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Post-Unification Social Security System for the North Korean Region

– An Integrated System



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Post-Unification Social Security System
for the North Korean Region: An Integrated
System

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I

Introduction



Introduction <<

With the improvement of inter-Korean relations, there has been growing interest in the social integration of the Korean Peninsula. The research that has been conducted thus far on the integration of the North and South Korean social security systems has made little progress, failing to differentiate itself from research on political and economic unification. However, the genuine integration of the societies of the two Koreas can be achieved only with the support of specific and practical research conducted with the aim of improving North Korea's social security system and narrowing the gap in social security between the North and South. The North Korean people will finally be able to enjoy the benefits of the peace regime established on the Korean Peninsula only when their quality of life is increased through the eradication of poverty and restoration of their rights to income, welfare, and health, rather than with the achievement of political and economic integration.

This study explores the means through which inter-Korean integration can be fully realized by improving the quality of life of the people of the two Koreas. Accordingly, this study intends to look beyond political points of view and discuss integrating the two country's social security systems through the transformation and transition of the North Korean regime.

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South Korea is currently tasked with resolving pressing welfare issues and making institutional improvements in the face of various social problems, such as population aging and the low birthrate. In North Korea, there is a massive number of vulnerable people who require emergency relief from poverty, malnutrition, and poor sanitation. Moreover, since the collapse of its economy, the North has not provided its citizens with stable welfare benefits, which could have been achieved through the personalization, marketization, and commercialization of the social welfare system. North and South Korea each have their own unique systems of social welfare, some aspects of which overlap and some of which are unique or partially unique to the system of each country. There are also institutional and operational differences. In other words, although the social welfare systems of the two Koreas show significant differences, they both have problems and areas that require improvement. However, the North's welfare system is failing to fulfill its intended purposes. Because of this, integrating the two social security systems will be highly costly and will require substantial time and effort. We should thus be prepared to work for a long time before seeing the complete integration of the two systems.

The research conducted by KIHASA last year discussed as strategy for integrating the two Korea's social security systems that involves having the North and South each operate their

own system separately for a certain period of time, after reaching an agreement on political unification, in order to offset and resolve the economic and societal divides between the two countries. We refer to this state in which two separate systems are operated simultaneously as the “transitional dual system” and focus our discussion on identifying integration standards, principles, and methods to be implemented in the North during this transitional period.

This study is a continuation of last year’s study on the transitional dual system. That study discussed the standards, principles, and methods for the operation of the two welfare systems of the North and South during the transitional period, while this study examines the integration of the two regimes and social security systems 10 years after the political unification of the two countries, by which time the gaps between the two Koreas will have narrowed significantly. We refer to this system as the “integrated system.”

This study aims to fulfill five main tasks. First, building on discussions that have been held on the integrated system, we present a framework for the integration of the two Koreas’ social security systems and review relevant laws. Second, we identify the conditions and realities of North Koreans and use our findings as the basis for suggesting policy decisions regarding the adoption of the integrated system. Third, as part of the study on the integration methods for each system, we first dis-

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cuss ways to integrate the North's basic livelihood security system, with a focus on livelihood benefits, in terms of beneficiaries, benefit levels, and fiscal burden. Fourth, we present a basic framework for a pension-based income security system, and then outline the basic directions and principles of this income security system and discuss strategies for Korean integration. Fifth, we discuss specific ways of integrating the basic and national pension systems in accordance with the basic framework of the income security system and address ways of integrating the government employee pension systems.

II

Discussion on transitioning
to the integrated system

II

Discussion on transitioning << to the integrated system

To transition to the integrated system, the following changes in the economic policy of the North are required, based on the premise that unified Korea first undergoes the transitional dual-system period.

First, unified Korea should achieve currency unification based on market-determined exchange rates for the South Korean won and North Korea's new currency. This is based on the premise that the new currency adopted during the transitional dual-system period is effectively circulated on the market, a proper financial system takes root in the North, and the central bank stabilizes prices. This premise leads to the assumption that the North is unlikely to experience high inflation under the integrated system. Another assumption is that currency unification will create a single price structure across the peninsula.

Second, free movement between the two Koreas must be guaranteed. The inevitable restrictions on movement between the two sides during the transitional dual-system period will gradually ease. Once free movement is ensured, some North Koreans might move to the South for job opportunities. This study, however, supposes that this will occur only to the extent that it does not adversely affect the supply of labor in the

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North. In addition, with increasing investment and production in the North, the number of people moving there from the South will gradually increase.

Third, when the market economy is firmly established in the North, the labor markets on both sides should be unified. The unified labor market will then be able to function in accordance with free market principles. However, labor market integration will only be possible when freedom of movement is guaranteed. Backed by the economic growth and greater labor productivity of the North, workers' wages there will increase, dramatically narrowing the income gap between the North and South. Of course, it is possible for unemployment to spike as large numbers of workers flow into the labor market following the privatization of state-run companies. In particular, many people who are registered with North Korean enterprises but are unemployed, in practical terms, and fail to earn income in the formal economy could be counted as jobless. However, this is unlikely due to the expected increase in production and job creation in the North during the transitional dual-system period. By the time unified Korea introduces the integrated system, the country will be less vulnerable to large-scale unemployment that could place a burden on the economy.

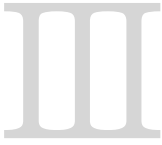
Fourth, increased production in the North will lead to increased incomes. During the transitional dual-system period, there will be active private investment as well as infrastructure

investment in the region, which is seriously underdeveloped, thereby increasing its production capacity enough to promote growth and resulting in higher incomes. In addition, the narrowing of the per-capita income gap between the North and South will reduce related social costs, making it easier for unified Korea to adopt the integrated system. Of course, it is extremely difficult to accurately predict the extent to which the North will be able to narrow the income gap with the South during the transitional dual-system period. However, if the two Koreas increase their economic cooperation leading up to unification and the North adopts the market economy, the gap will shrink significantly. In addition, if unified Korea takes lessons from Germany's experience during its transitional dual-system period and ensures that the financial assistance provided to the North is not focused on the construction sector or used for simple income supplementation, which would have little impact on productivity, but instead goes toward increasing productivity and making facility investments, it will further ease the transition to the integrated system.

Under these premises, the unified Korean Peninsula is expected to share the same currency, labor (employment) pool, capital, and commodity markets under the integrated system.

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Legal problems under the
integrated system



Legal problems under the integrated system <<

How should we perceive the inter-Korean relationship? First of all, let us look at the details of the Inter-Korean Basic Agreement (officially known as the “Agreement on Reconciliation, Non-aggression and Exchanges and Cooperation between the South and the North”), which was signed between the two Koreas in 1991. The full text of the Agreement includes a declaration that the two Koreas recognize that “relations between South and North Korea are special relations, not state-to-state relations, which were provisionally formed in the course of seeking the unification of the Korean Peninsula.” This can be interpreted as meaning that, internally, neither South nor North Korea recognize each other as states. In addition, Article 1 of the Agreement stipulates that “the South and North shall recognize and respect each other’s system.” Ultimately, the Inter-Korean Basic Agreement makes it clear that, although the two Koreas do not recognize each other as states, they do recognize each other’s system.

The Inter-Korean Exchange and Cooperation Act, which has been enforced since its enactment in 1990, governs the procedures that are to be observed by the two Koreas in establishing and operating an inter-Korean exchange and cooperation promotion council and seeking to increase inter-Korean ex-

changes and cooperation with each other. Article 12 of the Act sets out that “transactions between South Korea and North Korea shall be deemed internal transactions between the same people, not those between nations.” This is another legal clause that recognizes that the relations between the North and South are special rather than state-to-state ones.

The South Korean Constitutional Court explains the relations between South Korea and North Korea as follows: “Given the solemn reality that the current North Korean regime is a partner in dialogue and cooperation for the peaceful unification of the nation but also has the nature of an anti-government entity that maintains a policy line of communizing South Korea while plotting to overthrow our free democracy, the Republic of Korea has established and promotes a policy of peaceful unification based on the basic free and democratic order promulgated in Article 4 of the Constitution, which is a legal instrument for regulating anti-state activities that endanger the safety of the country. The Republic of Korea is responding to the former situation by enforcing the Inter-Korean Exchange and Cooperation Act and to the latter by enforcing the National Security Act” (refer to case no. 92Hun-Ba48, July 29, 1993, Constitutional Court). In short, the Constitutional Court of South Korea recognizes the dual legal status of North Korea as both an anti-government organization and a partner in exchange and cooperation.

Ultimately, although it is clear that South Korea and North Korea can and do recognize each other as partners in exchange and dialogue for the sole purpose of accomplishing the mission of peaceful unification provided for by their respective constitutions, the two countries do not recognize each other as states. This is different from the agreement made by the two Germanys in the 1972 Basic Treaty between East and West Germany, which stipulates that the two states shall develop good neighborly relations with each other on the basis of equal rights (Article 1), neither state shall represent the other internationally or act in its name (Article 4), and the jurisdiction of each of the two states is confined to its own territory.

Even in accordance with the current Constitution of the Republic of Korea, especially Article 3, North Korea can be regarded as the territory of the Republic of Korea, meaning that the North Korean people can be viewed as people of the Republic of Korea. Although Article 4 of the Constitution stipulates provisions on unification, it does not recognize North Korea as a state. As confirmed in the Inter-Korean Basic Agreement, both Koreas view their relationship as a special relationship provisionally formulated in the process of pursuing unification and not as a state-to-state relationship. Given these facts, it is normatively possible to apply the Constitution, in its current form, to the North Korean people after the unification of the Korean Peninsula. However, if the two sides enter into

an agreement under which they are required to respect each other's system and maintain their two systems in parallel even after unification, it would be impossible to ignore any of North Korea's existing regulatory systems, including its Constitution, or enforce South Korea's Constitution and laws in the North. However, this study assumes that the North and South will seek to have single economic and social systems following political unification and therefore omits discussion on the coexistence of separate systems for each region.

Accordingly, regarding the integration of the social security systems of the two Koreas, which is the main focus of this study, the basic rights of North Koreans shall be limited to a certain degree in accordance with the principles of the restriction of citizens' basic rights in Article 37.2 of the South Korean Constitution. This means that the freedoms and rights of North Koreans can be restricted by law only when necessary for national security reasons, maintenance of law and order, or public welfare (purpose-based limits). Even when such restrictions are imposed, no fundamental freedoms or rights shall be violated.

In summary, in relation to the process of institutional integration with North Korea, a separate constitutional amendment seems unnecessary. However, to restrict the freedoms and rights of North Koreans, it will be necessary to enact a special law, such as a temporary act, to revise the current Social

Security Act or regulate the transitional dual system. If the laws that restrict North Koreans' basic rights exceed the boundaries outlined in Article 37.2 of the South Korean Constitution and violate the North Korean people's basic rights, it would be fair to deem such laws as invalid in terms of the principle of the rule of law.

However, the range of subjects and scope of amendments are too broad to revise and apply to South Korean laws, and the necessary revisions will depart significantly from existing provisions. Therefore, the transitional dual-system period shall be designated as a sunset period during which a temporary special act is established and applied. In addition, this sunset period shall not be uniformly defined but applied flexibly to each system or service.

Laws that should be referenced in establishing the special act include the Gaeseong Industrial Complex Support Act, which regulates: the establishment of the Gaeseong Industrial Complex (GIC); government support for development and investment; protection of people entering, exiting from, and staying in the complex; special cases of taxation, exchange, and trade; and management organizations of the GIC. In reference to this Act, we suggest that the laws that have the nature of basic acts be applied to govern the designation of a special administrative region (SAR), establishment and operation of a SAR management body, and matters related to currency, tax, and finance.

Moreover, we suggest that, in relation to the social security system, special acts be established for social insurance, public assistance, social provisions for patriots and veterans, and social welfare.

Under such a legal framework, two social security acts will coexist, with each applying to different subjects, during the transitional dual-system period. In the case of a problem with one of the new special acts (especially regarding fiscal burden) that requires an amendment of the South Korean Framework Act on Social Security, exceptional clauses may be established as a solution. However, in light of the analysis that 70 percent of the cost of Germany's unification was related to its social security systems, it seems inevitable that Korea will have to start reforming its various social security systems in preparation for the social integration of the two Koreas. It is also urgent to come up with ways of securing funds for this integration. Such preparation needs to begin now. During the transitional dual-system period, major changes are expected to occur in South Korea as well. In particular, the existing social security acts and systems will undergo significant reforms prior to the adoption of the transitional dual system, and special acts may be established later. As these changes are underway, it will be crucial to secure the approval and understanding of the South Korean people.

If the integrated system is presupposed, it will be necessary

to integrate the legal systems of the two Koreas in relation to their social security systems.

The Constitution of the Republic of Korea establishes human dignity as a basic right by stipulating in Article 10 that “All citizens shall be assured of human worth and dignity and have the right to the pursuit of happiness. It shall be the duty of the State to confirm and guarantee the fundamental and inviolable human rights of individuals.” Among the many factors involved in ensuring human dignity is the “right to a life of dignity.” Article 34.1 of the Constitution prescribes that “All citizens shall be entitled to a life worthy of a human being,” thereby obligating the state to offer various kinds of welfare and social security benefits for women, youth, seniors, and people with disabilities. Articles 34.2 to 34.6 introduce provisions that specify the details of the right to a life worthy of a human being, with Article 34.1 serving as a basic provision that defines such a life. This right originates from Article 19 of the Founding Constitution, which sets out that “the state has a legal duty to protect those unable to make a living due to old age, disease, or loss of working capacity.” In 1962, new provisions were added under Article 30 of the Constitution, providing for “the right to a life worthy of a human being,” “the state’s obligation to promote social security,” and “the state’s responsibility to protect citizens unable to make a living.” In 1980, the new term “social welfare” was added alongside “social security”

and was carried over to the current Constitution (Joon-il Lee, 2015, p. 746).

Meanwhile, the right to a life worthy of a human being that is defined in the current Constitution refers to the right to claim the minimum amount of social security from the state necessary to ensure basic human dignity. However, various academic theories view the legal nature of “a life worthy of a human being” in different ways, including: a life of health and culture sufficient to ensure human dignity, a life with the minimum levels of health and culture (Young-seong Kwon, 2009, p. 653), the materialistic basics for the minimum level of life (Young Huh, 2014, pp. 547-548), or the minimum standard for a life of health and culture (Cheol-soo Kim, 2013, p. 954).

The Constitutional Court regards this right as “the right to a minimum level of materialistic life” in its decision that “depending on the circumstances, specific rights to the provisions necessary to maintain the minimum level of materialistic life to ensure human dignity can be directly derived.” However, the Constitutional Court also states that the interpretation of the phrase “a life worthy of a human being” is not fixed, ruling that it is an abstract and relative concept that can change in accordance with the cultural development and historical, social, and economic conditions of the state (refer to case no. 94Hun-Ma33, May 29, 1997, Constitutional Court).” This indicates that the definition can be interpreted differently ac-

ording to changes in social and economic conditions.

To realize the right to a life worthy of a human being, the Constitution ensures the “right to social security benefits” and obligates the state to promote social security. The right to a life worthy of a human being involves the right to receive social security benefits and the kinds of benefits that the state provides to its citizens.

The right to social security benefits is based on the premise that such a right is necessary to realize the right to a life worthy of a human being, which is set out in Article 34.1 of the Constitution. The Constitutional Court views the right to social security benefits as a constitutional right that cannot be realized through constitutional provisions alone, which makes it necessary to define benefit eligibility, scope of beneficiaries, and benefit amounts in law (2002 Hun-Bal, December 18, 2003, Constitutional Court). In other cases, however, the Constitutional Court has understood the right to social security benefits as a state objective, which makes it a legal right that is protected by individual legislation.

Meanwhile, North Korea has the Social Security Act as a basic act. In terms of social insurance, the North has the Social Insurance Act, Socialist Labor Act, Public Health Act, Medical Service Act, and Act on Protection of the Elderly, while its laws on public assistance include the Public Health Act, Medical Service Act, Act on Protection of the Elderly, Housing Act, and

Education Act. In the social welfare sector, the country has the Child Rights Security Act, Children's Nursery Act, Act on Protection of the Elderly, and Act on Protection of People with Disabilities. To establish a foundation for the enactment of integrated laws, it is necessary to thoroughly analyze the social security laws of both the North and South. In North Korea, which is a socialist state, the nominal level of social welfare is never low. Thus, to convince the North Korean people of the benefits of social integration, it will be necessary to hold discussions on integration with the aim of establishing a single, feasible system based on comparisons of the related laws and legal systems of both sides and come to a shared understanding. It would also be reasonable to base the relevant procedures on the Constitution or the Social Security Act.

Unlike the integration of the two countries social security systems, the regional differences between the North and South are not likely to be completely overcome, due to economic and physical limitations, such as national finances, and given the characteristics of the social welfare system. In particular, the social welfare facilities in the North, including medical facilities, daycare centers, and educational institutions, will lag far behind those of the South in terms of the quality of facilities and personnel. Therefore, the problem is whether it is justifiable to impose the same tax obligations on all Koreans when they receive very different levels of benefits depending on

where they live. Even if freedom of movement is ensured, the quality of life of those residing in the North will depend on the given region's infrastructure, systems, and level of development of social welfare facilities. The resulting problems can be addressed by improving regional facilities and reducing social security premiums. However, it would be quite difficult to improve all facilities in need of improvement in a short period of time, so reducing insurance premiums will be a necessary part of the solution. For example, Article 75.1(1) of the National Health Insurance Act offers a basis for reducing insurance premiums for "persons who reside on islands or in remote areas or agricultural and fishing communities, etc., as prescribed by Presidential Decree, and this provision is actually in effect." Nobody would be quick to claim that they are suffering reverse discrimination due to the needs of such people being prioritized. Therefore, unified Korea can resolve the differences in the level of development of facilities by making it law that North Koreans pay lower insurance premiums until the gap between the North and South is closed.

The difference in the right to social security benefits is directly linked to fiscal and economic problems as well. In this case, the best solution is to raise national finances. However, this is highly likely to impose burdens on the entire population and create reverse discrimination. Therefore, it is necessary to improve the legal systems in a way that supports North Korean

employment and economic capability. In addition, as equal rights to social security benefits can only be achieved gradually, it will likely be necessary to implement special measures favorable to the North for a certain period of time. However, the relevant legal system could create issues related to equal rights under the Constitution and reverse discrimination between the people of the North and South. Placing limits on North Koreans' right to social security benefits could be seen as discrimination. Therefore, as declared in the Constitution and by the Constitutional Court, if discrimination is inevitable, it is necessary to identify the legal grounds for such action in the Inter-Korean Agreement or the Constitution based on national consensus on the purpose, methods, and timing of the implementation of special measures for the North Korean people.

IV

Reality of life in North Korea

IV Reality of life in North Korea <<

The economic gap between the North and South has shown no signs of narrowing in recent years. According to the 2016 Findings on North Korea's Estimated Economic Growth Rate, published by the Bank of Korea in July 2017, North Korea's national gross income (nominal GNI) was KRW 36.4 trillion in 2016, or 2.2 percent that of South Korea, with a per-capita GNI of KRW 1.461 million, or only 4.5 percent that of South Korea. This economic divide is expected to be a major stumbling block to integration. Therefore, the best approach is for us to secure sufficient time to close such gaps and rebuild the North in a stable manner before gradually moving to a single, integrated system. In this process, the social security system will be critical to social stability and integration.

Before the 1990s, all North Koreans were guaranteed full employment, rations of food and daily necessities, housing, and free medical care and education. Since the 1990s, however, the North Korean authorities have no longer been able to provide these things for the people due to severe economic depression, leading the country to transition to a system of self-reliance where the people have to find ways to support themselves. To make matters worse, the deterioration of the social security system drove people whose livelihoods were at risk to depend

on the market even for social welfare. Rapid marketization in the North brought higher incomes, but the livelihoods of many North Koreans remain insecure due to high inflation, rampant corruption, and the growing gap between rich and poor.

According to the 2014 SDHS Report (Socio-Economic, Demographic and Health Survey 2014, Central Bureau of Statistics and United Nations Population Fund, 2015), which was jointly conducted and published by the United Nations Population Fund and North Korea Central Bureau of Statistics, the total population of North Korea is approximately 24.21 million, with 69.3 percent of the population being economically active (labor) as of 2014. The labor participation rate in rural regions (71.2 percent) was higher than that in urban areas (68.2 percent). Here, the labor participation rate refers to the percentage of the population working in the formal sector. Particularly, the proportion of people who were either retired or engaged in housework (23.7 percent) should be noted, as a majority of these people were in fact participants in informal economic activities.

When the social security system fails to function properly, retirees who are no longer able to receive old-age pensions find it increasingly difficult to maintain their livelihoods and are inevitably forced to participate in informal economic activities. In the Survey on Social Changes in North Korea, which was published by the Institute for Peace and Unification

Studies of Seoul National University in 2017, the percentage of people in North Korea who answered that they receive their old-age pension as expected was a meager 13.6 percent, while 50 percent stated that they did not receive any old-age pension benefits at all (Institute for Peace and Unification Studies, Seoul National University, 2017, p. 143). Moreover, the pension beneficiaries were mostly party officials and persons of national merit, rather than average laborers, farmers, or office workers. This grim reality of social insecurity in the country is driving more and more North Koreans to engage in informal economic activities.

What is interesting in North Korean society is the concurrent existence of the formal and informal economic sectors. A substantial number of people engaged in formal economic activities are also engaged in informal economic activities, as the breakdown of the state rationing system has made it impossible for many North Koreans to survive on income earned from formal economic activities alone.

Due to the low wages in the formal sector, the majority of North Koreans engage in informal economic activities while simultaneously holding a position at their formal workplace. In many cases, they have to regularly pay significant amounts of money from their informal income to their formal employers just to maintain their formal positions. These people are often referred to as “8.3 workers,” as they enter into contracts with

their formal employers that require them to pay certain amounts of their informal income in exchange for permission to be absent from their formal workplaces, with their contributions being used to cover the operating costs of their companies or organizations. This flexible working system is unique to North Korea.

North Korea is currently experiencing a housing shortage. However, this problem did not emerge suddenly after the economic crisis. It was not until the baby boomers reached marriageable age that the housing shortage became acute. Despite a surge in demand, supply has been dysfunctional and insufficient since the North Korean economy began deteriorating in the 1980s. To make matters worse, the supply of construction materials dried up following the collapse of the state rationing system during the economic crisis of the 1990s, which further intensified the housing shortage. Through in-depth interviews of North Korean defectors in South Korea, we have heard about the many difficulties they faced due to a lack of housing.

The recent major change that has occurred in North Korea related to housing is that the people themselves are increasingly being forced to resolve their housing problems on their own. It is thus now more common for people to purchase and/or renovate their own homes instead of homes being assigned to them by the state. This change is revealed in a report

entitled “A Survey on Social Changes in North Korea,” which was published by the Institute for Peace and Unification Studies of Seoul National University (Yong-seok Jang, et al. 2017). When asked how they had obtained their homes, the majority of respondents, about 49.3 percent, answered “I purchased my home on my own.” This means that almost half of North Koreans have purchased their own homes, which is more than twice as many as the 20.3 percent of people who answered “The state provided me with a home.”

Meanwhile, it is noteworthy that the percentage of people who answered “I purchased my own home” increased from 10.3 percent in 2012 to 15.2 percent in 2016, or about 1.5 times. Beyond simply renovating their old homes, people are also building their own homes in better locations and bigger spaces. This growing trend of people desiring better living spaces and environments is leading an increasing number of people to actively respond to and address such desire. Likewise, the fact that there is an increasing desire for better living environments in North Korea is a strong indication that the food shortage has been resolved to a certain extent and people are financially better off than they were before.

Ongoing marketization and growing privatization are expected to contribute to the narrowing of the gap between the North and South. However, after looking into the housing conditions in urban, provincial, and rural regions in North Korea,

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it became obvious that the gap between the haves and have nots and the regional imbalance in housing quality are both increasing. When examining the status of North Korea's housing sanitation and amenities, in relation to water supply, toilets, heating, cooking, and power consumption, it was found that the housing and living conditions in the North are equivalent to those of South Korea 30 to 40 years ago. If North Koreans' growing desire for better housing is not sufficiently satisfied, it could adversely affect the social integration of the two Koreas in the future.

V

Establishment of a basic
livelihood security system



Establishment of a basic livelihood security system <<

The system integration period is a period of time during which the overall systems of South and North Korea, ranging from social to economic, legal, and administrative systems, are to be operated in accordance with the same principles and rules. However, even with the structural integration of these systems, the economic gap between the two Koreas is expected to linger for some time. North Koreans with lower levels of the qualities desired in an integrated labor market are likely to fall into the strata of below-average economic status across the peninsula. Therefore, once social integration has been realized, it will be necessary to provide North Koreans with basic livelihood security benefits, even if such benefits are paid at the expense of South Koreans. In this situation, income redistribution from the South to North will be inevitable.

After reviewing various issues, this study comes to the conclusion that it is desirable to form a broad framework for the application of a basic livelihood security system under the integrated system.

Overall, the basic livelihood security system during the integrated-system period should first be operated in an identical manner for both the North and South. Second, the system should reflect the economic realities of the two sides by using

the geographic income distribution data of both the North and South. Third, other social security systems should be actively used to support the livelihoods of North Koreans, with the basic livelihood security system being a social safety net of last resort.

Under these principles, livelihood benefits during the integrated-system period should be provided to all households whose recognized income falls short of the livelihood benefit eligibility threshold. The threshold will be the same percentage (currently 30 percent) of the standard median incomes but measured separately in the North and South. The standard for obligatory providers should not be applied to the North, on the premise that it will be phased out in South Korea. Under these principles, South Korea's benefit payment principle, where the difference between an eligible recipient's recognized income and standard livelihood benefits is paid in cash, should be applied to the North as is. The financial resources required for the system should be prepared jointly by the central and local governments. However, given the maturity of local autonomy and the level of fiscal self-reliance in the North, a larger share should be assigned to the central government than in the South, thereby addressing regional imbalances. During the dual-system period, the channels via which benefits are distributed should be the administrative bodies that have been responsible for the provision of basic livelihood security benefits

on each side and should be transferred to the current Administration and Welfare Center in South Korea during the integrated-system period. In addition, customized welfare teams should be assigned to cities, counties, and districts to handle related administrative affairs and offer professional services such as welfare case management.

Based on the assumptions regarding and discussions on possible economic and social situations, we estimated that the financial resources required to pay livelihood benefits to North Koreans during the integrated-system period will range from KRW 5.157 trillion (percentage of recipients in entire population: 20%) to KRW 10.314 trillion (percentage of recipients: 40%) on a yearly basis. However, it is very difficult to predict how societies will change in the future. Particularly, estimating the scope and magnitude of problems such as poverty, which is heavily influenced by social and economic variables, is unlikely to produce clear results. Such estimations are inevitably based on assumptions regarding important basic factors, and, therefore, estimates of fiscal factors should be viewed as no more than loose references.

In the end, no matter how much funding is required, national basic livelihood security is a responsibility of the nation in the integrated-system period. The top priority for social integration during this period is to enable the entire population to maintain a minimum standard of living prior to the in-

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tegration period and facilitate the adoption of a labor market policy that can mitigate some of the side effects of the social security system, such as the people's increased dependency on public assistance.

VI

Basic framework for an income security system

VI

Basic framework for an income security system

If the North Korean economy recovers quickly, and its economic conditions, including income levels, labor market health, and economic structure, reach a level similar to that of the South, it will become necessary to integrate the “dual” welfare systems into the system of either the North or the South or unify the systems into a single, integrated system. In preparation for this, it will be meaningful to consider ways of creating a social security system appropriate for a unified and socially integrated Korea.

Any discussion on ways of integrating the dual social security systems, established during the transitional period, will necessarily involve a discussion on which of the two systems the South Korean income security system will eventually be integrated into. The following suggests some basic principles for the integration of the income security systems of the North and South.

First of all, during the complete integration period, everyone in both the North and South should be able to receive the same benefits under the same set of eligibility requirements. In the transitional period, when there is still a wide income gap between the two regions, it will be acceptable to apply different standards to North Koreans, which could involve more lenient

eligibility requirements for the receipt of basic livelihood security benefits or pensions or provision of more generous pension amounts (standards linking value and pension, etc.). However, when the inter-Korean income gap has narrowed significantly or the income levels of the two regions are almost the same, there will be no reason to have such different standards for the North. In particular, the beneficiary eligibility requirements of the national basic livelihood security system will need to be harmonized across the peninsula. Furthermore, regarding the national pension, the same average monthly income of people insured under the national pension plan (or “A value”) and pension increase rates will have to be applied to all regions, while the benefit eligibility requirements, such as recipient age, applied according to the circumstances during the transitional period, should be completely unified.

Second, the people of both the North and South should be uniformly subject to one system, with universality assured, and the system should be applied to different regions equally. Of course, the principle of a single, integrated system can be satisfied if the current South Korean pension system, under which benefits are differentiated by social class, is adopted as the integrated model during the complete integration period. However, for the same social class (for example, working-class people in the private sector), different systems should not be put in place for the North and South. Moreover, even though the national

pension system will differ in its coverage of the North and South, due to the difficulty of applying the system during the transitional period, there should be a single scope of coverage during the complete integration period. The level of system universality should be nearly identical in both regions.

Third, social security benefits should be maintained at a level sufficient to lift people out of poverty in both the North and South. In particular, the pension system for the general public should be able to, at the least, prevent poverty among the elderly. Currently, in South Korea, the national pension system is still immature. It offers relatively small benefits that only one-third of the senior population receives, resulting in the highest old-age poverty rate among OECD member states (OECD, 2015). However, South Korea's old-age poverty rate is expected to decline somewhat thanks to the continuous increase in the basic pension amounts, increase in net national pension income as a result of the maturing of the pension system, and reduction in coverage blind spots. However, unless the country's coverage blind spots are reduced to the level of advanced countries, the pension system's role in preventing poverty will be highly limited. These circumstances should not be allowed to emerge in the North. Rather, the social integration of the Korean Peninsula should be a turning point that strengthens the welfare system of South Korea.

This study suggests that, when integrating such different in-

come security systems into one single system in the complete integration period, the income security system applied to the North (dual system: typical basic pension + proportional pension) during the transitional period is the one into which the other side's system should be integrated. This is because we believe that this system is more efficient, in many respects, than the one applied to the South (incomplete combination: basic pension + proportional pension).

One of the main reasons that it is more efficient to integrate the public pension system of the South into that of the North is that the North's system is designed and enforced based on the principle of equivalence and would thus offer greater fiscal sustainability in the era of population aging.

The second reason is that the universal basic pension system is capable of providing sufficient and universal security for the elderly in the North. For systems based on social insurance, it is difficult to avoid blind spots and ensure the appropriateness of benefits. However, the universal basic pension will allow for improvements to be made.

The third reason is the high level of public acceptance. If the current South Korean pension system is applied to the North by adopting the model used during the integration period, it would be difficult for North Koreans to tolerate the lower level of security provided. Lastly, it is preferable to integrate the public pension system of the South into the North Korean sys-

tem because of the positive effect it will have on social unity and integration among the classes. The process of unifying the pension systems will provide an opportunity for the current segmented pension systems of South Korea to be integrated and unified and establish a major foundation for social unity among the classes as well as the social integration of the North and South. However, it should be based on the premise that the pension systems are unified and integrated, such as by converting special occupational pensions into a system similar to the national pension program.

Along with the integration of the public pensions systems, it is necessary to change the roles of public pensions and other such systems. First of all, given that the basic pension becomes common, the functions and roles of the national basic livelihood security system should be redefined. By the time of the integration period, the basic pension will have already been accepted as a system that offers the minimum level of income required to ensure the basic right to a life worthy of a human being. The national basic livelihood security system, which overlaps significantly with the basic pension system, should be redesigned to ensure the right to participate in cultural life, which is more than what is ensured by the basic pension. In this regard, services for the elderly and people with disabilities should be separated from the existing comprehensive national basic livelihood security system, and the eligibility require-

ments and benefit levels should be differentiated by social class. These changes are expected to be particularly necessary because, even after the transitional period, the income level of the North is likely to remain much lower than that of the South.

Furthermore, during the complete integration period, it will be necessary to more clearly define the roles and functions of private pensions from a multi-stratified point of view and establish public pensions and the basic livelihood security system. South Korea has long been promoting the introduction of private pensions to complement public pensions. However, the role of the former is not sufficient in the South, given the low plan-holder rates and limited percentage of people receiving private pension income. In the North, private pensions will be in worse shape than in the South during the integration period. Therefore, if private pensions are to complement public pensions, efforts need to be made to improve various systems and institutions, such as promoting private pensions to the level of public pensions and facilitating their use. Population aging is expected to continue in both regions, posing a consistent threat to the fiscal sustainability of public pensions. To address this, the roles and functions of private pensions should be expanded to complement the inevitably weakening public pensions.

Lastly, and importantly, if the dual pension model, involving basic and proportional pensions, is found to be a reasonable and efficient model, we will need to actively focus our efforts

on transitioning to this model as early as possible. Of course, it might be difficult to promote only from the perspective of integrating social security systems with North Korea. However, in South Korea, there is currently a sharp division between those who argue that the current system should be maintained and others who say that the system should be converted. Although it is unlikely that innovative changes can be realized in a short period of time, there are reforms that will need to be made to achieve such innovation of the dual system. These reforms would lower the benefits of the national pension system as well as the benefits of the special occupational pension system, including the civil service pension. However, there is strong public opinion against any downward adjustment of benefits. In this era of population aging, it will be difficult for Korea to maintain its current dysfunctional pension system. Therefore, to begin preparing for the future integration of the social security systems on the Korean Peninsula, we should start gradually and steadily normalizing the current pension system now (converting it to a system with typical basic pensions and proportional pensions).

VII

Application of basic pension

VII

Application of basic pension ‹‹

Under the transitional dual system, the basic pension was designed with multiple identities, including “unique public pension,” “major old-age income source,” and “minimum income guarantee” (Cheol-Soo Lee, 2016, p. 270). During the integrated-system period, the basic pension is intended to serve as a permanent income guarantee under the old, multilayered income guarantee system to be established in the future. In short, the pension will transition from the only public pension and a major source of retirement income to a public pension that ensures people’s basic livelihoods while maintaining its role as a minimum income guarantee.

The purpose of the basic pension system for the elderly in North Korea under the dual system is to “promote the economic stability of the North Korean people living in absolute poverty and contribute to the social integration of North and South Korea by alleviating poverty and ensuring a minimum standard of living for the elderly in North Korea” (Cheol-Soo Lee, 2016, p. 270). Meanwhile, the purpose of the basic pension system in the integrated-system regime is to guarantee a minimum standard of economic, social, and cultural wellbeing for the elderly in North and South Korea, thus ultimately contributing to social integration.

The general direction of the basic pension system for North Koreans under the integrated-system regime is as follows. First, the operation of the basic pension system should be essentially the same as that of the current basic pension model in South Korea. This model is a cash-based scheme that aims to provide a low-level basic pension for those in the bottom 70 percent of income earners in order to prevent poverty and guarantee a minimum livelihood for people.

Second, seniors aged 65 or over in the bottom 70 percent of average income earners should be eligible to receive the basic pension. While North Koreans aged 65 or older continue to be eligible under the dual-system regime, the basic pension system under the integrated-system regime should target those in the bottom 70 percent of average income earners, much like South Korea's current system. This is because the absolute poverty of the majority and the difficulty of surveying income are expected to be overcome to a certain extent under the dual-system regime. To address any errors made in selecting benefit recipients, controls need to be in place to adjust the scope of recipients through a claw-back system. In addition, the couple deduction applied during the dual-system regime should also be applied in the integrated-system regime, and recipients of the special occupation retirement pension will be excluded from the basic pension.

Third, the benefit level of the basic pension system under the integrated-system regime should be calculated using the bene-

fit formula for the current basic pension system, with different benefits being provided to the elderly in the North and South. Since a considerable economic gap is expected between North and South Korea at the outset of the integrated-system regime, differential benefits will be necessary. Thus, by the time the values of A in the North and South are the same, the basic pension benefits of both Korea will have been equalized as well. As in the discussion on the dual-system regime in Cheol-soo Lee et al. (2016), the minimum, maximum, and neutral assumptions of average salary in the Special Economic Zones at A and the benefit levels at 20 percent, 50 percent, and 100 percent the value of A in the North shall apply *mutatis mutandis*.

We estimated the financial resources that would be needed for the 10-year integration period under the aforementioned conditions. Assuming that the benefit level is 20 percent, the total finances required during the integration period would be KRW 17.5048 trillion (KRW 15.9687 trillion when the couple reduction is applied) for the case where only those in the bottom 70 percent of average income earners are eligible, KRW 20.54 trillion (KRW 18.225 trillion when the couple reduction is applied) for the case where those in the bottom 80 percent are eligible, and KRW 23.0062 trillion (KRW 20.9873 trillion when the couple reduction is applied) for the case where those in the bottom 92 percent are eligible, after excluding recipients of the special occupation retirement pension.

VIII

Application of the National Pension scheme

VIII

Application of the National Pension Scheme

In North Korea, it is difficult for social insurance, especially pensions that require long-term subscription histories, to provide immediate income security. The social insurance system defines the minimum contribution period necessary to become eligible for benefits in such a way that only a small number of people are eligible. Even if the contribution period were shortened to allow as many people as possible to become eligible, the actual level of benefits would be low. In addition, the social insurance-style income guarantee system requires accurate estimates of income levels in order to establish a basis for determining insurance premiums,¹⁾ which people should be able to pay while also maintaining a reasonable standard of living. For this reason, regarding the social insurance schemes that could be implemented in North Korea, a variety of problems have been raised concerning the ways of operating the national pension system as a long-term insurance.

There are three main factors that affect the benefit levels in a defined-benefit income-related pension scheme (Gillion et al., 2000, pp. 41-45). The first is the age at which people are entitled to pension benefits. The minimum age at which people re-

1) This problem can be resolved through the operation of a defined-contribution social insurance system. In this case, however, it is difficult to ensure the adequacy of the benefits.

ceive a non-reduced basic pension is particularly important. Also, if early and deferred pensions are being set based on the pension age, reduced or increased pension benefits can be received. The second is the contribution period necessary to receive benefits. The longer the minimum period for securing pension benefits is, the more difficult it is to become eligible and the greater the benefit amounts are. The benefit rate for the contribution period affects the benefit levels as well. The third factor is income. If an income survey is conducted to determine pension benefit eligibility, the pension benefits will be reduced or suspended for people whose incomes reach a certain level. Meanwhile, people's incomes during their periods of employment also affect the benefit amounts, as does the way the upper- and lower-income limits are set, which determines the insurance premiums.

This study addresses issues related to the process of integrating the national pension systems of the two Koreas (Cheol-soo Lee et al., 2016), which will be applied to North Korea during the transitional period. However, we have sought to specify some preconditions that were not explicitly set in previous studies. Next, we present detailed plans for measures to be implemented during the integration period, such as the pension age. The representative measures covered in this chapter are the adjustment of the age requirement for benefit eligibility and adjustment of the upper and lower limits of insurance

premiums. Also, ways of implementing the special old-age pension scheme and operating the insurance premium support system, which can be used in the implementation process, are separately presented. The core points of this study are as follows.

First, we suggest that the age at which the national pension is first paid should be adjusted gradually over a 20-year period. Assuming that the insurance premium rate is set by North Korea and the average life expectancy in the country does not increase significantly in the future, some differences in the pension age between the two Koreas after system integration may be justified.

Second, we propose plans for the implementation of special old-age pensions in North Korea. This was not presented in Cheol-soo Lee et al. (2016). We suggest that, at a certain point in time, a special old-age pension scheme for people aged 50 to 60 should be introduced in North Korea.

Third, we suggest that the income replacement rate of the national pension applied to North Korea should be 20 percent.

Fourth, the upper limit of the national pension applied to the North should be four times the average income in North Korea. Moreover, the upper limit should be linked to the average income of workers and adjusted gradually to double the average income.

Fifth, we propose that a national pension premium support

project be conducted in the North. The purpose of this project would be to reduce the burden of premiums on low-income subscribers.

Sixth, the maximum insurance premium rate in North Korea should be set at 10 percent. However, that rate could be lowered in line with the implementation of special measures.

Seventh, the management functions of the national pension system in the North, such as the function of imposing and collecting taxes, should be performed by expanding the function of the "Taxation Office" (similar to a tax collection department) under the local people's committees or extending the functions of South Korea's social insurance system to the North.

The aim of applying the national pension system to North Korea is to ensure that people receive suitable incomes in old age. In North Korea, a basic pension should be established based on financial assistance from South Korea. In addition to the establishment of this system, it will be necessary to adjust and expand the national pension system in line with the economic growth of the North in order to secure adequate incomes for the people. Discussions on how to realize the same level of benefits for both North and South will be possible only after the groundwork for substantive institutional integration has been laid.

IX

Conclusion

IX

Conclusion ‹‹

This study defines a unified system based on assumptions and prospects that reflect the reality of North Korea after the transitional dual-system period and presents the economic and social status of North Korea at the beginning of the integrated system as well as a framework for social security integration. In addition, we analyze legal problems that could arise at the starting point of the integrated-system regime and the circumstances of North Korean residents and discuss plans for institutional integration with a focus on income guarantees.

Based on the findings of the above research, the following major policy tasks for social integration on the Korean Peninsula are presented.

First, the pace and stability of the transition to an integrated system depends on how much the gap between the North and South can be narrowed. Active efforts must therefore be made to narrow this gap. To this end, despite the political and security issues that exist between North and South Korea, it is necessary to establish a window for regular communication with the North on social welfare and social security, which are non-political issues. Even if the international situation surrounding North and South Korea deteriorates, exchanges in this area should be pursued for humanitarian purposes.

Although it may become difficult for the South Korean government to take direct political action, it would still be possible to actively engage with civilian and international organizations at home and abroad. Since North Korea is unlikely to refuse exchanges and support related to health and medical care and the establishment and operation of facilities for children, seniors, and people with disabilities, we must use such support as a stepping stone toward maintaining and expanding non-political exchanges.

It is also necessary to maintain and develop the social welfare and social security systems of North Korea through such preliminary assistance in order to facilitate the social integration of the North and South. This will contribute to the development of peaceful inter-Korean relations and reduce the costs of social integration by narrowing the gap between the two nations. To this end, a detailed program needs to be developed to promote social security exchanges in the future.

Second, based on precise information about North Korea, various policies for addressing problems that are expected to arise in the future should be prepared in advance. In particular, to integrate the two social security systems, an integration plan is needed that fully considers the heterogeneity of the two Koreas. To devise such a plan, sufficient academic exchange and a variety of cooperative research studies on subjects such as economics, population, and legal systems should be conducted.

Considering the reclusiveness of North Korea at the policy level, it is unlikely that such research will generate beneficial results without exchange and cooperation with the North. One of the main reasons for the lack of research on North Korean social security is that researchers have been unable to obtain accurate information, making it impossible to conduct rigorous research on the subject. Therefore, more resources should be allocated to securing and analyzing accurate information on North Korean society, in which the government should play an active role.

Information collected and accumulated for the purpose of such analysis will be highly meaningful, as it will serve as not only basic data on inter-Korean exchanges but also a reference point for social integration. The South Korean government thus needs to collect and analyze such data on a regular basis in order to build a database on the social security situation in North Korea. This data can be used in the pursuit of rational exchanges between the two Koreas and serve as useful information in preparing for sectoral integration as well. Considering the rapidly changing situation in North Korea and its neighbors and the structural and cultural changes in North Korean society, it is necessary to review social integration issues and develop and supplement related scenarios.

Third, the integration of the social security systems of the two Koreas will require considerable financial resources. It is

therefore necessary to establish and build the “Inter-Korean Social Security Fund” (tentative name) in the mid to long term. Based on the basic livelihood benefit and basic pension estimates in this study, KRW 5.3 to 10.47 trillion per year will be needed. If pensions, which accounted for more than half of Germany’s unification costs, and financing for other areas of social security, such as social services, are taken into consideration, it may actually be financially impossible to maintain the same level of social security in the North as in the South.

It will thus be necessary to disperse the social burden by accumulating financial resources over the mid to long term. The purpose of this is not simply to prepare for unification; rather, it is to support the process of exchange and cooperation between the two Koreas leading up to unification. Furthermore, a review should be conducted to determine the feasibility of establishing a body dedicated to accumulating the needed financial resources.