

**Report Prepared for the Remaking Singapore Committee  
on “Beyond Credit Card – Income distribution, social  
safety nets, sports and arts”**

**Employment Insurance: A Safety Net for the  
Unemployed**

by

Dr Yap Mui Teng, Senior Research Fellow  
The Institute of Policy Studies  
Email: [yap.muiteng@nus.edu.sg](mailto:yap.muiteng@nus.edu.sg)



THE INSTITUTE OF POLICY STUDIES

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### Abstract

As Singapore's economy undergoes restructuring and faces the prospect of greater volatility in growth rates, unemployment has been on the rise. Not only are the low-skilled and mature workers affected, fresh graduates armed with a degree are finding it difficult to procure employment. This paper endorses the creation of a safety net for Singaporeans in an environment where job security is no longer a certainty. It recommends the establishment of an employment insurance scheme based on the Korean Employment Insurance Scheme (EIS). The applicability of EIS is discussed in this paper

### Key Recommendation

To establish an insurance scheme as a safety net for Singaporeans based on the Korean Employment Insurance Scheme (EIS)

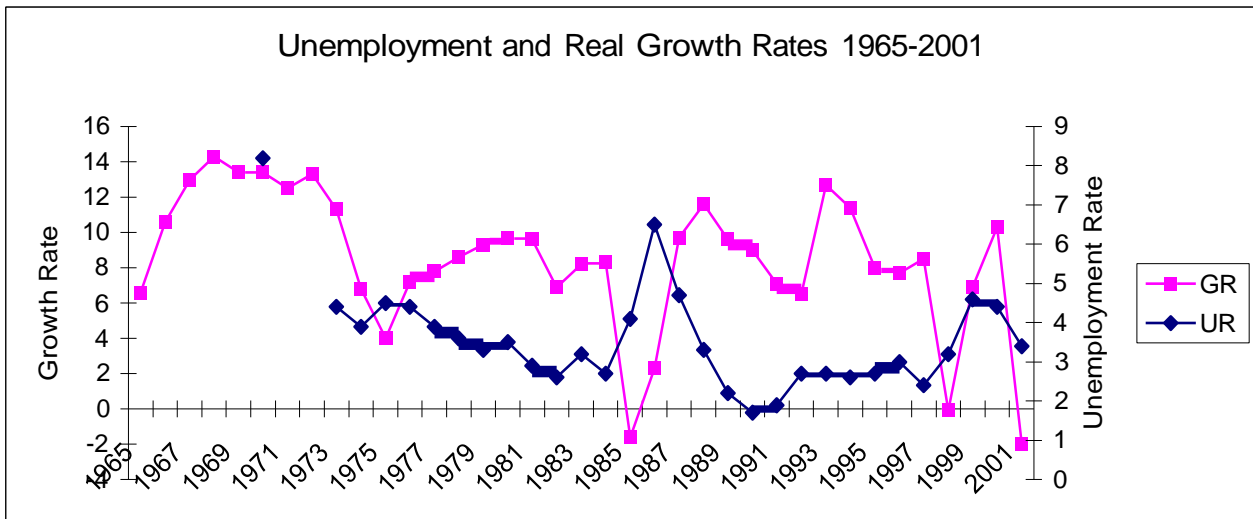
### Introduction: Singapore's Employment Outlook

1. In the three and a half decades since independence, Singapore has experienced continuous high economic growth rates accompanied by full employment and even a labour shortage warranting the import of foreigners. Exceptions to the continuous growth trend in the mid-1980s and the late 1990s (due to economic restructuring and the Asian Financial Crisis respectively) were accompanied by sharp rises in unemployment, typically after a one-year lag (Figure 1). The downturn in 2001, the worst since independence, is likely to raise unemployment in 2002. As former MTI Chief Economist, Tan Kong Yam, and his colleagues have noted, employment recovery typically lags economic recovery.<sup>1</sup>

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<sup>1</sup> Tan Kong Yam, Friedrich Wu, Toh Mun Heng and Thia Jang Ping, "Employment Growth Will Trail Economic Recovery in 2002: Evidence from Econometric Estimates," Feature Article, Economic Survey of Singapore (First Quarter), Ministry of Trade and Industry, 2002.

Figure 1



2. The economic outlook for Singapore is one of uncertainty ahead because of external factors such as uncertainty over US economic recovery, the Japanese economic situation, and political uncertainty and reform inertia within ASEAN (see also the latest warning by Deputy Prime Minister Tony Tan, “US problems may slow S’pore recovery”, The Straits Times 1 July 2002). Even as economic recovery is being predicted, there is also a suggestion that the era of continuous expansion is over. Rather greater volatility is to be expected, with ups and downs following closely in short cycles (see “Freeze basic wages, govt fees: economist”, Business Times, 6 June 2002). The implication for the workforce is that workers face greater risks of unemployment over their lifetime.

3. In addition, there is also growing concern over structural unemployment associated with the restructuring of the economy. There is evidence that structural unemployment, defined as continuous unemployment for a period of 40 weeks or longer, is rising not only among the older workers but also among the better-educated (secondary qualifications and above) and among professionals, managers and associated professionals (Institute of Policy Studies Forum on Economic Restructuring [IFER] Working Group G Report, July 2002). Factors contributing to structural unemployment in Singapore include the limitation of being a small city-state with an ageing population and labour force, skills-vacancy mismatch (not just among the older workers but also among the young and professionals), and the inflexible mindsets and expectations of employers as well as job seekers. The problem of structural unemployment is likely to be sticky as the population and workforce grows progressively older, requiring radical mindsets changes and changes in the education system as well.<sup>2</sup>

#### Current Situation/Policy Gaps

4. Given its long record of full employment and better, Singapore can be forgiven for not having built a comprehensive unemployment safety net. Instead, needy Singaporeans, including the unemployed, are helped by a slew of financial assistance schemes, offered by a range of governmental and non-governmental organisations, aimed at providing short-term relief without creating a dependency culture. At the same times, there are also various programmes to assist the unemployed find jobs, upgrade their skills or retrain for alternative employment, so that they

<sup>2</sup> The latter is beyond the scope of this paper and will not be further elaborated upon here.

can become economically independent again. However, the two types of assistance schemes are typically operated independently of each other. Only the Economic Downturn Relief Scheme (EDRS) attempts to link financial assistance with registration for job placement, and even then, this is not a requirement and it is implemented only by some of the Citizens' Consultative Committees (CCCs) administering the scheme. Thus while CCCs have been encouraging EDRS applicants to sign up for job placement with the Community Development Councils (CDCs) since February, only the Bishan East CCC requires applicants to fill in a job search form while the Bukit Timah CCC passes on applicants' details, with their permission, to the CDC (Streets 5 June 2002).

5. A disturbing phenomenon noted by the Minister for Manpower Dr Lee Boon Yang, among others, is that while the take-up rates for jobs matched by the job placement services have been low (only 15% success rate in placing people), some of the jobless have continually turned down jobs and would rather seek help with bills from the CDCs (Lee Boon Yang, Speech at the Presentation Ceremony of FairPrice Million Dollar Food Scheme, 4 June 2002). The viability of the current system is increasingly being called into question in the face of the rising unemployment, particularly structural unemployment which is expected to be long-term. As The Straits Times noted (23 May 2002), "Singapore's social safety net was designed for an economy with full employment. But with the downturn and restructuring producing more jobless and needy Singaporeans, the net is under increasing strain." Similarly, Barclays Capital's Dominique Dwor-Frecaut also noted that the increase in unemployment rate is a cause for concern because of the lack of unemployment insurance and the very limited public social assistance available (see "Singapore's transition: weak currency or unemployment insurance?" 28 February 2002). The author suggested that, besides the skills development programmes, the government should also set up an unemployment insurance scheme.

#### Recommendation for Further Action/Research

6. This paper supports the call for the establishment of an insurance scheme as a safety net for Singaporeans for whom the security of continuous employment is increasingly being thrown into question. Further, it strongly recommends that the Korean Employment Insurance Scheme (EIS) be studied as a model, for the reasons stated below.

#### Philosophy/Value:

7. Korea shares in common with Singapore a value for work and an aversion for welfare dependency. However, externally-induced economic shocks (e.g. the oil crisis) and rapid economic transformation together with the accompanying labour market disturbances, led to increased unemployment and to Korea considering the need for an unemployment insurance scheme. This was established by legislation in 1995 after much study and public consultation. The Asian Financial Crisis brought home the subject more sharply.

#### Features:

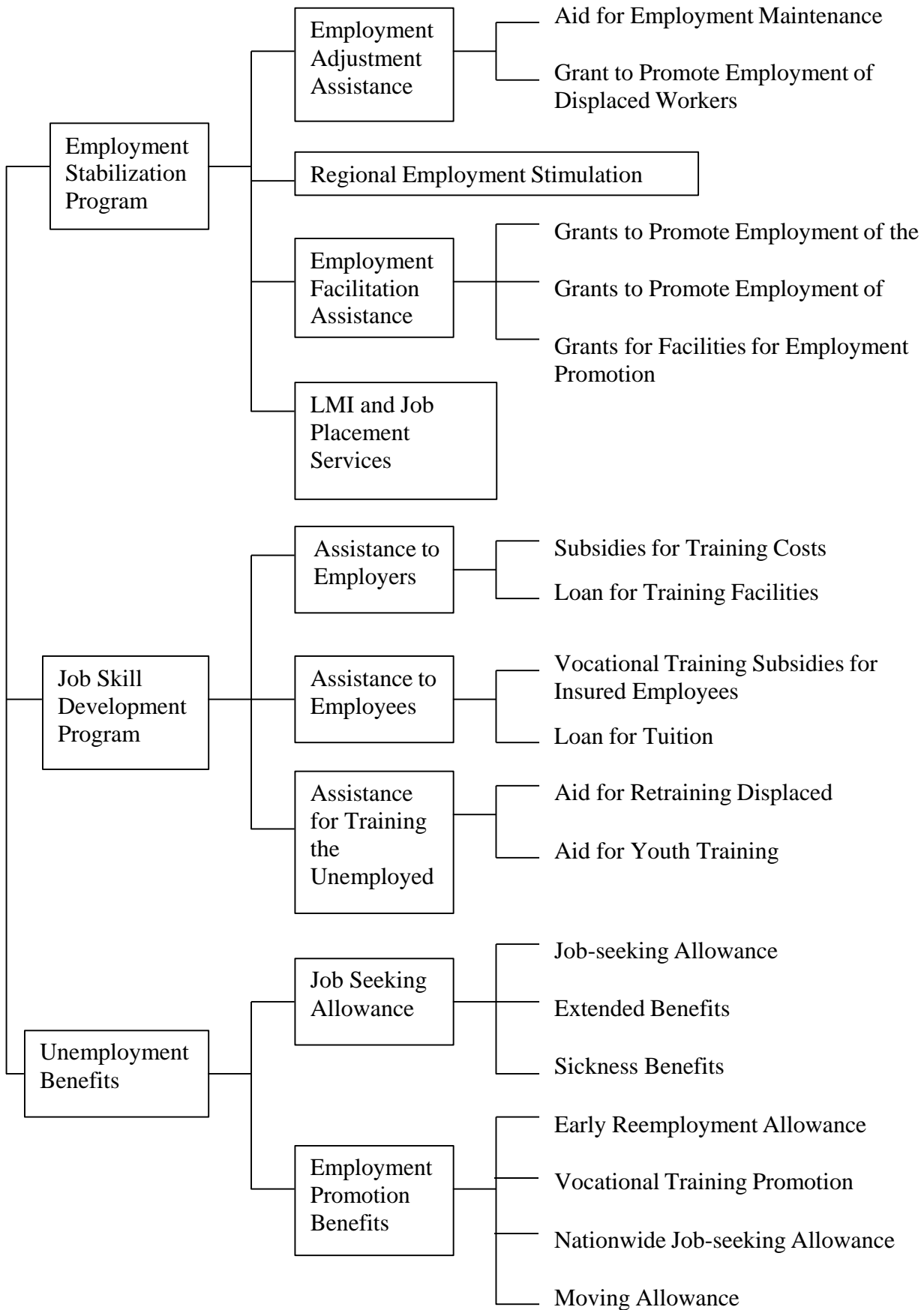
8. The Korean EIS, while providing unemployment benefits to alleviate the hardship associated with unemployment, is also designed to promote employment and skills development (for this reason, it is named an "employment insurance" rather than "unemployment insurance"; see Figure 2 for a diagrammatic presentation of the EIS). Most significantly, recipients of unemployment benefits are required to register for job placement, be available for work and a penalty is imposed if they rejected job offers or wilfully took themselves out of their jobs. On the other hand, there is also an incentive for early re-employment. Unemployment benefits are provided only for short periods of 90-240 days, with the aim to "stabilise the living conditions of the unemployed and their families during unemployment, thereby facilitating active and

unobstructed job-seeking activities” (see Yoo 2000 p 61)<sup>3</sup>. Actual expenses incurred in the job search are also reimbursed.

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<sup>3</sup> Yoo, Kil-Sang (2000), The Employment Insurance System in Korea, Second Edition, Seoul: Korea Labour Institute.

Figure 2 Structure of the Korean Employment Insurance System



9. Two other major components of the EIS are the skills development programme whereby firms are given financial incentives to invest in employee training and the employment stabilisation programme whereby grants and incentives are given to employers that prevent massive layoffs by maintaining employment or reducing hours of work, training and relocating workers or who have employed “marginal” workers such as women and the elderly. The purpose of the latter programme is to “prevent massive layoffs and expedite transfers, re-orientation and adjustment when sudden changes in industrial structure or technology results in extensive corporate restructuring” and “to promote utilisation of job seekers’ skills and interests by providing accurate information on the labour market” (ibid).

#### Funding Principle

10. The EIS is a mandatory scheme funded by premiums by employers and employees in establishments employing at least one employee<sup>4</sup>, with a different contribution rate for each of the three components. It is thus a contributions-based system that employers and employees stand to draw benefits from under certain stipulated conditions. The duration of benefits for the different components is also specified. It must be noted, however, that the contribution rate for the unemployment benefits component has had to be raised within a short period of time with the changing unemployment situation.

#### Conclusion

11. In summary, the Korean EIS embodies many of the principles Singapore holds dear in its employment and welfare policies. It is worthy of study, and perhaps even emulation, for the way it combines the social safety net with active measures to promote employment, thus providing welfare without dependency. The system is also self-funding, without being a drain on government coffers.

12. Perhaps an EIS-type scheme providing for employment security can be introduced as another component of the CPF -- just as there are already schemes for health, housing, education and investment – with premiums paid from the CPF Ordinary Account<sup>5</sup>. Alternatively, funding could also come from government surpluses which would otherwise have been given out as what economist Tan Khee Giap calls “untargeted handouts” in the form of CPF top-ups and Singapore shares (see “Freeze basic wages, govt fees: economist”, The Straits Times 6 June 2002).

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<sup>4</sup> Exceptions include workers in household service, workers over age 65, extremely small establishments in construction, small farm and fishery workers, and part-time and temporary workers.

<sup>5</sup> This could also alleviate the problem of over-investment in housing.