

## the essential points

*The workforce is better off with unemployment insurance*

*Submission to the Workplace Relations Framework*

*Productivity Commission*

*Piecing together the causes and the effects of active and  
exchanging commerce on the firm or organisation*

Submission to the Workplace Relations Framework

Productivity Commission

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## Executive summary

The process of searching for work is part of the activities of participating in work.

Drawing together the actions in the labour market within the market clarifies the market and increases the efficiency of the tax system.

The workforce is better off with unemployment insurance.

Those who pay, receive.

Insurance for unemployment covers daily living costs for searching for work.

A person can choose receipts that suit their expenses.

Savings, assets, seeking part-time work and the income of the spouse have no bearing on receipts.

Insurance receipts above the Newstart allowance for a limited time are an incentive to search well and find work quickly.

Employees, employers or both pay for insurance. A full-time employee pays \$2.43 per week after tax and net of Newstart expenses to receive \$300 per week for up to five months when searching for work. A part-time employee pays \$2.50 per week after tax to receive \$132.12 per week.

The cost of insurance is low when shared. The payments are half.

Varying employer payments according to low and high rates of severance is an incentive for employers to recruit and manage staff carefully.

The payments for insurance are small compared to the payments to a recruitment firm to find an employee.

Insurance removes work search payments from the focus of balancing the budget over the business cycle.

The insurance system is fully-funded. The probability of different unemployment rates to the present is priced in the payments. This is outside the budget.

The tax system is more efficient.

Insurance is transparent. It is easier for employees, employers or both to see their responsibilities.

The social costs of unemployment are less.

## The workforce is better off with unemployment insurance

A person who is searching for work is part of the labour market. The process of searching for work is part of the activities of participating in work. The funds for searching for work are part of the cost of working. Drawing together the actions in the labour market clarifies these relationships.

People in the workforce are better off with unemployment insurance. Insurance for unemployment covers daily living costs for searching for work when the receipts are more than the Newstart allowance. Those who pay, receive. Insurance is inclusive. All employees, including part-time employees, are included. The self-employed are included. Receipts are independent of savings, assets, seeking part-time work and the income of the spouse. A person can choose an allowance that suits their expenses. Savings are less drawn upon. Insurance receipts above the Newstart allowance for a limited time are an incentive to find work quickly.

The Newstart allowance is small compared to ordinary daily living costs. Welfare organisations seek to increase it. Negativity towards the Newstart allowance increased after reports of people receiving in excess of their allowed payments. There are arguments that young people should be dissuaded from receiving a generally funded allowance. Insurance dissipates these concerns.

The fully funded nature of insurance for loss of work removes it from the focus of balancing the budget over the business cycle.

Employees, employers or both pay for insurance. The funds are forwarded to those who are finding a new job for up to five months: the average duration of unemployment for those unemployed for one year or less and receiving the Newstart allowance. After five months, the person who has not restarted work moves to the Newstart allowance, excluding part-time employees. The fall in receipts after five months is an encouragement to search well and find work quickly.

## Case 1

All employees pay for insurance when working. In the case of a firm with nineteen employees and one person who has left the firm and is looking for work, the nineteen employees contribute to an allowance for the one who is looking for work (see Table 1, P. 12). Each of the employees pays \$7.02 per week for the person looking for work to receive \$300/week for up to the first five months of work search (see Table 2, P. 12). This includes 35 cents/week for operating expenses. Part-time employees pay pro rata, excluding the 35 cents for operating expenses. In practice, a proportion of people work part-time. Including these in the firm for Case 1 gives a mix of full-time and part-time employed. The unemployed person is a composite of a full-time and a part-time person. The part-time employee pays \$3.09 per week, based on average hours worked to receive \$132.12 per week.

Unemployment insurance is tax deductible. At a marginal tax rate of 19 cents, the person working full-time pays \$5.68/week and the person working part-time pays \$2.50/week. A flat marginal tax rate for all employees makes the payments equal and reduces the effect on budget transfers. The Newstart allowance is no longer paid and operating expenses are not incurred for this period. The Newstart allowance that is no longer delivered, and the Newstart operating expenses that are no longer incurred for five months reduce the payments. The payments after tax and net of Newstart expenses are \$2.43 per week for full-time employees. Newstart is not received by unemployed looking for part time work so there is not offset for the Newstart allowance.

Of course, receipts and the length of receipts can vary. To pay for more expenses and receive \$700 per week for five months, the person working full-time pays \$15.91 per week before taxation and before the offset for the cost of the Newstart allowance. To receive an allowance of \$300 per week for twelve months, the employed pay \$15.79 per week before taxation and before the Newstart allowance offset. To receive the same as the Newstart allowance for five months, the person working full-time pays \$6.08 per week before taxation and before the Newstart allowance offset.

The unemployed person pays for insurance when a job is found.

## Case 2

In the case of the employer paying, the employer pays \$3.17/week after tax and after the offset for a full-time employee. The employer pays \$2.16 after tax for a part-time employee. The taxation deduction is greater but the offset is less than for employees.

## Case 3

The employer and employee equally share payments. The employer pays \$1.58 per week for a full-time employee and the employee pays \$1.14 per week. The employer payment is equal to 5.5 minutes of work at the minimum wage. The employer pays 1.08 cents per week for a part-time employee and the part-time employee pays 1.25 cents per week. The cost of insurance is extremely low when shared.

## Fully-funded system

The receipts for the work search period are fully-funded by the payments by employees or employers or both and the transfers from budget revenue of the amount deducted at the marginal personal taxation rate and for taxation revenue no longer used to pay for the Newstart allowance. The fund receives \$7.02 per week per full-time employee and \$3.09 per week per part-time employee. The deductibility of payments for insurance from taxation has an effect on taxation revenue. A low rate of deductibility for taxation reduces this effect. In this case, the payments by the employee, employer or both are more than for Case 1.

Management costs are included in the collected funds. A 35 cents management fee paid by all employees at October 2015 equates to \$307.6 million.

A one-week's waiting period can be added. In this case, the payments for insurance increase by  $\frac{1}{52}$  per week. One-week's funds from employees or employers, or both and taxation receipts are invested.

## Labour market actions are drawn together

Drawing together actions in the labour market forms a closer labour market structure that includes payments for work search. The process of searching for work is part of the activities of participating in work. The funds for search for work are part of the cost of working. Funds for actions that occur in the labour market are collected from participants.

The human resources for the employment process across firms and organisations include recruiting and managing the employee, including at the end of employment through to returning to work. The loss of productivity of the employee in their role leads to work search.

The payments for insurance are small compared to the payments to a recruitment firm to find an employee. An employer pays 15 per cent or more of a person's annual salary to a recruitment firm to search and find a suitable employee. For a person earning \$75,639 per year, this is \$11,346 (see Table 3, P. 13). The average length of employment at one firm is 3.3 years according to McCrindle Research. New employees recruited through an agency are estimated at 26 per cent of recruits. Other recruits cost less. Recruitment agency costs per full-time employee, excluding costs for non-agency recruited employees, are estimated at \$16 per week. The currently unemployed pay for insurance and are eligible for receipts when a job is found.

## Insurance improves the efficiency of the tax system

Unemployment insurance increases the efficiency of the tax system. The higher payments for a limited time are an incentive to find work quickly. The incomes of part-time employed and self-employed are marginally smoothed. The employees with savings and household income above the existing limit for the Newstart allowance improve. Young people who are working or have worked are included. Insurance is transparent. It is easier for employees, employers or both to see their responsibilities. Varying employer payments according to low and high rates of severance is an incentive for employers to recruit and manage staff carefully. Insurance is sustainable. The tax can be deducted from pay. The eligibility criteria are involuntary unemployment and searching for work. Receipts are chosen to meet basic family expenses.

## Social costs are less

Social costs are reduced by unemployment insurance because receipts are more.



## Adjustments tailor payments to unemployment

The expected unemployment rate affects the payment for insurance. A buffer for unemployment above the long-term average or natural rate of unemployment buffers the risk of an unexpected shift in the long-term average unemployment rate. Payments for insurance increase by a small margin.

Varying employer payments according to low and high rates of severance is an incentive for employers to recruit and manage staff carefully.

The payments for insurance could vary for occupations with a high and low incidence of unemployment and short or long durations of unemployment. Intermediate clerical, sales and service workers, and labourers and related workers have a longer duration of unemployment than the general working population. People seeking full-time work return to work more quickly. Unemployment is higher among people who are labourers, machinery operators and drivers and technicians and tradespersons. It is lower among people who are professionals; manage clerical and administrative tasks, managers, sales assistants and community and personal service assistants.

## Insurance eases outcomes of workplace relations

Work search is a part of actions by employers and their employees. Drawing the payments for work search within the labour market increases the efficiency of the labour market. The funding systems for work search affect the welfare of the workforce. Insurance is low cost. The payments for insurance are reduced by offsetting the costs for the Newstart allowance for the period in which it is no longer paid, and tax deductibility. Insurance increases the efficiency of the tax system. It shields work search payments from the focus on the budget.

## Appendix A

Table 1 A firm with 20 employee relationships

Firm	
Employees	19
Full time	13.12
Part time	5.88
Unemployed	
Full time	0.69
Part time	0.31
Total unemployed	1

The firm has a relationship with twenty employees, of which nineteen are employed and one is unemployed. The unemployment rate for this firm is 5 per cent.

Table 2 Unemployment insurance for a small firm

19 employees and one previous employee searching for work	Pay per week		Unemployed receive per week for 5 months	
	Full time	Part time	Full time	Part time
Payments for insurance – pre-offsets				
Total per person per week	7.02	3.09	\$300	132.12
- for receipts	6.62	2.74		
- for operating costs	0.35	0.35		
Newstart receipts and operating expenses not paid per week (for 5 months)	6.38	*		
Newstart receipts for a single person per week			261.7	
Payments reduced by tax deduction pw				
Employee	1.33	0.58		
Employer	2.10	0.92		
Payments reduced by Newstart offset pw				
Employee	3.25			
Employer	1.74			
Payments after tax and Newstart offset per week #				
Employee	2.43	2.50		
Employer	3.17	2.16		
Equal share				
Employee	1.14	1.25		
Employer	1.58	1.08		
Payments for operating costs per employee per week cents	35			
Collected per employee per year \$	18.20			
Collected per year (employed October 2015)\$	215,455,240			
One week's wait				
Collected per week – full-time employee \$	5.81			
8% return paid quarterly cents	47.9			
Buffer/profit per composite employee per week \$	6.28			
Funds per composite employee per year \$	307.69			
Buffer -per cent of collections	2.04			
*Unemployed looking for part-time work are ineligible for the Newstart allowance.				
# Payments by or for part-time employees are reduced by the tax deductibility only.				

Table 3 Recruitment fees are high compared to payments for insurance

Average weekly full time ordinary time earnings (private sector) per year \$	75,639
Recruitment consultant fee 15% wage \$	11,346
Job turnover years	3.3
Use recruitment firm per full-time employee (estimate based on ABS data)	0.26
Fee per full-time employee per year# \$	842.84
Fee per full-time employee per week# \$	16.21
# In house human resources expenses for recruiting are not included.	

#### Terms and notes

Pay or payments are the payments by the employee or employer or both for insurance. The term premium is not used.

Receipts are the amount received by the employee during work search

Public-sector employees have an unemployment insurance system. The system is described for employees and self-employed in firms and not-for-profit organisations.

The average duration of unemployment for those unemployed up to one year is 5.07 months.

Data are from the essential points, Statistical Paper No. 12, Department of Social Services and the Australian Bureau of Statistics, unless otherwise stated.