

Estonian unemployment protection system: moving towards improved coverage and adequacy?

ESPN Flash Report 2020/10

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MARCH 2020

Low replacement rates and coverage have led people to question the adequacy of the unemployment protection system in Estonia. In January 2020, the Ministry of Social Affairs notified its intention to draft a law aimed at improving the unemployment protection system. The amendments would seek to increase coverage, improve willingness to work and reduce poverty.



Description

Social protection of the unemployed in Estonia is structured in two tiers: unemployment insurance benefit (UIB) and unemployment allowance (UA). The level of the UIB is 50% of gross previous earnings (with a maximum of €53.43 per day) during the first 100 days of unemployment, and 40% (maximum €42.74 per day) during days 101-360 of unemployment. To receive UIB, a person must have been insured for at least 12 of the 36 months prior to registration as unemployed. The UIB is financed through the statutory unemployment insurance contributions. The UA is a flat rate payment (€6.1 per day) and is financed through the state budget. Payment of UA is conditional on previous employment record and the maximum duration is 270 days. To receive UA, the person must have been employed or engaged in an activity assimilated to work for at least 180 days during the 12 months prior to registration as unemployed. While UIB is not paid in cases of voluntary unemployment, the UA also covers voluntary unemployment.

The main problem with the Estonian unemployment benefit system is an insufficient level of social protection – benefits are low and a rather small share of unemployed people receive them. In 2018, 42% of newly registered unemployed people received neither UIB nor UA, only 32% were entitled to UIB and 26% to UA. However, some of the unemployed were eligible for work ability allowance. In addition, the self-employed and members of management or controlling bodies of legal persons do not have statutory access to unemployment

insurance (approximately 3% of people aged 19–63).

In January 2020, the Ministry of Social Affairs notified its intention to draft a law amending the Unemployment Insurance Act and the Labour Market Services and Benefits Act. These amendments would seek to improve the unemployment protection system: to provide a minimum level of subsistence, while motivating people to return to the labour market; to take into account changes in the labour market and in forms of employment; and to better respond to the economic situation (e.g. switching to a countercyclical unemployment benefit system, where the benefit is paid for a longer period if the unemployment rate is higher). In its legislative proposal, the Ministry has divided the proposed changes into four major sections, each containing a number of options (Ministry of Social Affairs 2020):

1) Regarding the **extension of the group of insured persons**, two options are proposed: a) to provide insurance coverage to anyone who pays unemployment insurance contributions on income subject to social tax; or b) to expand coverage to other forms of employment (e.g. the self-employed, members of management or controlling bodies, etc.).

2) Regarding the **simultaneous receipt of unemployment insurance benefit and salary**, three options are suggested: a) to allow temporary work during unemployment (for example up to one month); b) to allow partial unemployment, i.e. a person who loses their main job (80% of previous earnings) qualifies for support; or c) to maintain the current system (simultaneous receipt of

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unemployment insurance benefit and salary is not allowed).

3) Regarding **changes in the conditions for qualifying for unemployment benefits**, two options are proposed: a) to maintain the current system with a condition requiring involuntary unemployment; or b) to pay the benefits even in the case of voluntary unemployment but after a waiting period (90 days) for unemployment insurance benefit, i.e. the benefit would be paid from the 91st day.

4) Regarding **changes in the terms of unemployment benefits**, several options have been proposed. These options are outlined in terms of replacement rates (e.g. increase the replacement rate at the beginning of unemployment from 50% to 70%), qualification period and countercyclical unemployment benefit system. In addition, a one-tier unemployment benefit system has been proposed, under which the unemployment allowance will no longer be paid. Alternatively, two unemployment benefits would be paid: an income-dependent benefit and a minimum benefit - the latter would replace the unemployment allowance, and its amount would depend on the minimum subsistence level.

The legislative proposal is the first consultation document; its purpose is to collect reactions from the relevant interest groups. After receiving and analysing this feedback, the ministry will start drafting the bill. At the earliest, the changes may enter into force in 2022.

In addition, the Estonian Unemployment Insurance Fund offers wage compensation to employers to mitigate the impact of the COVID-19 outbreak if they meet at least two of the following conditions: i) the employer's turnover has decreased by 30% compared to the same month in 2019; ii) the employer is not able to provide the agreed amount of work

to 30% of his/her employees; and iii) the employer has to reduce by 30% or more the wage of at least 30% of his/her employees. The compensation is equal to 70% of the employee's gross wage (with a maximum monthly amount of €1,000); an employee can receive it for maximum two months during the period between 1 March and 31 May 2020.



Outlook and commentary

The social partners also think the unemployment protection system should be improved. The Estonian Trade Union Confederation and the Estonian Chamber of Commerce and Industry agree that coverage should be provided to anyone who pays unemployment insurance contributions on income subject to social tax, that temporary work during unemployment should be allowed and that UIB should be paid in cases of voluntary unemployment. However, the Chamber does not agree with the idea of a countercyclical unemployment benefit system. Regarding expanding the group of people covered by insurance, the Estonian taxpayers' association considers that an unemployment insurance premium would no longer be appropriate for such a wide scope of taxation; rather, they believe that the social tax should be increased.

Estonia's "Welfare Development Plan 2016-2023" also acknowledges low unemployment benefits and narrow coverage as problems in the Estonian unemployment protection. As is also the case with many other social benefits, unemployment benefits do not prevent people receiving them from falling into poverty (Ministry of Social Affairs 2016). In 2018, as a result of both low benefits and low coverage, the at-risk-of-poverty rate among the unemployed was 51.9%, as opposed to 16.6% for the total population aged 16-64 (EU-28

average: 48.6% vs. 16.7%) (Eurostat).

In 2018, the Ministry of Social Affairs commissioned a study on improvements to the unemployment protection system, results of which have fed into the 2020 Ministry proposal presented above. The study considers three scenarios to improve coverage and reduce poverty among the unemployed. Key changes include expanding coverage to other forms of employment and, in two scenarios, UIB would also be available in the case of voluntary unemployment. The level of UIB would be increased from 50% to 60% of previous earnings, and the amount of the minimum benefit would depend on the minimum subsistence level. In addition, the study recommends increased flexibility for the system and a reduction in the length of the qualifying period. According to the analyses, the proposed changes would significantly increase coverage, slightly reduce both absolute and relative poverty, but the costs, and the unemployment insurance contribution rate, would increase (Laurimäe et al 2019).

Further reading

Laurimäe, M., et al (2019). Töötuskindlustuse põhimõtete analüüs vaesuse ennetamiseks ja tööturul osalemise toetamiseks. [[Unemployment insurance benefits and unemployment allowance system analysis](#)].

Ministry of Social Affairs (2016). [Welfare Development Plan 2016 - 2023](#).

Ministry of Social Affairs (2020). Töötuskindlustuse seaduse, tööturuteenuste ja -toetuste seaduse muutmise seaduseelnõu väljatöötamiskavatsus. [[Legislative proposal to draft a law amending the Unemployment Insurance Act and the Labour Market Services and Benefits Act](#)].

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Quoting this report: Laurimäe, Merilen (2020). *Estonian unemployment protection system: moving towards improved coverage and adequacy?*, ESPN Flash Report 2020/10, European Social Policy Network (ESPN), Brussels: European Commission.