The system, payers, payments for insurance, eligibility, receipts and length of receipts are described. The descriptions of the systems use information in English that is available through desk research

### *An employer system in United States of America*

The system in the United States of America is determined at the federal level and managed at the State level. Insurance for unemployment is paid by the employer as an unemployment tax.

### *Eligibility*

A person who is unemployed through no fault of their own is eligible for receipts.

The rate of unemployment insurance – the unemployment tax – is 0.6 per cent of taxable wages. A rate of 6 per cent of total wages is paid and 5.4 per cent is returned for early payment. The tax is payable by an employer for wages paid of \$7,000 or more.

### *Receipts*

Receipts are based on the person's salary for one year; the year precedes the current and previous quarters. In most States, the payment is 50 per cent of a person's salary over that year, usually up to a limit of 50 per cent of average weekly earnings in that State. The range paid is 47 per cent to 67 per cent of the person's salary, or US\$133 per week (\$127 per week) to US\$979 per week (\$934 per week), and an average of US\$423 per week (\$403 per week).

In some States, an allowance for dependents is paid. In some States, the weekly payment is 1/23 of average weekly earnings for 26 weeks, paid over 26 weeks. A person receives receipts for up to 26 weeks.

For 2011, employers paid 0.92 per cent of total wages for the unemployment tax that is unemployment insurance. The tax pays for receipts.

### *Employer pays insurance in Canada*

In Canada, employers pay mandatory insurance.

An employer pays unemployment insurance of 1.83 per cent of wages paid. For one employee with a salary of Canadian dollars 45,900, Canadian dollars 840 is paid for insurance. In Quebec, an employer pays 1.47 per cent of total wages paid to a cap of 1.5 per cent. For one employee with a salary of Canadian dollars 45,900, Canadian dollars 674 is paid by an employer in Quebec.

### *Recipients and receipts*

For a person who is unemployed, the days worked eligibility criteria varies according to unemployment in their area.. A person living in a region where unemployment is less than or equal to 6 per cent, is eligible for receipts when 700 hours has been worked in the past 52 weeks. In areas where

unemployment is 13.1 per cent, a person is eligible when 420 hours in the past 52 weeks have been worked.

Receipts begin two weeks after unemployment and are 55 per cent of a person's salary to a limit of Canadian dollars 485 per week (\$473 per week).

#### *French system of employers and employees*

Unemployment insurance in France is paid by employees and employers in a mandatory system that covers all employees. It includes persons employed on contract and called 'senior'. Insurance is voluntary for the self-employed and professionals. Partial unemployment is included. The insurance system is viewed as an aid to return to work.

Payments for insurance are shared between the employee and employer and total 6.7 per cent of person's salary: an employer pays 4.3 per cent of the person's salary and an employee, 2.4 per cent. Entertainers pay more. The employer of an entertainer pays 7 per cent and the employee, 3.8 per cent, equating to a total of 10.8 per cent.

For companies with operating income of European euro 500 million, or more, a discount of more than 0.4 percentage points on the rate of insurance paid may be available, depending on the ratio of insurance payments to operating profit. Reductions are pro-rated for employees and employers.

#### *Recipients and receipts*

A person who is unemployed is eligible for receipts from the insurance fund when he or she has been employed and paid insurance for 122 days during the last 28 months. A person is eligible after losing their job, mutually agreeing to



end their work, at the end of a fixed-term contract that is not continuing and after resignation for valid reasons. A person over retirement age is ineligible.

Receipts begin seven days after holiday pay ceases. Receipts are calculated for a person's gross salary of the last year. The receipts are 40.4 per cent of the gross salary plus European euro 11.34 per day or 57.4 per cent of the gross salary. The better amount for the person is chosen. In general, 40.4 per cent of the monthly gross salary is received plus European euro 11.34 per day plus a 3 per cent supplement. The minimum receipt is European euro 28.21 per day (\$34.81 per day). The maximum received is 75 per cent of a person's gross salary up to a limit of four times the social security ceiling. This ceiling is European euro 12,124 per month (\$3,453 per week).<sup>i</sup> For a person earning European euro 2,041 per month (close to the Australian minimum wage), receipts are European euro 1,163 per month (\$331 per week).

A person whose contract is not continuing, who has been senior in the company for at least one year, receives 80 per cent of his or her gross salary, and not less than European euro 20.22 per day. Receipts are capped at four times the social security system. A person who has been senior in the company for less than one year, receives standard receipts.

A partial unemployment allowance of 60 per cent of the gross hourly earnings is included of European euro 6.84 per hour, and forms a floor. A person partially unemployed for more than one year receives 75 per cent of their gross hourly earnings and European euro 2.90 per hour.

#### *Receipt length of time*

Insurance payments are received for the period that insurance has been paid and for up to two years. For a person over 50 years of age, receipts are paid for up to three years.

### *Voluntary system in Sweden*

A basic system of insurance is universal in Sweden. Income-related insurance for unemployment is voluntary in Sweden, but is widely taken. At May 2012, 3.4 million are insured, 76 per cent of employed.<sup>ii</sup> The self-employed may pay for insurance. Employees, employers and government subsidies pay for the insurance. It is the Ghent system. Part time employed are insured. The purpose of the system is that a person should receive financial compensation for the time it takes to get a job and to be supported back into work.

The Confederacy of Swedish Enterprise negotiates with trade unions to determine plans. Costs differ across sections of the labour market. Other employers draw up similar plans. The government sets the minimum and maximum receipts. Payments by employees per month include SEK 118 (3.96 per week), SEK 150 (\$5.03 per week) and are more than twice this level for selected occupations.

### *Receipts*

Basic insurance is SEK 320 day for five days (\$46 per day). All are eligible.

For voluntary insurance receipts, a person who has worked for six months and has been a member of an insurance fund for one year is eligible. A person is eligible after becoming unemployed who has worked at least 80 days in the last five months and at least 3 hours per day. Receipts are received after seven working days of unemployment.

After a 5 day wait, a person receives 80 per cent of previous earnings.

The maximum receipt for a previously full-time employee is SEK 680 per day (\$98 per day) or \$490 per week or SEK 146,640 per year (\$21,328 per year). The daily rate is taxable and pensionable. Selected trade unions offer additional

insurance so that receipts are 80 per cent of the person's previous salary.

A person may receive receipts for up to 300 working days (60 weeks). A person can apply for an extra 150 days (30 weeks) should they still be unemployed and is paid at 70 per cent of income. Parents of children under 18 years may receive benefits for up to 450 working days. For a person who has worked part-time and is partially unemployed, benefits may be received for up to 75 days during the period of work, and after 75 days, during weeks of unemployment only.

For 2007, average total receipts per recipient were SEK 54,069 (\$7,864).<sup>iii</sup>

Receipts for the unemployed are subsidised by the government.

#### *Employer and employee pay insurance in Switzerland*

Unemployment insurance in Switzerland is paid for full-time and part-time employees, and excludes the self-employed. Insurance is paid by the employer and employee. It is mandatory. A person is covered for loss of employment, reduced working hours and lack of employment due to weather.

#### *Recipients and receipts*

A person who has worked for one year over the last two years, has earned at least Sfr 500 per month, has been insured for one year and becomes unemployed is eligible for receipts from the insurer.

Payments for insurance are 1.1 per cent by an employer and 1.1 per cent by an employee, calculated from the employee's earnings up to Swiss francs (Sfr) 126,000 (\$128,750). For a person earning from Sfr 126,000 to Sfr 315,000, 0.5 per cent is paid by both the employee and employer for that part of the salary

from Sfr 126,000 to Sfr 315,000.

A person earning Sfr 50,000 pays Sfr 550 per year. The person's employer pays Sfr 550 per year. A person earning Sfr 150,000 pays Sfr 1,386 plus 0.5 per cent earnings over Sfr 126,000, Sfr 120. The total is Sfr 1,506 per year or 1 per cent of the salary. The percentage declines as the salary rises.

### *Receipts*

A person receives 70 per cent of his or her average wage over the last six to twelve months for up to one year. A person earning Sfr 126,000 receives Sfr 1,696 per week (\$1,728 per week). The maximum received is Sfr 10,500 per month (\$2,470 per week). A person with a dependent child receives up to 80 per cent of their average wage over the last six to twelve months.

*Q3 I understand that this model will work for people who are unemployed for short periods of time, but what about the long-term unemployed? In such a system how will they get assistance and will it be an improvement over the Newstart allowance?*

Any person who becomes unemployed and is insured receives receipts for a period of three to six months. The length of time depends on the insurer. The quality of life of every unemployed person in this situation is improved over taking out the Newstart allowance. A person receiving \$2,000 per month for six months receives more in total than a person receiving the Newstart allowance for 11 months (excluding rent assistance). Three months of insurance receipts is equivalent to five months and three weeks of the Newstart allowance (excluding rent assistance). Moreover, the person has to run down savings to below \$3,000 before receiving Newstart. Insurance receipts are independent of savings.

For receipts of \$2,000 per month or more, a person has more money to improve the quality of his or her job search and take a course, should this be relevant. These approaches may increase chances of being employed sooner.

For a person who remains unemployed after insurance receipts finish, the Newstart allowance is available, under the present system, should the person be single or their partner not work and their savings are less than \$3,000. The person is better off for having received insurance for this time, even if he or she has to take out the Newstart allowance.

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Exchange rates are as quoted by the RBA 13 September.

One Australian dollar is exchanged for:

US dollar	1.0471
Canadian dollar	1.0225
European euro	0.8102
Swedish krona	6.8754
Swiss franc	0.9810
South African rand	8.7175

- i Australian dollar amounts are estimates and calculated using the exchange rate at 8 September 2012, Reserve Bank of Australia.
- ii Statistics Sweden, Labour force survey, August 2012
- iii David, Denit, The unemployment insurance systems in Sweden and Italy, Analysing Swedish Policy, University College, 2007