

***The Old Age Income Maintenance System
for Livelihood Protection Recipients in Korea***

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I . Background

Mauritius has a three-tier pension system. The first tier consists of a universal non-contributory basic retirement pension (BRP). It was introduced in 1951 to provide a minimum income guarantee for the elderly when most of the Mauritian population was poor. The pension rate has been increasing over the years and currently stands as follows:

| | |
|------------------------------------|---|
| 60 years and under 90 years | Rs 1,575 (18% of average earnings) |
| Over 90 years | Rs 6,015 |
| Centenarians | Rs 6,825 |

In addition a pension of Rs 1,115 at present is granted to beneficiaries of BRP suffering from permanent disability of at least 60% and who require the constant care of another person.

The second tier, for the private sector, is made up of a mandatory income-related pension scheme: the National Pension Fund (NPF). The NPF requires a monthly contribution of 9% of wages/salaries (3% by employee and 6% by employer) subject to a floor and ceiling and aims to provide a 33.3% replacement of average lifetime earnings for 40 years of employment. In addition a mandatory National Savings Fund (NSF) has been established in 1995 to provide, among others, for a lump sum payment to all employees based on contributions. The NSF requires a monthly contribution by the employer of 2.5% of wages/salaries not exceeding Rs 6,000 at present. Lastly, a number of voluntary schemes make up the third tier, which is geared to supplementing the pension scheme.

The most important component of the Mauritian pension system, in terms of both coverage and government expenditure, is the BRP. A residency test is the only determinant of eligibility. Outlay, financed from Government budget, amounts to around 3% of GDP. The National Pension Fund administers the basic pension. In view of the general ageing of the Mauritian population resulting in mounting financial burden of the BRP, the Government of Mauritius may wish to limit eligibility of the BRP, carer's allowance and other non contributory pensions to only those in need. The present eligibility criteria for basic retirement pensions and other non contributory benefits are annexed.

Objective

With the above background and before committing to a particular policy reform, the Government of Mauritius wishes to learn from international experience the merits and shortcomings of the different approaches of means- and affluence- testing, as well as the type of technical preparation required when a particular approach were to be chosen.

To this end, you will be required to prepare a background paper describing the income assistance programme for elderly persons in Korea.

II. Overview

Korea's old age income protection system can be largely classified into two types: a public old age income protection system and a private income protection system. The public old age income protection system is composed of Public Pension, Seniority Pension and Public Assistance, and the private income protection system consists of Private Pension and the mandatory Retirement Allowance Scheme.

At the first tier of the old age income protection system are the public pension schemes for the general public. The Public Pension schemes include the National Pension Scheme (NPS), which covers private sector employees and the self-employed, and the Occupational Pension Schemes (OPSs) include Government Employees Pension (introduced in 1960), Military Personnel's Pension (1963) and Private School Teachers Pension (1975).

Both the NPS and the OPSs take the form of social insurance, but they differ in benefit formula, benefit rates, and contribution rates. The NPS's benefit rate for a 30-year participant is 45%, while the OPSs guarantees the benefit rate of 70% for a participant with the same participation history. Due to its short history, the current beneficiaries under the NPS accounted for as low as 5.6% (as of June 2001) of the population age 65 and over. In the case of the OPSs, because their target groups are limited in size, the beneficiary group is occupied as little as 2.1% of the old population.

[Figure 1] Constitution of the Old Age Income Maintenance System in Korea

| | | | |
|-------------------------|----------------------|---|--|
| the additional security | 3 rd tier | personal pension | |
| | 2 nd tier | mandatory retirement allowance | mandatory retirement allowance |
| the first safety net | 1 st tier | National Pension | -Civil Servants pension -Private School Teachers Pension -Military Personnel Pension |
| the last safety net | Zero tier | Seniority pension(non-contributory pension) | |
| | | <i>(poverty line)</i> The National Basic Livelihood Guarantee Scheme | |

<Table 1> Constitution of the Old Age Income Maintenance System in Korea

| Tier | | System | Social Risk | Target Population | recipients (or participant) |
|--|--------------------------|---|-----------------------------|---|---|
| Zero Tier | Social Assistance | National Basic Livelihood Security Scheme (NBLSS) | ·Poverty | low income people | ·1.51 million (under poverty line) ·65 years old and over beneficiary:363 thousand person - 24% of the BLGC beneficiary - 10.2% of the 65 years old and over |
| | Non-contributory Pension | Seniority Pension | ·Old & Poverty | low income old age | ·584 thousand person - beneficiary of BLGS: 363 thousand person - beneficiary of near upper poverty line: 221 thousand person |
| First Tier (Social Insurance) | | ·National Pension | ·Old ·Disabled ·Death | general nation | ·All Citizen (substantially, 18~59 years old economic activity participant) |
| | | ·Public Occupational Pension | ·Old ·Disabled ·Death | ·civil servant ·private school teachers ·military personnel | ·All public occupational worker |
| Second Tier (Mandatory Retirement Allowance) | | ·Mandatory Retirement Allowance | ·Retirement | employee | ·employee working at over 5 person of workplace and working over 1 year |
| Third Tier (Voluntary Personal Pension) | | ·Voluntary Personal Pension | ·Old | voluntary | ·voluntary |

Second, at the ground level (0-tier) of Korea's public old age income protection system is the public assistance system. The public assistance system went through sweeping changes and came to have a new name, National Basic Livelihood Security System (NBLSS), in October 2000, which replaced the old name, Basic Livelihood Protection System. While the old public assistance system provided its benefits to people incapable of working, the new system guarantees national minimum for each and every citizen who is identified by an asset test as those who live under the national poverty line. As many as 24% of the total public assistance recipients are from the old population, and 10% of the old age population is known to receive public assistance benefits.

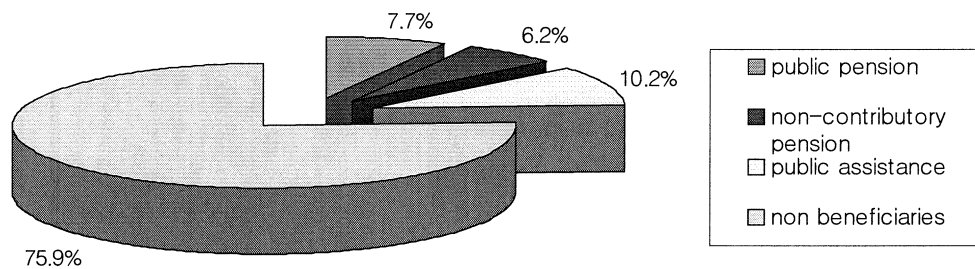
Third, also at the basic ground is the Seniority Pension System (SPS), which was introduced in July 1998 to target low-income elderly people. This system targets low-income elderly people. For the elderly people living under the national poverty line and therefore becoming public assistance recipients, this system functions as a mechanism that supplements public assistance benefits. This system is a non-contributory pension scheme for the old who are relatively poor because they have not had opportunities to participate in the NPS due to their old age. About 16-20% of the old population has been receiving benefits from the SPS.

In addition to these public old age income protection schemes, there is the mandatory Retirement Allowance Scheme (RAS), which pays benefits to retiring employees pursuant to the Labor Standard Act and corporate rules. This is supplemented by an individual pension scheme that allows a participant to constitute his/her own pension program in accordance with his/her income level. This scheme, which was designed to cover every citizen, provides participants with favorable tax treatments while they contribute to and benefit from it. The RAS pays a retiring worker the amount equal to his/her one-month wage for each year of employment. This requires the employee to pay in 8.3% of his/her monthly wage.

Despite its well-organized structure, Korea's old age protection system is not operating efficiently as a whole. Although it is designed under the principle of one pension for each income earner to target people participating in economic activities, all of the public pension schemes cover only 59.2% of the total employed population in the country.

Moreover, as of June 2001, among the total number of 3.55 million people aged 65 and older, the number of those under any form of public income protection was 0.86 million (24%).

[Figure 2] Recipients of the Old Age Income Maintenance System among 65 years old and over in Korea



The excluding people from the National Pension Scheme can be analyzed in two groups. One is the old who currently receives the National Pension, and the other is the old employed who will become recipients in the near future.

Although the National Pension Scheme has been applied for 14 years, 50% of all old participants in the National Pension Scheme were covered in April 1999, which is due to the expanded application in cities. Therefore, currently there are few strata that have obtained a right of the National Pension receipt. As of June 2001, two million people, only 5.6 % of the old over 65 years, receive the National Pension. The percentage of the old who receive the Public Pension is merely 7.7 of the old over 65 years even though some of the 65-year old who also receive the extra Public Pension such as Civil Servant Pension are included.

<Table 2> Public Pension's Recipients of 65 years old and over (2001. 6)

(unit: person, %)

| | old-age pension | disability pension | survivors' pension | total(A) | recipients ratio (A/65+) |
|---------------------------------|-----------------|--------------------|--------------------|----------|--------------------------|
| National pension | 182,290 | 997 | 14,942 | 198,229 | 5.6 |
| Civil Servants pension | 42,996 | 222 | 3,997 | 47,215 | 1.3 |
| Private School Teachers pension | 5,995 | 2 | 358 | 6,355 | 0.2 |
| Military Personnel pension | 17,617 | 8 | 4,515 | 22,140 | 0.6 |
| Total | 248,898 | 1,229 | 23,812 | 273,939 | 7.7 |

Regarding the old employed who will become recipients in the near future, it is expected that there will be many people who are excluded from the recipients of the pension payment even if the National Pension system develops and then provides pensions in full-scale. Excluding these people from the Nation Pension system happens

in two cases. The first one is exclusion of those who have no incomes. This is because the subjects of the National Pension System are those who have incomes among economically active participants. For example, housewives are excluded from application for the National Pension. The second is the group that have not accumulated actual data related to sharing the expenses for the National Pension receipt although they are included into the subjects of participants under the system. This can be classified into two sub-groups: i) those who delay their payments due to unemployment or not reporting their incomes; ii) those who have not paid insurance bills.

Consequently, 51.1% (10. 868 million people) of 21. 259 million people among the 18-59 years population as of end of 2001 are those who have been qualified to receive the Public Pension through paying insurance bills of the National Pension, including pensions for the employed at special jobs, and 48.9% (10. 391 million people) are those who have not been qualified as pension recipients due to being excluded from participants, delaying insurance bill payments, not reporting their incomes, and, not paying their insurance bills.

III. Public Pension Scheme

The Korea's Public Pension System is composed of the National Pension Scheme(NPS), which covers private sector employees and the self-employed, and the Public Occupational Pension Schemes(OPSs), which cover civil servants, military personnel, and private school teachers. While the NPS is a social security system for the Korean people, OPSs are social security systems for specific occupational employees.

Since the Civil Servants Pension was introduced in 1960, the Military Personnel Pension(1963), the Private School Teachers Pension(1975), and the National Pension(1988) have taken effect. The NPS is still in its nascent phase, while the OPSs are reaching maturation. NPS and OPSs are publicly mandated pension schemes, but contribution-benefit structures are different from each other.

The benefit formula of the OPS shows that it does not have any income redistributive component. The sole determining factor of pension benefit is years of participation and the average monthly income of a participant for the last three years prior to his/her retirement. Therefore, it can be said that OPS is a 100% earnings-related pension scheme.

OPS's replacement rate with 33 years of contribution history is 76% of the average monthly income of the last 3 years before retirement. In order to maintain the

real value of pension benefits over time, pension amounts had been indexed to wage level in the occupation until 2000. However, it has been changed to cpi indexation since 2001. The old-age pension benefits were paid after retirement regardless of a retiree's age in OPS, but the age in which the old can get pension benefits are set at 50 this year.

The contribution rate for the OPS was raised from 7.5% to 8.5% of the monthly wage at the beginning of this year. The contribution rate for the local and central government was also raised from 7.5% to 8.5%. Thus total contribution rate is 17%.

All OPSs have had serious financial problems. The fund reserve of the Military Pension was depleted in 1977, and its current deficits meet the Government budget. The Civil Service Pension has incurred deficits since 1998, and its fund reserve was expected to deplete in 2001. The Private School Teachers Pension is predicted to incur deficit after 2012 and its fund reserve is expected to deplete by 2018.

For the purpose of easing the financial distress, the three OPS acts were amended in December 2000 as followings:

(a) The contribution rate shall be increased from 15% to 17%. If financial deficit occurs despite this hike of the contribution rate, the government will be responsible for a make-up of a future shortfall. The required amount that the government should reserve for the make-up is estimated to exceed 5 percent of the total budget earmarked for wages for next 5 years and to reach about 8% thereafter. Hence it can be maintained that the rule of 50:50 burden sharing between civil servants and the government, which existed by 2000, may be abolished.

(b) Workers having a continuous employment history for less than 20 years shall start receiving pension benefits when 50 years old after 2001. This particular age eligibility shall be increased until it reaches 60 by raising 1 year in every two years through interim measures.

(c) The wage-indexed benefit system shall be converted into price-indexed one.

1. National Pension Scheme

1) Historical Background

The NPS was established in 1988 as a public pension program for the general public, and with gradual expansion efforts, its coverage was extended to the entire population in April 1999. The chronology of events has been as followings:

| | | | |
|------|-----|------|---|
| Dec. | 31, | 1986 | Legislation of National Pension Act |
| Sep. | 18, | 1987 | Establishment of the National Pension Corporation |

- Jan. 1, 1988 Implementation of the NPS in workplaces with 10 or more employees
- Jan. 1, 1992 Expansion of compulsory coverage to the employed in workplaces with 5 or more employees
- June. 1, 1993 Increase of contribution rates to 6% and beginning of payment of Special Old-age Pension
- July. 1, 1995 Expansion of compulsory coverage to the employed in workplaces with less than 5 employees in rural areas, farmers and fishermen
- Aug. 4, 1995 Expansion of compulsory coverage to the foreigners in workplaces
- Jan. 1, 1998 Increase of contribution rates to 9% for the employed
- April 1, 1999 Expansion of compulsory coverage to the self-employed and the employed in workplaces with less than 5 employees in urban areas

At the moment of National Pension coverage extension to all the citizens in April 1999, the amended National Pension Act of the late 1998 included comprehensive reformative actions proposed after the first implementation of the NPS in 1988. Some of the reforms are as followings.

First, the long-term financial stabilization of the NPS was planned. The benefit level of an average earner who earned 40 years of coverage (income replacement ratio) was lowered from 70% to 60%, and the normal retirement age raised to 65 in the year 2033, gradually increasing one year in every five years from 2013. In addition, financial projection in every five years beginning in 2003 should guarantee the long-term financial balance through proper contributions and benefit levels.

Second, transparency, stability, and profitability of the NPS fund management were reinforced. Above all, the representatives of the contributors participate actively in the National Pension Fund Management Committee and the National Pension Fund Operation Technical Evaluation Committee to increase transparency of fund management. The National Pension Fund Management Center was established in the NPC and president of the Center is openly recruited to help enhance the expertise of the NPS fund management. Furthermore, the required deposit into the Public Fund Management Reserve is completely abolished in 2001, and the Government bond is used as an instrument for the public sector investments to increase the stability and profitability of the fund.

Third, the pension eligibility requirements have been generalized for the more insured to be eligible. Above all, the minimum period of coverage for the Old-Age

Pension was reduced from 15 years to 10 years. The minimum periods of coverage for the Early Old-Age Pension and the Active Old-Age Pension were reduced from 20 years to 10 years. Additionally, the one-year period of coverage requirement for the Disability Benefits and the Survivors Pension is abolished. Furthermore, in order to protect spouses having no earnings - mostly housewives, the pension split, which divides the Old-Age Pension of the spouse at divorce, was introduced.

2) Coverage

At its implementation in 1988, the National Pension covered workplaces with more than 10 employees, but was expanded to workplaces with 5-9 employees in January 1992 and was expanded to the self-employed residing in rural areas in July 1995. With the expansion of coverage to the urban self-employed in April 1999, the nationwide coverage was achieved very rapidly within 11 years of its introduction.

Those who are in scope of coverage under this scheme are people whose ages are from 18 to less than 60 and who live in Korea. This scheme shall exclude civil servants, military personnel and private school teachers because they are covered respectively under their own special schemes.

The types of coverage are divided into two. One is the compulsorily insured such as employees and the self-employed, including foreigners. The other is the voluntarily insured such as housewives and students, and the old whose insured term is less than 20 years and whose age is from 60 to 64.

As of the end of 2001, a total of 16.3 million persons, including 5.7 million of firm employees and 10.9 million of the self-employed are covered by the National Pension Scheme. Out of the 10.9 million of the self-employed, 6 million or 55% were those who made income declaration (those who are to pay his/her contribution into the pension fund), and the remaining 4.9 million or 45% were exempt from making contributions. As a result, the number of persons required to pay contributions was 11.6 million. In the case that a participant is unable to pay in contributions due to business closure, suspension, or unemployment, the insured does not have to pay in contribution during this time, which is recognized as an exemption period.

〈Table 3〉 Number of Insured Person

(unit: place, person)

| Year | total | The employed the workplace | | The self-employed and | | | Voluntar y insured | Voluntary & continuously insured persons |
|------|------------|----------------------------|-----------|-----------------------|-----------|-----------|-----------------------|--|
| | | Workplace | Insured | total | urban | rural | | |
| 1988 | 4,432,695 | 58,583 | 4,431,039 | | | | 1,370 | 286 |
| 1992 | 5,021,159 | 120,374 | 4,977,441 | | | | 32,238 | 11,480 |
| 1995 | 7,496,623 | 152,463 | 5,541,966 | 1,890,187 | | 1,890,187 | 48,710 | 15,760 |
| 1999 | 16,261,889 | 186,106 | 5,238,149 | 10,822,302 | 8,739,152 | 2,083,150 | 32,868 | 168,570 |
| 2001 | 16,277,826 | 250,729 | 5,951,918 | 10,180,111 | 8,132,036 | 2,048,075 | 29,982 | 115,815 |

3) Benefit

The National Pension as a defined benefit scheme, combining the earnings-related component with the redistributive components, is designed to function as an appropriate income protection system against the wide range of social risks, including old age, disability, and death. Under the scheme, incomes the insured earned during the insured period are recalculated into the present value, and also the real value of benefits is guaranteed through a price-based sliding scale indexation mechanism after the pension amount is determined

Calculation of Benefits

The pension amount is composed of a basic pension amount and an additional pension amount. The basic pension amount is related to the average of the Standard Monthly Income¹ of all the insured (equalized part), and the average of Standard

¹ The Standard Monthly Income of the National Pension is divided into 45 ranks. The minimum Standard Monthly Income is 0.22 million won, and the maximum Standard Monthly Income is 3.6 million won. can be determined between these.

As of 2001, the monthly average income of participants is 0.129 million won, which belongs to the rank 26. The lowest is 17 % of the average income, and the highest is 2.8 times as many as the average income.

Monthly Income of an insured individual (earnings-related part). The additional pension amount varies according to the type and the number of the dependant.

Basic Pension Amount (BPA)

The BPA is the basis for calculation of Old-age, Disability, and Survivor Pension. The BPA is applicable only to an insured period of 20 years or longer. Accordingly, the Reduced Old-age Pension for an insured period of less than 20 years is calculated through multiplying the BPA by the reduced rate based on the insured period. When

〈Table〉 Ranks of the Standard Monthly Income of the National Pension

(Unit: 1000 won)

| Ranks | Monthly Income | Standard Monthly Income |
|-------|-------------------------|-------------------------|
| 1 | Less than 225 | 220 |
| 2 | Less than 225 ~ 235 | 230 |
| 3 | Less than 235 ~ 245 | 240 |
| 4 | Less than 245 ~ 255 | 250 |
| 5 | Less than 255 ~ 265 | 260 |
| 6 | Less than 265 ~ 280 | 270 |
| 7 | Less than 280 ~ 300 | 290 |
| 8 | Less than 300 ~ 325 | 310 |
| 9 | Less than 325 ~ 355 | 340 |
| 10 | Less than 355 ~ 385 | 370 |
| 11 | Less than 385 ~ 420 | 400 |
| 12 | Less than 420 ~ 460 | 440 |
| 13 | Less than 460 ~ 500 | 480 |
| 14 | Less than 500 ~ 545 | 520 |
| 15 | Less than 545 ~ 595 | 570 |
| 16 | Less than 595 ~ 645 | 620 |
| 17 | Less than 645 ~ 700 | 670 |
| 18 | Less than 700 ~ 760 | 730 |
| 19 | Less than 760 ~ 820 | 790 |
| 20 | Less than 820 ~ 885 | 850 |
| 21 | Less than 885 ~ 955 | 920 |
| 22 | Less than 955 ~ 1,025 | 990 |
| 23 | Less than 1,025 ~ 1,095 | 1,060 |
| 24 | Less than 1,095 ~ 1,170 | 1,130 |
| 25 | Less than 1,170 ~ 1,250 | 1,210 |
| 26 | Less than 1,250 ~ 1,335 | 1,290 |
| 27 | Less than 1,335 ~ 1,425 | 1,380 |
| 28 | Less than 1,425 ~ 1,515 | 1,470 |
| 29 | Less than 1,515 ~ 1,610 | 1,560 |
| 30 | Less than 1,610 ~ 1,710 | 1,660 |
| 31 | Less than 1,710 ~ 1,810 | 1,760 |
| 32 | Less than 1,810 ~ 1,915 | 1,860 |
| 33 | Less than 1,915 ~ 2,030 | 1,970 |
| 34 | Less than 2,030 ~ 2,135 | 2,080 |
| 35 | Less than 2,135 ~ 2,245 | 2,190 |
| 36 | Less than 2,245 ~ 2,360 | 2,300 |
| 37 | Less than 2,360 ~ 2,475 | 2,420 |
| 38 | Less than 2,475 ~ 2,600 | 2,540 |
| 39 | Less than 2,600 ~ 2,730 | 2,670 |
| 40 | Less than 2,730 ~ 2,870 | 2,800 |
| 41 | Less than 2,870 ~ 3,010 | 2,940 |
| 42 | Less than 3,010 ~ 3,150 | 3,080 |
| 43 | Less than 3,150 ~ 3,310 | 3,230 |
| 44 | Less than 3,310 ~ 3,450 | 3,380 |
| 45 | More than 3,450 이상 | 3,600 |

disability or death happens, the pension amount is calculated through multiplying the BPA by the rate based on the disability degree for the insured period less than 20 years.

The BPA is calculated by following formula, and the meaning of each factor is as followings. Under the NPS, the amount of benefits is calculated by the principle of income redistribution among the social strata. The formula of Basic Pension Amount has a "double layer" approach, which combines the average of the Standard Monthly Income of all the insured (equalized part) with the average amount of Standard Monthly Income of an insured individual (earnings-related part). An increment of 5% will be added to both parts per year after 20 years.

Formula of Basic Pension Amount

$$\text{Basic Pension Amount} = 1.8 (A+B) \times (1+0.05n)$$

【1.8】 expresses the constant which determines the level of benefits when the insured have been covered for 20 years. In the case of the median of the Standard Monthly Income, the level of benefits is about 30% of his or her average monthly income during the insured term.

【A】 (The Average Monthly Income) means the average amount of the Standard Monthly Income of all the insured in the workplace and in the rural and urban area in the previous 3 years when the pension is first paid (equalized part).

【B】 means the average amount of Standard Monthly Income during the insured term for an insured person (earnings-related part)

【The method of calculation】 : i) calculating the current value in the previous year when the pension is first paid to the insured for the Standard Monthly Income of the insured term by the revaluation rate, which is annually determined and announced on the basis of the annual rate of changes in an Average Monthly Income during the insured term; and

ii) dividing the reevaluated aggregate amount of Standard Monthly Income of an insured person during the insured term by the years.

【0.05】 is the additional rate of the level of benefits per year after 20 years

【n】 is the number of years after 20 years of an individual insured term.

Additional Pension Amount (APA)

The APA is a type of family allowances. Eligible dependents for APA include spouses and children aged less than 18 or with disability of the first or second degree. In addition, parents aged 60 or over or with disability of the first or second degree (including spouses' parents), supported by the pensioner (the current or former Insured Person of Survivors Pension) are included. The APA is paid in a fixed amount. In 2001, the APA is 166,270 won per year for a spouse and 110,850 won per year for a child or parent. The determined amount of APA is applied to a person who gains the pension right during the period between April of one year and March of the next year. Nevertheless, the APA is not provided for the Active Old-age Pension, the Divided Pension, and the Lump-sum Disability Compensation.

Benefit Adjustment against Inflation

A price indexation system is adopted for the pension benefit amount. It is applied to both basic pension amount and additional pension amount.

Qualification & Level of Benefits

The standard level of pension benefits is estimated at 60% of income of an insured person who will retire after 40 years of the insured term and whose monthly income level is the median of the Standard Monthly Income of all the insured. The benefit amount will range from 60% up to 100% of his/her income if the amount of the monthly income is lower than the median mentioned above. Meanwhile, less than 60% of the income will be paid in the opposite case. The real value of all benefits is also secured through a sliding-scale system by the price index.

〈Table 4〉 Pension Level for Those Who Completed 40 Years of Contribution Based on the Standard Monthly Income

| Standard Monthly Income (B) (unit: won) | Monthly pension (P) (unit: won) | P/B*100 (unit: %) |
|--|------------------------------------|----------------------|
| 310,000 | 310,000 | 100 |
| 730,000 | 613,910 | 84.1 |
| 990,000 | 691,910 | 69.9 |
| 1,660,000 | 892,910 | 53.8 |
| 2,420,000 | 1,120,910 | 46.3 |
| 3,600,000 | 1,474,910 | 41.0 |

Note : The average monthly income of the total insured was 1,271,595 Won in 2001.

Minimum eligibility required for old-age pension benefits is 10 years in NPS. The insured will be entitled to the Old-age Pension upon reaching the age 60 (55 for miner and fisherman), if the insured has contributed for at least 10 years. The Old-age Pension is designed to guarantee income when the insured become economically less active or inactive due to aging. The Old-age Pension is paid to beneficiaries while they are alive. At present, the age eligible for the Old-age Pension is 60, but it will be 61 in 2013. There will be a year increase in every 5 years. The eligible age will be 65 by 2033.

〈Table 5〉 The Plan of Pensionable Age for the Old-age Pension

| year | before 2012 | 2013~ 2017 | 2018~ 2022 | 2023~ 2007 | 2028~ 2032 | (unit: age) since 2033 |
|-----------------|-------------|---------------|---------------|---------------|---------------|---------------------------|
| Pensionable age | 60 | 61 | 62 | 63 | 64 | 65 |

Benefit Types

Pension benefits are divided into the Old-age Pension, the Disability Pension and the Survivors' Pension. Lump-sum benefits are classified into the Lump-sum Refund, the Lump-sum Death Payment.

Old-Age Pension

The insured will be entitled to an Old-age Pension upon reaching the age of 60 (55 for miners and fishermen) if the insured has contributed for at least 10 years. The Basic Pension Amount of the Old-age Pension was designed to ensure that a person

who have contributed for 40 years and whose income level is the same as the median value of all the insured will receive 60% of his/her average life-time wage. The level of pension benefits is determined for each income group on the ground of an insured person's monthly income (Standard Monthly Income).

The Additional Pension amount will be added to this pension if the beneficiary supports a spouse or children less than 18 years old or parents (including the spouse' parents) aged 60 or over.

In the early year of its implementation, it was necessary to modify the principle of 15 or 10 years contribution for the Old-age Pension for those who are approaching the age of 60. Two devices were adopted for this purpose. One is that in 1988,1995, and 1999 when the scheme commenced, the Old-age Pension (The Special Old-age Pension) should be paid to those who began contribution at the age between over 45 and under 60 and continued it for at least five years. This has been paid since 1993 and its beneficiaries were 149,430 persons at the end of 1999. The other device is that if an insured becomes the pensionable age but he/she have not yet contributed for the required period, he/she voluntarily will continue his/her contribution up to the age of 65.

Disability Pension

The Disability Pension is paid to a person who is sick or injured during the insured term and who is physically or mentally disabled so that the person's working ability is considerably reduced. The level of this pension is from 60% to 100% of the Basic Pension Amount depending on the degree of disability. The number of disability beneficiaries including the Lump-sum Compensation was 33,252 at the end of 1999.

Survivors' Pension

The Survivors' Pension is paid to survivors of an currently insured person, a previously insured person whose insured term is 10 years or more, or a person entitled to the Old-age Pension or the Disability Pension of the second disability degree or higher.

The level of this pension is from 40% to 60% of the Basic Pension Amount according to the decreased insured term and the Additional Pension Amount. In this pension, the survivors are defined as followings: i) a spouse whose age is 60 years old or more; ii) children and grandchildren whose ages are less than 18 years old; iii) the disabled who are classified as the second disability degree or higher; or iv) parents and grandparents whose ages are 60 years old or more. The number of survivors' beneficiaries was 94,609 at the end of 1999.

Lump-sum Refund

The Lump-sum Refund is paid to survivors of contributors whose insured term is less than 10 years. It is also paid to contributors as followings: i) whose insured term is less than 10 years and who have reached the age of 60; ii) who have lost their Korean nationality; iii) who have emigrated from Korea; or iv) who have become government officials, military personnel, private school teachers or employees of a specially designated post offices. The level of these benefits depends on contributions and the legally fixed interest rate.

The Number of Beneficiaries

As of 2001, the number of National Pension beneficiaries is 0.607 million, 77% of whom received Old-age Pension benefits. Since the implementation of National Pension Scheme, a total of 7.3 million persons have received a lump sum refund.

〈Table 6〉 The number of beneficiaries

(unit: person)

| | total | Old-age pension | | | Disability pension | Survivor Pension |
|---------------|----------------------|---------------------|---------------------|------------------|--------------------|-------------------|
| | | Total | special | early | | |
| beneficiaries | 785,528 (100.0) | 613,820 (77.2) | 565,896 (71.2) | 47,924 (6.0) | 32,666 (4.1) | 149,042 (18.7) |
| amount | 3,551,696 (100.0) | 2,335,841 (65.8) | 2,074,031 (58.4) | 261,810 (7.4) | 301,017 (8.5) | 914,838 (25.7) |

4) Contribution and Financial Projection

Contribution rate

The NPS is mainly financed from contributions paid by the insured. The financial support of the government is a part of the administrative costs of the National Pension Corporation(NPC) and a part of the contributions of farmers and fishermen. In order to lighten the financial burden on the insured and employers at the beginning stage, the contribution rate started at a low level for the first 10 years of the scheme and gradually increased.

The current contribution rate for the employed is set at 9% of standard monthly wage of a participant, and it is subject to remain unchanged until 2009. The contribution is equally shared by both employers and employees. The contribution rate for the self-

employed is 6%, but it is scheduled to rise by 1% point per year up to 9% in 2005 and then stay unchanged until 2009. The contribution for the self-employed is borne by participants.

〈Table 7〉 The Contribution Rate Plan of NPS

(unit: %)

| Contributor \ Period | | 1988~92 | | 1993~97 | | 1998 | | 1999~2009 | |
|----------------------|----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|---------------------|
| Insured in workplace | Total | 3 | | 6 | | 9 | | 9 | |
| | Employer | 1.5 | | 2 | | 3 | | 4.5 | |
| | Employee | 1.5 | | 2 | | 3 | | 4.5 | |
| | retirement payment reserve | - | | 2 | | 3 | | - | |
| Contributor \ Period | | 1995.7 ~ 1999.3 | 1999.4 ~ 2000.6 | 2000.7 ~ 2001.6 | 2001.7 ~ 2002.6 | 2002.7 ~ 2003.6 | 2003.7 ~ 2004.6 | 2004.7 ~ 2005.6 | 2005.7 ~ 2009 |
| Insured in rural | | 3 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| Insured in urban | | - | | | | | | | |

5) Projection of National Pension Reserves

The NPS is still in its nascent stage, and it faces an overwhelming challenge of accumulating a huge stock of reserves before the fund reserve has begun to shrink since the mid-2030's. The long run financial sustainability of the NPS will also depend on prudent management of pension reserves.

The financial projection for the pension needs to have various assumptions regarding population, economic fundamentals and variables-related pension. The NPC model projects that the reserves reach its maximum of 631.0 trillion won in 2030 and will be 133.8 trillion won until. In terms of GDP, the NPC model projects that the reserves will grow from 23.2% in 2005 to 43.4% in 2020. If the current contribution rate remains unchanged, the NPS will be projected to run deficit after 2034 and its fund reserve will be depleted until 2048.

〈Table 8〉 Financial Projection of National Pension Scheme

(Unit: 1000 million Won, 1000 people)

| Year | Reserved fund | Total Revenue | Total Expenditure | Difference between revenue and expenditure | Number of Participants | Number of old age pension | Maturity rate(%) | Reserve rate(%) |
|------|---------------|---------------|-------------------|--|------------------------|---------------------------|------------------|-----------------|
| 2000 | 565,846 | 141,131 | 45,207 | 95,923 | 16,425 | 363 | 2.2 | 12.5 |
| 2010 | 2,489,249 | 414,791 | 90,782 | 324,008 | 18,199 | 1,780 | 9.8 | 27.4 |
| 2020 | 5,166,792 | 655,605 | 260,537 | 395,068 | 17,674 | 3,545 | 20.1 | 19.8 |
| 2030 | 6,309,898 | 768,113 | 603,656 | 164,458 | 16,318 | 6,094 | 37.3 | 10.5 |
| 2034 | 5,906,253 | 752,760 | 753,661 | -901 | 15,636 | 6,912 | 44.2 | 7.8 |
| 2040 | 4,256,564 | 726,316 | 984,919 | -258,603 | 14,891 | 7,704 | 51.7 | 4.3 |
| 2048 | -348,146 | 554,185 | 1,297,768 | -739,583 | 14,192 | 8,090 | 57.0 | -0.3 |
| 2050 | -1,852,905 | 576,343 | 1,355,556 | -779,212 | 14,092 | 7,993 | 56.7 | -1.4 |
| 2060 | -9,489,135 | 679,952 | 1,680,338 | -1,000,386 | 13,094 | 7,661 | 58.5 | -5.6 |
| 2070 | -17,930,476 | 810,449 | 2,107,488 | -1,297,039 | 12,189 | 7,281 | 59.7 | -8.5 |
| 2080 | -26,910,748 | 980,586 | 2,515,657 | -1,535,070 | 11,544 | 6,755 | 58.5 | -10.7 |

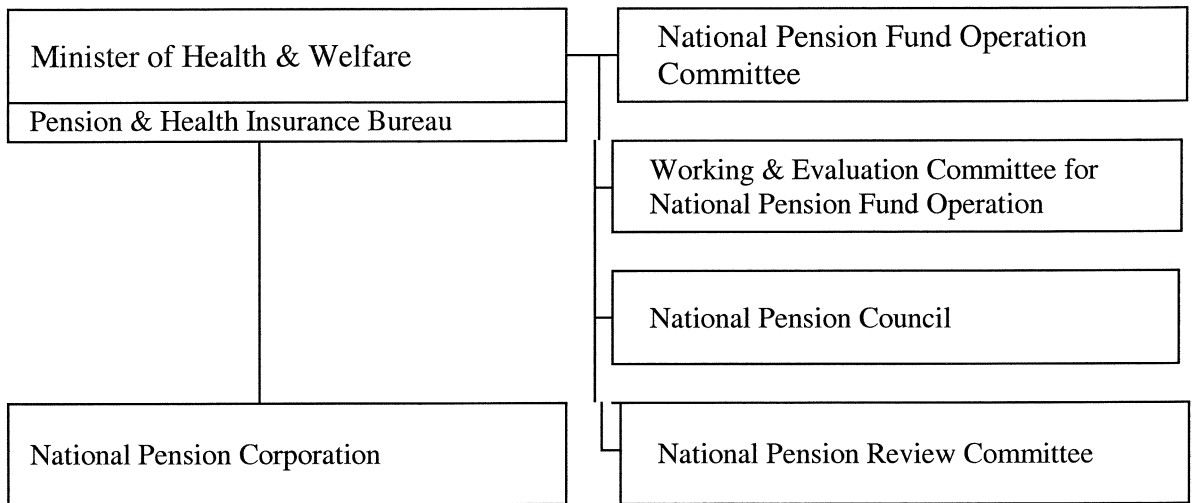
6) Administration System

In Korea, there are two organizations so as to implement the National Pension Scheme. One is organization to make a policy and the other to do practical business. The Ministry of Health and Welfare is a government authority to make decisions on policies and to supervise implementation of programs. Besides, there are three high-level government committees with regards to the operation of the scheme.

The National Pension Corporation, non-profit public corporation, was established as an organization for practical business. The Corporation manages the details of programs under the supervision of the Ministry of Health and Welfare: for example, keeping the records for the insured, collecting contributions, making a decision on benefits, and paying benefits, etc.

The related government authority to the Ministry of Health and Welfare are the National Pension Fund Operation Committee, the National Pension Council, and the National Pension Review Committee. The related bureau to the Ministry of Health and Welfare is the Pension and Health Insurance Bureau. The related authority is shown in Figure 3.

[Figure 3] Related Authority



7) Key Reform Issues

Key Reform Issues Debated by the Task Force

When Korean government and the World Bank negotiated the Second Structural Adjustment Loan (SAL II) in late 1998 in the wake of the financial crisis, the World Bank advised to review the entire pension systems and prepare a White Paper on a comprehensive development strategy for the public pension system in Korea. Then the Government agreed to undertake this task.

Therefore, the Pension Reform Task Force was formally established in December 1998 under the aegis of the Social Security Deliberation Commission and the Minister of Health and Welfare. The following key reform issues were deliberated and debated by the Pension Reform Task Force during the series of meetings.

First, the Task force considered what is the appropriate level of the contribution rate for the National Pension Scheme, which ensures its long term financial sustainability and which participants can afford to. The majority of members considered that 15% would be the maximum contribution rate. Nevertheless, there was a minority view that the contribution rate should have a cap of 10%, and some remaining financial requirements should be borne by the government budget.

Second, the Task Force deliberated the division of works to be played by public and private pension schemes for old age income protection. A majority view was that private pensions should play more significant roles, and its role in old age income security should be gradually reduced. However, some minority members considered that the leading role of public pension schemes be retained through some systemic

reforms, which would be introduced to improve its functions. Nevertheless, there was consensus that pension benefits of NPS should be adjusted downward, and the resultant income gap should be met by a new corporate pension scheme, borne out of the retirement allowance system and through reactivation of private pension schemes. There was another consensus, which is to maintain the present framework for the self-employed, even though there was a minority view to confine the coverage of the self-employed to the basic pension.

Third, the Task Force considered the pension right issues so as to give pension rights to those who were denied to get protection under the current system, and also the Task Force discussed how to mobilize the additional financial requirements. A majority view was to give contribution period credits to the unemployed, a low-income group, students, soldiers, child birth and caring to facilitate their pension rights. However, the view was split on the finance methods, which were fund reserve, budget subsidies and by the Employment Insurance.

Fourth, the Task Force considered various means to provide pension rights to the poor and old having no income. A majority view was to introduce a Minimum Guarantee Pension scheme in lieu of the current noncontributory Elderly Pension and the required finance met by the tax revenues. Some minority members proposed to provide them with the basic pension under the Basic Pension scheme.

Fifth, the majority members of the Task Force preferred to convert the retirement allowance system to a corporate pension, but some minority members proposed to leave this system as a voluntary pension system operated by concerned private sector companies.

Sixth, the Task Force considered the merits of the defined benefit scheme and defined contribution scheme. A majority view was that public pensions should be operated as the defined benefit scheme while corporate pensions should be operated as the defined contribution scheme.

Seventh, the issue of portability was seriously considered by the Task Force. Some members suggested ideas that all basic pensions should be consolidated under the umbrella of the National Pension Scheme and that portability among schemes should be newly introduced. The majority of members considered that private pensions and corporate pensions should permit full portability to all participants so that they could have the pension rights until retirement.

As a result, the policies for the current National Pension system can be suggested as followings. First, it should be recognized that the current system will be unsustainable in the long run and then ask for excessive burden to the future generation. Therefore, the current system must urgently be reformed.

Second, a broad national consensus on the appropriate levels of contribution and pension benefits will be necessary for a successful reform.

Third, conversion of the retirement allowance system to the corporate pension should be seriously studied, and preparatory works for this endeavor must be carried out as soon as possible.

Fourth, the roles of the public and private pensions should be clearly defined and agreed before a reform to ensure a balanced growth of public and private pensions is implemented.

Fifth, an institutional safeguard must be introduced to provide old age protection to less privileged people such as the poor and old who have been denied benefits under the current system.

Sixth, it is essential to have reliable income data for the self-employed, and all effort should be made to obtain reasonable income data for them. Without these data, a satisfactory pension reform can not be undertaken.

2. Pension for Government Employees²

1) Summary

The pension for government employees was introduced as the first public pension with the enactment and enforcement of the Civil Servant Pension Act in January 1, 1960. The pension covers government employees as defined in the National Civil Servant Act and Local Civil Servant Act. Accordingly, the term "government employees" include employees either hired by the central government or local governments. Military personnel and elected officers, such as members of the parliament and the President, are also included into the "government employee" category.

The pension for government employees is financed by the civil servants or beneficiary in the form of deduction at the source and by their employers such as the central government and local authorities. An insured person contributes 7.5% of his/her wage to the pension scheme, while the central and local governments contribute the same amount. However, the central and local governments are entirely liable for expenditures for disaster compensation, retirement allowance, disaster relief, and condolence money.

² Internal documents of Civil Servant Pension Corporation

The pension scheme for government employees is basically a pay-as-you-go scheme. For a balanced financial management of benefit payments, expenditures, contributions, and operation profits, the government employees pension fund has been established and accomplished. For a meantime, the contribution rate has been increased from 2.3% to 3.5% in 1969, to 5.5% in 1970, to 6.5% in 1996, and to 7.5% in 1999. Therefore, the pension scheme seems like a modified defined contribution system.

2) Benefit Payments

Pension benefits for government employees are mainly divided into two categories: short-term benefits and long-term benefits. First, long-term benefits include retirement benefits (retirement pensions, retirement pension lump-sum, retirement pension deduction lump-sum, retirement allowance), disability and injury benefits (disability and injury pension, and disability and injury compensation), survivors benefits (survivors pension, survivors pension extra benefit, survivors pension special extra benefit, survivors pension lump-sum, survivor compensation), and retirement allowance. Second, short-term benefits include work-related medical treatment benefits, work-related medical treatment lump-sum, disaster relief, and death condolence money. The characteristics of Pension benefits for government employees is very much similar to the retirement allowance, so it is receivable in lump-sum. According to 1995 statistics, 81% of retirees received their retirement benefits in lump-sum, while only 19% opted for retirement pension.

〈Table 9〉 Types of Long-Term Benefits and Eligibility Conditions for Government Employees

| Types | | Eligibility Conditions |
|---------------------|--|--|
| Retirement Benefits | Retirement Pension | - Retirees with more than 20 years of government service |
| | Retirement Pension lump-sum | - Retirees with more than 20 years of government service who want to receive the retirement pension in lump-sum |
| | Retirement Pension Deduction Lump-sum | - Retirees who served for more than 20 years and want to be paid in lump-sum responding to the additional period of time after 20 years |
| | Retirement Lump-sum | - Retirees who served for less than 20 years |
| Survivor Benefits | Survivor Pension | - When civil servants, who served for more than 20 years, die at the workplace - When the retiring pensioner or recipient of disability and injury pension dies, 70% of retirement pension or disability and injury pension is paid. |
| | Survivor Pension Extra Payment | - When survivors pension is filed at the death of civil servants with more than 20 years of service, 25% of survivors pension lump-sum is paid. |
| | Survivors pension special additional benefit | - Beneficiaries who die within three years after retirement |
| | Survivors Pension Lump-sum | - When civil servants with more than 20 years of service die at work, and instead of survivors pension, lump-sum benefit is desired. Survivors pension lump-sum is identical to retirement pension lump-sum. in benefit amount. |
| | Survivor Lump-sum | - When civil servants with less than 20 years of service die, survivors lump-sum equal to the amount of retirement lump-sum is paid. |
| Types | | Eligibility Conditions |
| Survivor Benefits | Survivor Compensation | - When civil servants die of disease or injury at work or when retirees die of disease or injury within three years after retirement |
| Illness Benefits | Illness Pension | - When civil servants retire due to illness from work-related disease or injury, or when they become ill within three years after retirement due to work-related disease or injury, 15 to 80% of the pension benefit is paid according to the degree of illness (from first degree to 14th degree) |
| | Illness Compensation | - When a lump-sum payment is favored over sickness pension, an amount five times as much as the sickness pension is paid. |
| | Retirement Allowance | - When government employees with more than one year of service retire or die. |

Source: Government Employees Pension Corporation, 2000.

〈Table 10〉 Types of Short-Term Benefits in the Government Personnels Pension and Eligibility Conditions

| Types | | Eligibility Conditions |
|---------------------|---|--|
| Public Duty Benefit | Work-related medical treatment payment | - When receiving medical treatment for work-related disease or injury |
| | Work-related medical treatment Lump-sum | - When work-related disease or injury is not cured after two years of medical treatment |
| Assistant Benefit | Disaster assistance | - When government employees experience financial loss caused by flood, fire or other disasters |
| | Death condolence money | - When the government employee, their spouse, their direct family members, or their spouse's direct family members die |

Source: *Government Employee Pension Corporation, 2000.*

3. Pension for Private School Teachers

1) Summary

With the enactment of the Pension for Private School Teachers Act in 1975, a Pension plan for Private School Teachers was launched. The qualified teachers for this pension scheme are teachers working for private schools or organizations as described in Article 3 of the Private School Law, as well as for special schools, private schools, and organizations as described in Article 81, item 6 of the Education Law. Those who are temporarily hired on conditional employment or those who are unpaid are not eligible for the coverage.

As stipulated in the Pension for Private School Teachers Act, teachers, private schools, and the government must contribute to the pension scheme, respectively. First, teachers must contribute 7.5% of their monthly wages during their employment period (maximum period: 33 years), while private schools or the government should contribute the same amount. However, private schools are solely liable for the disaster compensation payment (comparable to 1/55 of entire contribution by an individual teacher). The Private School Teachers Pension Corporation and the government are responsible for the retirement allowance; the corporation pays 23.6 billion won, and the government pays the total retirement allowance provision for a year, which is worthy 23.6 billion won.

2) Benefit Payment

The pension for Private School Teachers is divided into two categories: Long-term benefits and Short-term benefits. First, long-term benefits include retirement

benefit, survivors benefit, sickness benefit, and retirement allowance. Second, short-term benefits include work-related medical treatment payment, work-related medical treatment lump-sum, disaster assistance, and death condolence money. Types and eligibility conditions of each pension benefit are shown in Table 11 and Table 12.

〈Table 11〉 Types and Eligibility Conditions of Pension Benefits for Private School Teachers

| Types | | Eligibility Conditions |
|--------------------------------|--|---|
| Retirement Benefits | Retirement lump-sum | - Retirees with less than 20 years of service |
| | Retirement Pension lump-sum | - When retirees with more than 20 years of service want to receive retirement pension in lump-sum |
| | Retirement pension | - When retirees with more than 20 years of service want to receive retirement benefit in the form of pension instead of lump-sum |
| | Retirement pension deduction lump-sum | - When retirees with more than 20 years of service want to receive retirement pension and, at the same time, they want to be paid in lump-sum for the period deducted from 20 years. |
| Survivor Benefits | Survivors lump-sum | - When teachers with less than 20 years of service die at work |
| Survivor Benefits | Survivors pension lump-sum | - When teachers with more than 20 years of service die at work and their surviving family want to receive lump-sum benefits over survivor pension. |
| | Survivors pension | - When teachers with more than 20 years of service die and their surviving family want to receive pension over lump-sum benefit. |
| | Survivors pension additional benefit | - When teachers with more than 20 years of service die and their surviving family want to receive pension instead of lump-sum benefit, additional benefit is provided. |
| | Survivors pension Special additional benefit | - When the pensioner dies prior to age eligible for pension reception or when the pensioner dies within 3 years after receiving pension. |
| | Survivors compensation benefit | - When insured persons die of work-related disease or injury at work or when they die of work-related disease or injury within 3 years after retirement. |
| Disability and injury benefits | Disability and injury pension | - When insured persons retired from disability resulting from work-related disease or injury, or when they become disabled within 3 years after retirement due to disease or disability which took place at work. |
| | Disability and injury compensation | - When lump-sum benefit is preferred instead of disability and injury pension |
| Retirement Allowance | | - When teachers with over 1 year of service retire or die, retirement allowance is paid to themselves or their surviving family. It is paid when retirement benefit or surviving benefit is provided. |

Source: Internal Document of The Korea Teachers Pension, 2000.

〈Table 12〉 Types and Eligibility Conditions of Short-Term Pension Benefits for Private School Teachers

| Types | Payment Conditions |
|---|---|
| Work-related medical treatment payment | Reimbursing medical treatment expenditure (up to two years) when hospitalized from work-related disease or injury with approval from Korea Teachers' Pension |
| Work-related medical treatment lump-sum | When work-related disease or injury is not cured even after two years of medical treatment and continuous medical treatment is needed (up to 1 year of additional medical treatment will be fully covered by the pension scheme) |
| Disaster assistance | When a teacher's house is damaged by up to 1/3 or is swept away or destroyed due to fire, flood, torrential rain, heavy snow storm, or other natural or man-made disasters. Assistance will differ according to degrees of damage |
| Death condolence money | When family members of the teacher are deceased |

Source: Document of the Korea Teacher's Pension, 2000.

4. Pension for Military Personnel

1) Summary

The pension for Military Personnel began with the enactment of the Government Employees Pension Act in 1960. However, with the enactment of Military Personnel Pension Act in 1963, it became an independent pension scheme from the Government Employees Pension. The qualified military personnel for this pension are soldiers on active duty and drafted soldiers. Non-commissioned officers and drafted soldiers are eligible only for disaster compensation. Since its introduction, there have been five increases in the contribution rate, and the last one in 1999 was up from 6.5% to 7.5%. Eligible for the pension are those who served in the military for 20 years. Upon retirement, they become beneficiaries of the pension scheme. The required age for retirement is different depending on their ranks: 45 for a major, 53 for lieutenant colonel and 56 for colonel. After retirement, their pension benefits also differ depending on their ranks. If rehired as a government employee or teacher after retirement, their pensions will not be provided. However, if they are elected as lawmakers or rehired as executive members of a private firm, half of the retirement pension will be provided.

2) Benefit Payment

Compared with other pension benefits, benefits under the Military Personnel

Pension are offered in a wide variety. This is because military personnel are more greatly exposed to dangers of death or disability. In order to qualify for the pension, the insured should serve for more than 20 years. The pension for military personnel is divided into retirement pension, retirement pension lump-sum, retirement pension deduction lump-sum, retirement lump-sum, and retirement allowance. Additionally, there are the survivors pension, survivors pension additional benefit, survivors pension special additional benefit, survivors pension lump-sum, survivors lump-sum, and death condolence money. Disaster assistance and work-related medical treatment payments are also included among benefits under the Pension for Military Personnel.

Regarding the eligibility, its detailed types and conditions are demonstrated in Table 13.

〈Table 13〉 Types and Eligibility Conditions for Military Personnel Pension

| Type | Payment Conditions |
|--|--|
| Retirement pension | Retirees with more than 20 years of service |
| Retirement lump-sum | When retirees with more than 20 years of service want to receive retirement pension in lump-sum |
| Retirement pension deduction lump-sum | When retirees with more than 20 years of service want benefits paid in lump-sum for an extended period after 20 years |
| Retirement lump-sum | Retirees with less than 20 years of service |
| Survivors pension | - When deceased on duty - When the retirement pensioner is deceased |
| Survivors pension additional benefit | - When military personnel with more than 20 years of service die on duty |
| Survivors pension special additional benefit | - When military personnel with more than 20 years of service die within three years after retirement with reception of injury pension. |
| Survivors pension lump-sum | - When military personnel with more than 20 years of service die. |
| Survivors lump-sum | - When military personnel with less than 20 years of service die out of duty |
| Disaster compensation | - When military personnel die or get injured on duty |
| Death condolence money | - When military personnel, their spouses, or their direct family members die |
| Disaster assistance | - When military personnel, their spouses, or their direct family members suffer from financial damage due to flood, fire, or other disasters |
| Retirement allowance | - When military personnel with more than 1 year of service retire or die |
| Sickness Pension | - When the persons retire due to work-related disease or injury |
| Work-related medical treatment payment | - When military personnel receive medical treatment due to work-related disease or injury |

Source: Internal Document of the Ministry of Defense, 2000.

IV. Seniority Pension (Non-Contributory Pension)

1. Historical Background

For the old who are in low-income brackets and are excluded from the National Pension Scheme, the government has introduced "Non-contributory Seniority Pension". It was paid as "respect (for the old) pension" from July 1998. This is an important complementary measure to develop the current pension scheme.

As complete revision of the Elderly Welfare Law, Seniority (non-contributory) Pension was introduced July 1998. A new chapter, which is endowing benefits to the low-income old in the name of pension, was opened. Under the economic crisis, the introduction of the Seniority Pension as a Public Income Maintenance System was a large leap for the underprivileged elderly who had been formerly excluded from the National Pension coverage.

The Seniority Pension serves as an Old-age Income Maintenance System for Livelihood Protection Recipients and for the low-income elderly who are not only just above the poverty line but also are excluded from coverage under the National Pension. The Seniority Pension integrated the Old-age Allowance Scheme, which had been paid to current livelihood protection recipients, with the Seniority Pension System.

2. Coverage

Eligibility for Seniority Pension Benefit Recipients (Ordinance of the Elderly Welfare Law, Article 15)

Eligible persons for the Seniority Pension must be a Livelihood Protection Recipient who is 65 years old or over (referring to Elderly Welfare Act, Article 9, Clause 1) and below the government's minimum income and asset level (Elderly Welfare Act, Article 9, Clause 2). In addition, these people should not be a public pension recipient.

The income level of eligible people is below 65/100 of average monthly income for urban laborer households. This number is the monthly average income per person, which can be calculated through dividing the number of household members by the total monthly income of beneficiaries, their spouse and supporters.

The asset level is 140% below the established asset level for Livelihood Aid Recipients under the National Basic Livelihood Security Act. The asset amount is the value per household of total assets possessed by beneficiaries, their spouse and supporters.

〈Table 14〉 Eligibility for Seniority Pension Recipients

| | Income Level | Asset Level |
|--------------------|--|---|
| Eligibility | Less than 65/100 of the average monthly income for urban laborer households in the previous year | 140% below asset eligibility level for Livelihood Protection recipients |
| Actual Eligibility | 481,000 Won | 50,000,000 Won |

The number of recipients

As of June 2002, the Seniority Pension provided benefits to a total of 585,000 recipients, including 339,000(57.9%) of the livelihood protection elderly and 246,000(42.1%) of low-income earners and others. This covers 15.5 % of total elderly persons over the age of 65.

〈Table 15〉 Seniority Pension Recipients

(unit: person, %)

| | 1998 | 1999 | 2000 | 2001 | 2002. 6 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total(A) | 623,479 | 574,700 | 565,898 | 583,755 | 585,000 |
| Livelihood Protection elderly | 248,764 (39.9) | 288,303 (50.2) | 333,561 (58.9) | 345,769 (59.2) | 339,000 (57.9) |
| Low-income elderly | 374,715 (60.1) | 286,397 (49.8) | 232,337 (41.1) | 237,986 (40.8) | 246,000 (42.1) |
| A/Total elderly population 65 years or over (%) | 20.4 | 18.0 | 16.7 | 16.4 | 15.5 |

3. Benefit

Seniority Pension Benefit Rate

Seniority Pension Benefit Levels for the livelihood protection elderly is 50,000 Won for a person who are 80 years old or more, 45,000 won for the elderly between age 65 and 80, and 35,000 Won for the low-income elderly. For a married couple, the benefit for each spouse is reduced 25%, resulting in benefits of 26,250 Won.

The current Seniority Pension benefit amount of 26-50 thousand Won is not enough for pocket money let alone livelihood expenses. Thus it is doubtful whether this amount can actually prevent poverty.

〈Table 16〉 Seniority Pension Payment (2002)

| | Livelihood Protection Elderly | | Low-income Elderly | |
|-------------|-------------------------------|----------------------|--------------------|-----------------|
| | Under 80 years of age | Over 80 years of age | Full payment | Reduced payment |
| Paid Amount | 45,000 Won | 50,000 Won | 35,000 Won | 26,250 Won |

4. Total Expenditure and Finance Method

The total budget is estimated at 3.685 trillion won, of which 66.8% (2.460 trillion Won) is for general account estimates and 33.2% (1.225 trillion Won) is burdened by regional self-governing groups.

V. National Basic Livelihood Security Scheme: NBLs

1. Historical Background

In Korea, the 1997 economic crisis caused a poverty group whose livelihood could not be guaranteed by the pre-existing livelihood protection system. Although the number of the unemployed and low-income earners increased, the last Livelihood Protection System could not provide cash benefits, which means that it could not function as a social safety net. As a result, social problems such as being divorced, abandoning the old, running away from home, committing suicide, increasing malnutrition occurred.

In response to such problem, Korean government designed the temporary livelihood protection system to help the selected poor by supporting livelihood, educational, and medical aids. The number of the target group substantially increased for the last three years from 0.31 million in 1998 to 0.76 million in 1999 and 0.54 million in 2000. Meanwhile, the National Basic Livelihood Security Law was enacted in September 1999. This law has taken effect since October 2000 to increase government's obligation and people's right. Since then, the National Basic Livelihood Security System has made efforts to provide those living under the absolute poverty line irrespectively their ability and age.

- The number of recipients of livelihood guarantee benefits: 0.37 million(1997) ⇒ 0.44 million(1998) ⇒ 0.54 million(1999) ⇒ 1.51 million(2000).
- Also to be noted is the significant increases in benefit amounts per person: 0.138 million

won(1997) \Rightarrow 0.166 won(1998) \Rightarrow 0.178 won(1999) \Rightarrow 0.205 won (2000).

If a self-supporting recipient maintained some of livelihood benefits, which had not been maintained before 1998, the Livelihood Protection System would have played a role of the last social safety nets. Nevertheless, a beneficiary felt limits to overcome at economic crisis.

〈Table 17〉 Extension of Social Safety Nets since the 1997 Economic Crisis

| Classification | Before the 1997 economic crisis | Social safety net after the economic crisis | | |
|--|--|---|--|--|
| | | 1998 | 1999 | 2000 |
| ■ National Pension -number of contributors -number of recipients | 7.84million 0.15 million | 7.13million 0.20million | 16.26million 0.31million | 16.65million 0.59million |
| ■ Medical insurance -Total benefit -Days of coverage -Extension of period of benefit | 7.7 trillion won 270 days | 8.7 trillion won 300 days crutches, wheel chairs | 9.5 trillion won 330 days artificial upper limbs | 9.6 trillion won 365 days prenatal examination |
| ■ Unemployment insurance ○ Number of the insured (Number of firms concerned) -Number of recipients ○ Coverage -firm size required -Days of benefit payment -Minimum benefit -Criteria of benefit entitlement | 4.28 million (47,000) 50 thousand More than 30 employees 30~120 days 50% of minimum wage Contribution history of 12 months | 5.27 million (0.664million) 0.41 million More than 1 employees 60~210 days 70% of minimum wage Contribution history of 6 months | 6.06 million 0.601 million 0.46 million More than 1 employees 60~210 days 70% of minimum wage Contribution history of 6 months | 6.75 million 0.693 million 0.30 million More than 1 employees 90~240 days 90% of minimum wage Contribution history of 180 days |
| ■ National Basic Livelihood Security System ○ Those subject to livelihood protection (long-term) (temporary) ○ Number of beneficiaries | 1.41 million ¹⁾ (1.41 million) (-) | 1.42 million ¹⁾ (1.16 million) (0.31 million) | 1.92 million ¹⁾ (1.16 million) (0.76 million) | 1.70 million ¹⁾ (1.16 million) (0.54 million) |
| ○ Items supported -Cost of living (1 person/month) -Those with ability to work -Medical and educational benefits -Funeral cost | 0.138 million won No All Those subject to self-support care are excluded | 0.166 million won No All Those subject to self-support care are excluded | 0.178 million won 6 months/year All All | 0.188 million won 6 months/year All All |
| ○ Self-support program - Number of self-support center - Number of workers in the public work sector (Budget) | 10 - | 17 41,000 (40 billion won) | 20 63,000 (150 billion won) | 70 42,000 (100 billion won) |

Note: 1) Assignment person 2) Real care person

Source: MOHW, *Social Safety Net Supplyment Policy*, 2000.1

2. Aims of the National Basic Livelihood Security Law

1) Enhancing the rights by amending the law

Modifying the Livelihood Protection Law to the National Basic Livelihood Security Law was intended to change some notions of the previous law. Specifically, a notion in the old law that livelihood protection is beneficence of the government was changed to a conception in the new law that livelihood protection is a duty that the government should do as well as people's rights. Therefore, in the National Basic Livelihood Security Law, protection is the rights of beneficiaries.

2) Modernizing the institutional framework by abolishing the demographic eligibility criterion

The National Basic Livelihood Security Law pursued modernizing its institutional framework through abolishing the demographic eligibility criterion, which was one of eligibility criteria. Under the Livelihood Protection Law, the unemployment between 18 and 65 years old could not be subjects of cash benefits no matter how they were poor. In order to prevent this problem, under the National Basic Livelihood Security Law, subjects are selected and practiced only when they meet the criteria of poverty and supporters' duty, which means the selection of subjects are not related to the demographic eligibility criterion.

3) Increasing scientific technique through reasonable finance eligibility

Under the National Basic Livelihood Security Law, the scientific technique of livelihood protection was reconsidered through its reasonable finance eligibility. According to the old law, subjects of livelihood protection should meet the income and asset levels that the Ministry of Health and Welfare decided. However, these levels caused equity problems, so in the new law, the subjects are selected only when they meet the level of assets.

4) Achieving equity by introducing the concept of Estimated Household Income: Household head's monthly income + Monthly tariff income

The National Basic Livelihood Security Law has achieved equity through the reasonably estimated household income. The Livelihood Protection law did not have noticeable rules with regards to the estimated household income, but a new notion of

the estimated household income was introduced into the National Basic Livelihood Security Law. Thus through comparing the estimated household income - Household head's monthly income + Monthly tariff income- with the objectively calculated minimum cost of living, the selection of subjects is determined. Regarding the income, thorough paying the difference between the minimum cost of living and the estimated household income, the asset-related equity has been considered.

5) Enhance productive welfare system by providing the unemployed with incentives and systematic self-support programs to promote motivation to work

The National Basic Livelihood Security Law has programs for recipients to maintain the will to work. In addition, through systematizing a self-support scheme, the law aids recipients to get over poverty. For example, living cost is provided on the condition that some recipients who have abilities to work should participate in vocational training, self-support programs, and voluntary support programs. Moreover, through deducting some parts of incomes gained from work, decreasing the will to work are prevented. In addition, social workers have established a self-support scheme given recipients' abilities to work, their household conditions, and their will for self-support. These efforts were not included in the Livelihood Protection Law.

〈Table 18〉 Comparison of the Livelihood Protection & National Basic Livelihood Security Laws

| Classification | Livelihood Protection Law | National Basic Livelihood Security Law |
|---|---|---|
| Legal characteristics | - Public aid | - Governmental duty - People's right |
| Legal terms | Aid-oriented -the protected -Protection authority -the target group of protection | Entitlement-oriented - beneficiary - guarantee authority - the target group of benefit entitlement Newly introduced legal terms ·Estimated Household Income ·Household head's monthly income ·Monthly tariff income |
| Criteria and method of selection | - 4 items ·obligation to support family members ·income ·assets ·demographic criteria | - 2 items ·obligation to support family members ·Cases where the estimated household income is less than the national minimum cost of living |
| Method of classification | - Target group is further classified into 3 sub-target-groups of home care, institutional care and self-support programs under Presidential decree (Art. 6 of Enforcement Ordinance) | - Classification of target group is abolished ※ Those with ability to work are subject to further classification (Presidential decree) |
| Minimum cost of Living | - Decision-maker: the Minister of Health and Welfare | - Decision-maker: The Central Committee of Livelihood Guarantee and the Minister of Health and Welfare |
| Benefits | - 6 items Livelihood care Medical care Self-support care Educational care Parturition care Funeral care - The target group of self-support programs is not subject to livelihood and funeral cares. | - 7 items(8 items when emergency benefit is added) ·Livelihood benefit ·Housing benefit(newly supplemented) ·Medical benefit ·Educational benefit ·Self-support benefit ·Parturient benefit ·Funeral benefit - The livelihood benefit will be paid to every beneficiaries while other benefits will be paid whenever necessary - Those with ability to work will receive livelihood benefits on condition that they participate in self-support programs(Optional) |
| Emergency benefit | - No related articles | - Related articles will be enacted |
| Support for self-support programs | - No related articles | - Establishment of self-support project on a individual household basis ·Promotion of motivation to work by providing systematic self-support programs |
| Livelihood Guarantee (Protection Committee) | - 4-tier Livelihood Protection Committee ·Central Committee of Livelihood Protection ·Provincial Committee of Livelihood Protection ·Municipal Committee of Livelihood Protection ·Village Committee of Livelihood Protection | - 3-tier Livelihood Guarantee Committee ·Central Committee of Livelihood Guarantee ·Provincial Committee of Livelihood Guarantee ·District Committee of Livelihood Guarantee - Qualifications for membership of Livelihood Committee will be established |
| Expenditure on Livelihood | - Self-financing ability of municipal offices is not taken into account | - Responsibility of financing will be shared in accordance with the degree of self-financing ability of municipal office |

3. Extension of the Basic Livelihood Security System through enacting national basic livelihood security law.

1) Extension of livelihood benefit beneficiary since the 1997 Economic Crisis

The Livelihood Protection System did not provide any cash benefits when one of household members has ability to work. Thus, in 1999, the number of subjects for livelihood protection was 1.92 million, but that of actual recipients of living cost benefits are 0.54 million, about 28.1% of beneficiaries. However, the National Basic Livelihood Security Law selects 1.51 million people (3.2 % of the population) as beneficiaries and supports them. As a result, about one million low-income earners are additionally protected by social safety nets, which means that one million people who were excluded from the Basic Livelihood Security System get benefits from social safety nets.

〈Table 20〉 Ratio of the Beneficiaries of Livelihood care
(Unit: %, 1,000 persons)

| Classification | 1997 | 1998 | 1999 | 2000 ¹⁾ |
|---|-------|-------|-------|--------------------|
| Total Beneficiaries(A) | 1,410 | 1,470 | 1,920 | 1,510 |
| Number of persons covered Livelihood care(B) | 370 | 440 | 540 | 1,510 |
| B/A*100 | 26.2 | 29.9 | 28.1 | 100 |

Note: 1) The figure is based on after the 10 month of 2000.

2) Increase of the livelihood benefit level

Livelihood benefits provides money that are calculated through subtracting benefits of other law - health insurance fee and a residence tax – and a household head's monthly income – estimated household income after 2003- from the minimum living cost. Therefore, the income level of self-supporting subjects who could not receive livelihood benefits has more greatly improved than that of home-care subjects who got benefits before the National Basic Livelihood Security Law was practiced. Specifically, while the benefit level of one home-care subject increased in 9%, that of self-supporting subject rose in 40.9 %. This shows that self-supporting households, which could not get livelihood benefits before, have received the benefits under the National Basic Livelihood Security Law.

〈Table 21〉 Per-Capita Benefit level in Years

(Unit: 1,000 won)

| Classification | | 1998 | 1999 | 2000 | |
|----------------------------------|----------------------|------|------|------|-------|
| | | | | 1~9 | 10~12 |
| home care and institutional care | Total | 162 | 178 | 188 | 205 |
| | Livelihood benefits | 122 | 131 | 135 | 135 |
| | Medical benefits | 35 | 42 | 47 | 47 |
| | Educational benefits | 5 | 5 | 6 | 6 |
| | Housing benefits | - | - | - | 17 |
| self-support care | Total | 40 | 47 | 66 | 93 |
| | Livelihood benefits | - | - | 13 | 30 |
| | Medical benefits | 35 | 42 | 47 | 47 |
| | Educational benefits | 5 | 5 | 6 | 6 |
| | Housing benefits | - | - | - | 10 |

3) Increment of Basic Security Budget

The basic security budget is an index to look over the establishment degree of social safety nets with a broad view. Although the annual basic security budget per person was only 0.639 million won in 1997 when the economic crisis hit Korea, as of 2001 when the National Basic Livelihood Security System went into effects in full-scale, the annual basic security budget per person was 1.98 million. This increase rate is 210 %. This demonstrates that the government's efforts to stabilize the livelihood of the low-income earners, specifically social safety nets.

〈Table 22〉 Annual Per-Capita Budget

| Classification | 1997 | 1998 | 1999 | 2000 | 2001 |
|--|-------|--------|--------|--------|--------|
| Total Basic Livelihood Guarantee Budget (unit: billion) | 9,008 | 10,901 | 18,479 | 23,321 | 27,923 |
| Total Beneficiaries (Unit: 1000 persons) | 1,410 | 1,470 | 1,920 | 1,510 | 1,510 |
| Per-Capita Budget (Unit: 1000 Wons) | 639 | 742 | 962 | 1,544 | 1,980 |

4. Official Poverty line and Coverage

In Table 23, the official poverty line for the NBLSA beneficiaries or recipients is described. Those who meet criteria and do not have any family members support them will be selected to receive benefits. The criteria to determine supports quite complicated.

It is limited to immediate family members, spouses, and siblings who financially support beneficiaries. Furthermore, supporters are divided into three groups with the ground of their assets and income: i) those who are able to support; ii) those who have difficulty in supporting; and iii) those who are unable to support. Only in the latter two cases are poor families who are eligible for the benefit. If the combined income or asset of an applicant's household and his financial supporter's household is over 120% of income criteria or property criteria of the official poverty line, the supporter under question is regarded as an official supporter. If the applicant is unable to work and has no income, but owns a house, then the combined income level is raised to over 150% of the official poverty line.

〈Table 23〉 Official Poverty Line (2001)

| No. of hh member \ Criteria | One | Two | Three | Four | Five | Six | Seven & More |
|-----------------------------|--------|-----|--------|------|--------|-------|--------------------|
| Income (thousand Won) | 330 | 550 | 760 | 960 | 1,090 | 1,230 | Add 120 per person |
| Property (thousand Won) | 31,000 | | 34,000 | | 38,000 | | |

Source: Ministry of Health and Welfare, White Paper, 2001

〈Table 24〉 The Recipients of Public Assistance in Korea
(unit: thousand person)

| year | total population(A) | Recipients | |
|------|---------------------|------------|--------|
| | | person(B) | (B/A)% |
| 1991 | 43,207 | 2,116 | 4.9 |
| 1992 | 43,623 | 1,888 | 4.3 |
| 1993 | 44,056 | 1,784 | 4.0 |
| 1994 | 44,453 | 1,481 | 3.3 |
| 1995 | 45,001 | 1,318 | 2.9 |
| 1996 | 45,426 | 1,159 | 2.6 |
| 1997 | 45,991 | 1,048 | 2.3 |
| 1998 | 46,430 | 1,285 | 2.8 |
| 1999 | 46,858 | 1,483 | 3.2 |
| 2000 | 47,275 | 1,489 | 3.1 |
| 2001 | 47,732 | 1,503 | 3.15 |

〈Table 25〉 The Old-Age Recipients of Public Assistance in Korea

(unit: person, %)

| year | old-age recipients of livelihood aid(A) | (A)/all recipients of livelihood aid | (A)/ 65 years old and over |
|------|---|--------------------------------------|----------------------------|
| 1990 | 110,996 | 33.9 | 5.06 |
| 1993 | 107,832 | 35.4 | 5.16 |
| 1995 | 102,504 | 35.7 | 3.89 |
| 1996 | 104,114 | 36.5 | 3.73 |
| 1997 | 120,107 | 41.3 | 4.10 |
| 1998 | 124,454 | 42.1 | 4.06 |
| 1999 | 129,444 | 41.8 | 4.02 |
| 2001 | 329,029 | 24.1 | 9.20 |

5. Benefits

Under the National Basic Livelihood Security, cash benefits are provided in cash after deducting medical and educational aid, and the other supports that are guaranteed under other relative laws. The following Table shows cash benefits, received by persons except household income, in the form of living costs and housing assistance according to the number of household members.

〈Table 26〉 Payment Levels of National Basic Livelihood Security³(2000)

(unit: 10,000 won)

| Household number | 1 | 2 | 3 | 4 | 5 | 6 |
|--------------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| Livelihood payment | 24.1 (26.3) | 41.3 (45.9) | 55.3 (63.0) | 69.7 (80.5) | 77.2 (90.8) | 86.9 (103.2) |
| Housing payment | 2.0 (2.3) | 2.0 (2.3) | 3.2 (3.7) | 3.2 (3.7) | 4.4 (5.1) | 4.4 (5.1) |
| total | 26.1 (28.6) | 43.3 (48.2) | 58.5 (66.7) | 72.9 (84.2) | 81.6 (95.9) | 91.3 (108.3) |

Note: numbers in parentheses represent benefit levels as of 2001

Source: MOHW, year 2000 and 2001 Internal Documents

³ In the year 2001, Benefit Level for Eligible Households under National Basic Livelihood Security have been on the rise due to the increase in minimum cost of living benefits as well as the decrease of the cost exemption from 11.9% to 4.7%.

The National Basic Livelihood Security (NBLA)⁴ introduced ‘housing payment’ to support and stabilize housing situations for recipients. Under the NBLA, an emergency benefit was also established for those who are not qualified for the NBLA but are in the desperate need of prompt support. At the beginning in 2003, the eligibility criteria such as evaluation criteria based on the total income will be simplified so as to remove shortfalls of the existing systems and build foundation for an advanced welfare system.

〈Table 27〉 Benefit Amounts of Public Assistance in Korea

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | | 2001 |
|---|------|------|------|------|------|------|-------|------|
| | | | | | | 1-9 | 10-12 | |
| benefit amounts per 1 person (A) (thousand won) | 188 | 200 | 209 | 218 | 234 | 268 | 324 | 334 |
| (A)×12month/ GNI per 1person (%) | 27.0 | 26.2 | 25.6 | 27.7 | 27.5 | 29.1 | 35.2 | 34.9 |
| (A)×12month/ consumption expenditure per 1 person (%) | 49.3 | 46.8 | 45.2 | 50.0 | 48.5 | 51.3 | 62.0 | 61.0 |

One special feature about the NBLA is that it offers systematic self-support services, and it takes into consideration the ability to work, household condition, and the desire for self-reliance in its planning, so that the recipients receive systematic help in self-support. In particular, those who are able to work are encouraged to work by getting employment incentives such as a partial income exemption from the income level assessment.

In 2000, among the recipients of the NBLA, those who have the ability to work but are not employed are estimated to be about 0.2 million people.⁵ However, the number of recipients who actually participate in self-support projects are estimated to be about 0.16 million people.

This group is divided into two groups: 70,000 people who are able to work and 90,000 people who are unable to work. Key self-support programs for the first group, which is administered by MOL, include employment offers, job training, self-support internship, supports to start up new business, and public work. Those who are unable to

⁴ As of year 2000, 20,000 won was provided per a household every month.

⁵ This year, considering the lack of infrastructure for self-support programs, the Ministry of Health and Welfare (MOHW) plans to delay the implementation of the programs for mother-headed households, those having minor ailment, and those living in remote areas 40,000 to 50,000 persons.

work are given opportunities to visit self-support communities and participate in cooperative work, and self-supporting public work under the supervision of MOTTW and local governments. When starting up a new business, members in the group will also be supported in the form of a small-size livelihood loan. Those who are unable to work due to physical and functional constraints will be invited to participate in volunteer work in order to raise their confidence and sense of social belonging.⁶

6. Total Expenditure and Financing Method

The budget of Public Assistance in Korea is shown in Table 28.

〈Table 28〉 The budget of Public Assistance in Korea

| Classification | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | | 2001 |
|--|-------|-------|-------|--------|--------|--------|-------|--------|
| | | | | | | 1-9 | 10-12 | |
| target population ¹⁾ (thousand person) | 1,755 | 1,506 | 1,407 | 1,470 | 1,919 | 1,699 | 1,539 | 1,550 |
| budget(A) (billion won) | 5,637 | 6,909 | 9,002 | 10,640 | 17,467 | 22,542 | | 26,999 |
| (A)/GDP (%) | 0.15 | 0.17 | 0.20 | 0.24 | 0.36 | 0.43 | | 0.50 |

Note: 1) the number of target population is not real beneficiaries but available beneficiaries size by budget.

⁶ This year the self-support project focuses on providing job training for 2,000 job seekers who are unable to find employment or set up a new business due to the lack of work skills. For this purpose, existing job training and start-up training budgets will be utilized. Above all, 40,000 people will participate in public works through organizations and local governments for job stabilization. They will be encouraged to voluntarily search for employment. To facilitate rehiring, other public works such as job searching sales will be put in place. Opportunities will be offered to take part in public work projects sponsored by the Ministry of Government Administration and Home Affairs. For about 28,000 persons, job offers and job-search support will be provided through job stability organizations. Among them those who meet a certain level of skills and academic background will be offered in-depth job consultation. Up to 5,000 unemployed people will participate in self-supporting communities and welfare centers. The formation of self-supporting communities with recipients who are able to work but have difficulties in keeping employed will be supported. Additionally, technical and managerial supports and exploration skills of sales routes will be provided. In order to improve benefits and employment opportunities, part-time workplaces will be set up and operated. Those who are able to work but unable to participate in self-supporting communities or start their own business will be encouraged to take part in public work projects throughout 45,000 local authorities. About 1,000 qualified people will be supported to start their own business throughout local authorities. Eligible persons will be able to obtain loans to start their own business to support themselves. Self-reliance support organizations and support centers for small and medium size merchants and engineers provide technical and managerial supports and provide loans. Volunteer services will target 39,000 persons those who are unable to participate in other self-supporting projects throughout social welfare facilities and local authorities in order to develop their sense of belonging to the local community by offering them an opportunity to take part in volunteer works.

7. Official Poverty Line Measurement in Korea

1) Review of Official Poverty Line Measurement in Korea

In order to estimate the poverty level, a poverty line is necessary, and in order to get the poverty line, a households' income and expenditure data is essential. In Korea, the official poverty line is estimated on the basis of the Survey of Minimum Cost of Living, conducted by the Korea Institute for Health and Social Affairs (KIHASA). However, the KIHASA conducts a specific survey to estimate the minimum living cost rather than uses the existing statistical data there are some reasons. The reasons are as followings.

In Korea, there are two representative household income and expenditure surveys, conducted by the National Statistical Office, *Family Income and Expenditure Survey* (FIES) and *National Survey of Family Income and Expenditure* (NSFIE). However, it is considered that the two surveys are not relevant to measure the minimum living cost. This is because the FIES covers only 5,200 urban households except one-person households and rural households. It is not sufficient to analyze the poor households' expenditure, especially the expenditures of specific poor households such as the elderly, the disabled, and the children headed households. Besides, the NSFIE covers 30,000 households including one-person household and rural household but it has a limit to be measure the minimum living cost because its expenditure items are made up for the general households rather than low-income households. Due to this, KIHASA conduct a more specific survey focusing on the poor households

On the basis of the minimum cost of living obtained by KIHASA, the Ministry of Health and Welfare (MOHW) estimates the official poverty line. The MOHW ought to carry out the Survey of the Minimum Cost of Living in every five years as a legal obligation due to the Livelihood Protection Act, revised in 1997.

2) Methodology for Establishing the Official Poverty Line

Survey of the 1999 Minimum Cost of Living

The Survey of Minimum Cost of Living consisted of a preliminary survey and a main survey as followings. As a preliminary survey, 15,000 households were sampled from the whole country and surveyed the income of the household members. Among the 15,000 sample households, those having household income below 40% of the average household income were selected.

The selected households were filtered again with the ground of their appropriateness in measuring the minimum cost of living. Then 1,500 households were chosen as ‘the standard households’, which agreed to keep a household’s budget diary. The budget diary, recorded by the standard households, provided the essential statistical information to fix a market basket by regions - metropolitan, medium-small cities, rural areas. On the basis of the main survey results, the minimum cost of living was measured by utilizing the Market Basket Method. The KIHASA estimated the minimum living cost for a non-survey year on the ground of the socio-economic changes, and took the same process with the survey result.

Official Poverty Line

The minimum cost of living measured by the KIHASA should go through the review of the Central Minimum Living Standard Committee, organized by the MOHW. The Committee reviews the structure of market baskets, items prices, consumption patterns, etc., and revises the minimum cost of living estimated by the KIHASA if necessary. The MOHW updates the revised minimum cost of living on the basis of the anticipated CPI of the next year and decides the poverty line for the next year.

8. Means Test and Poverty Monitoring

The means test to select recipients of the NBLs has been done by social workers with the national information network, established by several ministries’ contributions. The surveyed income is called ‘real income’, which is equivalent with ‘current income’. Thus, non-current income such as a retirement allowance is excluded from the boundary of the means test.

The unit of income is based on monthly income; however, in case of that the monthly income is difficult to be surveyed, accumulative income for the last three months is surveyed. Then it is converted into the monthly income.

The income survey is based on the income data of the National Tax Agency and supplemented, if necessary, by the income data of the National Pension Corporation. Additionally, bills of salary or wage issued by firms or interviewing with employer are also used as the means of the income test.

The Means test for the temporary and daily workers, whose income are not easily identified, could be done by payment certificates issued by employers or by an equivalent income level of the workers who have similar professional status. The earned income that is difficult to be identified could be inferred from the concerned data.

The 5,500 social workers⁷ in about 3,500 regional administrative offices have searched individuals or households who have just been impoverished so as to help them through public assistance programs. At the same time, the social workers have examined individuals or households whose income are currently over the poverty line, which means they are escaped from the poor situation. In this situation, social workers have updated a administrative information system, which plays a role of the poverty monitoring systems.

⁷ The number of social workers will reach to 7,000 in 2002.

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