



Issue Paper Series
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Recent Issues Facing Social Security in South Korea

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South Korea**

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Overview of the Social Insurance System in South Korea

The social insurance system in South Korea started with the introduction of the Industrial Accident Compensation Insurance Act in 1963 and the legislation of the Employment Insurance Act in 1993 completed the framework of the four social insurances. Figure 1 below shows the year when each social insurance was introduced.

<Figure 1> History of the Social Insurance System in South Korea

Category	Name of Act	Year of Legislation
Industrial Accident Compensation Insurance	Industrial Accident Compensation Insurance Act	1963
Public Pension Insurance	Military Pension Act	1963
	Pension for Private School Teachers and Staff Act	1973
	Public Officials Pension Act	1983
	National Pension Act	1988
Health Insurance	Medical Insurance Act	1977 (corporatism: locally distinct NHI schemes) - Coverage: industries with more than 500 employees Administrative system: 227 local cooperatives - Cooperatives of public officials and private schools teachers and staff
	National Health Insurance Act	2000 (Integrated NHI) - Integrated into the National Health Insurance Service (single insurer)
Employment Insurance	Employment Insurance Act	1993

Employment insurance (EI) and industrial accident compensation insurance (IACI) cover salaried employees as well as some subordinate self-employed individuals in special types of employment. Individuals covered by the National Pension System (NPS) and National Health Insurance (NHI) are classified into two groups: the employee insured and self-employed insured. The former refers to employers and employees of all establishments, government employees, and public school teachers and staff members, while the latter refers to insured individuals not included in the former group. Accordingly, the NPS and NHI legally cover all citizens.

Contribution rates are also different for the two groups. For the self-employed, contributions are collected solely from the insured individuals, whereas insured workers and their employers pay half and half, respectively. For IACI, employers solely pay contributions. As of 2020, the EI contribution rate for salaried employees was 0.8% of a worker's salary (0.8% for employers), for NPS the contribution rate was 4.5% (4.5% for employers), and for NHI the contribution rate was 3.335% (3.335% for employers). In contrast, the self-employed insured pay the 9% NPS contribution and the 6.67% NHI contribution by themselves. EI and IACI are voluntary for self-employed individuals, and when they choose to join, they must pay a total of 2.25% of their earned income for the EI contribution—2% for unemployment benefits and 0.25% for employment stability and vocational competence development (which salaried employees do not pay)—while solely paying the IACI contribution. In other words, the combined contribution of the four social insurances is approximately 8.635% of total salary for salaried workers, but 17.92% for self-employed workers, which is more than double that of a salaried worker. Atypical workers have to pay half of the IACI contributions. The level of EI benefits is lower than the minimum wage, and in 2021, EI-insured people can receive as unemployment benefits KRW 60,120 to KRW 66,000 (51 to 56 US Dollar) per day during a period of between 120 and 270 days depending on their contribution years.

When social insurances were first introduced in Korea, they were implemented with businesses with 500 or more employees, and the implementation has been expanded. By bringing self-employed workers under its coverage in 1998, NPS was expanded to all Koreans. EI and IACI were also expanded to all establishments with one or more employees in 1998 and in 2001, respectively. Nevertheless, workers in vulnerable employment groups—including daily workers working for shorter than a month, part-time workers, and small-scale construction workers—remain excluded from employee-insured coverage. This forces them to accept their insurance status, for which they have to solely pay whole contributions despite their status as workers.

Primary Issues Facing the Income Guarantee System

Background for the Discussion on Social Insurance Reform

Social insurance reform has become necessary as an increasing number of employed individuals find themselves not covered by the employment insurance due to the expansion of non-standard forms of work (NSFW), stemming from growing employment insecurity. From a legal standpoint, the pension and health insurances cover the entire Korean population while EI and IACI for salaried employees provide coverage to all establishments. However, there is a significant difference in the actual coverage depending on the employment status (Figure 2). While most employees with regular employment statuses are covered by all four social insurances, those falling under the NSFW category have very low coverage.

While home work represents the highest rate of NPS-uninsured workers (69.4%), on-call work shows the highest rate of NHI-uninsured individuals (93.4%). Individuals in pure self-employment can voluntarily join EI, but only a mere 0.5% of them actually do enjoy EI coverage.

On the contrary, in Korea, the number of individuals not covered by NHI is extremely low irrespective of employment status. This is because NSFW workers with income and wealth below a certain level can have NHI coverage as dependents of their employee-insured family members. In all, 44.9% of homeworkers, 40.3% of part-timers, and 25%.

<Figure 2> Current State of Uninsured Workers by Employment Status (Unit: %, as of 2020)

Category	NPS	NHI	EI
Regular	5.1	0.0	3.9
NSFW			
Temporary work	51.5	1.0 (17.6)	35.8
Part-time work	68.2	3.0 (40.3)	71.7
Atypical work			
- On-call	68.8	5.1 (30.2)	93.4
- Temporary Agency Work	48.9	1.0 (8.5)	35.8
- Home Work	69.4	6.1 (44.9)	75.5
Subordinate Self-employment (Special Types of Employment)	45.0	1.6 (24.9)	92.2
Pure Self-Employment			99.5

* Figures in () under the NHI category represent the rate of dependents of the employee insured.

The rising number of subordinate self-employed workers such as platform workers has aggravated the dead-spot problem of the social insurances. The number of subordinate self-employed workers in Korea is estimated at a minimum 7% up to 32% of the total workforce. Some subordinate self-employment job types in Korea are currently categorized as special types of employment and allowed to join IACI and EI. Fourteen job types are classified as special employment types, including private insurance sales agents, golf caddies, and door-to-door salespersons. Nevertheless, the rate of uninsured atypical workers amounts to 45% for the NPS and a whopping 92.2% for EI. The recent increase of platform workers in delivery, cleaning, and domestic services has led to an exponential growth in the rate of subordinate self-employed workers.

<Figure 3> Current State of EI-uninsured Workers Against the Number of Employed Workers (As of August 2019, unit: thousand persons)

Employed individuals				
Non-salaried workers	Salaried workers			
	Exceptions for EI-Application*	EI-uninsured	Government employees, etc.**	EI-insured
6,799 (24.9 %)	1,781 (6.5 %)	3,871 (13.8 %)	1,469 (5.4 %)	13,528 (49.4 %)

* Agricultural/forestry/fishery and domestic service businesses with five or fewer employees, age 65 or older, workers who work less than 15 hours a week and shorter than three months but not daily workers or workers with special-type employment statuses

** Individuals insured by special pensions including public officials, private school teachers and staff, and employees of special post offices

Under these circumstances, the outbreak of the global COVID-19 pandemic revealed the seriousness of the exclusion from EI. Even before the pandemic, atypical workers receiving unemployment benefits stood at 45% in 2018, while only 49.4% of all employed people were covered by employment insurance. This was because, in many cases, salaried workers were excluded from EI coverage application despite their salaried-worker status for reasons such as short working times, denial of EI unemployment benefits due to strict eligibility requirements despite coverage, or complete lack of coverage by employment insurance because their status as pure or subordinate self-employed workers. To resolve this, the Korean government announced the Inclusive Employment Insurance Roadmap to reform the current employment insurance.

Government Roadmap to Expand Employment Insurance

This roadmap is the Korean government's policy initiative to reform the social insurances. The current EI system fails to cover workers whose employers cannot be specified because under the current system, employers pay half of EI contributions for workers they hire, and vouch for the discontinuance of income activities of certain worker(s) due to causes attributable to the businesses. As a result, as demonstrated in Figure 3, EI coverage has continuously been denied to pure or subordinate self-employment such as platform labor. Since the proportion of self-employment has reached 25% in Korea, the continuous EI coverage denial facing such workers has been recognized as a serious social problem.

Inclusive employment insurance is a reform proposal to shift the employment-based insurance to an income-based one. Income-based employment insurance would require the levying of contributions based on all earned and business income, the application of employment insurance to all employed people, and the provision of unemployment benefits to all jobless people. The roadmap, which covers through 2025, will be directed toward first, gradually expanding the current system to artists, atypical workers, platform workers and self-employed individuals; second, proactively identifying blind spots facing temporary and daily workers in employment insurance and allowance in joining employment insurance; and third, a full-scale rearrangement toward an income-based system to cover all employed individuals. Academia has proposed changing not just employment insurance, but all the four social insurances to the income-based system.

This reform drive toward income-based social insurances is positive in that first, it attempts to provide social insurance coverage to all employed people with income. Second, it can cover new forms of employment (such as platform labor) that the existing social insurances are unable to cover. Third, it allows the securing of the continuity of social insurance coverage in the labor market, in which career shifts or workplace changes during a worker's lifetime have

become ordinary. It is especially significant in that in social protection, the initiative accepts the ban on discrimination based on employment status and the principle of equal treatment proposed by international organizations.

Introduction of Basic Income as a New Income Guarantee System

The discussion of introducing basic income¹ drew attention in Korea after 2016 for the following reasons.

First, income and asset inequality are very serious in Korea. The distribution rate of individuals with the top 1% of income in Korea has soared from 7% in 1998 to 15% in 2020. When it comes to landholding, the Gini coefficient amounts to 0.8%.

Second, blind spots in social insurances and public assistance are also grave. The level of NPS benefits is very low, and in 2020, NPS-insured people received a mere KRW 540,000 (approx. 460 US Dollar) on average for basic pension. Compared to the retirement livelihood benefits for public assistance beneficiaries (around 450 US Dollar), the amount of basic pension is at a level similar to that of public assistance.

Third, the dual structure of the social insurances also poses serious challenges. For national pension, irregular workers are expected to receive 30% of what their counterparts with regular employment status will receive as basic pension. As labor insecurity arising from this dual structure in the labor market is wholly reflected in the social insurances, the situation—in which social insurance reform alone cannot guarantee the income of precarious workers—highlights the need to introduce basic income. The basic-income introduction proposal argues that additional layering (namely, basic income) must be pushed together with the reform of the existing social security system.

Fourth, the introduction of basic income drew attention when some municipalities promoted policies to provide young individuals with categorical basic income. Following the Youth Dividend by the Seongnam municipal government in January 2016, basic income became a policy pledge of candidates for the 2017 presidential election, and the Gyeonggi provincial government implemented the Youth Basic Income in April 2019, igniting discussion on the issue. The payment of the emergency relief grants to all Koreans under the pandemic

¹ Basic income is defined as a regular cash dividend of the common wealth, cash regularly provided to individuals without any conditions, such as satisfaction of the income criteria or a labor obligation.

situation in 2020 further spread basic income discussions. Gyeonggi Governor Lee, Jae-Myung, the candidate of the ruling Democratic Party of Korea for the 2022 presidential election, pledges to introduce basic income in the following ways. First, a one-time payment of KRW 250,000² (approx. 212 US Dollar) will be provided to all citizens in the first quarter of 2023. Second, an additional KRW 1 million (approx. 850 US Dollar) will be provided to young people. Third, during his five-year term, a total of KRW 1 million will be provided four times annually by quarter. Fourth, basic income will be provided in the form of expiring local cash* [translator's note: monetary voucher provided by municipalities that can be used anywhere in a local region like cash for a set period of time].

Fifth, the financial resources for basic income will be financed through the creation of a land-holding tax for unearned income from real estate, and a carbon tax to help in alleviating the climate crisis, and revenue and expenditure restructuring.

However, it is unknown whether basic income can actually be introduced in Korea. This is because, since the liberal and conservative welfare states are mixed in the Korean welfare state, the principles of fiscal conservatism are strongly reflected in its policies. Even under the COVID-19 pandemic situation, Korean government fiscal spending on COVID-19 responses was very low at 3.4% of the GDP, compared to France (7.7%), Germany (11.03%), the US (16.7%), the UK (16.3%), and Japan (15.6%). Even the progressive camp is negative regarding the potentiality of universal basic income being provided to the rich, and the dominating logic is that social security system centered on the disadvantaged—those with social desires, such as the impoverished and unemployed—must be realized.

2 As of 2020, median income, the criterion that decides the public assistance livelihood benefits, was KRW 1,830,000 (approx. 1,556 US Dollar) a month for one-person households.

Prospects for the Future

Along with social discussions regarding vulnerabilities of the Korean welfare state exposed by the global pandemic, the 2022 presidential election is expected to provide opportunities to discuss a variety of reform proposals for social policies in Korea. Nevertheless, it is still unknown whether these various alternatives can lead to effective social policy reform.

To enumerate the reasons, first, in consideration of the characteristics of the Korean welfare state—in which liberal and conservative characteristics are mixed—micro adjustment to existing systems is likely to be a dominant response rather than innovative changes in the social security system. In a situation where fiscal conservative standpoints are substantially settled, fiscal expansion for social policies is expected to be limited. Moreover, since social policy decisions tend to be led by the government in a top-down, rather than bottom-up, manner, innovative changes in the social security system seem highly unlikely.

Second, the entities with potential to lead progressive alternatives to the Korean welfare state are very weak. Whereas western welfare states have been developed based on high union density, Korea's union density stood at 12.5% in 2019. Even the union density of irregular workers with strong desires for social policies is a mere 3%. Trade unions in Korea are enterprise-level unions organized mainly by regular employees of large conglomerates, and as a result, unions tend to represent the interests of regular employees more than those of irregular workers.

Third, until now, issues related to social policies have not been primary agenda goals of trade unions. The Korean Confederation of Trade Unions (KCTU), currently the largest national center in Korea, was established in 1995, proposing social security reform as its primary task under its core doctrine of struggle for social reform. In the process of overcoming the 1997 Asian foreign exchange crisis, KCTU leadership at that time agreed on the government's social security reform and labor market restructuring "big deal." The government, however, unilaterally pushed ahead only with labor market restructuring. Since then, the umbrella organization has shifted its direction toward hard-line struggle against the government rather than social consent, which has been maintained to this day.

The KCTU is still highly skeptical about social policy reform agendas items or participating in the presidential Economic, Social, and Labor Commission (ESLC) discussions, a table for social consent. It tends to be interested in and focused on issues such as workplaces wages and working environment improvement. It is currently refusing to participate in the ESLC, the body for social dialogue. Although a Social Safety Net Improvement Committee has been established under the tripartite body in which social security reform measures are discussed through tripartite consent, the KCTU is also not a participant in this body.

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