# Financing unemployment insurance and crisis responses

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*October 9th, 2024*
*ILO Asia Expert Roundtable on Unemployment Protection, Jakarta, Indonesia*

# How do UI schemes respond to crises ?

- Increase level of benefits
- Extending duration of payments
- Widening types of ‘unemployment’ covered
- Extending coverage

# Example of Thailand

- **Temporary furlough benefits**
  - Introduced in 2015 in case of **natural disasters** (50% salary for 90 days, now for 180 days).
  - **COVID-19:** on Government-mandated closure/voluntary closure by employers and/or employees' quarantine). Benefits amount increased to 62 per cent payable for 90 days.

- UI benefits increased from March 2020 to February 2022
  - **Lay-off**: from '50% for 180 days' to '70% for 200 days'
  - **Voluntary:** from 30% / 90 days to 45%
  - **End of contract**: 30% / 90 days to 45%

80 per cent of the increase in all SSO benefit payments from 2019 to 2020 was from the unemployment benefits branch (and not health…)

International Labour Organization

# But where does the money come from ?

International Labour Organization



# The actuarial valuation

An actuarial valuation is a projection of future cashflows of a social security scheme using appropriate data and assumptions

They are needed to assess the current and future financial situation of existing schemes, to cost new schemes and to assess reforms

The valuation must be carried out regularly by an actuary and conform to professional standards

The ILO ISSA Actuarial Guidelines recommend regular actuarial valuations

# Why do we need an actuarial valuation?

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# How do we assess the recommended cost of an unemployment insurance scheme ?

**The actuarial valuation needs to consider:**

- **Projected covered population –** to project how many are eligible for benefits and pay contributions
- **Projected salaries –** to determine benefit amounts paid out and contributions
- **Probability of claiming** – depends on probability of unemployment and eligibility requirements
- **Duration of benefit payment –** how long is benefit paid for

# Actuarial Valuations of UI Schemes

Cost estimates will be undertaken on three scenarios: *base, optimistic and pessimistic.*

The actual cost will depend on:

- Experience : notably number of those becoming unemployed, their salary level, the duration of unemployment
- Scheme design and financing: notably eligibility requirements, maximum duration of benefit payment, level of payments, contribution rates
- Management and administration: these include expenses related to enrolment, claims and payments and other general administrative costs. A key factor is what costs will be assumed by the UI Scheme itself

Regular actuarial valuations will be required to assess the actual cost of the scheme once it starts operating.

# More precisely - the Six Key Assumptions of a UI valuation

1. Rate of (involuntary) termination assumption and/or proportion of all terminations that are deemed involuntary -> projected estimate of those theoretically eligible for benefits
2. Number and distribution of insured members meeting service requirements on termination -> expected proportion of eligible for benefit payments.
3. Salary distribution of members being involuntarily terminated -> the level of each benefit payment for all eligible claimants
4. Assumed duration of unemployment -> projected total cost of each claimant
5. Expenses -> additional cost of managing the scheme and total contribution rate.
6. Projected unemployment rate in 2024, 2025 and ahead-> . trend in claimants.

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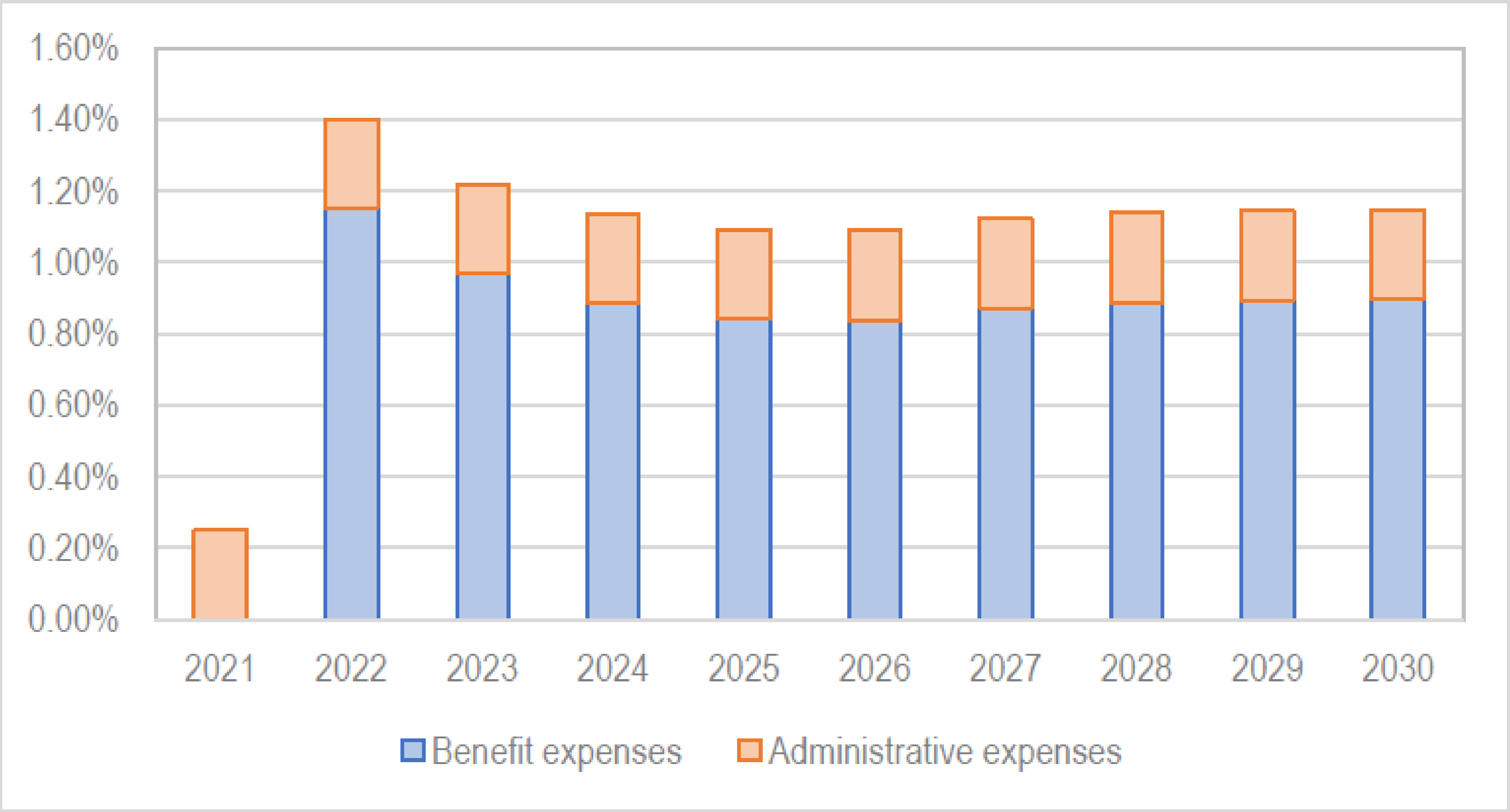
# But where does the money come from ?

## PAYG cost rate (benefits and administrative expenses), financial years 2021–30 – Base scenario




## Unemployment Insurance scheme: Typical cashflow projections

**What would be your recommended contribution rate and your target reserves ?**

# Contribution rates

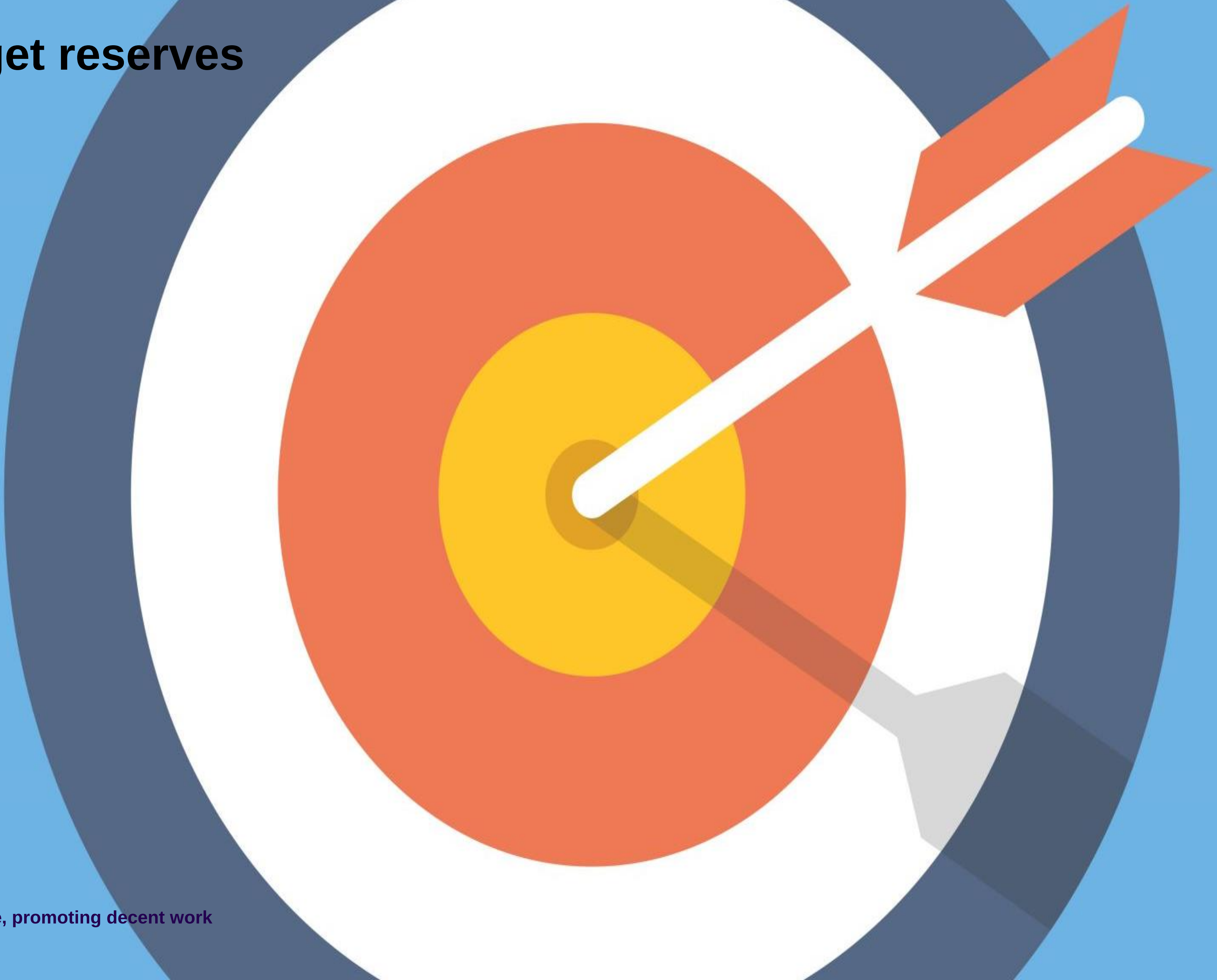


- These are recommended by the actuary as part of the actuarial valuation report

- They need to consider different factors but above all ensure long term sustainability of the scheme
- In resect of the contribution rate, an appropriate margin should be considered (in addition to those in the actuarial valuation assumptions), particularly with
  - *new schemes and/or*
  - *unstable economic environment*

# Setting target reserves





# Target reserves



- These are commented on (or recommended*) by the actuary as part of the actuarial valuation report

- They need to consider different factors but above all ensure long term sustainability of the scheme

- Adequate (but not excessive) Reserves are needed for inevitable economic recessions and shocks (eg Covid) when
  - payments / claims are higher
  - Contributions lower and
  - Special temporary benefits may be introduced (eg furlough benefits)

- Schemes tend to have target reserves as a multiple of expected monthly or annual benefit payments  (eg 2 x projected annual benefit payments)

# Crisis ready UI schemes

Proactive benefit rules and regulations

Adequate financing (no reduction in contribution rates)

Universal coverage – Thailand again

Consistency with other policies particularly employment


THANK YOU.