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*Social Security and the Social Safety Net  
in Korea*

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## ABSTRACT

Social security in the Republic of Korea has developed rapidly in all three fields—social insurance, public assistance, and social services. Public expenditures have risen while coverage has gradually extended to become almost universal in some areas. However, public expenditures are still below those of other OECD countries, and the Korean social security system faces tough challenges ahead.

Although Korea has developed an ever more elaborate social security system, successive governments have left major responsibility for protecting against risks to individuals, households, and the market. Until recently, social security and welfare goals were subordinate to economic growth. Social security became an important policy issue during the 1997–98 crisis, as unemployment soared. With unemployment came other social problems: rising poverty, family dissolution, homelessness, and child neglect. As a result, Korea acted to confront the urgent and overriding challenge of strengthening the social security system by earmarking higher budgets for the welfare system and reorganizing administrative structures.

This chapter introduces the overall Korean social security system—which includes social insurance, public assistance, and social services—and its limitations. The chapter compares Korea's social welfare expenditures and programs with those of other OECD countries, and concludes with a summary of the future social security challenges facing Korea.

## Social Insurance Components of Korea's Social Security System

Social security in Korea includes four social insurance components: work injury compensation, health insurance, public pensions, and unemployment insurance (Table 1). The country laid the groundwork for its social insurance system over a short period of time. Work injury compensation insurance, introduced in 1964, is the oldest main component. Health insurance has expanded since 1977, and the country established a public pension program in 1988. Unemployment insurance is the newest social insurance element, adopted in 1993.

*Table 1: Types of Social Insurance in Korea, 2001*

Types	Recipients	Number of Participants	Ministry, year established
Work injury Compensation Insurance	All workplaces	9.50 million workers(2000)	MOL* 1964
Health Insurance	All people	Over 96 percent of Population	MOHW* 1977
National Pension	All people	16 million	MOHW 1988
Unemployment Insurance	Almost all Workplaces	9.27 million workers	MOL 1995

Source: Ministry of Labor, *Report on Work Injury Compensation Insurance in 2000*, Seoul, 2001; Ministry of Labor, *White Paper on Labor*, Seoul, 2001; Ministry of Health and Welfare, *White Paper on Health and Welfare*, Seoul, 2001.

Note: Ministry of Labor, Ministry of Health and Welfare.

### *Work Injury Compensation Insurance*

Work injury insurance is financed exclusively by contributions from employers; employees are not required to make contributions.<sup>i</sup> The government covers the administrative costs of the system.

***Beneficiaries and benefits:*** The range of beneficiaries of work injury insurance has expanded. In 1964, one year after the workplace insurance law was enacted, it covered only miners, assembly workers, and workers at firms with more than 500 employees. Amendments to the law in 1972 extended insurance to workplaces with 30 or more employees. The government further extended insurance in 1992 to cover workplaces with 5 or more employees, and after the financial crisis extended coverage to all workplaces. As of 2000, beneficiaries totaled 9.50 million workers at 706,231 workplaces nationwide.<sup>ii</sup> Benefits include sick leave, a sickness compensation pension, and a disability benefit.<sup>iii</sup> The insurance covers treatment of work-caused diseases and injuries, compensates for income losses, and helps prevent work-related injuries. The insurance also covers occupation-related diseases that develop over time.<sup>iv</sup>

***Future tasks:*** Korea's work injury insurance is widely criticized for its stringent eligibility criteria and narrow range of coverage. Moreover, its benefit level is too low to protect the economic stability of injured workers. Because the prevention of work injury is even more important than its treatment, raising benefit levels alone is not sufficient: the country must pursue full-scale prevention strategies to reduce the possibility of injury and foster employers' and employees' awareness of workplace security.

## **Health Insurance**

Health insurance is generally designed to reduce the financial onus imposed by accident, disease, delivery, and death. When Korea enacted its health insurance law in 1963, coverage was too narrow to function as a social security scheme. Only in the 1970s, when the country was in the throes of economic development, did health insurance become a social issue. Witnessing the need, President

Chung Hee Park turned his attention to developing a social welfare program that included health insurance.<sup>v</sup> Against this backdrop, the country adopted a national health insurance system in 1977 that encompassed firms with more than 500 employees as well as medical assistance for the poor. In 1989, 12 years after its inception, system was extended to cover everyone, including rural residents and the urban self-employed.<sup>vi</sup>

*Benefits and types:* Health insurance benefits consist of cash payments and in-kind benefits. The latter include medical consultations, drugs and other therapeutic materials, medical and surgical treatments, hospitalization, operations, and other services such as nursing care and transportation.<sup>vii</sup> To prevent the unnecessary use of health care services and resources and save on public health care costs, the insured make co-payments when receiving medical services. For example, patients pay 20 percent of hospitalization fees. Cash benefits reimburse insured people and their dependents for medical care and delivery costs, and also provide a fixed amount for funeral expenses.<sup>viii</sup>

Three health insurance schemes used to correspond to different target groups: government employees, private school employees, military service employees and their dependents; rural and urban self-employed individuals; and employees of industrial and commercial companies. In 1998 the country merged the first and third schemes, and in 1999 incorporated all three into a single system under the National Health Insurance Act. Contributions from insured individuals, employers, and the government finance the system.

In 2000 the country separated prescription services from dispensation services for the first time, to prevent the overuse and misuse of drugs and drug-related accidents.<sup>ix</sup> Eight months later the National Health Insurance Corporation confronted a serious financial imbalance owing to growing fees required by medical service centers. The Korean government had to devise a coping mechanism to reduce the financial burden on medical insurance. **The government took a loan from banks, raised health insurance fees, drew tobacco tax money, raised the drug prices and medication examination fees, and limited the days covered by the insurance to 365 days per year.**

*Challenges ahead:* Korea has achieved near-universal health insurance within a short time frame. The country must now focus on the quality as well as the quantity of health care. Three issues should receive priority. First, people should pay insurance fees in proportion to their income, to intensify the income redistribution role of the health insurance system.<sup>x</sup> Second, since existing schemes do not cover numerous services, future tasks include extending health services to examination, treatment, and rehabilitation for chronic disease. Health insurance should also cover not only curative treatment of disease and disability but also prevention. Finally, the government needs to secure the health insurance system's finances by minimizing the provision of unnecessary health services by health centers. In the long run, Korea must develop avenues for delivering cost-effective health services by connecting them to health centers, and by connecting personal services to social welfare centers.<sup>xi</sup>

### *National Pension Insurance Schemes*

Korea first adopted a national pension system in 1988 by amending the unworkable, ineffective 1973 pension law. Before 1973, the pension system covered only government employees, military personnel, and private schoolteachers. The national pension scheme (NPS)—the centerpiece of public pensions in Korea—now covers everyone, including farmers, fishers, and the self-employed. The system provides the insured with financial security against aging, disability, and death.

*National pension beneficiaries:* National pension participants fall into two groups: workplace-based participants and residential area-based participants. Since 1991 the scheme has included employees in businesses with five or more workers, while rural dwellers have been able to participate since 1994. As of 1998, the scheme included 5.06 million workplace-based participants and 2.11 million regional participants.<sup>xiii</sup> In 1999 the country extended the scheme to the urban self-employed, employees at workplaces *with* five workers or fewer, and part-time workers. The scheme does not automatically cover full-

time housewives and people under 23 of age without an occupation, but they can participate voluntarily. The average income replacement ratio used to be 70 percent for those with 40 or more years of participation, but amendments reduced the benefit to 60 percent, although people now qualify for benefits after 10 years rather than 15.<sup>xiii</sup> Recipients receive pension benefits for life. To achieve financial stability, the minimum age for receiving pension benefits will rise from 60 to 65 in 2033.

*Challenges ahead:* Challenges include the level of benefits, fund security, coverage, and links to other pension plans. The pension fund is on the verge of exhaustion because its benefit levels have been too generous compared with low contribution rates. This imbalance needs to be redressed so future generations do not carry the burden of financing the present generation's pension fund. The current pension fund is likely to be depleted by 2030 owing to accelerating population aging. Although the government recently took countermeasures to secure the fund by lowering benefits and raising the entitlement age, it still needs to find ways to manage the fund to make it secure and profitable. And even though coverage has expanded to include rural residents, self-employed people, and part-time workers, the system needs to expand further to include housewives and spouses working with their self-employed partners. Finally, since the present pension scheme is not linked to public pension schemes for government employees, military personnel, and private schoolteachers, insured people who move across schemes are likely to lose their entitlement if they do not fulfill the minimum contribution period for either scheme. Contribution periods should be combined to increase the portability of pensions.

### *Unemployment Insurance*

Of the four types of social insurance, unemployment insurance is the newest, started in 1995, two years after the enactment of the Unemployment Insurance Act, when unemployment was fairly low. Unemployment insurance was designed not only to secure income for workers during unemployment but also to promote employment

through job training and human development. The insurance now covers all full-time workers — 9.27 million employees from 1,208,000 workplaces as of 2001. Unemployment benefits provide 50 percent of average income before unemployment, with a minimum of 250,000 won and a maximum of 900,000 won per month.<sup>xiv</sup> The insured must have worked at an insured company for at least six months to be eligible for benefits, and may receive benefits for two to seven months.<sup>xv</sup>

### **Public Assistance Schemes**

Korea officially established its public assistance system in 1961, when the livelihood protection law took effect. Benefit recipients were initially to include two types: home and institutional care recipients, and self-support care recipients. Home and institutional care recipients were those unable to work, including the elderly, children, the disabled, and those cared for at welfare institutions. Self-support care recipients were those able to work but lacking enough resources to live. The scheme provided livelihood aid, maternity, and burial aid only to home care and institutional care recipients,<sup>xvi</sup> but the rest of the benefits to both recipient groups.

The livelihood protection system was widely criticized because of its low benefit levels, unreasonably narrow selection criteria, and other structural problems. In 1999, the Basic Guarantee Law replaced the Livelihood Protection Act within a context of rising demand for public assistance after the economic crisis. The unemployment rate rose sharply during the crisis, from 2.6 percent in 1997 to 6.8 percent in 1998, and to 6.3 percent in 1999, and the poverty rate doubled. Korea's social safety net was clearly too weak to respond effectively: the livelihood protection system covered only 60.4 percent of the absolute poor. Because it also did not cover self-support care recipients and the low-income unemployed, they suffered most. The Basic Guarantee Law was the first legal mechanism to guarantee a "national minimum" and self-sufficiency for the poor.

Those eligible for benefits fall into three categories. The first includes elderly persons who are unable to support themselves,

children under 18, expectant women, and people unable to work owing to disease or mental or physical disability. The second category includes those who have no one to support them. The third group includes people whose family per capita income and household property fall below a certain level. (In 2000, to be eligible, a recipient had to report family income of 930,000 won or less and household property valued at 32 million won or less for a family of four).

The system includes seven types of protection: livelihood aid, housing aid (newly added), medical aid, educational aid, self-support aid, maternity aid, and burial aid. The new law has lifted demographic eligibility criteria, and anyone who fits the family income and property criteria is entitled to aid. Because the new law now includes housing aid for the first time, the Korean welfare system protects every aspect of basic living.

The new law clearly strengthens the Korean social safety net. The system provided over 1.5 million people in poverty with livelihood aid in 2000, against only 0.5 million people in 1999, when the income guarantee was not yet in effect (see Table 2). Moreover, the overall benefit level per beneficiary has risen. The number of home care recipients has grown by only 9.0 percent, but the number of self-support care recipients, who were not eligible for livelihood aid under the old law, has risen by as much as 40.9 percent. The Korean government has markedly expanded the budget for basic livelihood aid. In 1997, the per capita basic livelihood aid budget was 639,000 won, but in 2001 it was 1,980,000 won—an increase of as much as 210 percent.<sup>xvii</sup>

*Table 2: Livelihood aid beneficiaries*

	1997	1998	1999	2000
Total eneficiaries of public assistance (A)	1,410,000	1,470,000	1,920,000	1,510,000
Number of persons covered by livelihood aid (B)	370	440,000	540,000	1,510,000
B/A (percent)	26.2	29.9	28.1	100

Source: Mee-Gon Kim, 2001, "Basic Livelihood Guarantee System as a Social Safety Net," workshop on Securing Social Safety Nets, KIHASA, Seoul, 2001, p.77.

*Challenges ahead:* Although the effects of the basic livelihood guarantee have yet to be evaluated, several areas for improvement can be identified. First, since the poverty line is based on living costs in small and medium-sized cities, the system excludes people from larger cities where living standards are higher.<sup>xviii</sup> The system also excludes some unprotected poor, elderly, disabled people, and children whose family income is above the poverty line but who live a very poor life. The government needs to readjust the minimum cost of living according to region, household size, and type of household. For instance, the cost of living for a family with a disabled member must be higher to reflect its medical fees.

The welfare administration system also needs improvement. Local government offices now lack enough personnel to satisfy all the need; as of 2001, one public employee dealt with 150 households in Korea, whereas in developed countries one public employee deals with 100 households.<sup>xix</sup> This work overload means that the poor cannot get enough support or social services adapted to their type of household.

## **Medical Assistance**

Those who are eligible for public assistance also receive medical assistance. This system was first adopted in 1961, when the livelihood protection law was enacted, but has since been managed separately for financial reasons. The system is more closely linked to the health insurance system, unlike in other countries, where medical assistance programs are typically part and parcel of public assistance.

To be eligible for benefits, individuals must demonstrate that they live under the poverty line. Beneficiaries may receive one of two kinds of medical assistance, depending on the degree of their poverty. First-class assistance, for those in the lowest-income class, provides various medical services, including hospitalization and outpatient services, free of charge. Second-class medical assistance, provided to

people from the second lowest-income class, offers medical services with little charge. For example, recipients pay 20 percent of hospitalization fees and 1,500 won per visit for outpatient services.<sup>xx</sup>

**Future tasks:** Most recipients of medical assistance are those who have chronic diseases and who are very poor and receive no family support. In particular, first-class medical assistance recipients tend mostly to be the severely sick or elderly people without a family. These recipients need to consult with someone who can link them to other welfare services.

## Social Services

Social services were devised to protect the socially disadvantaged, including the elderly, children, those with disabilities, single parents, and the homeless. Unlike social insurance and public assistance, these services provide clients with professional social work. Although this gives the socially disadvantaged added protection, benefit levels are so limited that the system covers only the lowest-income people, leaving out most socially disadvantaged persons.

## Welfare Expenditures

Before the crisis, social welfare expenditures in Korea were low compared with those of other OECD countries. In 1990, the country spent 8 trillion won—only 4.52 percent of GDP—on social security, according to OECD estimates (Table 3). But in 1997 social security expenditures rose to 6.65 percent of GDP (30 trillion won),<sup>xxi</sup> and in 1998 they grew dramatically to 11.09 percent of GDP.<sup>xxii</sup> These increases reflected growth in budgets devoted to social assistance and unemployment insurance.

*Table 3: Comparison of social security expenditures to GDP, 1990–1998*

Year	Rate
1990	4.52
1991	4.28

1992	4.63
1993	4.71
1995	5.23
1996	5.47
1997	6.65
1998	11.09

Source: Korea Institute for Health and Social Affairs, *Health and Welfare Indicators in Korea*, 2000, pp.436–37.

Note: This information is based on OECD estimates.

Spending on health, which includes health insurance and medical assistance, constituted the largest share (37.0 percent) of total social security expenditures, followed by unemployment (34.9 percent), pensions (18.0), compensation for work injuries (3.7 percent), social services (3.7 percent), and public assistance (2.7 percent). Korea's social expenditures were lower than those of some OECD countries in every category except work injury. However, expenditures on health and pension are projected to reach those of developed countries in the near future.<sup>xxiii</sup>

Social security expenditures in Korea will inevitably rise owing to the accelerating process of population aging and growing demand for social welfare. The underprivileged and the elderly will call for more government protection as the economy grows. In addition, already plunged into the morass of family dissolution and divorce fueled by the growing labor force participation of women, the elderly and children are bearing the brunt of the changing social mores that weaken the sense of familial responsibility. These factors will make welfare for children, the elderly, and family even more important in the years to come. Growing demand for social welfare will require the Korean government to raise social security expenditures. Social welfare areas in urgent need of expansion include public assistance and health. A reasonable estimate of the proper ratio of gross expenditures on social security to GDP is 15 percent.<sup>xxiv</sup> The Korean government will need to draw on the financial resources of both the public and the voluntary sectors to achieve this level.

### **Future Challenges for the Korean Social Security System**

Korea has recently faced a bewildering array of social changes: population aging, the adverse effects of the 1997 economic crisis, and the high expectation of unification between the two Koreas. All this has called attention to the necessity of strengthening social security and the social safety net.

Korea will have to meet the welfare and health needs of its rapidly aging population. Over 90 percent of the elderly in Korea suffer from chronic disease, and their financial situation is much worse than that of the younger generation.<sup>xxv</sup> Because of the diminishing role of the family as an informal care mechanism, the buck of protecting the elderly has passed to society as a whole.

The economic crisis brought an unemployment rate that is still lower than the OECD average but much higher than the pre-crisis level. Before the crisis, Korea was approaching full employment, with an unemployment rate of 2.0 percent, but its advancing economy is likely to face higher unemployment rates. Social protection for the unemployed will thus become an ever more important issue, and Korea will need to establish a broad social safety net to protect its population.

Korea also needs to prepare to raise the living standards of people in North Korea before taking further steps toward unification, because the poverty level is much higher and GNP is much lower than in South Korea. In the event of unification, Korea would require a welfare system buttressed by higher expenditures and an appropriate combination of social safety measures to protect needy people in North Korea.

Existing welfare expenditures need to grow, and public-sector participation in financing welfare funds needs to be strengthened. The current private-sector contribution rate in Korea—26.5 percent in 1996—is much higher than that in other OECD countries (UK: 1.0 percent; the US: 3.0 percent; Germany: 4.6 percent; Sweden: 4.5 percent, in 1993).<sup>xxvi</sup> Meanwhile, the private sector should continue to help strengthen the social welfare system through volunteer activities and donations.

In sum, in the midst of globalization and torrential social change, the Korean social security system needs to adopt new strategies and

raise budget allocations to enhance programs, benefit levels, and coverage.

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<sup>i</sup> Yong-Ha Kim, J. Suk, and S. Yoon, *Efficient Management of Social Insurance* (Seoul: Korea Institute for Health and Social Affairs, 1996); Kyung-Suk In, *The Korea Welfare State: Ideals and Realities* (Seoul: Nanam Publishing, 1998).

<sup>ii</sup> All data in this paragraph are from the Ministry of Labor, *Report on Work Injury Compensation Insurance in 2000* (Seoul, 2001).

<sup>iii</sup> In 1998, op. cit.

<sup>iv</sup> Ibid.

<sup>v</sup> Eunyoung Choi, J. Kim, and W. Lee, *Health Care System in Korea* (Seoul: Korea Institute for Health and Social Affairs, 1998).

<sup>vi</sup> Chang et al. 1999, op. cit.

<sup>vii</sup> Editing committee of white paper on welfare reform, *Welfare Reform in Korea toward the 21st Century:: To Enhance the Quality of Life in the Globalization Era* (Seoul: Ministry of Health and Welfare, 1998).

<sup>viii</sup> Choi et al. 1998.

<sup>ix</sup> Editing committee of white paper on welfare reform 1998, op. cit.

<sup>x</sup> Mandoo Kim and H. Han, *Modern Social Welfare* (Seoul: Hong-Ik Jae, 2000).

<sup>xi</sup> Ibid.

<sup>xii</sup> Suk-Myung Yoon, "National Pension" Goal Setup for Social Security Development and Current Issues (Seoul: Korea Institute for Health and Social Affairs, 1998).

<sup>xiii</sup> All data are from Chang et al. 1999, op. cit.

<sup>xiv</sup> All data are from Chang et al. 1999, op. cit.

<sup>xv</sup> National Social Welfare Education Committee, *Introduction to Social Welfare* (Seoul;

2001).

<sup>xvi</sup> Ministry of Health and Welfare, *The Analysis of Livelihood Protection Recipients* (Seoul, 1997).

<sup>xvii</sup> Data are cited in Mee-Gon Kim, "Basic Livelihood Guarantee System as a Social Safety Net," workshop on Securing Social Safety Nets, KIHASA, Seoul, 2001.

<sup>xviii</sup> Neng Hoo Park, "Productive Welfare", *Health and Welfare Form*, 60: 15-25 (Seoul: KIHASA, 2001).

<sup>xix</sup> Mee-Gon Kim, 2001, op. cit.

<sup>xx</sup> Ministry of Health and Welfare, *White Paper on Health and Welfare* (Seoul, 2000).

<sup>xxi</sup> Byug-Ho Choi and K. Ko, "Social Security Expenditure in Korea and Ways to Improve Its Level," *Health and Welfare Forum* 49: 48-58, (Seoul: KIHASA, 2001).

<sup>xxii</sup> KIHASA, *Health and Welfare Indicator's in Korea* (Seoul, 2000).

<sup>xxiii</sup> Choi and Ko 2000, op. cit.

<sup>xxiv</sup> Choi and Ko 2000, op. cit.

<sup>xxv</sup> Kyung-Hee Chung, Y. Cho, Y. Oh, J. Byun, Y. Byun, and H. Moon, *A National Survey on the Elderly Life and Their Welfare Need* (Seoul: KIHASA, 1998).

<sup>xxvi</sup> W. Ademan and M.Einerhand, "The Growing Role of Private Social Benefits," occasional papers on labour market and social policy no. 32, KIHASA, 1998.