

Social Security Financing and Mandatory Spending in 2017

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Revenues, outlays, and debt

Korea's tax and fund revenues for 2017 are projected to total KRW414.3 trillion, up 5.9 percent from the previous year's KRW391.2 trillion. This projection is premised on the government's assumption of an 8.7-percent growth in tax revenues. The rate of increase is set considerably higher this year than in the past, as last year was a particularly good year for tax collection.

Government outlays are expected to grow by KRW14.1 trillion (3.7 percent) from 2016 to KRW400.5 trillion. For the first time in 4 years, the projected rate of increase in outlays is set lower than the rate of increase in revenues, reflecting the policy intent to restore and maintain mid-to-long-term fiscal stability.

Estimated at KRW682.4 trillion, Korea's public debt topped 40 percent of GDP this year, a level which, although still deemed safe, seems deserving of attention for the sheer pace at which it is rising, especially with the general account's deficit-covering subsidies on the steep increase.

<Table 1> Central government budget for 2017 (in KRW trillion, %)

	2016		2017		Year-on-year difference in original budget	
	Original budget (a)	Supplemental budget	Budget proposed by government	Budget approved by National Assembly (b)	Increase (b-a)	Rate of increase (b-a)/a
Total revenue	391.2	401.0	414.5	414.3	23.0	5.9
-budget (national tax)	250.1 (222.9)	259.9 (232.7)	268.0 (241.8)	268.7 (242.3)	18.6 (19.4)	7.4 (8.7)
-funds	141.1	141.1	146.6	145.6	4.5	3.2
Total expenditure	386.4	398.5	400.7	400.5	14.1	3.7
-budget	263.9	271.3	273.4	274.7	10.8	4.1
-funds	122.5	127.3	127.3	125.8	3.3	2.7
National debt (as % of GDP)	644.9 (40.1)	637.7 (39.3)	682.7 (40.4)	682.4 (40.4)	37.4 -	5.8 (0.3%p)

- Sources: 1. Summary of Budget for Fiscal Year 2016 (February 2016), Ministry of Strategy of Finance
2. Budget Bill 2017 (September 2016), Government of the Republic of Korea
3. National Fiscal Management Plan 2016~2020 (September 2016), Government of the Republic of Korea
4. Review Report on the Budget Bill 2017 and Fund Operation Plan (October 2016), National Assembly's Special Committee on Budget and Accounts
5. Revised Budget Bill 2017, National Assembly's Special Committee on Budget and Accounts

Total government spending and public social expenditures

Public social expenditure on health, social welfare and employment support are projected at KRW129.5 trillion, accounting for 32.3 percent of total government spending. Total government spending is composed of social expenditure (KRW129.5 trillion) and non-social expenditure (KRW271 trillion). Year-on-year net increase in total government spending for 2017 is estimated at KRW14.1 trillion, of which KRW6.1 trillion (43.3 percent) is committed to public social expenditure. Since 2013, when the current government came to office, public social expenditure increased every year by 7.4 percent, while non-social expenditure increased at a yearly average

rate of 2.6 percent, with its share in total public spending declining from 71.5 percent to 67.7 percent.

<Table 2> Government spending, 2013~2017 (in KRW trillion, %)

	2013	2014	2015	2016	2017	Year-on-year			Annual rate of increase
						Increase	(%)	Rate of increase	
Total expenditure	342.0	355.8	375.4	386.4	400.5	14.1	(100.0)	3.7	4.0
-Social expenditure (as % of total expenditure)	97.4 (28.5)	106.4 (29.9)	115.7 (30.8)	123.4 (31.9)	129.5 (32.3)	6.1	(43.3)	4.9	7.4 -
Non-social expenditure (as % of total expenditure)	244.6 (71.5)	249.4 (70.1)	259.7 (69.2)	263.0 (68.1)	271.0 (67.7)	8.0	(56.7)	3.0	2.6 -

Note: Numbers represent total expenditures based on the original budget for each year.

Over the dozen-year period between 2005 and 2017, public social expenditure has increased at an average annual rate of 8.3 percent, compared to 5.5 percent for overall public spending. Public social expenditure is 2.6 times larger this year than it was in 2005, while public spending as a whole has grown over the same stretch by a factor of 1.9. Public social expenditure as a share of total public spending has increased from 23 percent in 2005 to 26.2 percent in 2008, 28.5 percent in 2013, and to 32.3 percent in 2017.

The structure of public social expenditure

An estimated 92 percent of public social expenditure is committed to “social welfare” and the rest to “health.” Social welfare expenditure saw this year a 5.5-percent increase, of which a considerable part is attributed to the continued increase in employment support and housing support programs. However, public social expenditure on health has decreased by KRW204.9 billion (or 1.7 percent) from last year, with reduced subsidies for the National Health Insurance, which over the past several years has been running surpluses. The four public pension schemes (KRW44.993 trillion, or 34.7 percent), housing support (KRW21.2421 trillion, or 16.4 percent), and employment support (KRW18.2653 trillion, or 14.1 percent) together account for 65.3 percent of public social expenditure. An amount of KRW10.4904 trillion (8.1 percent) goes to the Basic Living Security System, KRW9.8013 trillion (7.7 percent) to elderly and youth support programs (including Basic Pension), and KRW7.5811 trillion (5.9 percent) to subsidies for health insurance premiums. The top three areas are the ones that saw the most increases this year, with housing support being the 1st (9.3 percent), followed by employment support (6.6 percent) and public pension schemes (5.4 percent).

<Table 3> Budget distribution by programs (in KRW100 million, %)

	Budget for 2016 (a)	2017		Year-on-year		
		Budget amount (b)	%	Increase (b-a)	Rate of increase (b-a)/a	
Social expenditure (health/social welfare/employment)	1,233,981	1,294,830	(100.0)	60,835	4.9	
Social welfare	Basic Living Security	101,311	104,904	(8.1)	3,593	3.5
	Support for the socially disadvantaged	24,989	26,082	(2.0)	1,093	4.4
	Public pension	427,062	449,930	(34.7)	22,868	5.4
	Child care/family/women	57,654	59,225	(4.6)	1,571	2.7

	Elderly/youth	94,210	98,013	(7.6)	3,803	4.0
	Employment support	172,950	182,653	(14.1)	9,703	5.6
	Veterans	48,181	49,754	(3.8)	1,573	3.3
	Housing	194,367	212,421	(16.4)	18,054	9.3
	General social welfare	7,917	8,290	(0.6)	373	4.7
	Subtotal	1,128,642	1,191,272	(92.0)	62,630	5.5
Health	Health care	23,278	23,405	(1.8)	127	0.5
	National Health Insurance	77,860	75,811	(5.9)	-2,049	-2.6
	Food and drug safety	4,201	4,342	(0.3)	141	3.4
	Subtotal	105,339	103,558	(8.0)	-1,781	-1.7

Sources: 1. Summary of Budget for Fiscal Year 2016 (February 2016), Ministry of Strategy of Finance
2. National Fiscal Management Plan 2016~2020 (September 2016), Government of the Republic of Korea
3. Revised Budget Bill 2017 (December 2016), National Assembly's Special Committee on Budget and Accounts

Social insurance benefits and subsidies for National Health Insurance premiums together take up 52.8 percent of total public social expenditure (KRW68.4 trillion) while the rest (47.2 percent) is apportioned to secondary and tertiary social safety nets that include public social assistance and social services. However, the amount committed solely to social assistance and social services (that is, excluding the amount allocated to housing support and veterans' welfare), to which individual citizens may take recourse to when put at social risk, comes to a little shy of KRW35 trillion, or just 27 percent of public social expenditure.

<Table 4> Allocations for primary, secondary and tertiary social safety nets (in KRW100 million, %)

		Budget for 2016 (a)	2017		Year-on-year	
			Budget (a)	%	Increase (b-a)	Rate of increase (b-a)/a
Social expenditure (health/social welfare/employment)		1,233,981	1,294,830	(100.0)	60,835	4.9
Primary Safety net	Social insurance	655,677	684,137	(52.8)	28,460	4.3
	-Four public pension schemes	427,062	449,930	(34.7)	22,868	5.4
	-Employment Insurance	92,718	98,578	(7.6)	5,860	6.3
	-Industrial Accident Compensation Insurance	51,694	53,129	(4.1)	1,435	2.8
	-Support for National Health Insurance	77,860	75,811	(5.9)	-2,049	-2.6
	-Support for Long-term Care Insurance	6,343	6,689	(0.5)	346	5.5
Secondary and tertiary safety nets	Public assistance/social service	578,304	610,693	(47.2)	32,389	5.6
	-Basic Living Security/elderly/youth/child care/women/employment support/health care/general social service	335,756	348,518	(26.9)	12,762	3.8
	-Veterans' welfare	48,181	49,754	(3.8)	1,573	3.3
	-Housing support (loan programs/subsidies for interest on national and public bonds)	194,367 (156,697)	212,421 (172,186)	(16.4) (13.3)	18,054 (15,489)	9.3 (9.9)

Sources: 1. Summary of Budget for Fiscal Year 2016 (February 2016), Ministry of Strategy of Finance
2. National Fiscal Management Plan 2016~2020 (September 2016), Government of the Republic of Korea
3. Revised Budget Bill 2017 (December 2016), National Assembly's Special Committee on Budget and Accounts

Mandatory social spending

Mandatory spending is defined by the National Finance Act as the share of national budget that is assigned to certain publicly-managed programs "according to Acts," with its amount "decided according to statutes." This year, an estimated KRW87.1 trillion (or 67.3 percent) is committed to mandatory social spending, up KRW3.8 trillion (or 4.6 percent) from last year. Both the lower-than-usual rate of increase and the reduced share of mandatory spending in total public social expenditure are attributable to the cuts in subsidies for health insurance

premiums and the downward adjustments taken, after National Assembly reviews, to the budget for National Pension benefits and job seekers' allowance. Since 2007, mandatory social spending has increased at an annual rate of 9.7 percent and public social spending as a whole has grown yearly over the same period by 7.7 percent, whereas total government spending has increased at an annual rate of just 5.3 percent.

<Table 5> Trends in total public spending, public social spending, and mandatory social spending (in KRW trillion, %)

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
Total public expenditure	A	238.4	262.8	301.8	292.8	309.1	325.4	342.0	355.8	375.4	386.4	400.5	5.3
Public social expenditure (as % of A)	B (B/A)	61.4 (25.8)	68.8 (26.2)	80.4 (26.6)	81.2 (27.7)	86.4 (28.0)	92.6 (28.5)	97.4 (28.5)	106.4 (29.9)	115.7 (30.8)	123.4 (31.9)	129.5 (32.3)	7.7
-Mandatory social spending (as % of B)	C (C/B)	34.6 (56.4)	40.6 (59.0)	45.8 (57.0)	48.6 (59.9)	52.3 (60.5)	58.0 (62.6)	62.3 (64.0)	69.7 (65.5)	77.5 (67.0)	83.3 (67.5)	87.1 (67.3)	9.7

Notes: 1. Total public expenditures and public social expenditures are from original budget for each year; the numbers for the years 2008 and 2009 are based on supplemental budget

2. Mandatory social spending is based on benefit expenditures on entitlement programs; numbers for the years 2007–2012 are account-based; numbers for the years 2013–2017 are budget-based.

Sources: 1. National Fiscal Management Plan (for each year), Government of the Republic of Korea

2. Revised Budget Bill 2017 (December 2016), National Assembly's Special Committee on Budget and Accounts

3. "Mandatory spending accounts" in Analysis of Fiscal Year 2012 Accounts (2013), National Assembly Budget Office

Mandatory social spending consists of expenditures on a diverse range of programs: social insurance schemes (including the National Pension and Civil Servants' Pension); subsidies for National Health Insurance premiums and Long-term Care Insurance; Basic Living Security; Basic Pension; child care subsidies for 0–5 year olds; and veterans' welfare programs. The legal bases for these expenditures lie in their respective laws and Enforcement Decrees, as listed in Table 6. Social insurance programs account for 69.2 percent of mandatory social spending; the rest (KRW26.83 trillion) is allotted to public social assistance and social services.

<Table 6> Mandatory social expenditures and their legal bases (in KRW100 million, %)

Entitlement	2016	2017	Share (%)	Rate of increase	Legal framework
Social insurance expenditures	573,610	602,876	(69.2)	5.1	
Four public pension schemes	384,486	410,650	(47.1)	6.8	-National Pension Act
-National Pension	185,488	194,997	(22.4)	5.1	-Public Officials Pension Act
-Government Officials' Pension	142,156	155,012	(17.8)	9.0	-Military Pension Act
-Military Personnel Pension	28,861	30,716	(3.5)	6.4	-Private School Teachers and Staff Pension Act
-Private School Teachers' Pension	26,980	29,925	(3.4)	10.9	
Employment-related	104,926	109,730	(12.6)	4.6	
-Employment Insurance	62,003	65,339	(7.5)	5.4	-Employment Insurance Act
-Industrial Accident Compensation Insurance	42,923	44,391	(5.1)	3.4	-Industrial Accident Compensation Insurance Act
Subsidies for NHI premiums, etc.	77,855	75,807	(8.7)	-2.6	National Health Insurance Act National Health Promotion Act
Subsidies for Long-term Care Insurance premiums	6,343	6,689	(0.8)	5.5	Act on Long-term Care Insurance for Older Persons

Public social assistance/Social services	259,390	268,252	(30.8)	3.4	
National Basic Living Security	91,912	95,609	(11.0)	4.0	National Basic Living Security Act, Medical Care Assistance Act
-Livelihood benefits	32,728	36,702	(4.2)	12.1	
-Housing benefits	10,289	9,399	(1.1)	-8.7	
-Education/childbirth/funeral benefits	1,671	1,516	(0.2)	-9.3	
-Medical Aid benefits	47,224	47,992	(5.5)	1.6	
Basic Pension	78,692	80,961	(9.3)	2.9	Basic Pension Act
Pension for Persons with Disabilities/benefits for persons with disabilities (who are in receipt of National Basic Living Security benefits)	6,178	6,381	(0.7)	3.3	Act on Welfare of Persons with Disabilities Act on Pension for Persons with Disabilities
Subsidies for child care for 0~5 year olds	31,066	31,292	(3.6)	0.7	Infant Care Act
Benefits for patriots and veterans	40,405	41,776	(4.8)	3.4	Act on the Honorable Treatment of and Support for Persons, etc. of Distinguished Service to the State
Labor support (payment of wage arrears)	3,260	4,044	(0.5)	24.0	Wage Claim Guarantee Act
Others (support for single-parent families and for the mobility of persons with disabilities)	7,877	8,189	(0.9)	4.0	Single-Parent Family Support Act Act on Welfare of Persons with Disabilities
Total (amount increased)	833,000	871,128 (38,128)	(100.0)	4.6	A total of 20 Acts and their Enforcement Decrees plus Subsidy Management Act and its Enforcement Decree

Note: "Others" for 2017 is projected based on the figure for 2016

Sources: 1. National Fiscal Management Plan 2016~2020 (September 2016), Government of the Republic of Korea

2. Review Report on the Budget Bill 2017 and Fund Operation Plan (October 2016), National Assembly's Special Committee on Budget and Accounts

3. Analysis of National Fiscal Management Plan 2014~2018 (October 2014)

Concluding remarks

Despite their short history, Korea's social security programs have grown into a relatively well-rounded system with a diverse range of social purpose interventions, totaling an estimated KRW130 trillion—close to one-third of total government spending for the fiscal year 2017. On a closer look, however, a dominant share of public social expenditure assigned to social insurance, which, by definition, pays out contribution-based benefits. Public social assistance programs and social services (not counting housing support veterans' welfare), to which individuals may have recourse when in situations of difficulty and needs, remains to an extent subdued, making up just 27 percent of overall social expenditures this year, with a year-on-year growth rate of 3.8 percent, lower than the 4.9 percent projected for total social expenditure. To be sure, Korea's public social expenditure as a percentage of GDP remains far below the OECD average. However, as the rapid aging of the population propels social security payouts to increase at an unprecedented pace, any judicious policy approach will need to go beyond a facile comparison of "totals" and "percentages" and control the growth of social spending based on how much tax

and social security burden Koreans can and should shoulder in already economically difficult times.

Recent trends in expenditure allocation highlight a rapid increase in spending on “human security” (the concept as espoused by the UN World Summit for Social Development in 1995) that coincided with decreases in government investment in capital and economic affairs. Also notable is that the recent increase in public social expenditure was due in large part to increases in mandatory spending. Mandatory spending took up 56.4 percent public social expenditure in 2007; the figure rose to the region of 67 percent in 2015. The amount earmarked for mandatory welfare spending this year is about KRW87 trillion. Unlike some other mandatory spending programs that are indexed to tax revenues—such as financial assistance grants for local governments—mandatory welfare spending remains inflexible and difficult to contain even during economic downturn. Those entitlement programs whose mandatory expenditures are liable to keep growing have to be held in check, not least their contribution and benefit levels, through revisions based on projections of revenues and outlays for budget accounting and social insurance programs. Also, it is important to keep in mind that increases in mandatory expenditures that come from the government’s tax pot—such as those on basic pension and child care—by necessity add to general account debt.

To make public social expenditures conducive to economic growth will require having the programs well-designed and well-targeted so as to channel them into creating a foothold with which to help socially-underprivileged individuals stand on their own. The impact-cushioning role of social safety nets cannot be overemphasized in these times of new social risks (the growing working-poor, increasing inequality, and widening divide, to mention just a few); social programs may need to take forward-looking, socially inclusive approaches—such as OECD’s inclusive growth framework—that are alert and responsive to social risks.