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ILO NOTES ON THE CRISIS

URUGUAY
RECENT REFORMS TO UNEMPLOYMENT INSURANCE

Fernando Casanova[1]

In 2008, on the basis of discussions held in the framework of the National Dialogue on Social Security (*Diálogo Nacional sobre Seguridad Social - DNSS*), important amendments were made to the unemployment insurance and pension regimes. In the case of the former, said amendments strengthen its counter-cyclical character by allowing the duration of the subsidy to be extended in the event of economic recession in the country, while simultaneously improving its focus on particular segments, such as the over-fifty age group. Although such changes took place in the period prior to the advent of global economic crisis, they can nevertheless show their usefulness to face the present situation, basically by providing greater flexibility to the above institutions.

1. Introduction

Unemployment insurance programmes are an important component of any social protection system. Their fundamental aim is to protect workers in the event of unforeseen unemployment, by guaranteeing a specified level of income until a new job is obtained.

The current fundamental features of Uruguayan unemployment insurance were set out in the early 80s (Decree-Law 15,180 of August 20th 1981 and Regulatory Decree Nº 14/982 of January 19th 1982). Accordingly, and until late 2008, workers benefiting from unemployment insurance were paid a uniform benefit for a period of up to six months, equivalent to 50% of their average compensation over the last six months in activity. Such benefits could not amount to less than 50% of the National Minimum Wage (*Salario Mínimo Nacional – SMN*) or more than eight times the SMN.

To qualify for unemployment benefit, the worker must have been on the payroll of an organization for six months prior to the cause of the benefit, in the case of workers paid monthly. In the case of workers paid daily or hourly wages, beneficiaries are required to have completed one hundred and fifty wage payments; workers with variable compensation are required to have received at least the equivalent of six national minimum monthly wages during the relevant period.

In all cases, the minimum labour relationship required shall have been completed in the twelve months immediately preceding the date of the event causing the benefit, and the Executive Authority is empowered to extend such term for up to twenty-four months for workers in areas that justify such extension.

One particular feature of unemployment insurance legislation in Uruguay is that it covers three types of situations or different causes. The subsidy may be granted for: (a) discharge; (b) work suspension; or (c) reduction of the number of working days in the month, or hours worked in the day, by 25% or more of what is legal or customary

1 National ILO Co-ordinator for the project about the crisis in Uruguay. The opinions expressed are the author's and do not necessarily represent the views of the ILO.

in normal times, except where the eventuality of reduced work has been explicitly covenanted or is characteristic of the profession or employment concerned, or involves monthly workers. In other words, then, access to unemployment insurance is not available only in cases of final discontinuation of the work relationship, but also in the event of temporary suspension of the relationship or reduction of working hours; hence the subsidy may be used as a tool to facilitate worker reinstatement and maintenance of the contractual relationship. It is worth noting that when suspension becomes final, a worker's right to discharge and associated settlements is not affected.

For workers with dependents, the resulting amounts are increased by 20%. To apply for this benefit, workers have a 30-day term from the date when work ceased or was suspended. The subsidy covers all registered workers in private employment, industry and trade, rural workers and workers under fixed-term contract with qualified government agencies.

Studies began in late 2006 on making reforms to unemployment insurance, at the behest of the Ministry of Labour and Social Security, which called on political and social players to discuss the issue. Later, in 2008, the National Dialogue on Social Security *(Diálogo Nacional de Seguridad Social – DNSS)* took place, aiming to promote widespread debate on the issue of social security in Uruguay, including all significant players in the society, in order to create inputs for possible future reforms and strengthen democratic governance.

Major amendments resulted from this process, to both unemployment insurance and pension regimes. The above changes took place prior to the global economic crisis; however, they are demonstrating their usefulness in facing the current situation, basically by granting such institutions greater flexibility.

The main features of this reform with respect to unemployment insurance are as follows:

- Extension of benefit enjoyment for workers discharged or suspended, and over 50 years of age

- Change from a fixed-amount system to a system of decreasing benefits, to lower the immediate impact on worker income while encouraging pursuit of new employment

- Coordinating with active employment policies, introducing mandatory attendance at training courses for subsidy beneficiaries

- Reinforcing the counter-cyclical character of the policy, by extending subsidy coverage from six to eight months, in the event of nationwide economic recession.

2. Description of the reforms

For beneficiaries on account of discharge, the new Unemployment Insurance Law (N° 18,399) provides for decreasing amounts of benefit (see Table 1), while retaining the additional 20% when a dependent is involved. The object is for the first few months of unemployment to have a lower impact on incomes, while at the same time encouraging prompt pursuit of new employment.

For workers aged 50 or over who are discharged, the benefit is extended for another six months in addition to the six months provided in general (or 72 daily wages). In this case the additional months are paid for at the same rate as the sixth month (40% for workers paid monthly, 9 days for workers paid a daily or hourly wage).

Workers suspended receive 50% of the average earned rate of the last six months of activity.

Benefit ceilings were also amended, according to the following table:

Table 1
Amount of subsidy as percentage of previous compensation

Month	Workers with fixed or variable remuneration[a/]	Workers paid per day or per hour[b/]
First	66%	16 days
Second	57%	14 days
Third	50%	12 days
Fourth	45%	11 days
Fifth	42%	10 days
Sixth	40%	9 days

Notes:
a/ In relation to the monthly average of nominal remunerations received in the six previous months
b/ The amount of each wage is obtained by dividing by one hundred and fifty the total applicable nominal remunerations received in the six months immediately preceding the event of the cause

Table 2
Ceiling

Month	Cause: Discharge	Cause: Suspension
First	11 BPC[a/]	8 BPC
Second	9.5 BPC	8 BPC
Third	8 BPC	8 BPC
Fourth	7 BPC	8 BPC
Fifth	6.5 BPC	
Sixth	6 BPC	

Note:
a/ Law Nº 17,856, of December 20, 2004 created the Benefit and Contribution Base (*Base de Prestaciones y Contribuciones - BPC*). Income levels for setting ceilings are no longer calculated in number of national minimum wages but in relation to the new base created.

- The law provides for extending subsidy duration in the event of nationwide economic recession (defined as two consecutive quarters of negative economic growth). In such events, the general coverage regime may be extended from six months to eight months (or 90 days), in order to add a counter-cyclical component to the policy. The two additional months are paid at the rate of 40% of the previous salary in the case of workers paid monthly, and nine days for workers paid by the day or by the hour.

- An amendment was made to subsidy duration, subject to cause. Thus, when the cause is suspension, the ceiling of benefit duration was reduced to four months or 48 wages.

- Interruption is provided for, that is, discontinuing the subsidy to perform tasks of short duration, then resuming the benefit.

- The Executive Authority is empowered to extend to 30 months the period for verifying compliance with the required minimum labour relationship. Under the previous norm, this power was valid for only 24 months.

- The link is reinforced between unemployment insurance and active employment policies, specifically training. A worker claiming a subsidy for discharge, who, when half the period allowed for benefit duration has elapsed, fails to attend training courses, forfeits the benefit. As of May 2009, the agency responsible for effective supply of training courses for unemployment insurance beneficiaries is the National Employment and Professional Training Institute (*Instituto Nacional de Empleo y Formación Profesional*).

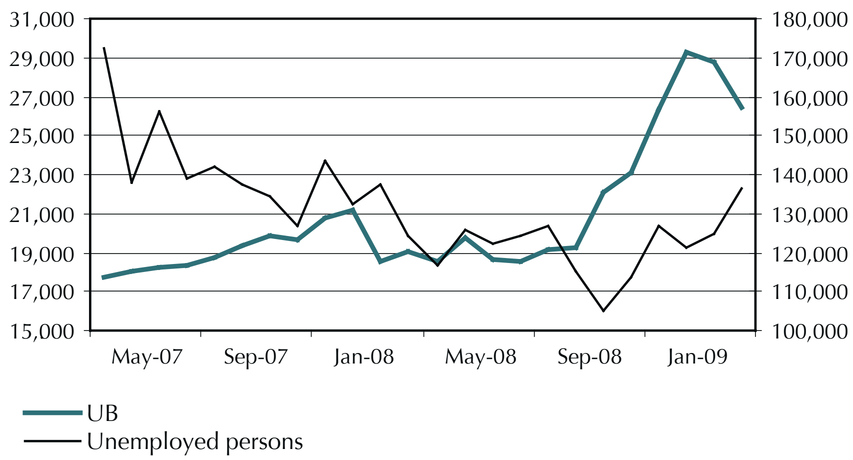
For the foregoing reasons, the amendments made to unemployment insurance –though drafted and approved before the significant impacts of global crisis were fully realized– make it an important instrument with which to face such an adverse context as the present one.

3. Conclusions

To date, the effects in Uruguay of the international economic crisis have been limited to specific sectors of the economy (leather, textiles and garments, wood and wood products, and metalworking) and have not become widespread. In addition, the economic growth cycle sustained for five consecutive years brought the unemployment rate down to historically low levels. As shown in Graph 1, the absolute number of the unemployed dropped until November 2008, at which time the trend was reversed. In terms of unemployment insurance, a major increase in the number of beneficiaries was observed as of October 2008. In February-June 2009, 37% of all beneficiaries were suspended workers, confirming that organizations utilize this tool during periods when demand falls, before resorting to lay-offs.

An increase is also observed in the percentage of the unemployed covered by unemployment insurance. Whereas in 2007 the figure was equal to 13% of all unemployed persons, in 2008 it was equal to 16%, and in 2009 to date it includes over 20% of all unemployed persons. The increase is the outcome of three factors. One, the amendments to insurance enacted in 2008 have raised coverage by extending the benefit to the older unemployed and simplifying the associated red tape. Two, during the boom period that preceded the current situation, formal employment rose considerably, extending effective insurance coverage. Finally, during the preceding growth period workers' paid-in contributions could accumulate, improving worker position with regard to insurance requirements to be met by a higher number of workers.

Graph 1
Evolution of unemployment insurance benefits and total number of unemployed persons



Source: ECH, BPS, and population forecasts

Regarding extension of the benefit for two additional months in the event of recession, this measure is still to be implemented because, though there has been a significant slow-down in economic activity, technically speaking, negative growth has not yet been reached. The definition of recession will have to be assessed in order to ascertain whether it is the most appropriate for adjusting the application of unemployment insurance at a time of crisis, or whether an alternative criterion should be formulated taking into account such indicators as duration of open unemployment, average rate of unemployment over the last 3 or 4 years, reduction in output variation without becoming negative, etc.