

## Further Analysis of the Function of Unemployment Insurance -- Based on the Unemployment Insurance Fund Balance

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### Abstract

Under the background of China's economy entering a new normal, the industrial structure has been continuously optimized and upgraded, emerging industries have developed and developed rapidly, and the forms of employment have become more diversified. Under the pressure of economic downturn, China's employment market is constantly facing new challenges. In addition, the optimization and upgrading of the industrial structure will also cause structural unemployment to a certain extent. In order to cope with the current unemployment problem, we must give full play to the "three in one" function of unemployment insurance. At this stage, there are more balances of unemployment insurance funds, and how to use this part of the funds to promote the function of unemployment insurance is a major issue to be considered.

### Keywords

Unemployment insurance, Unemployment Insurance "Trinity" function, Unemployment insurance fund balance, Unemployment insurance funds.

### 1. Introduction

Unemployment insurance is an important part of China's social insurance system. Its "three-in-one" function of "protecting life", "promoting employment" and "anti-unemployment" is very important to alleviate the downward pressure on the economy brought about by the new normal background. However, in the process of the continuous development of unemployment insurance in China, there is a problem that cannot be ignored, that is, the unemployment insurance fund balance. As of 2017, China's unemployment insurance fund balance has reached 555.24 billion yuan<sup>1</sup>. In order to further play the role of China's unemployment insurance "three in one" and alleviate the problems of employment difficulties and unemployment in the economic downturn, we should solve the long-term development of unemployment insurance in China by solving the unemployment insurance fund balance as a breakthrough. At present, many experts and scholars have studied the unemployment insurance fund balance and put forward many constructive opinions. Guo Yuchang believes that the narrow investment channel and the pressure of maintaining and increasing value are an important reason for the formation of the unemployment insurance fund balance[1]; Zhao Liping analyzes the settlement of the unemployment insurance fund balance by strictly restricting the application conditions while simplifying the application process and enhancing the employment function of the unemployment insurance fund[2]; Huo Liang believes that alleviating the unemployment insurance fund balance should promote the function of unemployment insurance re-employment [3]; Liang Shuzhen and Xue Huiyuan are based on the perspective of fund balance

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<sup>1</sup> The data comes from the National Bureau of Statistics 2018 China Statistical Yearbook.

to predict the level of unemployment insurance in the context of reducing the rate[4]; Liu Jitong and Liu Xiaodong pointed out that the coverage of the unemployment insurance fund is mainly limited to state-owned enterprises and institutions with low unemployment risks. These units have high unemployment insurance coverage but low demand, which has caused the unemployment insurance fund balance to a certain extent[5]; Zeng Yuzhu analyzed the factors of unemployment insurance fund balance and analyzed the countermeasures by analyzing the system design and system implementation of unemployment insurance[6]; Xu Ziyi believes that the low efficiency of the use of unemployment insurance funds in Hebei Province is mainly due to the low coverage of unemployment insurance and the problems of fund payment standards[7]; Sun Jie believes that the balance of the unemployment insurance fund should be fully used to protect the interests of the flexible employment groups, college students and migrant workers[8].

## 2. The Status Quo of Unemployment Insurance Development

### 2.1. Status of Unemployment Insurance Coverage

As shown in Fig.1, during the 10 years from 2008 to 2017, the number of people participating in unemployment insurance in China has increased, from 123.998 million to 187.842 million, and the number of people covered by unemployment insurance has expanded. With the continuous improvement of China's unemployment insurance system, more and more labor groups have joined the unemployment insurance system. However, the problem that cannot be ignored is that the economically active population in China reached 80.686 million in 2017, and the number of employed people has reached 776.4 million. According to statistics, the total number of people participating in unemployment insurance in 2017 is only 24.2%. It can be seen that at this stage, the coverage rate of unemployment insurance in China is still low, and a considerable number of people still fail to participate in unemployment insurance. For those who are not involved in unemployment insurance, some employment groups, self-employed people and other employment groups are not excluded. These groups are less likely to face unemployment risks. Even if they are really unemployed, then unemployment is right. The impact of their current life will not be great. For those who are not involved in unemployment insurance, we must focus on two types of people, namely migrant workers and flexible employment groups, which account for the majority of those who do not participate in unemployment insurance. In view of the large scale and complex types of flexible employment, the total number of people has great difficulties. This paper will only further analyze the coverage of unemployment insurance by the number of peasant workers insured.

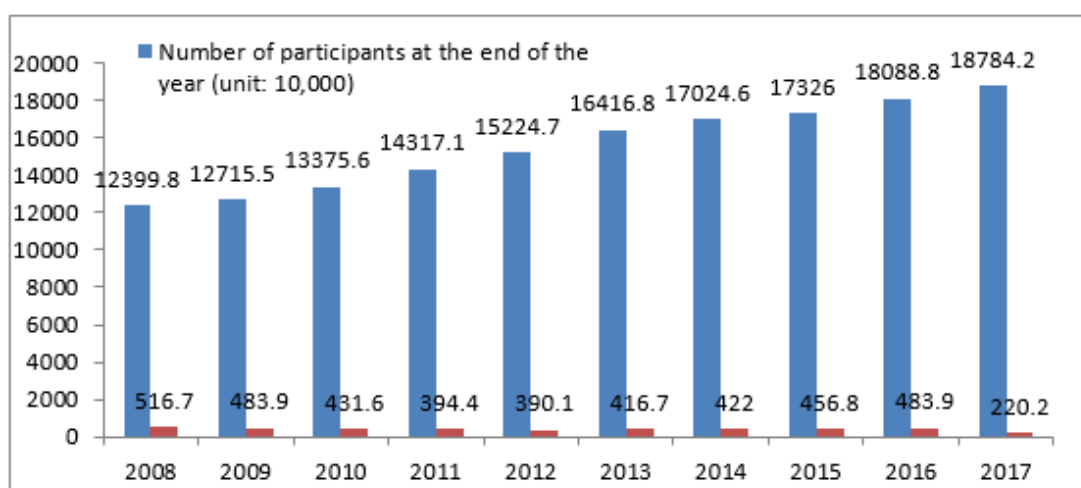


Fig 1. Unemployment insurance coverage

Source: National Bureau of Statistics 2017 and 2018 China Statistical Yearbook

As shown in Table 1, the number of migrant workers in China has reached 285.52 million in 2017. In 2017, the number of unemployment insurance in China was only 18.8782 million, which is not as good as the number of migrant workers. The insurance coverage ratio is low. Judging from the participation rate of migrant workers' unemployment insurance, although the annual participation rate is increasing, it is not until 2017 that China's migrant workers' insurance coverage reached 17.1%. This unemployment insurance coverage is still low.

**Table 1.** Coverage of Unemployment Insurance for Migrant Workers in 2009-2017 (Unit: 10,000)

Year	Total number of migrant workers	Number of farmers involved in insurance	Peasant workers' participation rate
2009	22978	1643	7.1%
2010	24223	1990	8.2%
2011	25278	2391	9.5%
2012	26261	2702	10.3%
2013	26894	3740	13.9%
2014	27395	4071	14.9%
2015	27747	4219	15.2%
2016	28171	4659	16.5%
2017	28652	4897	17.1%

Source: Calculated according to the 2009-2017 Human Resources and Social Security Statistical Bulletin

## 2.2. Current Status of Income and Expenditure of Unemployment Insurance Funds

China's unemployment insurance revenue and expenditure scale has increased to a large extent between 2008 and 2017. From the perspective of total unemployment insurance income, before 2016, income growth was relatively stable. In 2009, it was lower than the unemployment insurance income of the previous year until the new inflection point of unemployment insurance income in 2016. The changes in unemployment insurance income explain to us two aspects of information: First, China's unemployment insurance system has been continuously improved, and the scale of unemployment insurance coverage has continued to increase. Second, the decrease in unemployment insurance income in the later period is due to the fact that in recent years, the unemployment insurance premium rate has been reduced, resulting in a decrease in unemployment insurance income.

Judging from the total expenditure on unemployment insurance, the scale of unemployment insurance spending has been increasing in the past 10 years. Only the unemployment insurance expenditure in 2017 has decreased, but the amount of expenditure is still large. Since the implementation of the "Unemployment Insurance Regulations" in 1999, the function of unemployment insurance in China has been continuously improved, and the function of "three in one" has gradually formed. The quality of the use of unemployment insurance has been continuously improved, and the function of unemployment insurance has been continuously strengthened.

From the balance of the unemployment insurance fund, in the past 10 years, the balance of the unemployment insurance fund has been continuously improved. Until 2017, the balance of the unemployment insurance fund has reached 555.24 billion yuan. How to use this huge fund balance has always been a matter of great concern to the country. In order to keep the fund balance at a certain scale and make the surplus funds better utilized, the state has made efforts in two aspects. First, the unemployment insurance contribution rate is continuously reduced in terms of income. On April 20, 2018, the Ministry of Human Resources and Social Security issued the "Notice on the Issues Related to the Phased Reduction of Unemployment Insurance Rate by the Ministry of Finance of the Ministry of Human Resources and Social Security". The content of the notice reduced the contribution rate of unemployment insurance to 1%, which is undoubtedly Businesses and employees reduce the burden. In terms of expenditure, the state has continuously strengthened the functions of "promoting employment" and "anti-unemployment", including strengthening the skills training of employees and actively conducting pilot programs for unemployment insurance. In 2006, the state carried out pilot projects to appropriately expand the scope of unemployment insurance fund expenditures in Beijing, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, and Guangdong provinces and municipalities. The pilot content includes vocational training subsidies, job introduction subsidies, social insurance subsidies, job subsidies and small-sum secured loans. In addition, the state has also launched a pilot program to subsidize subsidies for enterprises. The operation of these pilots has achieved certain results.

With the continuous improvement of national policies, the unemployment insurance problem has been solved to a certain extent, but there are still many problems in the actual operation of the policy. These real problems have led to the phenomenon that the balance of unemployment insurance funds in China is still relatively obvious. In order to further exert the function of unemployment insurance, it is necessary to solve the problem of a large number of surpluses in the unemployment insurance fund as a breakthrough, and make full use of the unemployment insurance funds in China.

### **3. Analysis of the Reasons for the Excessive Balance of Unemployment Insurance Funds**

#### **3.1. The Complexity of the Employment Population**

Unemployment insurance can play a certain role in safeguarding the life of unemployed people after they lose their jobs. At the same time, they can promote the active participation of unemployed people in re-employment, and can also play a role in preventing unemployment to a certain extent. However, due to the complexity of the employment population in China, the current unemployment insurance coverage rate in China is low. For urban workers, most of this group has participated in unemployment insurance. For migrant workers, due to the low insurance awareness of migrant workers and the limitations of their types of work, the proportion of this group participating in unemployment insurance is relatively low. As shown in Table1, the proportion of migrant workers participating in unemployment insurance in 2017 was only 17.1%. For the group of flexible employment, their participation in unemployment insurance is also very low. The employment relationship of flexible employees is not very stable, and this group does not have a continuous employment record. Therefore, defining the status of employment and unemployment becomes a problem. In addition, the low awareness of participation of flexible employees and the lack of enthusiasm for participation are also one of the reasons why flexible employees are difficult to be covered by unemployment insurance. It is precisely because of the existence of such a complicated employment group that the coverage of unemployment insurance is not high, which will inevitably cause most unemployed people

to enjoy unemployment insurance benefits after losing their jobs, so unemployment insurance benefits are less, resulting in unemployment insurance fund balances. More questions.

### **3.2. Unemployment Insurance Supply and Demand Do Not Match**

Those who participate in unemployment insurance are often groups with relatively stable jobs and high insurance awareness. Employment people with flexible work and lack of stability at work are rarely able to participate in the unemployment insurance system. Take the employees of state-owned enterprises and institutions as an example, their risk of unemployment is small and their chances are low. Although they paid unemployment insurance, they rarely enjoyed unemployment insurance. On the other hand, the flexible employment groups, their employment environment are not stable enough, but they rarely pay unemployment insurance, naturally they do not enjoy unemployment insurance after they are unemployed [9]. It can be seen that the groups that are in need of unemployment insurance are not guaranteed by unemployment insurance. For the groups participating in unemployment insurance, a large part of them do not really need unemployment insurance to deal with their unemployment problems. When the formal units and their employees continue to pay unemployment insurance, and the unemployment insurance expenditures are more limited, the unemployment insurance fund has a large balance.

### **3.3. Unemployment Insurance Benefits Are Low**

As can be seen from Table 2, between 2008 and 2015, China's unemployment insurance replacement rate is maintained at around 20%. This replacement rate is not enough to protect the lives of the unemployed and promote employment and prevent unemployment. In the international arena, the replacement rate of unemployment insurance benefits generally exceeds 50% of the wages of employees, and the level of protection is relatively high. It can be seen from the above, the replacement rate of unemployment insurance in China is obviously low. From the current structure of unemployment insurance expenditures, unemployment insurance expenditures are mostly used to guarantee the basic life of unemployed people, while the funds for "employment promotion" and "anti-unemployment" are less.

Although the current expansion of the pilot unemployment insurance function, such as "assisted enterprises to stabilize the post" subsidies, loan interest subsidies, etc., but considering that these pilots are not widely implemented in the country, in addition to the pilot areas, unemployment insurance benefits are still low. In addition, it is necessary to consider whether the pilot area is efficient for the use of project funds for function expansion. Taking the "stable subsidy" subsidy in Lanzhou as an example, there are problems such as the lack of clear fund use plan for reporting "stable subsidies", the increase and decrease of many employees, and the inconsistent number of applicants [10]. It can be seen that there are certain problems in the implementation of the insurance service expansion project in the pilot area of the insurance, which also reduces the treatment of the insurance in the region to a certain extent. The balance of the insurance fund is already a lot, but the amount of insurance expenditure is small, thus forming a balance of funds.

## **4. Countermeasures**

### **4.1. Expanding the Coverage of Unemployment Insurance**

At present, the coverage of unemployment insurance in China is still limited. There are still many employment groups that have not yet covered the unemployment insurance system. More people with higher unemployment risks will be included in the unemployment insurance system, which will solve the problem of the unemployment insurance fund more reasonably. Expanding the coverage of unemployment insurance should make efforts from the following aspects:

**Table 2.** Unemployment insurance replacement rate (unit: yuan/year, %)

Year	Per capita unemployment insurance	Average wage of employees on the job	Replacement rate
2008	5346	28898	18.5
2009	6203	32244	19.2
2010	6720	36539	18.4
2011	8114	41779	19.4
2012	8887	46769	19.0
2013	10317	51483	20.0
2014	11270	56360	20.0
2015	11886	62029	19.2
2016	---	67569	---
2017	---	74318	---

Source: Ministry of Human Resources and Social Security of the People's Republic of China "Labor Statistics Yearbook 2016" and the National Bureau of Statistics 2018 "China Statistical Yearbook", the unemployment insurance replacement rate is calculated

First, increase the participation rate of migrant workers' unemployment insurance. At this stage, the participation rate of unemployment insurance for migrant workers is low, and the unemployment risk of this group is higher. When migrant workers who did not participate in unemployment insurance lost their jobs, they lost their basic source of income. By stimulating migrant workers to participate in unemployment insurance, unemployment insurance can play its "three-in-one" function, so that the life of migrant workers can be basically guaranteed, and at the same time, migrant workers can be re-employed.

Second, implement the system of flexible employment participation in unemployment insurance as soon as possible. Flexible employment personnel are not well-informed and group definitions are difficult. At the same time, their employment opportunities and income are extremely unstable. Adding more flexible employees to unemployment insurance can largely guarantee the basic life of flexible employees and promote this group to better adapt to the current economic situation and improve the ability of risk of this group in dealing with the job market.

Third, ensure that the unemployment insurance fund operates smoothly. On the basis of maintaining the stable number of existing unemployment insurance insured persons, some institutions that did not participate in unemployment insurance were included in the unemployment insurance system. As more high-risk people are included in the unemployment insurance, it will inevitably increase the expenditure of the unemployment insurance fund. At this stage, the balance of the unemployment insurance fund is large, and the pressure on capital expenditure is small. However, considering the long-term stable operation of the unemployment insurance fund, it is necessary to have a relatively stable source of unemployment insurance income to avoid the problem of insufficient fund balances that may arise in the future.

#### **4.2. Establish A Flexible Unemployment Insurance Payment Mechanism**

The contribution rate of the unemployment insurance system currently implemented in China is fixed, which neglects the difference in corporate benefits, which will bring about negative incentives for participation in insurance. To a certain extent, the fixed unemployment insurance contribution rate lacks certain fairness for different enterprises. First, for state-owned enterprises and institutions, these companies may be dismissed from employees, and

employees' unemployment insurance risks are lower, but they still pay unemployment insurance premiums at a fixed rate. Secondly, for enterprises with high unemployment risks, the employees of these enterprises will face greater unemployment risks. However, the unemployment insurance rates paid by these enterprises are the same as those paid by units with less unemployment risks, and even there will be Enterprises choose not to participate in unemployment insurance, which further causes the unfairness of the unemployment insurance system. Therefore, China should provide a certain contribution rate concession for enterprises with fewer layoffs and less unemployment risks, and appropriately increases the contribution rate for enterprises with frequent dismissal and high unemployment risks, and play a certain role in preventing unemployment. At the same time, companies or economic organizations that have a high unemployment risk and do not participate in unemployment insurance should be included in the unemployment insurance system as soon as possible. By reducing the amount of contributions from companies with lower unemployment risks and increasing the capital expenditures for companies with higher unemployment risks, the unemployment insurance fund can be fully utilized to play the "three-in-one" function of unemployment insurance.

### 4.3. Improve the Level of Unemployment Insurance Benefits

At present, the replacement rate of unemployment insurance in China is only about 20%, which is lower than the international unemployment insurance to replace the wages of employees. At present, there are more balances of unemployment insurance funds in China, and we can consider appropriately raising the level of unemployment insurance in China. It should be noted that the level of unemployment insurance should be moderate and the level of substitution rate should not be too high to avoid the unemployed people becoming dependent on unemployment insurance and reducing the enthusiasm of the unemployed to re-employ.

To raise the level of unemployment insurance benefits, it is also necessary to pay attention to the expenditures on "promoting employment" and "anti-unemployment" for unemployment insurance. We will improve the policy of expanding the function of unemployment insurance in the pilot areas as soon as possible, standardize the use of subsidy funds in the pilot areas, and improve the efficiency of the use of subsidy funds, making the function expansion of unemployment insurance more feasible and more universal. At the same time, local governments should actively explore unemployment insurance programs suitable for the development of the region within the scope of the state's permission to promote the rational use of unemployment insurance funds.

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