



The Workers' Party
工人党 Parti Pekerja ນັກປະຕິບັດ

Redundancy Insurance

The Workers' Party's proposal for a resilient 21st century workforce

Introduction

- 1.1 The Workers' Party is seeking feedback from the public on our proposed Redundancy Insurance (RI) scheme. Our RI scheme calls for monthly contributions of 0.1% of monthly salary shared between employers and employees. Based on an average wage of \$3,782 in 2014 (after employee CPF contribution), employees will contribute an average of \$1.90 monthly to the Employment Security Fund; the other 0.05% or \$1.90 will come from employers. The scheme will provide a payout of 40% of a worker's last drawn salary for up to six months (up to a monthly cap of 40% of the prevailing median wage), should the worker be made redundant. The aim of the RI scheme is to provide an additional safety net to ease the financial pressure on workers who become involuntarily unemployed.
- 1.2 Contrary to popular belief, unemployment insurance (UI) and unemployment benefits (UB) are not confined to Western countries. Around the world, UI and UB schemes can be either taxpayer funded or based on an employee-employer funded insurance model. The former is the case in the UK, Australia and New Zealand, whereas the latter is the case in Canada, Japan, Korea and some American states. Japan for example, provides unemployment insurance following a 'user-pays' system similar to that found in Canada and the USA.
- 1.3 Redundancy is the retrenchment or early release of contract workers because their positions are no longer required by the company.¹ The definition of redundancy here follows the norm for global unemployment insurance schemes, i.e. layoffs excluding resignation and dismissal with cause. Based on MOM figures, an average of 8,100 residents were made redundant each year from 2007 to 2015.² Almost half of residents who were made redundant were unable to secure re-entry into the workforce within six months.³
- 1.4 Redundancy insurance will help to shield workers from the disruptions caused by free trade and technology, and give a helping hand to those who are displaced. In a time when workers are confronting the ill effects of globalisation and technological advances on employment, the RI scheme will help alleviate economic insecurity for workers whose employers do not provide retrenchment benefits. Faced with high structural unemployment, older and less-skilled workers tend to see a cascading effect of lower wages with successive jobs. Job insecurity has wider ramifications on families and children, and the RI scheme will provide greater peace of mind for these workers during the transitional period as they undergo retraining and focus on looking for suitable jobs.

¹ "Redundancy." Concepts and Definitions. Accessed September 01, 2016.

<http://stats.mom.gov.sg/SL/Pages/Redundancy-Concepts-and-Definitions.aspx>.

² Redundancy And Re-Entry Into Employment, 2015." Accessed September 01, 2016.

<http://stats.mom.gov.sg/Pages/Redundancy-and-Re-entry-into-Employment-2015.aspx>.

³ See point 2.10.

- 1.5 The RI scheme encourages a more efficient and flexible labour market where workers are matched with the most suitable jobs for their skillsets. The scheme will reduce workers' anxiety while providing a longer runway for re-employment so that workers can evaluate job options based on long-term fit and suitability. This will reduce the rates of underemployment (i.e. highly skilled workers working in low skill or low paying jobs, or part-time workers who would prefer to be working full time). Employers also benefit by hiring workers who are proven to be a better fit and are committed to their jobs. An economy comprised of confident workers and enterprises that have the capacity to innovate, take risks and make decisions with long-term payoffs will foster greater overall economic competitiveness for Singapore.
- 1.6 Self-employed workers are an important part of the equation, especially with the growing influence of the "gig economy" (in which temporary positions are common and organisations engage independent workers for short-term engagements), which has attracted workers of various ages and backgrounds – including those who have struggled with job-hunting after being made redundant. The jobs in this on-demand economy tend to be less stable, have less job security, and offer fewer protections for workers. The modest safety net of the RI scheme will provide temporary support for those who wish to venture into a long-term career switch into this rapidly developing sector, since RI payouts can still transitionally support those who choose to become self-employed or to become entrepreneurs after being made redundant from permanent jobs.
- 1.7 The Workers' Party believes that the RI scheme should be introduced early when unemployment is low so that we can build up a resilient system with healthy reserves that can be drawn upon in years of poor economic growth and high redundancy.

Unemployment in Singapore

A. Overview

- 2.1 Citizen unemployment in Singapore is approximately 3%,⁴ while resident unemployment is slightly below that, at 2.8%. Over the last decade, resident unemployment has varied from a low of 2.8% to a high of 5.2%. It spiked at 5.2% in 2003 (SARS), 4.4% in 2004 and 4.3% in 2009 (global financial crisis).⁵ The citizen unemployment rates for those years were 5.4%, 4.8% and 4.5% respectively.⁶
- 2.2 In 2015, time-related underemployment affected 62,600 people, or 3% of the resident labour force.⁷ This refers to workers in part-time work who would like to work full-time or work more hours. There are no official statistics available for highly skilled workers working in low skill or low paying jobs, though anecdotally this affects many Singaporean workers.
- 2.3 Together, unemployment and underemployment affect approximately 6% of the 2.2 million resident labour force, or about 134,000 workers.
- 2.4 The median duration of resident unemployment is about eight weeks.⁸ This seems to be consistent with the view that most unemployment in Singapore is frictional. However the median may conceal considerably higher figures at the upper ends of the band. The median duration of unemployment for residents aged 40 and above was 10 to 12 weeks.⁹
- 2.5 From a high of 1.4% in 2002 and 2003, the long-term or structural unemployment rate – those persons seeking full-time work who have been unemployed for over 25 weeks – has stabilised at around 0.7% of the labour force.¹⁰ However anecdotal evidence suggests that a rising proportion of the structurally unemployed are PMETs. The number may have stayed the same as a result of more older and less educated workers becoming “discouraged” – retiring and dropping out of the unemployment statistics altogether.

⁴ “Citizen Unemployment Rate and Number.” Accessed September 01, 2016.

http://stats.mom.gov.sg/iMAS_Tables/Times%20Series%20Table/mrsd_34_Citizen_unemployment_rate_n_number_28_Jul_2016.xlsx.

⁵ “Resident Unemployment Rate and Number.” Accessed September 01, 2016.

http://stats.mom.gov.sg/iMAS_Tables/Times%20Series%20Table/mrsd_11_Resident_unemployment_rate_n_number_28_Jul_2016.xlsx.

⁶ “Citizen Unemployment Rate and Number.” Accessed September 01, 2016.

http://stats.mom.gov.sg/iMAS_Tables/Times%20Series%20Table/mrsd_34_Citizen_unemployment_rate_n_number_28_Jul_2016.xlsx.

⁷ “Labour Force in Singapore, 2015.” Accessed September 01, 2016.

<http://stats.mom.gov.sg/Pages/Labour-Force-In-Singapore-2015.aspx>.

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid.

2.6 Discouraged workers do not appear in unemployment statistics. Based on the 2015 Labour Force survey, 8,700 discouraged workers have given up looking for work because they believe that no suitable work is available; feel they lack the necessary qualifications, meaning they are not aware of or confident about there being job openings for persons with their qualifications; feel discriminated against, or are discouraged for some other reason.¹¹ There are also 7,600 people who are economically inactive but with no clear reason given.¹² Taken together, these groups would amount to about 0.7% of the labour force, even though they are not classified as belonging to the labour force.

B. Redundancies in Singapore

- 2.7 A sub-set of those who are unemployed are those who have become unemployed not through resignation but termination, redundancy or retrenchment. This is the normal constituency addressed by UI or UB schemes globally.
- 2.8 From 2007 to 2015, the number of redundancies among residents (citizens and PRs) has fluctuated from 6,000 to 15,000, with the highest number of redundancies recorded in 2009 at 14,510 residents.

Table 1: Number of residents (citizens and PRs) made redundant¹³

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015
Annual	6,010	10,360	14,510	5,670	5,740	6,880	7,520	7,240	9,090

¹¹ Ibid.

¹² Ibid.

¹³ Redundancy and Re-Entry Into Employment, 2009." Accessed September 01, 2016. http://s3.amazonaws.com/zanran_storage/mom.gov.sg/ContentPages/2458402896.pdf. AND "Redundancy And Re-Entry Into Employment, 2015." Accessed September 01, 2016. <http://stats.mom.gov.sg/Pages/Redundancy-and-Re-entry-into-Employment-2015.aspx>.

2.9

Table 2: Proportion of workers made redundant by residential status¹⁴

Year	2009		2010		2011		2012		2013		2014		2015	
	No.	Share (%)	No.	Share (%)	No.	Share (%)	No.	Share (%)	No.	Share (%)	No.	Share (%)	No.	Share (%)
Total	23,430	100.0	9,800	100.0	9,990	100.0	11,010	100.0	11,560	100.0	12,930	100.0	15,580	100.0
Residents	14,510	61.9	5,670	57.8	5,740	57.4	6,880	62.5	7,520	65.0	7,240	56.0	9,090	58.3
Non-Residents	8,910	38.1	4,140	42.2	4,260	42.6	4,130	37.5	4,050	35.0	5,690	44.0	6,490	41.7

2.10 The re-entry rate into employment within six months of redundancy has fluctuated around 50% to 60%, which means that nearly half of residents are unable to secure employment within a reasonable period of time.

Table 3: Annual average rate of re-entry into employment of residents made redundant (within six months of redundancy) (%)¹⁵

Year	2010	2011	2012	2013	2014	2015
Annual average rate of re-entry into employment of residents within six months of redundancy (%)	53.4	57.2	54.7	52.7	54.6	54.3

¹⁴ "Redundancy And Re-Entry Into Employment, 2015." Accessed September 01, 2016. <http://stats.mom.gov.sg/Pages/Redundancy-and-Re-entry-into-Employment-2015.aspx>.

¹⁵ "Redundancy And Re-Entry Into Employment, 2014." Accessed September 01, 2016. <http://stats.mom.gov.sg/Pages/Redundancy-and-Re-entry-into-Employment-2014.aspx>.

Effects of Redundancy

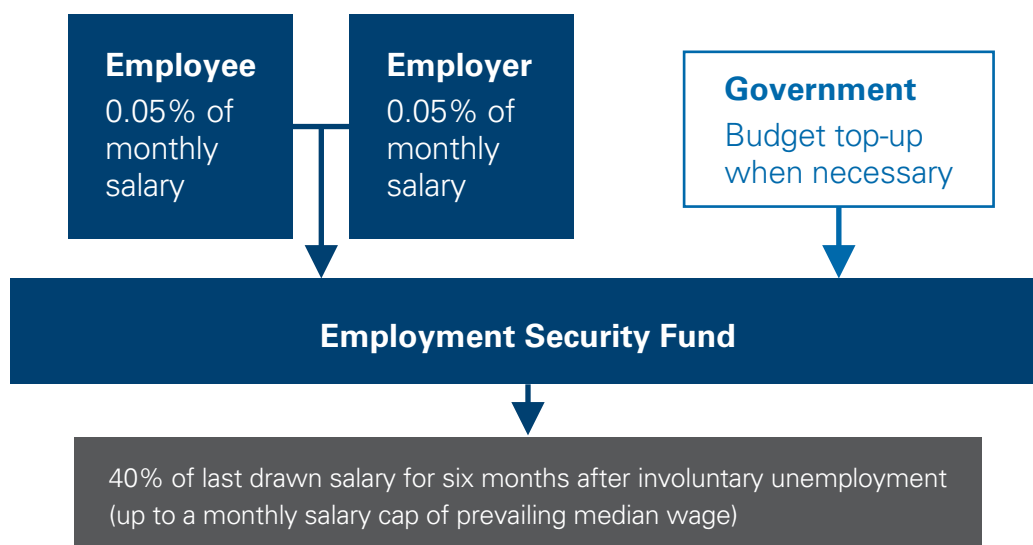
- 3.1 Job insecurity is especially worrying for mature workers aged 40 and above. They are more likely to be made redundant and less likely to be able to re-enter employment than younger workers due to the lack of necessary skills and flexibility to move to other industries. As mature workers tend to have greater financial commitments, the unexpected loss of income could potentially result in a major strain in the standard of living for their families.
- 3.2 For single-income families, a spell of unemployment for the breadwinner would mean having to draw down their cash savings over the duration of the spell. The median duration of unemployment is about eight weeks, although some of these workers can be expected to remain cyclically unemployed for well over eight weeks.
- 3.3 Loss of income could result in:
- Inability to service a mortgage loan, which may result in either repossession or forced sale of the property in order to (a) downgrade; (b) move into rental accommodation; or (c) move in with relatives.
 - Disruption to educational or training courses dependent on out-of-pocket payments for adults or children in a family – this may include private diplomas/degrees or tuition for children.
 - Cutting back on primary healthcare and adopting a low-cost, unhealthy diet.
 - Getting into debt via credit cards, other bank consumer credit products and debt from legal and/or illegal moneylenders.
- 3.4 More broadly, retrenchments unmitigated by a safety net could affect the development of workers' career choices. It could breed a "short-termist" outlook that is focused on maximising short-term monetary compensation and job security rather than making decisions with risks but longer-term pay-offs, such as switching to a new industry, starting a business or taking time off work for further studies and training. As the economy matures and brings about an ever-faster pace of skills adaptation and industry disruption, Singapore needs workers to have a more "long-term" mind-set towards career choices.

Proposed Redundancy Insurance

A. How Redundancy Insurance will work

- 4.1 Our RI proposal aims to:
- Generate risk pooling** to reduce the financial pressure on workers who are made redundant, so as to provide them with a longer runway to become re-employed and thus to minimise the harmful effects of a spell of unemployment; and
 - Reduce insecurity** and worry among the vast majority of employed Singaporeans, thus reducing negative effects on career choices, health and overall well-being while potentially aiding career choices that may benefit Singapore's economic competitiveness.
- 4.2 The RI scheme will be automatically triggered when an employer files for the termination of an employee due to redundancy or retrenchment with the CPF Board. We propose that this should also trigger other agencies such as SkillsFuture Singapore (SSG) and the Social Service Offices (SSOs) to write to the retrenched person with information on how they can make use of other schemes like the Career Support Programme and SkillsFuture.
- 4.3 Based on the average wage of \$3,782 in 2014 (excluding employer and employee CPF contributions),¹⁶ the proposed 0.1% equates to an affordable average monthly contribution of about \$3.78 for every employee. This in turn translates to a low monthly deduction of \$1.89 from the employee's disposable income. It is therefore unlikely that this deduction will dramatically affect citizens' standard of living, and more importantly, will not significantly increase the financial burden on lower-income households.
- 4.4 In the event of involuntary unemployment, the worker will receive a payout of 40% of his or her last drawn salary (up to a monthly cap of 40% of the prevailing median wage) for up to six months.

¹⁶ This is based on 80% of \$4,727 (to factor in 20% employee CPF contribution), which was the 2014 Average (Mean) Monthly Earnings taken from the Singapore Yearbook of Manpower Statistics (2015). According to the Singapore Yearbook of Manpower Statistics (2015): "Average (Mean) Monthly Earnings (AME) refers to all remuneration received before deduction of the employee Central Provident Fund (CPF) contributions and personal income tax. It comprises basic wages, overtime pay, commissions, allowances and bonuses but exclude employer CPF contributions."



- 4.5 Self-employed individuals (including entrepreneurs) will be included in the RI scheme, in order to provide them with a safety net like employed workers. They will contribute 0.1% of their self-declared income to the scheme. Self-employed individuals will receive a payout of 40% of their average last drawn income for the previous six months (up to a monthly cap of 40% of the prevailing median wage) should they become unable to earn an income due to the involuntary winding up of their businesses, capped at one series of payouts every three years.
- 4.6 Beyond the first payout, workers must demonstrate that they are actively seeking employment in order to continue receiving the rest of the payouts; they must do so by signing a declaration that will be periodically audited and carries penalties for false declarations.
- 4.7 Based on the average resident redundancies of 7,950 over the past 3 years (2013-2015), an employed resident labour force of 2.2 million in 2015,¹⁷ and the 2014 average wage (less employer and employee CPF contributions) of \$3,782, the total premiums collected would be about \$100.9 million per year.
- 4.8

Table 4: Average (Mean) Monthly Income (Residents)¹⁸

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014
Before Employee CPF contribution (S\$)	3,554	3,773	3,977	3,872	4,089	4,334	4,433	4,622	4,727
After deduction of 20% Employee CPF (S\$)	2,843	3,018	3,181	3,098	3,271	3,467	3,546	3,698	3,782

(Includes full-time and part-time workers who have CPF contributions)

¹⁷ "Labour Force in Singapore, 2015." Accessed September 01, 2016.
<http://stats.mom.gov.sg/Pages/Labour-Force-In-Singapore-2015.aspx>.

¹⁸ Singapore Yearbook of Manpower Statistics 2015, table B10.

Table 5: Median Gross Monthly Income (Residents)¹⁹

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014
Including Employer CPF (S\$)	2,260	2,449	2,708	2,671	2,817	3,000	3,133	3,364	3,444
Excluding Employer CPF (S\$)	2,042	2,167	2,450	2,420	2,500	2,633	2,800	3,000	3,000

(excludes full-time NSmen and includes full-time and part-time workers)

4.9 Based on an average redundancy figure over the past 3 years (2013-2015) of 7,950 residents and the resident median gross monthly income in 2014 (excluding employer CPF) of \$3,000, the estimated payout in a year of average redundancy would be a maximum of \$63.0 million.²⁰ Actual payouts would be less than this amount, as not all claimants from the scheme would claim the maximum amount of 40% of the latest median gross monthly income.

4.10 Assuming an administrative cost of \$10 million based on benchmarking the administrative costs for MediShield Life, the RI scheme would therefore have a surplus of approximately \$27.9 million in an average year, which is a healthy buffer, and there would be no need for government top-ups. It should be noted that the estimated payout of \$63.0 million is a highly conservative payout figure because the calculations here are based on the assumption that all payouts under the RI scheme are at the maximum cap level. Actual payouts will therefore likely be significantly lower.

4.11 In a year of low redundancy such as in 2010 where the number of resident redundancies was 5,670, the estimated maximum payout would be \$44.9 million, while the total premiums collected would be \$101.0 million (derived from average wage of \$3,782 in 2014 multiplied by 0.1% and annualised). There would be no government top-up needed to maintain a payout ratio of 80%.

4.12 In a year of high redundancy such as in 2009 where the number of resident redundancies was 14,510, the estimated maximum payout would be \$114.9 million, while the total premiums collected before government top-up would be \$100.6 million. Factoring in the administrative cost of \$10 million, a government top-up of about \$55.6 million would be needed to maintain a payout ratio of 80%.

However, a government top-up may not be needed even in years of high redundancy if the RI scheme has been running for a few years prior to those years. The accumulated surplus in years of low to average redundancy will create a reserve that can be drawn upon in years of unusually high redundancy. We should also recall that our calculations above are conservative because they use the maximum payout. The actual payouts will be significantly lower as many of those who are made redundant would be earning less than the median gross monthly income.

¹⁹ Singapore Yearbook of Manpower Statistics 2015, table B2.

²⁰ All redundancy figures used to calculate payouts, surpluses, and amounts of government top-up needed include a 10% buffer to cater for scenarios where actual redundancies turn out to be higher, or where future redundancies are higher than historical averages. In spite of this buffer, there is room for premiums to be moderately raised after proper consideration (as with MediShield Life) if many more cases of concealed retirements surface once the RI scheme is implemented.

Flexible payouts

4.13 The RI scheme will provide some degree of flexibility so workers who have been made redundant can choose how they wish to receive the payouts. Some workers may have adequate savings to tide over the initial period of unemployment and may choose to defer their RI payouts to a slightly later time so as to be better prepared in case the period of unemployment is prolonged. The scheme will have provisions so workers will have options as to how and when to receive the payouts.

Caring for our most vulnerable workers

4.14 The RI scheme will also provide top-ups to workers who earn less than \$1,000 a month. Workers who earned less than \$500 a month before they were made redundant will receive RI payouts equivalent to their previous monthly salary (e.g. a worker who previously earned \$250 a month will receive \$250 a month for up to six months under the RI scheme, instead of \$100). Workers who earned between \$500 and \$1,000 a month before they were made redundant will receive a top-up of \$200 to their original RI payout (e.g. a worker who previously earned \$750 a month will receive \$500 in monthly RI payouts instead of \$300).

4.15 This provision will make the RI scheme more progressive since the absolute payouts may still be too low for low-wage workers and their families to survive. Low-wage workers often face added difficulties looking for jobs after being laid off due to their age and/or their lack of transferrable skills, and may face more stress from meeting day-to-day expenses due to low savings.

4.16 According to MOM's Labour Force Survey 2015, there were 47,000 workers whose gross monthly income was less than \$500 (excluding employer CPF), and 125,900 workers who earned less than \$1000.²¹ This respectively makes up about 2.1% and 5.6% of the 2.2 million resident labour force.

Assuming that the redundancy rates of these low-wage workers stand at the same proportion, in a year of high redundancy like 2009, there would be 1,116 low-wage workers made redundant. Of these, 304 would have previously earned less than \$500 a month, and 812 would have previously earned less than \$1,000 a month.

Taking the average scenario where it is assumed the 304 workers earned \$250 a month and the 812 workers earned \$750 a month, this would amount to a total top-up of about \$208,000 a month.

4.17 In addition, under our proposal, SSOs will automatically be triggered to contact these low-wage workers and do an evaluation to see if they require additional assistance from other schemes such as ComCare or the School Pocket Money Fund.

4.18 In the table below, the top-ups for low-wage workers are not reflected because the maximum payout figure is used and this figure conservatively assumes that every claimant receives 40% of the median wage. Hence top-ups for those who would receive far less due to their low wages would be funded from the assumed maximum payout amount.

²¹ "Labour Force in Singapore, 2015." Accessed September 01, 2016.
<http://stats.mom.gov.sg/Pages/Labour-Force-In-Singapore-2015.aspx>.

Table 6: Summary table

	Low Redundancy	Average Redundancy	High Redundancy
Revenue (based on average salary after CPF deduction) (S\$m)	101.0	100.9	100.6
Payout (assuming every payout is capped at 40% of median basic salary) (S\$m)	44.9	63.0	114.9
Deduction of administrative costs (-S\$m)	10	10	10
Surplus/deficit assuming zero reserves (S\$m)	46.1	27.9	-24.3
Government budget top-up needed to maintain payout ratio at 80% (S\$m)	None	None	55.6

* Numbers in this table have been rounded off.

4.19 Our proposed RI scheme has been made deliberately conservative. The introduction of this RI scheme would be a first step in this direction for Singapore. Hence the premium and payout have been set at a relatively modest level. This first step should serve to increase understanding and acceptance of the RI scheme by employers and employees. Once it has been shown that RI does not affect job creation and investment, the premium contribution and payout can be gradually raised based on consultation and social consensus, so as to find the right balance point between providing a robust safety net for Singaporeans and not raising business costs such as to deter investment. If there are more workers found to be involuntarily unemployed than reflected in MOM's data, there will also be room to review the premiums – similar to the principles embodied in MediShield Life – due to the fact that the proposed premium is set at a low level. Based on the existing data, there is a high probability that the surplus will be greater than what the conservative projections above suggest, which means that the extent of government top-up required would likely be less than what is estimated here.

4.20 Our proposed RI scheme will include provisions to provide rebates to employers who make fewer or no employees redundant. These rebates would be funded from the RI's surpluses and reserves. This would serve as a deterrent to any attempt by employers and employees to collude to disguise resignations as retrenchments. In any case, the law would be enforced in respect of any reports of such cases in the same way that the law is enforced in proven cases of abuse of other schemes such as the Employment Pass and Special Pass scheme.

B. Benefits of the proposed Redundancy Insurance Scheme

- 4.21 The cap on the amount and duration of payouts under our proposed RI scheme is unlikely to encourage those who are made redundant to remain unemployed. On the contrary, the scheme is designed to promote employment and skills development by providing workers who are involuntarily unemployed with some breathing space and the peace of mind to retrain, upgrade their skills, and look for suitable employment. This is since workers who are receiving payouts will be required to declare that they are actively seeking employment.
- 4.22 The RI scheme complements existing skills training and upgrading schemes such as the Skills Development Fund (SDF), to provide holistic support for Singaporeans in a volatile economy. While the SDF helps workers to upgrade their skills so they are better equipped to seek new jobs even in a different industry, the RI scheme provides immediate financial relief for workers so they can weigh their options and decide whether or not (and how) they want to switch industries. The RI scheme creates a strong safety net at a lower cost (0.1% combined employer-employee contribution) than the SDF (0.25% levy), and both schemes are complementary.
- 4.23 In this way, the RI scheme is beneficial for both workers and employers. Workers will not have to take the first job opportunity that comes their way regardless of fit and suitability. Employers will not have to screen applications from workers who are guided by short-term needs, are a poor fit for their organisations and are unlikely to stay for long or be committed to their work. The RI scheme encourages a more efficient and flexible labour market where workers are matched with the most suitable jobs for their skillsets.
- 4.24 Such a social safety net is beneficial for the economy as well because workers who are risk-averse and guided by short-term goals will be unlikely to make longer-term career planning or education and training choices that have longer-term pay-offs. Successful first world economies in the 21st century are likely to be characterised by high levels of innovation, entrepreneurship and Total Factor Productivity, in a context of shorter product and industry life cycles. Competitive advantage will accrue to populations that are more entrepreneurial, adaptive and more open to niche, cutting-edge career choices in nascent industries. Insufficient social safety nets will eventually come at the expense of building long-term engines of economic value-creation.
- 4.25 The RI scheme would only address unemployment from redundancies, and would not cover unemployment from resignations, thus limiting some (real or perceived) moral hazard danger. It is highly unlikely that employees may act in such a manner so as to “provoke” redundancies, given:
- That payouts are capped to 40% of the workers’ income or 40% of the prevailing median wage, whichever is lower;
 - That the payout period is capped at six months; and
 - The associated costs to the employee of pursuing such a strategy (i.e. the impact of a string of redundancies on future job prospects).

- 4.26 The RI scheme reinforces the message of dignity because workers who have contributed to the RI fund are automatically entitled to the payouts. They can use the payouts to tide over short-term household needs or emergencies. Some workers would be deterred at having to navigate the maze of public assistance schemes, submit all manner of documents for scrutiny, and wait to find out if their applications have been approved or denied. The RI scheme helps to alleviate some of the anxieties that accompany unemployment, and will help to ensure that those who may need help but are not comfortable with what they perceive to be seeking handouts from the state, do not fall through the cracks.
- 4.27 The scheme also benefits the government in two ways. First, it relieves some pressure faced by those administering public assistance schemes especially during years of high unemployment. Second, it also relieves some pressure to accede to requests for withdrawals from CPF to cope with emergencies, so that retirement adequacy is not affected.

Frequently Asked Questions (FAQs)

- 1. How will the RI scheme be funded (i.e. where will the money come from)?**

Similar to the mechanism of the Skills Development Fund, CDAC/SINDA/MBMF/EA deductions, the RI scheme will be funded by employers and employees (Singaporeans and PRs only). Only in years of unusually high redundancies (e.g. 2009) will a government top-up from the Budget be required (this may not be necessary once the scheme has been running for a few years). It will not require any use of government reserves.
- 2. How do I know if I fall within the definition of being made redundant?**

The definition of redundancy here follows the norm for global unemployment insurance schemes, i.e. layoffs excluding resignation and dismissal with cause. Our model is based on figures from MOM. Premiums have been set at a relatively low level. Should more cases of redundancy manifest after the scheme is introduced (either due to a worsening economy or because previous cases of redundancies were not reported as such), premiums can be moderately raised after proper consideration, as with other forms of risk pooling. However the RI scheme contains provisions against abuse. Cases of resignations being disguised as retrenchments will face enforcement action. Employers will also be incentivised for fewer redundancies.
- 3. Why do we need this scheme when SSG already has schemes to retrain and help retrenched workers return to the workforce?**

Existing schemes do not meet the immediate and short term financial needs of monthly overheads that individuals and households face. Existing schemes are more focused on helping those who are retrenched find work.
- 4. Why do we need this scheme when we already have a high savings rate?**

The RI scheme is useful to provide a temporary but comfortable period of assistance, even for individuals and households with a high savings rates. The high national savings rate reported in economic data includes savings that are locked up in the CPF, which are not easily accessible in emergencies. The actual level of average liquid household savings is far less than what national savings rate data would imply.
- 5. How does the RI scheme compare to other schemes like ComCare and retrenchment benefits provided by employers (with or without union collective bargaining)?**

RI does not supplant these schemes. The RI payout that a family receives during the payout period will simply be taken into account when deciding ComCare eligibility. Employer-given retrenchment benefits are meant to compensate for the long-term loss of income as there is a chance that the retrenched worker will lose seniority and have to take a pay cut in their next job, and that benefit should go to longer-term savings. The RI payout on the other hand, will take care of day-to-day expenses of the family during the period of unemployment without eroding the longer-term compensatory benefits of employer-given retrenchment benefits. Moreover, employer-given retrenchment benefits are not mandated and are limited based on tenure so employees who have not been with a company for long are at a disadvantage.

6. Wouldn't a deep and prolonged recession bankrupt the RI fund and be a drain on state coffers?

Payouts are limited to six months, and premiums can be modestly raised if there are structural reasons to do so, as is the case with all forms of risk pooling including MediShield Life. RI payouts also have a counter-cyclical effect – it allows those who have been retrenched to keep up a certain level of spending, thus maintaining GST revenues for the state and helping heartland businesses (who contribute corporate and personal income tax). Hence the RI scheme acts as a form of macro-economic stabiliser.

7. Will such a scheme discourage retrenched workers from looking for work?

This is unlikely because the RI payout is only valid for six months at 40% of workers' income or 40% of the prevailing median wage, whichever is lower. This is hardly an incentive to stay unemployed; instead of breeding complacency, RI provides some degree of peace of mind and some breathing room for workers and their families during the transitional period so that they can focus on re-training and looking for jobs that they are better suited for rather than seizing the first available job out of economic compulsion. Moreover, beyond the first payout, workers must demonstrate that they are actively seeking employment in order to continue receiving the rest of the payouts.

8. What if I am self-employed or have my own business?

The RI scheme does not preclude you from setting up a business while receiving payouts after you have been made redundant from your last job. You will still be able to contribute to and benefit from the scheme. The RI scheme does not seek to deter entrepreneurship, but to support it.

9. Is it unfair for high-income earners to pay 0.05% of full salary only to receive 40% of the prevailing median wage in payout if made redundant?

The same objection would apply to raising top personal income tax rates. The RI is progressive, and based on the 2014 median wage of \$3,000, an employee earning \$10,000/month would need to have been contributing to the RI for 120 years in order for his total contribution to exceed the payout he would receive upon retrenchment. It would take about 40 years for an employee earning \$30,000 a month to have his contribution exceed the payout (again, based on 2014 median wage of \$3,000).

10. How should the money be managed?

We propose that the RI reserves be invested in low-risk and moderate-yielding instruments where its scale and status can give it preferential access to suitable investment instruments.

11. What happens if there is a surplus?

The surplus above the minimum reserve should be used to provide occasional rebates to employers who effect no or minimal (under 5% of their workforce) retrenchments for a certain number of years, depending on the size of the surplus. This will act as a disincentive to employers "helping" employees disguise resignations as retrenchments to claim RI payouts.

12. What is the purpose of accumulating such a hefty surplus?

Building up a healthy surplus for the RI fund in good years will help to reduce the need for large government top-ups in years of high redundancies. The surplus will be invested in a low-risk instrument with stable returns and in years with very low redundancies, the surplus can be disbursed as rebates to employers who effect no or minimal (under 5% of their workforce) retrenchments for a certain number of years.

Having said that, the surplus of the RI fund is modest compared to other schemes such as the Skills Development Fund that accumulated as much as \$98m in net surplus in 2011.²²

13. What about employers who may try to game the system?

On top of providing rebates to employers with low retrenchment, penalties will be imposed on employers who regularly retrench employees so as to deter employers from colluding with employees to disguise resignations as redundancies. Such employers will also be liable to be charged for filing misinformation when they make the declaration of redundancy when cancelling the employer's CPF.

14. How much will it cost to administer the RI scheme?

We have benchmarked the administrative expenses of the RI scheme to MediShield Life, and estimate the cost to be approximately \$10 million. This is lower than the \$11 million it costs to administer MediShield Life because the RI scheme may enjoy some cost-savings from piggybacking on the established infrastructure of earlier schemes.

15. How should the RI scheme be administered?

We propose that the CPF Board administer the RI scheme since it has access to payroll information. The scheme should be automatically triggered when an employer files for the termination of an employee due to redundancy or retrenchment with the CPF Board.

²² "WDA Annual Report 2010/2011." Accessed September 01, 2016.
<http://www.ssg-wsg.gov.sg/content/dam/ssg-wsg/ssgwsg/about/annual-reports/2011.pdf>.

	Contribution		Qualification		Benefits			Coverage	
	Rates	Income Ceiling	Rules	Prior Work	Duration	Level	Others	Persons	Waiting Period
WP's Proposal	Employee = 0.05% Employer = 0.05% Total = 0.1%	None	Involuntary	None	Flat rate for 6 months	40% of last drawn; maximum at national median	None Potential to collaborate with SkillsFuture Singapore	Salaried workers Self-employed persons	None
Argentina	Employer = 0.89% to 1.5% Total = 0.89% to 1.5%	None	Involuntary, actively looking for work	6 months work in past 3 years	Decreasing rate between 2 to 18 months	35% to 50% of average salary	- Family allowances, - Waiver of pension contributions, - Continuation of health insurance	Salaried workers in the private sector except domestic workers, teachers and workers of teaching institutions	Up to 60 days
Bahrain	Employee = 1% Employer = 1% Government = 1% Total = 3%	SGD 14,500 (BHD 4,000) per month	Involuntary, actively looking for work, not dismissed for disciplinary reasons	12 months	Flat rate for 6 months	60% of average salary; maximum SGD 1,800 (BHD 500) per month	- "Aid Benefits" open to first time job seekers	Salaried workers except business owners, armed forces and security personnel	7 days
Canada	Employee = 1.83% Employer = 2.562% Total = 4.392%	SGD 4,000 (CAD 3,825) per month	Involuntary, actively looking for work	420 hours in past year	Flat rate for 3 to 10 months (14 to 45 weeks)	55% of average salary; maximum SGD 500 (CAD 485) per week	- Training, - Job search, - Labour market information	Salaried workers except self-employed persons and business owners	21 days
Chile	Employee = 0.6% (Individual Savings) Employer = 2.4% (0.8% into Social Insurance + 1.6% into Individual Savings) Government contributes small top ups Total = 3%	SGD 4,500 (CLP 2.2 million) per month	Involuntary	12 contributions in past 2 years	Decreasing rate for 5 months	20% to 50% of average salary	- Training grants, - Hiring subsidies for employers, - Family allowances	Salaried workers in the private sector except domestic workers, apprentices, youths below 18, self-employed and retired persons	None
China	Employee = 1% Employer = 2% Government tops up on ad-hoc basis Total = 3%	Lower than local minimum wage	Involuntary, actively looking for work	Determines duration of benefits: - Less than 5 years = 12 months - 5 to 10 years = 18 months - More than 10 years = 24 months	Flat rate for 12 to 24 months	Lower than local minimum wage but higher than the minimum livelihood guarantee	- Training, - Job match, - Labour market information	Salaried workers and self-employed persons	None
Denmark	Employee fee of SGD 92 (DKK 450 per month) Government 70% of expenditure	None	Voluntary or involuntary, actively looking for work	12 months in past 3 years	Flat rate up to 2 years' benefits over a 3 year period	90% of earnings of last 3 month average; maximum approximately SGD 3,425 (DKK 16,600) per month	- Holiday benefits, - Training allowances, - Voluntary early retirement pay	Salaried workers and self-employed persons	None but 5 weeks if unemployed voluntarily
France	Employee = 2.4% Employer = 4% Total = 6.4%	Approximately SGD 18,500 (EUR 12,124) per month	Voluntary or involuntary, actively looking for work	4 months in the past 24 months (36 months if aged at least 50)	Flat rate for 12 to 36 months	57% to 75% of average salary; maximum SGD 9,085 (EUR 5,920) per month	- Flat termination benefit (about EUR 300) paid when regular UI benefits exhausted or if ineligible for solidarity benefits	Salaried workers	7 days but 4 months if unemployed voluntarily
Germany	Employee = 1.5% Employer = 1.5% Total = 3%	SGD 8,500 (EUR 5,600) per month	Voluntary or involuntary, must be younger than 65 years old	12 months in past 3 years	Flat rate for 6 to 24 months	60% of previous net earnings (67% if with one dependent child)	- Training, - Job match	Salaried workers and self-employed persons, except those earning less than EUR 400 per month	None but 12 weeks if unemployed voluntarily
Japan	Employee = 0.6% Employer = 0.6% Government funds 1/4 of system cost Total = 1.2%	None	Voluntary or involuntary	6 months in past 2 years	Flat rate for 3 to 11 months (90 to 330 days)	45% to 80% of average salary	- Training, - Job match, - Family allowances	Salaried workers with some exceptions for the elderly, part-time and seasonal workers	7 days, but 3 months if unemployed voluntarily
Republic of Korea	Employee = 0.55% Employer = 0.55% + 0.25% (< 150 workers) Total = 1.35%	None	Voluntary or involuntary, actively looking for work	180 days in past 18 months	Flat rate for 3 to 8 months (90 to 240 days)	50% of average salary; maximum SGD 50 (KRW 40,000) per day	- Worker receives 50% of remaining benefits as re-employment bonus	Salaried workers in the private sector and self-employed persons, except those working for companies engaged in farming, forestry, fishery or housekeeping	7 days
Mongolia	Employee = 0.5% Employer = 0.5% Total = 1%	None	Voluntary or involuntary	24 months (the last 9 must be continuous)	Flat rate for 76 days	45% to 70% of average salary	- Training, - Assistance to launch business	Salaried workers and self-employed persons	None but 36 days of benefits deducted if termination is voluntary
Thailand	Employee = 0.5% Employer = 0.5% Government = 0.25% Total = 1.25%	SGD 590 (THB 15,000) per month	Not dismissed due to a job violation or criminal act	6 months of contributions in the 15 months before termination	Flat rate for 3 to 6 months (90 to 180 days)	30% to 50% of highest paid 3 months in the 9 months before job loss; maximum SGD 10 (THB 250) per day	- Training, - Job match, - Labour market information	Salaried workers in the private sector except farmers and domestic workers	7 days
United States	State 3.2% (national average) Federal = 0.6%	State up to USD 15,700, Federal up to USD 7,000	Job loss through no fault of their own, unless able to prove good cause for leaving	Earned insured salary in the first 4 of the last 5 completed quarters	Flat rate for up to 46 weeks (11 months)	About 50% of average salary depending on state	- Training, - Job match, - Labour market information	Salaried workers excluding federal employees and railroad workers (covered separately)	None to one week (depending on State)
Vietnam	Employee = 1% Employer = 1% Government = 1% Total = 3%	None	Voluntary or involuntary, not dismissed due to a misconduct	Contributed 12 months in past 24 months	Flat rate for 3 to 12 months	60% of average salary	- Training, - Job match	Salaried workers in the private sector	15 days