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Reimagining Workfare to uplift low-wage families

A household-based WIS will better support those with young children or the elderly, while maintaining work incentives.

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Beyond living expenses and retirement needs, a long-term focus entails saving to weather negative shocks. Having a buffer could also enable workers to take time off work to upskill and advance to a higher-paying job. PHOTO: BT FILE

OVER the past week, we have heard some dynamic debates in Parliament on President Halimah Yacob's address, which emphasised the need to step up support for the disadvantaged and vulnerable segments in our society, among other priorities. From establishing an official poverty line to enhancing employment support, Members of Parliament have come forward with various proposals to empower workers to improve their lives. But to truly uplift our society, we need to bolster not just individual workers, but also their families.

The answer to this may come from the reimagination of a familiar policy – the Workfare Income Supplement (WIS).

WIS was introduced in 2007 to incentivise regular work and support the expenditure needs and retirement savings of older lower-wage workers and persons with disabilities. WIS in its current form considers only the worker's age, employment status (employee or self-employed), and income when determining the disbursement amount.

However, workers are responsible not only for themselves, but also for their dependants. When asked, "Why do you work?", many will say, "To provide for my family".

Workers who are raising young children, supporting elderly parents or grandparents, or caring for disabled family members, face far greater financial burdens than those with no dependants.

To create a stronger and fairer Singapore, we reimagine a WIS that accounts for the size and needs of the worker's household, similar to the Earned Income Tax Credit (EITC) in other countries such as the United States and South Korea.

The EITC is a tax credit based on household income and the number of dependants. If the tax credit exceeds the tax owed, then the household receives a cheque from the government – akin to a negative income tax.

By providing earnings supplements to low-wage earners, WIS is similar to the EITC, except that WIS is currently assessed at the individual level.

Valuing unpaid household work

In a household-based WIS, payment amounts would vary by household size and the ages of household members. We could consider adopting a modified OECD (Organisation for Economic Co-operation and Development) convention to calculate the number of adult-equivalent household members.

Relative to an adult or teenager, greater weight could be assigned to elderly and disabled household members, and less weight could be assigned to children below the age of 14. Each additional household member is discounted as certain household expenses are shared across the household.

Relative to the current individual-based WIS, a household-based WIS will better support households with young children or the elderly.

A household-based WIS recognises the value of unpaid caregiving and housework, which may include caring for children, the elderly or disabled family members, as well as chores such as cooking, cleaning and laundry.

Here, we use the replacement cost approach, which assumes that an hour of unpaid household work would be as valuable as the price of the same hour of household work outsourced to paid household service providers.

The value of time spent on unpaid household work is estimated to be around 15 per cent of gross domestic product, roughly equal to the average value added by the manufacturing sector in the OECD.

For example, a household-based WIS would give a young housewife the option to work fewer part-time hours or to temporarily opt out of the labour force to care for her young children.

Similarly, a grandfather who earns S$600 a month as a part-time plate collector has the option to stop working when he becomes frail.

Empowering workers and addressing time poverty

Increasing the quantum for workers with dependants will empower workers to invest in their future and their children's future.

Beyond living expenses and retirement needs, a long-term focus entails saving to weather negative shocks. Having a buffer could also enable workers to take time off work to upskill and advance to a higher-paying job.

Researchers have found that higher payouts in the United States' EITC in childhood have positive effects on educational attainment and employment outcomes in adulthood, in turn mitigating income inequality and enhancing intergenerational mobility.

Such schemes are especially important given that rising income inequality has resulted in widening class gaps in parental financial investments in children. For instance, in the 2017-2018 household expenditure survey, Singaporean households in the top quintile spent a monthly average of S$167 on tuition and enrichment classes – almost four times as much as the S$45.30 spent by the bottom quintile.

A WIS that adjusts for household size gives parents a little extra to make such investments in their children.

Income support programmes – designed to address material poverty – have thus far largely neglected time poverty.

Compared to their higher-income counterparts, lower-income parents are more likely to work weekends and night shifts and to have less flexible work hours.

Moreover, low-income households lack the financial wherewithal to purchase time-saving appliances or to pay for caregiving or housekeeping services. Hence, they spend more time on household chores and activities.

A household-based WIS recognises the value of time in low-income households, especially the time that parents spend with their children on activities such as reading together, helping with homework, playing games or sports, and providing or obtaining medical care. Studies in the United States, the United Kingdom and Australia show that these activities involving parents and children lead to improved cognitive and behavioural outcomes in children.

A household-based WIS is also expected to maintain work incentives.

As the WIS quantum increases through the years, the work incentives embedded in the current design have weakened. Consider a 40-year-old worker, Loong, who earns S$500 a month. He receives a WIS payout of S$89. For every additional S$100 he earns – up to S$1,400 – the WIS payout rises by S$18. This is the phase-in rate, which is 18 per cent.

If Loong's monthly earnings increase to between S$1,400 and S$2,000, he will receive the maximum WIS payout of S$250. However, for every additional S$100 he earns beyond S$2,000, the WIS payout falls by S$31. This is the phase-out rate, which is 31 per cent. The sharp reduction in the WIS payout may disincentivise Loong from working more hours.

Tailored to household needs

The change to a household-based WIS is an opportunity to increase the phase-in rate, thus incentivising entry into work, and to decrease the phase-out rate, thus minimising disincentives to work more hours.

At the same time, transitioning WIS to a household-based approach may also induce the second worker in some households to switch from paid employment to unpaid caregiving and housework. However, WIS payouts are expected to be modest and substantially below earnings.

Consequently, only individuals with high care needs at home, or people who find work increasingly challenging, will find it worthwhile to opt out of paid employment.

The external environment has become more challenging due to persistent high inflation and an impending global recession, combined with ongoing disruptions caused by automation and climate change.

Furthermore, an ageing population implies that working adults are supporting more dependants.

Hence, it is timely and apposite for WIS to be tailored to household needs and not just individual needs.

While the implementation of a household-based WIS will require some form of filing by households, the process can be kept simple with pre-filled information – which is possible today with the advancement of analytics technology.

As the world is transforming, so must we. We present a reimagination of a policy that can adapt to the challenges of the future – a future characterised by an environment that has changed substantially since the initial conception of WIS.

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This article summarises one of the recommendations in a report on a reimagined WIS, commissioned by LEAP201 and produced by SSR.