

Unemployment Insurance in the EU and China –a Comparative Perspective

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1. Introduction

As outlined by Director General You, in 1999 when the Regulation on Unemployment Insurance was introduced, the main problem was ensuring that the increasing numbers of unemployed workers and laid-off employees received their subsistence allowance without a long delay. To meet the rising demand on UI funds, the contribution rate was raised in 1998 from 1%, entirely payable by employers, to 3%, divided 2% by employers and 1% by employees. As the UI fund was not sufficient to cover subsistence allowance for “laid-off employees”¹, a separate temporary scheme for them was established. This was financed by joint contributions from employers, the local government and the UI fund. In 2001, this separate scheme was merged into the UI scheme. The merger proceeded at different rates in different provinces and, by now, has largely been completed.

The situation in recent years has changed, now every province has a surplus on UI account. The topical issue is no longer ensuring the timely payment of subsistence allowance to unemployed workers but their re-employment. With the appearance of surplus funds, attention has shifted to the use of UI funds to promote employment. A number of provinces are undertaking pilot trials to make use of UI for employment promotion and retraining. This has led to an evaluation of the current UI Scheme and its redesign to remedy its deficiencies.

This aim of this presentation is to assist in this evaluation by drawing lessons from the UI schemes in EU states for a reform of the Chinese UI scheme. My fellow presentors have provided details of some of the important examples of UI schemes in EU states. I look at a number of UI schemes in EU countries together to bring out the differences and similarities between them. This presentation is divided into two parts: the first part provides an overview of the the UI schemes in selected EU member states and the second part evaluates the current Chinese UI schemes in the light of the survey in the first part.

I. European Union

1. UI Schemes in the EU

In the EU, the operation and financing of social security schemes, including UI, is a responsibility of the member states. The role of the EU is restricted to coordinating national social security systems to ensure that people who move across borders and hence come within the remit of different social security systems are adequately protected. More recently, the EU has also started to promote a closer cooperation among the Member States on the modernisation of social security systems to face common challenges facing the EU countries. This cooperation is based on two assumptions: first, each country has a social security system with a particular history, institutional structure, system of financing and schedule of benefits and, second, it is not politically feasible to replace the national social security system with an EU system. Nevertheless, it is possible to coordinate national systems by means of a framework (called the “Open Method of Coordination”) that involves the following:

- Agreeing to common objectives and higher-level goals;
- Agreeing to a set of common indicators to ascertain progress towards the agreed goals and objectives;
- Preparing a national strategic plan to meet the common objectives over a specified period;
- Jointly evaluating the implementation and outcome of the strategic plan with the European Commission and the Member States.

The analytical account of UI schemes in various EU economies that follows is provided in terms of the following:

- Minimum period of contribution to qualify for UI benefits (Min Affiliation)
- Maximum duration of UI benefits (Maximum duration)
- Contribution Rate and UI benefit Scale

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¹ In China “laid-off employees” are not counted as unemployed because they still retain connection with their employment unit. The category has largely disappeared

Overview of UI Schemes in EU

	Min Affiliation	Max Duration	Benefit Scale	Contribution Rate
Germany	12 months over last 2 years	Variable: 6 to 24 months	60 to 67% of the reference wage, previous wage up to a ceiling Adjusted to the family composition	3.3% 1.65% Employers 1.65% Employees
Belgium	12 months during the last 18 months	Unlimited	55 to 60% of the reference wage. Adjusted to the family composition	2.33% 1.46% Employers 0.87% Employees
Denmark	52 weeks during the last 3 years	4 years	90% of the reference wage up to a maximum	2/3rd from taxes 1/3rd from contributions
Spain	12 months during the last 6 years	Variable: 4 to 24 months	70% and then 60 of the reference wage subject to conditions Adjusted for the family composition	7.3% 5.75% Employers 1.55% Employees Separate schedule for temporary employees
France	6 months during the last 22 months	Variable: 7 to 36 months	57.4% to 75% of the reference wage.	6.4% 4.0% Employers 2.4% Employees
Britain	1 out of 2 years and dependent on earnings	182 days ~ 6 months	Flat rate; no relation to the wage in employment.	Overall social security contribution on wages higher than a floor
Ireland	Period of contribution dependent on earnings and	Variable: 12 to 15 months	Flat rate	Overall social security contribution on wages higher than a floor
Italy	2 years of affiliation & 52 weeks of contribution over the last 2 years.	Variable: 8 to 12 months	60% of the gross reference wage for the first 6 months; 50% in the 7th month; 40% thereafter subject to a ceiling.	1.31% to 2.41% according to industry
Luxembourg	6 months over the last 12 months	Variable; Equal to the duration of affiliation	80% of the gross reference wage (up to a ceiling), raised to 85% if dependent children.	Entirely financed by taxes
Holland	Either 26 weeks over the last 36 weeks or 52 days per year in 4 out of 5 years	3 months Or 3 to 38 months	75% of the gross reference wage first 2 months, then 70%	8.25% 4.75% Employers 3.50% Employees
Portugal	15 months during the last 24 months	9 to 38 months	65% of the reference up to a ceiling.	2% 1% Employers 1% Employees

A comparison of the UI schemes in EU countries brings out a striking contrast. Generally, the schemes share in common similar or same broad or structural features but differ greatly in details. The common structural features include the following:

2. Similarities in UI Schemes in EU States

Compulsory Participation: With two notable exceptions, in the EU participation in UI is compulsory for all workers in full-time employment. As a result, in many EU member states a large majority of the labour force is covered by UI. The exceptions to compulsory participation in UI are Denmark, where participation is voluntary, and Luxembourg, where participation is not an issue because the Luxembourg UI scheme is entirely financed from general taxation. In Denmark, however, the percentage of the active labour force participating in the UI scheme is high because of two reasons, first, the 2/3rd of the total cost of the UI scheme is financed from general taxation and, second, relative to the low contribution rate the UI allowance is high. It can be as high as 90% of the wage in employment (see Table 1). However, rules concerning the participation of part-time employees, the self-employed and apprentice vary across countries. This section of the labour force is becoming important with a steady shift of employment away from full-time regular jobs to employment on short-term or informal contract with variable hours of work.

Financing of UI: Although employer and employee contributions for UI are a general norm in the EU member states, it is only in two countries that UI is entirely financed by contributions. These three exceptions are the Czech Republic, Hungary and Holland. The first two are new member states from Eastern Europe. In the rest of 24 out of 27 member states, the government makes a significant contribution towards the cost of UI, including family support, retraining and career guidance. Government contribution takes a variety of forms. The most common is that the government covers any deficit in the UI budget. Besides, the government may cover the cost of assistance to the unemployed who for a variety of reasons are not entitled to UI benefits. For example, in Germany the Federal and territorial governments jointly cover the cost of "basic security benefits for job seekers (Grundsicherung fuer Arbeitsuchende). Similarly, in the UK the government covers the cost of "job seekers' allowance".

Recent years have seen a trend towards an increase in the share of the cost financed by the government through general taxation. This has been especially true in countries with high rates of unemployment. Apart from the ones listed above, a common form of government contribution towards UI and the service for the unemployed is a reduced UI contribution rates for firms located in depressed regions and for particular category of the unemployed such as the long-term unemployed and older workers.

Conditions for Receiving UI Benefit: In all cases where UI is partially or totally financed by contribution, the receipt of UI allowance is conditional on the payment of contribution for a period prior to being unemployed. The exception is Luxembourg, which has an entirely tax-financed UI scheme. The participation record is just one of the numerous conditions. Among the rest, three are notable:

- Involuntary unemployment, i.e. not left the previous job voluntarily.
- Actively seeking employment and not engaged in paid work.
- Resident in the country in question

In a number of EU member states, the second condition has in recent years been strengthened and made more demanding. The benefit recipients not only have to register as "job seekers" but they also have to formulate an individual action plan to find a job, which may include retraining. This action plan has to be formulated in consultation with a career adviser or employment counsellor and reviewed at intervals to check progress in implementing the plan. Further, the conditions under which a UI recipient may refuse to take up a job without losing entitlement to UI benefit have been made more restrictive.

Fraudulent claim for UI benefit while engaged in paid work is a perpetual problem confronting UI schemes. In all cases, a fraudulent claim is regarded as a serious violation and attracts a penalty. The usual forms of penalty include an immediate suspension of UI benefit and proceedings to recover fraudulently claimed benefit. The third condition is aimed at keeping fraudulent claim for UI benefit in check, because residence in a country other than where the claim is made would make policing particularly difficult. However, in all EU member state unemployment benefits are portable within the country. Further, to facilitate the mobility of labour, the EU rules allow a migrant worker to claim UI benefit in the destination country on the strength of the record of contribution to UI scheme in the country of origin.

Means Test: None of the EU member states requires a means test as a condition for receiving UI benefit. Most of them have means-tested a social assistance scheme to provide a cash allowance to those whose per capita household income falls below a subsistence line. Such persons may include unemployed workers with an insufficient contribution record or unemployed workers who have exhausted entitlement to UI benefit or members of UI benefit recipients' households. No means test for contributory UI schemes is an almost universal rule. The notable exception is Australia, which requires a means test for receiving some contributory benefits

The general point is that because of various preconditions for receiving UI benefits, in most countries, including those with a high participation rate in the UI schemes, UI allowance is payable to only a small percentage of the unemployed.

Maximum Duration and adjustment of the UI allowance: Except in the notable case of Belgium, all EU countries have a maximum period for the receipt of UI benefits. In most countries, the maximum duration is a period defined independently of the characteristics of benefit recipients. However, in some countries, e.g Spain, the maximum duration varies is longer for the long-term unemployed above the age of 45. In most EU countries, the UI allowance is adjusted to take account of the number of dependents in the claimant's household. In countries where UI allowance does not take into account family circumstances of recipients, the task of ensuring that household with unemployed workers do not slip into poverty falls to a social assistance scheme.

3. Differences between UI Schemes in EU States

Beveridge and Bismark: The most striking difference between the UI schemes across the EU member states lies in the level and schedule of benefits. The basic distinction is between the flat rate and earnings-related UI allowances. In Britain and Ireland, all UI beneficiaries receive the same allowance regardless of the earnings in previous employment. Underlying the flat rate allowance is the Beveridge principle which sets avoidance of poverty as the guiding aim of a social security system. In contrast, in the continental members of the EU, UI allowances are related to earnings in previous employment, which served as the base for calculating the contribution to UI. Generally, earnings-related UI allowances have a minimum, which ensures basic subsistence, and a maximum. The exact ratio between the UI allowance and earnings in previous employment varies widely across countries, ranging between as high as 90% in Denmark and 55% in Belgium. On average earnings-related UI allowances tend to higher than the flat rate allowance and are based on the Bismark principle that regards the social security system as a social insurance system, similar to a commercial insurance system but not identical.

The two principles carry important implications for the financing of UI and other social security schemes. Under the Beveridge principle, the relation between contribution and benefit is weak. In contrast, the Bismark principle implies a comparatively tighter link between contribution and benefit. Broadly speaking, the system that follow the Bismark principle give a comparatively high weight to financing social security schemes through contributions or payroll taxes, because can be attributed to particular individuals. In contrast, systems based on the Beveridge principle are flexible with respect to the mix of financing through general taxes and through social security contributions. The latter allow a greater scope for financing social security contributions. However, the distinction between social security systems that follow the Bismarck model and systems that follow the Beveridge model is not rigid.

As outlined above, apart from a few isolated cases UI schemes in the EU member states are financed by a mixture of both taxes and contributions. The social security systems in EU member states are mixtures of both principles. However, they differ in the weight they give to the two principles and this shows up in the mix of sources for financing social security schemes. In the continental EU states social security contributions account for a much greater share of funds for social security than they do in Britain, where their share is less than 50%. Denmark is a notable exception to this rule; there benefits are earnings related and generous but social security contributions account for only 30% of the total funds for social security. Further, there appears to be a trend towards an increase in the share financed from general revenue. For example in France, the share of social security expenditure financed by contribution has dropped from 80% in 1980 to around 69% in 2006.

Contributions – Level, Composition and Collection Method

As shown by Table 1, the contribution rate for UI varies widely, ranging from 1.31% in Italy (for selected industries only) to 8.25% in Holland. The variation in the rate is due to a mixture of factors, including, the benefit package provided by the UI scheme, the ratio of recipient to contributors and share of the cost borne by general revenue. In assessing the level of contributions, it has to be kept in mind that payroll tax, which is what the social security contribution is, is a tax on employment and a high payroll tax may have two effects:

- Impede creation of jobs;
- Provide an incentive to employer and employees to avoid social security contribution by entering into an informal employment.

The second method is common in some EU states such as Italy and Spain where informal labour market is substantial. This problem is also relevant to urban China where informally employed, including migrant workers, exceed the formally employed.

Generally, in EU states, social security contributions are split between employers and employees in some cases equally. But in numerous cases the split is unequal with employers bearing a higher share. In Italy, the whole of social security contribution is paid by employers. Generally, economists would argue that the split between employers and employees does not matter because both the employer and employee share enter into the determination of labour cost. However, employee contributions play a useful role in making employees take account of the cost of social security. A situation where the whole of social security contribution is paid by employers, as was the case in China in the past, may lead employees to think of social security benefits as a free good.

Reducing payroll taxes (social security contributions) in conjunction with measures to get unemployed back to work has become a constant feature in a number of EU states. Total or partial exemptions from social security contributions for hiring particular category of unemployed workers has become an established employment measure in France, Belgium, Spain and Ireland. There are strong arguments for using reduced contribution rate to stimulate the employment of recent graduates and older workers.

II. UI in China

Participation Rate

Notwithstanding the substantial increase in the number of contributors since 2000, in 2006 out of the urban labour force of 283 million, only 112 million (39.6%) participate. As yet, the scheme is largely confined to the formally employed labour force (“staff and workers”). The problem is that the category “staff and workers” has since 1995 been shrinking both in numbers and relatively to the urban labour force: from 149 million in 1995 to 111.6 million in 2006, and as a percentage of the urban labour force from 78% to 39.5%. The implication is that until extended to the informally employed labour force (i.e. those not counted in the category “staff and workers”), the UI scheme will become an income maintenance scheme for a shrinking minority of the urban labour force. It remains to be seen how effective the new labour contract law is in raising the participation rate in the UI scheme.

What Percentage of the Unemployed Receive Assistance?

A related question to “what percentage of the urban labour force is covered by UI?” is what percentage of the urban unemployed actually receives UI benefit or allowance? By design, UI benefit is only available to the “registered unemployed” with a requisite contribution record, which rules out new entrants to the labour force and those who have exhausted their entitlement. The laid-off employees receive a “living allowance” instead of unemployment benefit, which is discussed below. Table 2 shows the percentage of registered unemployed receiving unemployment benefit for three years 2004 to 2006.

Table 2 Registered Unemployed Receiving Unemployment Benefit

	2004	2005	2006
Registered Unemployed, Million	8.3	8.4	8.5
UI Benefit Recipients, Million	4.2	3.6	3.3
% Receiving UI Benefit	50.6%	42.9%	38.8%

Source: The figures are from the Labour and Wage Yearbook, 2007.

The percentage of registered unemployed receiving UI benefit has been falling both in absolute numbers and relative to the registered unemployed, whose numbers are rising. The important feature is not the falling trend, which is due to special circumstances arising out of the merger with UI of the basic living allowance for laid-off workers, but the only a minority of the registered unemployed, who are a minority of the urban unemployed. The implication is that the UI scheme is of limited importance in protecting the unemployed from poverty. Related to this, labour services provided to the recipients of UI allowance has a limited impact in facilitating the unemployed to find a job.

Evaluation of UI Allowance

The UI allowance is linked to the minimum wage and the “Minimum Living Standard Allowance” (MLSA), which is means-tested, as follows:

Table 3

Minimum Wage > UI Allowance > MLSA

The key element in the above ordering is the minimum wage. Broadly, two principles govern the above ordering:

- To preserve incentive to work by ensuring that individuals should be better off working than on social security benefits.
- Contributory benefits, such the UI benefit, should be higher than non-contributory benefits, such as the MLSA allowance.

These principles are common and underlie most of the social security systems. The UI cash allowance was previously linked to the wage in previous employment, but has since 1997 been set at a flat rate in response to the rising claim on the UI funds. The rate ranges between 60 to 80% of the local minimum wage; the cities with a high rate of unemployment and strained public finances tend towards the lower end. The power to determine the minimum wage, which is provided for in the 1995 Labour Law, is assigned to provincial government subject the following considerations:

- the subsistence living expense;
- the average wage level;
- the local economic conditions.

In practice, provinces delegate the power to city governments. As a result, the minimum wage varies between cities, and may do so between the districts of the same city, as for example in Shenyang. In monetary terms, UI benefit preserves the incentive to take up employment at the local minimum wage rate, which is generally reckoned to be on the low side.

There are two related problems with the above ordering of the minimum wage and benefits. Given that the minimum wage is already set with reference to the local subsistence level, the ordering may result in a poverty line for the purposes of the MLSA that is too low to meet the basic need. The risk is tangible in localities with a low per capita income and a high unemployment rate. Second, the need to preserve incentive to work is important and incontrovertible but the strict ordering is not necessary to maintain that incentive. Strict ordering is not necessary if benefit recipients are allowed to engage in remunerated work up to a certain level and do not have their benefit reduced exactly equal to income from work, as presently in the case of the MLSA benefit. The first is already the case in the sense that the local government ignores casual employment by UI benefit recipients. The second implies a 100% tax rate for MLSA benefit recipients in that they lose one yuan in benefit for every yuan they earn. This creates both poverty and an unemployment trap. Both these traps can be avoided, at least partially if not completely, by reducing benefits less than the amount earned. This would give benefit recipients the option of making use of the possibilities of a marginal improvement in their living standard by accepting casual work.

The UI benefit is not directly comparable with the MLSA allowance aimed at bringing the recipients just up to the poverty line. It does not take into account the circumstances of recipients' households, which is also true for old-age and disability pension. In contrast, the MLSA allowance is determined with reference to household per capita income not individual income. The implication is that the receipt of UI benefit or the living allowance for laid-off workers does not obviate the need for the MLSA scheme because the recipients of such benefits may have a below-poverty line household per capita income. In fact, a percentage of the MLSA allowance recipients are pensioners or recipients of UI benefit or laid-off employee allowance.

Benefit Duration

Each year's uninterrupted contribution to UI yields entitlement to 3 months' benefit. Some cities with strained budgets may opt for the lower period of 2 months. The maximum duration of benefit is 2 years, which is comparatively long by international standards. However, as yet this provision has had little effect because very few of the "registered unemployed" qualify for the maximum duration, which requires at least 10 years of contribution.

Work Incentive

The implications of UI benefit and of the "living allowance for laid-off employees" for the incentive to engage in paid work are currently not discussed in China. Over the last few years, the emphasis has been on protecting unemployed workers from poverty. However, the incentive issue is important and the long-term viability of UI depends crucially on maintaining the incentive to work.

In analyzing the impact of UI on work incentive, two facts concerning UI should be kept in view:

- UI covers slightly less than 40% of urban employees (39.5% in 2006).
- In 2006 only 39% of the registered unemployed qualified for the UI allowance.

UI provides no incentive to those in uncovered employment to opt for unemployment. Similarly, UI cannot discourage those not receiving the benefit from accepting a job offer. Thus, UI has no impact on the work incentive of at least 60% of the urban labour force, if not more. UI may provide an incentive to a worker with a UI contribution record to leave employment for a period of unemployment. But there cannot be many such workers because a worker in covered job will be receiving at least the minimum wage (between 43 to 67% higher than UI cash benefit²) and would face a low prospect of finding another covered job, given the present state of the labour market. Most likely the disincentive effect of UI is confined to an unemployed worker in receipt of UI benefit with a job offer in the informal sector, i.e. a job not covered by UI and paying less than the minimum wage. In fact, given the lax monitoring of UI benefit recipients, the likely prospect is that the worker will accept the job and keep on claiming the UI benefit.

Thus, a reasonable conclusion is that there is little circumstantial evidence, if any, to suggest that UI provides an incentive to opt for unemployment instead of employment. However, there appears to be problem of UI benefit recipients engaging in informal employment without being detected. The answer to the problem lies in extending the formalization of employment, through rewards and penalties, and improving the monitoring mechanism. A further lowering of an already low unemployment cash benefit is likely to accentuate the problem.

Financing

UI is financed by a payroll tax split between employers and employees. The current recommended rate by the central government is 3% of earnings, split 2 to 1 between employers and employees. But the actual contribution rate may vary across cities depending upon the pressure of demand on the UI fund.

The rise in the recommended UI contribution rate from 1% to 3% in 1998 was prompted by a sharp increase in registered unemployment and lay-offs, and reports of widespread default on UI benefits and on living allowances to "laid-off" employees. As well as raising funds, this rise introduced two important principles that have implications for the financial sustainability of the system: first, a relation between total cost and the contribution rate and, second, of shifting a part of the cost to employees without compensation. The second has become a norm for Social Insurance schemes, and, in the Chinese context, is equivalent to a personal income tax because it is not shifted back to employers.

The financial balance sheet of UI for the whole country in 2000 is shown in Table 4.

Table 4 UI Financial Balance Sheet, 2006

Item	Amount in Rmb
Contribution Paid	40.25 billion
Expenditure	19.8billion
Accumulated Surplus	72.5 billion

Source: Labour and Wage Yearbook 2007

Less than half of the yearly contribution in 2006 was spent on benefits and the accumulated surplus is close to 4 times the expenditure in 2004. But this has to be assessed in the light of the following three considerations:

- the need for maintaining prudential reserves to ensure timely payment of UI benefits;
- the expenditure does not include all administrative expenses;
- the surplus at the national level is huge relative to expenditure but the size of the surplus varies widely across provinces.

² Based on the assumption that the cash UI benefit is between 60 to 70% of the minimum wage.

Prudential reserves are necessary because of the mismatch between contributions payment (including delayed payments) and benefits disbursement. The financial integrity of the system is far from secure because the budgeting units for UI are cities not the whole country, not even the provinces. The ratio of expenditure to contributions varies widely from city to city.

The financial sustainability of UI as a national scheme over the medium to long run would depend crucially on raising the level of the territorial government at which the Social Insurance account is balanced and a deficit is financed. The present arrangement whereby each city is responsible for covering the deficit on Social Insurance schemes within its jurisdiction is too decentralized for long-term sustainability, as it does not provide for sufficient risk pooling. There is as yet no regular framework for spreading the financial burden of UI and other social security schemes across cities, though provincial governments and the central government provide subsidies to cities with high unemployment rates. The central government policy is to raise the level of financing to the province, but there is as yet no national framework for putting the policy into practice. A crucial pre-condition for the institution of any financial integration of social security schemes in a province is the establishment of a province-wide data base with details of contributions and expenditures cross-classified by various levels of sub-provincial government, which most provinces lack at present.

UI and the MLSA

The two schemes are inter-linked in that unemployed workers without a requisite contribution record form a potential constituency for the MLSA. As pointed out above, in 2006, just over 60 % of the “registered unemployed” did not qualify for UI benefit. The percentage would be much lower if “laid-off” employees are included. The implication is that the number of unemployed qualifying for MLSA assistance depends inversely on the percentage of employees covered by UI. This constitutes one of the main reasons for aiming at a broad IU coverage. The two schemes are also related in that UI benefit recipients may in time shift to the MLSA upon the exhaustion their UI entitlement. The numbers making this transition depends on the incidence of long-term unemployment. A rise in the proportion of long-term unemployed amongst the unemployed provides a strong reason for a close integration between the two schemes.

Currently in China, the two schemes are operated separately. While UI is the responsibility of Labour and Social Security Bureaus, the Minimum Living Standard scheme comes under Civil Affairs Bureaus. There is therefore a need to co-ordinate the two schemes. Such co-ordination would take the form of interchange of data whenever there is change in the situation of a benefit recipient that has implication for the other service.

List of Problems with Current UI

1. The UI scheme covers slightly less than 40% of the urban labour force, which severely limits its effectiveness as an income maintenance scheme.
2. Maintaining and raising the coverage rate in the future poses difficult issues, because the composition of urban employment is shifting from the state sector, where the coverage rate is high, to private and small collective enterprises, where the coverage rate is comparatively very low.
3. The rate of compliance with contribution payment on time is reported to be low.
4. UI benefits are not portable across cities. Record keeping and retrieval is cumbersome. As employee contributions were only introduced in 1998, there are no individual records of contribution predating that period. The portability of UI benefit presupposes the following:
 - Individual record of contribution
 - Facilities for the transfer of records across localities
 - A mechanism for settling financial claims across cities.
5. In many localities UI is not integrated with employment placement services. As a result, UI recipients are not automatically placed on the job search register.
6. Benefit levels in some cities are low and may not be sufficient to prevent serious hardship especially in the cases of a serious illness. Moreover, there is no special provision for the long-term unemployed.
7. The inter-faces between UI, medical insurance and old age pensions are not clearly defined.
8. Currently the condition that UI benefit recipients should stop claiming benefit upon taking up paid employment is not rigorously enforced. Municipal authorities turn a blind eye to paid employment by benefit recipients on the grounds that the cash benefit is often too low to prevent hardship and that it is difficult to monitor such employment. There is a need to re-examine the condition with a view to improving its enforceability. Economies with long established UI systems use a variety of methods to enforce the condition, and some of these methods lend themselves to application in Chinese conditions.