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*Productive Welfare: Achievements and  
Limits*

Chanyong Park

Korea Institute for Health and Social Affairs

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Chanyong Park<sup>1)</sup>

Korea Institute for Health and Social Affairs

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1) San 42-14 Bulkwangdong, Eunpyung-Ku, Seoul, 122-705, Korea,  
82-354-2179, Fax: 82-352-8106, Email: [parkch@kihasa.re.kr](mailto:parkch@kihasa.re.kr)



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# **I . Background**

The economic crisis in 1997 exposed the inability of Korea to deal with external shock as well as the weak domestic social infrastructure's inability to cushion against the impact of the shock. Productive Welfare was established, under the understanding that the already existing social policy system had a fundamental limit in dealing with the economic crisis, by reviewing the national policies on welfare, labor, environment, culture, education with scholars and experts on the fields. With such background, the Productive Welfare was born in 1999 as a new paradigm of Korean social policy.

Productive Welfare is an ideology that seeks to secure minimum living standards for all low income households and provide human resource development programs to support self-reliance of the poor, guarantee basic living standard by expanding the coverage of social insurance to all people for the purpose of maintaining human dignity. As such, Productive Welfare endeavors to improve the quality of life for all citizens by promoting social development and a fair distribution of wealth. Productive Welfare is one of the three major pillars of national policies, including Democracy and Market Economy. In fact, even prior to adopting Democracy-Market Economy-Productive Welfare

as three pillars of national policies, it was already experienced that basic themes of Productive Welfare provided foundations for social policies of the President Kim Dae-jung's government. For instance, one of the policies driven under the Productive Welfare ideology was the social insurance for which the coverage was expanded in 1998 and 1999.

Establishment of Productive Welfare's theoretical structure along with Democracy and Market Economy could provide a clearer vision of the Korean government that it has a will to pursue balanced development of politics, economics and society. However, the reason why Democracy-Market Economy-Productive Welfare should be formed into one and the way each of the three pillars can be operated from a view of social integration, is point to be discussed further.

In democratic society, the administration of the state might be directly influenced by the majority.<sup>2)</sup> Thus, national policies in general are formed and administrated for the majority, which mainly consists of the middle class. Market Economy is often considered as a system to provide more benefits to those who have more capacity of winning the fair competition in the market. These people tend to be in a comparatively good environment, for example, born in a wealthy, highly educated family or having an outstanding intelligence, bright entrepreneurship, or good health, which endow them with advantage to win the competition in the market. Therefore, under the circumstance where just Democracy and Market Economy get emphasized, the outcome would be biased benefitting mainly the middle class who are politically major and also are the high income classes in the market.

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2) However, the extent to which this is observed is much less in the exceptional circumstance where the structure of income distribution is extremely bipolar.

However, in our society, there are still considerable number of people who experience difficulties in accessing the labor market such as the old, the disabled, orphans and also people with low ability to work therefore facing greater obstacles in being employed. Moreover, in reality, the vulnerable have not been sufficiently protected by the social security system in Korea. Thus, it could be interpreted as the will of the government, that through taking Productive Welfare based on the social solidarity as one of pivotal direction of national policies, tries to resolve conflict among classes which is due to the economic crisis and obtain social integration among all classes. Then, it would be helpful to understand better why Productive Welfare is one of three pillars of national policies including Democracy and Market Economy.



## **II. Welfare Reform and Its Achievement**

There are two difficulties in discussing what has been achieved by policies under the theme of Productive Welfare. First, Productive Welfare doesn't equate to concrete policy program but is one of the pivotal directions of national policies including Democracy and Market Economy. For example, providing computer training programs to those who are protected under the National Basic Livelihood Security Act is one of the public policies based on Productive Welfare, not a Productive Welfare program itself. Hence, it is not always easy to decide which programs would be classified into policies based on Productive Welfare.

Second, it's a little bit earlier to discuss now what Productive Welfare has achieved as policies based on Productive Welfare at this point since it has only been established in 1999 and most of projected policies under Productive Welfare have not been settled yet. Nevertheless, this paper classifies these policy programs with criteria of Productive Welfare which are mentioned above and evaluates them even though they have not been settled yet.

Productive Welfare was born due to the extremely unstable society atmosphere, which was caused by the 1997 economic

crisis. Hence, whether policies based on Productive Welfare have stabilized the society through protection programs to the poor and the unemployed is the greatest criterion to discuss the achievement of Productive Welfare. In this dimension, Productive Welfare can be evaluated as a national management direction that enabled the society to overcome the difficult situation. According to the concept defined above, introduction of the National Basic Livelihood Security Act (hereinafter NBLSA) and expanding the coverage of social insurance are characterized as the projected policies under Productive Welfare. In addition to these, included are enhancing accessibility of the vulnerable class to the labor market through human resources development, which lays stress on labor welfare, taking measures to protect irregular employees, and extending application of the minimum wage system to all industries. Other projected policies based on Productive Welfare such as augmenting cultural and leisure lifestyles for the poor, building a healthy environment and providing education are too broad to be argued in this paper. Hence, discussion is narrowed down to policies that are relevant to social security and then examines their achievement and limits.

## **Public Assistance**

The NBLSA, which started since October 2000 as a replacement of the Livelihood Protection Act, guarantees minimum living standards to all of the low income family whose income are below the official poverty line, without considering their ability to work. So all low-income earners with the ability to work, also become eligible for benefits, unlike the previous system. The NBLSA puts emphasis on the nation's responsibility for the low-income class. Its introduction has tripled the number

of livelihood payment beneficiaries from 540,000 in 1999 to 1.51 million in 2001.<sup>3)</sup>

The official poverty line for the NBLSA beneficiaries or recipients are described in Table 1-1. Those who meet the criteria and do not have any family supporter will be chosen in the selection. The criteria for those who support the eligible are quite complex. It is limited to immediate family members, spouses, and any siblings who are financially supporting them. The supporters are furthermore divided into three groups based on their asset and income: those able to support, those who have difficulty in supporting, and those unable to support. Only in the latter two cases, their poor families are eligible for the benefit.<sup>4)</sup>

*Table 1-1 Official Poverty Line (2001)*

Criteria \ No. of household member	One	Two	Three	Four	Five	Six	Seven & More
Income (thousand Won)	330	550	760	960	1090	1230	Add 120 per person
Property (thousand Won)	31000		34000		38000		

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

Livelihood payment of the NBLSA is designed to provide supplementary payment to households whose income do not meet

3) Legislated in September 7, 1999 and enacted in October 1, 2000, the NBLSA, which is one of the public assistance programs, has improved the nation's welfare system greatly.

4) 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 a official supporter. If the applicant is unable to work and have no income, but owns a house, then the combined income level is raised to over 150% of the official poverty line.

the official poverty line, and the amount of support is equal to the difference of household income and the official poverty line. Also, civil rights were enhanced through acknowledging the NBLSA as a social duty. The NBLSA fostered a condition in which the number of the *Self-Reliance Aid Center*<sup>5)</sup> increased from 6 in 1997 to 161 in 2001 and the number of social workers also increased from 3,000 persons in 1997 to 5,500 in 2001. Specifically, the increase in the number of *Self-Reliance Aid Center*, participation of community in a self-supporting assistance program and inducement of social concerns to the program can be regarded as an achievement.

Nevertheless, the National Basic Livelihood Security (NBLS) system has room to be improved further. First, the NBLSA was legislated in response to a plea from the bad circumstances of the 1997 economic crisis without full examination on it. For instance, supplement of officials who are fully charged with social welfare has not reached to the goal, and Ministry of Health and Welfare in charge of the NBLSA has had difficulties in inducing relevant Ministries to collaborate with investigation of financial assets of the eligible of NBLS system and their relatives who have a duty of supporting. These caused some mistargeting of the poor at the beginning of its implementation. However, it is still prospected that this problem will remain keep due to difficulty in surveying

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5) The Self Reliance Aid Center was established in 1996 to support recipients of the Livelihood Protection System (LPS) as well as the low-income earners who are not covered by the LPS. The main activities of the center is to provide information on available jobs, to offer job counselling and job placement services, to support the community-based business and self-employment, to mediate the self-reliance fund, and to teach skills and management techniques. Self-reliance Aid Centers are operated by the civil groups and designated by the Government, but both the central and local governments can partly or wholly provide the operating funds. (<http://www.mohw.go.kr/english/intro8.html>)

incomes of the self-employed. Also the self-support system has not been fully enforced due to lack of administrative network with the Ministry of Labor although the self-supporting programs of the Ministry of Health and Welfare have been projected with collaboration with the Ministry of Labor. Then, it is pointed out that the official poverty line of selection that is applied equally among all regions: a metropolis, a medium and small-sized cities, and rural areas, should be resolved.

## Social Insurance

Social insurance system has undergone rapid changes since 1998. The mainstream of this change is to have drastically reduced uncovered groups through applying the National Pension scheme to all people,<sup>6)</sup> integrated management system of *the Health*

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6) Major changes brought by the amendment of the National Pension Act in January 1999 are as follows. First, the self-employed in urban areas were included into the scheme beginning in April 1, 1999. The beneficiaries of the scheme are divided into two groups: wage earners employed by workplaces and local scheme members. Persons insured through the workplaces refer to employees aged between 18 and 60, who are either employees or employers at a workplace with five or more full time workers. Those 18 or younger are able to join the workplace pension plan with employer consent. Those 60 or older can have the extended contribution period to age 65 if their insured period is less than 20 years. However, excluded from the coverage of the National Pension Scheme for workplace are those who have temporary work with contracts of 3 months or less, those who have seasonal work with periods of three months or less, and those who often move from workplace to workplace. Temporary and part-time workers are also excluded from coverage of the National Pension Scheme for work place. But those who are excluded from the coverage of the National Pension Scheme for workplace are nevertheless insured through the National Pension scheme for local place.

*Insurance Funds for Wage Earners*(hereinafter HIFW) with *the Health Insurance Funds for Non Wage Earners*(hereinafter HIFNW), and expanded coverage of Employment Insurance and Industrial Injury Insurance to all workplaces.

As a result, anyone who has income, is now covered by the National Pension scheme, regardless of employment category, opening an era of the universal National Pension. Now even if a pension premium is paid only once, pension payment for the disabled and survivors is permitted.<sup>7)</sup> In addition, through integration of management systems of Health Insurance, it could obtain a ground to raise the social solidarity and actualize fair charge.<sup>8)</sup> Also through abolishing limits on period for Health

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7) The new National Pension scheme strengthened pensioners' rights and sought for livelihood stability. The minimum contribution period was shortened from 15 years to 10 years. Pension installment is provided for those who turn 60 after divorce or those who divorce after 60 in case marriage has lasted for five years or more (But benefit provision is terminated when they are remarried). Deferred payment for pension contribution arrears is permitted for those obligated with child rearing and military service, as well as for students and those serving prison terms. A legislation is being formulated to provide loans to unemployed for livelihood stability.

8) Since the introduction of Health Insurance in 1977, it has gone through several phases before maturing into a universal Health Insurance scheme. However, the Health Insurance system had inherent problems. Specifically, Health Insurance Funds did not have the same premium calculation systems. As a result, the insured could have ended up paying different premiums if they belonged to different Health Insurance Funds, although their income and asset levels were the same. This caused equity problems and at the same time, widened the financial gap among Health Insurance Funds. The independent management of small-size Funds also brought up operational inefficiency. Because previously, Health Insurance system was divided into Health Insurance Corporation for Employees of Government and Private School and Military, HIFW, and HIFNW. To resolve the problems, the government consolidated the HIFNW and Health Insurance Corporations for Employees of Government and Private Schools. It was the

Insurance service, one can get medical service throughout the year.<sup>9)</sup>

Since the 1997 economic crisis, economic recession and dramatic restructuring accelerated the unemployment rate. Accordingly, the expansion of Employment Insurance coverage was applied earlier than previously planned, beginning March 1998, in order to provide unemployment benefits even to workers at the workplace with 5 or more persons. Considering the severe unemployment situation, the coverage scope was again expanded even more in October 1998, to include workers at the workplace with four or less persons as well as temporary or part-time workers.<sup>10)</sup> As for Industrial Injury Insurance,<sup>11)</sup> membership has

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first step toward the grand consolidation of Health Insurance taken on October 1998. As the second step, the plan integrated HIF-WE into the already consolidated comprehensive Health Insurance Funds, to be the National Health Insurance Corporation. The new universal Health Insurance Corporation has the integrated management system for the insured but classifies them into two groups: HIFW and HIFNW. Those, who are covered by HIFW, consist of employees and employers at the workplace with 5 or more people, employees of government and private school, who earn monthly wages. Those, who are covered by HIFNW, consist of the self-employed and employees at the workplace with four or less people. The new system applies the same premium rates in line with income level, regardless of which Health Insurance Funds in charge of the coverage. The new Health Insurance system has shifted its focus from treatment-orientation to prevention, rehabilitation and health promotion.

9) The Health Insurance system abolished the regulation of limiting the period covered by Health Insurance to a certain level. Instead it promises unlimited Health Insurance coverage year-round beginning July 1, 2000. Previous Health Insurance laws covered only disease, injury, and death excluding pre-natal care from coverage. The new Health Insurance expanded the scope of coverage to include preventive care, diagnosis, rehabilitation, health promotion, not to mention treatment and death.

10) Since its introduction and implementation in 1995, Employment Insurance has become the primary social safety net for the unemployed during the economic crisis when the jobless rate surged. The number of recipients of

become mandatory even for the workplace hiring less than 5 persons in beginning July 2000. Expanded implementation of social insurance by reducing mandatory employment period was geared toward expanding coverage to include temporary and daily workers.

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Employment Insurance was estimated at 50,000 throughout 1997, but in 1998, the number surged to 438,000. Unemployment benefit provision also skyrocketed to 799.1 billion Won, 10 times that of 1997 of 78.7 billion Won. Likewise, the sharp increase in the number of beneficiaries for 1998 is attributable to the expanded scope of coverage, a string of bankruptcies and closures of firms, lay-offs, early retirement, the reduction of minimum coverage period, and the implementation of special expanded payments. In the end, the contribution income of 1998 worth 576 billion won was exceeded by unemployment benefits expenditure worth 799.2 billion won. In other words, the ratio of contribution income to benefit payment recorded 139%. Unemployment benefit serves the primary social safety net with extended coverage scope, eased eligibility criteria, extended coverage period and extended average coverage period. But despite the eased beneficiary standards, the ratio of unemployment benefit recipients to the total jobless is 10.5%, which is significantly lower in comparison to those of advanced nations such as Japan (27.8%, 1992), Germany (43.5%, 1990), the US (36.0%, 1990), and Britain (30.0%, 1998).

- 11) Industrial Injury Insurance was the first social insurance to be adopted in Korea. In the initial stage of introduction, its implementation scope was limited to mines or manufacturing factories with 500 or more people. In industrial injury insurance, employers are fully liable for the contributions, which is different from other social insurances. The premium per person is determined by multiplying the premium rate and the total amount of salaries. In 1999, a major legal amendment was made to the industrial injury insurance system. The amendment was made to enhance the fairness by setting maximum and minimum coverage limits with the aim to narrow the benefit gap. Thanks to the amendment, new insurance payments were introduced, and more small and medium size firms were included into the system, thereby strengthening its role as a social safety net.



*Table 1-2. Process of Korea's Social Insurance Coverage Expansion: by Year and Group*

National Pension	Health Insurance
1960: government employees	1977: wage earners at workplace with 500 or more people
1963: military personnels	1979: employees in government, private school and wage earners at workplace with 300 or more people
1975: private school teachers	1980: wage earners at workplace with 300 or more people
1977: private school personnels	1982: wage earners at workplace with 16 or more people
1988: wage earners at workplace with 10 or more people	1988: wage earners at workplace with 5 or more people and fishermen and farmers
1992: wage earners at workplace with 5 or more people	1989: urban residents (national coverage)
1995: fishermen and farmers	
1999: urban residents(national coverage)	
Employment Insurance	Industrial Injury Insurance
1995: workplace with 30 or more people	1964: workplace with 500 or more people
1998: workplace with 10 or more people	1965: workplace with 200 or more people
1998: workplace with 5 or more people	1967: workplace with 100 or more people
1998: workplace with 1 or more people	1969: workplace with 50 or more people
	1974: workplace with 16 or more people
	1982: workplace with 10 or more people (some with over 5 people)
	1992: workplace with 5 or more people
	2000: workplace with 1 or more people

Source: Ministry of Health and Welfare, White Paper, 1963-2001 and Ministry of Labor, White Paper, 1990-2001

Under the National Pension scheme, temporary, daily, and other part-time employees are classified as local participants.<sup>12)</sup> As

12) National Pension classifies workers between 18 and 60, at workplaces with five or more employees, and daily or temporary workers who work for more than three months, into workplace pension groups. Those between 18 and 60 whom are not workplace workers or insured under the special occupation pension schemes are classified as local pension participant groups. Full-time workers employed for 3 months or less,

for Health Insurance, since July 2001, temporary and daily workers were transferred to the workplace participant group. Upon the initial enactment, Employment Insurance was not applied to those who work for less than a three-month period and less than 30.8 hours a week. Since October 1998, the mandatory employment period was shortened to include those who work more than one month and more than 80 hours (or more than 18 hours a week). Recent changes in regulations regarding expanded coverage of employment insurance by shortening mandatory work period are described in Table 1-3.

*Table 1-3. Rules to implement social insurance for part-time workers (as of December, 2000)*

Classification	Pension Scheme	Health Insurance	Employment Insurance	Industrial Injury Insurance
Temporary, daily workers	3 months or more	2 months or more	1 month or more	Applied
Hourly workers	Classified as locally insured persons	classified as locally insured persons	More than 80 hours or more than one month ( 18 hours or more a week)	Applied

Note: Temporary and daily workers join as local participant group in national pension and as non wage earners in Health Insurance.

Source: Park, Chanyong., Kim, Yeon-Myung., and Kim, Taewan (2000)

However, there are still difficulties in improving the system of National Pension and Health Insurance because of the low rate of income survey carried out for the self-employed. Even if the

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part-time workers at workplaces with five or less workers, all workers at workplaces with five or less employees, and the self-employed can join the National Pension but many of them are believed to be delinquent contributors to the insurance.

self-employed report less than their actual income in an effort to pay a low insurance premium, it's not easy to disclose this problem exactly. In contrast, the salary earners pay their full National Pension and Health Insurance premium by getting their premium deducted at their income source. This may lead to the unfair circumstance in which the self-employed and the salary earners receive the same medical service and to the salary earners' discontent resulting in boycotting payment of social insurance premium. However, resolutions have not made yet due to the fact that the Ministry of Health and Welfare, which is in the urgent situation facing this problem, is not the Ministry that has the ability to handle it. But for the Ministry in charge of income survey of the self-employed, it could be a burden enforcing the income survey just for effective management of social insurance. Consequently, a low rate of income survey of the self-employed has been maintained, and resolutions have not reached up to this point.

Moreover, destabilization of Health Insurance finance has become a core issue these days, which was in fact predicted several years ago. Although increasing Health Insurance premium is the most reasonable device, the government announced its policies of increasing a government subsidy to support Health Insurance finance to overcome the situation, in which persuading the people's resistance does not seem to be an appropriate option.

## **Limits of Welfare System**

Thanks to the reduction of the eligible employment period requirement and expansion of the scope of qualifying workplaces, the marginal workers,<sup>13)</sup> who are not covered by social insurance, have decreased for the past two to three years. Despite the

concentrated efforts to extend coverage of the social insurance, a substantial number of persons still do not have access to income maintenance benefits under social insurance.

Table 4-1 shows the coverage scope of Korea's social insurance and the marginalized groups from the insurance system. Health insurance has a wider coverage scope than the national pension as it has eased limits in terms of age and eligibility conditions. Employment Insurance and Industrial Injury Insurance are basically targeted for employees but those who are employed at workplace with four or less employees in the agricultural and fishery industries, have been excluded from the insurance benefits. Considering that agricultural or fishery companies with four or less employees are likely to deal with labor-intensive work which may expose workers to more risk of injuries, such workplaces should be covered by the Industrial Injury Insurance. Furthermore, temporary and daily workers employed for one month or less in all industries and those who work less than 18 hours a week, are not covered by Employment Insurance. But as seen above, measures to place marginal workers under the social security system have been implemented; efforts for the reduction of qualifying employment period, decrease in weekly work hours, and expansion of coverage to workplaces with four or less employees have already been put into action. Nevertheless, the system is still faced with obstacles in providing coverage for all workers under the social insurance schemes.

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13) Marginal workers of this paper refers to full time workers at the workplaces with four or less employees as well as 'part-time workers' including temporary daily workers. They share the common ground: their employment status is incomplete and they are excluded from national welfare or company welfare benefits.



The issue of shortfalls in Korea's social insurance scheme has only recently come to surface despite its importance. Korea's social insurance schemes had provided a protective umbrella in favor of salary and wage earners, but it didn't do the same for workers at workplaces with four or less employees and lowest paying temporary contract-based workers. Hence it is essential to figure out the types of the uncovered zone existent in the social insurance scheme and their impact on the system. It is also essential to realize that the government's efforts to expand the coverage of the four social insurance schemes for the past two or three years have not been sufficient to overcome the problem of excluding some from their coverage and that the difficulty should be dealt with on multiple fronts.

The people who are not insured by social security are categorized into two types. The first consists of the cases in which the social security scheme is not applied. The second is when applicants qualifying for benefits are not awarded due payment. In the case of salary and wage earners, they are not covered for the reason that the contract term is too short for. Salary and wage earners do not receive their benefits although they are entitled when they have intentionally avoided contribution payment<sup>14)</sup> or the lack of administration infrastructure fails to

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14) In July 2000, among total participants(16,585,390 persons), there are 10,879,281 local participants(5,144,000 are free from contribution payment duties). Those, who delay their insurance contribution due to unemployment, bankruptcy, and livelihood difficulties and those who were unable to pay contributions due to military service, education, and prison sentence, amounted to 4,813,000. Here the problem is the large number of insured persons unable to pay contributions. As of April 2000, 30 % of insured persons under the National Pension or 5,141,000 are unable to pay insurance contributions due to low income. 85% out of them or 4,375,000 are either unemployed, have their businesses suspended, or unaccountable with unclear whereabouts. Among those who delay their pension insurance

screen for qualifying recipients and provide benefits in a timely manner. In the following part, the measures to those difficulties are addressed.

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contributions are the unemployed, economically inactive persons, full-time housewives, and women with no spouses. Under the current system, they are allowed to defer insurance premium payments. However, there is a group of people who should not be allowed to delay their payment, but are classified as a permissible delayer. These are the high-income asset owners who are estimated to total about 200,000 to 300,000.

### **III. Counter Policies for Improvement**

It is now necessary to set up guiding principles to establish counter policies that are comprehensive, complete, and fair. In short, this summarizes how government has pushed to reduce uncovered group in social security programs. However, its benefit amounts should also reflect reality. Provision of reasonable welfare benefits under the principle of sufficient income support is essential. For public assistance, appropriate amount of payments should be guaranteed based on minimum cost of living. As for the social insurance, the basic rule should be that the insured pay their due contribution and receive corresponding benefits. Even if the uncovered groups are removed and benefit levels are reasonable, the problems in social security programs could remain unsolved if the principle of equality is not applied. Therefore more efforts must be made to apply the rule of equality in selecting beneficiaries and providing fair payments.

#### **Affiliation of Information System with the Four Social Insurance Management Bodies**

The management of workplaces and insured persons by one administrative body instead of four, can create synergy effects on



insurance administration. In particular, by affiliating the channels of qualification management, and charging and collection into one, it is much easier to check eligibility of the marginal workers, workplaces with four or less employees, and the self-employed. That is, under this system, insured persons of one social insurance is immediately recognized as insured under other social insurance, making it less likely for them to be left uncovered. The possibility of applying insurance to marginal workers, who are featured by frequent workplace closure and bankruptcy, as well as frequent job changes, depends on whether or not their employment status and wage level can be completely figured out.

For these reasons, countries with a long history of social insurance often opted for consolidated charging and collection of social insurance contributions. For instance, in Germany, pension, employment insurance, and health insurance are charged and collected by the health insurance administrative organization in the form of comprehensive social insurance premium.

### **Collection of Insurance Premium by National Tax Authority**

Another way to reduce uncovered group in social insurance by preventing intentional contribution avoidance is to make social insurance contribution mandatory. In fact, it is often found in many nations that taxes and social insurance contribution are linked or integrated. National tax agencies collect social insurance contributions by including them in taxes and transfer the amount to related social insurance organizations. One of the problems found in applying social insurance to the marginal workers is that both employers and insured persons tend to avoid their contribution payments. No doubt national tax authority is in a

better position to resolve this problem as it has access to massive data regarding income and asset as well as much stronger authority to charge and collect. Since the National Tax Service of Korea manages all asset, income, and tax payment documents on an individual basis, it is also better poised to transform the social insurance scheme to an individual based management scheme. Also, if employers make false reports regarding wage or employment status, tax authorities are then given the ability to correct the wrong data based on various documents they have secured. The agency involvement would be an excellent way to check for moral hazards in terms of contribution payment and benefit reception of insured persons and employees (contribution payment avoidance, falsely scaled-down income reports, and redundant reception of benefits). Beyond that, combining collection of taxes and social insurance payments will boost administrative efficiency and reduce collection costs, and thereby also benefiting employers.

This method is adopted by the US (its national tax agency charges and collects social insurance contributions), the U.K. (its national tax agency has taken the responsibility of charging and collecting social insurance contributions beginning in 1999), Sweden, and Argentina. In particular, the consolidation of social insurance payment collection with tax collection in Argentina is regarded as a model case for improvement in managerial and operational efficiency.<sup>15)</sup>

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15) ILO 2000

## Strengthening the Ability to Survey Income of the Self-Employed

By strengthening income survey levels of the self-employed, blind spots in the NBLS, the National Pension and the Health Insurance could be scaled down. Undeclared income and under-reporting of income of the self-employed are so prevalent that this has become one of the serious problems in social security. The reason behind the need for concentrating all efforts into the income survey of the self-employed is that public assistance, especially determining the financial assets of the family supporters in regards to NBLS and poverty related monitoring function, may not be able to operate properly in case where the income of the self-employed is not surveyed properly. Such low rate of accurate income survey carried out for the self-employed is causing huge concern in social insurance as well. However, in the case of Korea, in spite of this situation of not having the complete income survey data, not only the National Pension is being expanded to include the self-employed in the urban area, but the integration of Health Insurance Funds and furthermore the financial integration are underway. Basically the society which has difficulty carrying out the income survey effectively, consequently, is left to face the challenges in achieving the welfare policies that are of advanced society. Moreover, the success of social insurance schemes based on integrationalism and social solidarity is jeopardized. As result, in order to uplift the income survey level, active participation and cooperation from the Ministry of Finance and Economy and National Tax Service is necessary, otherwise it is unavoidable to convert the existing social insurance scheme into another system that can operate even with the low income survey.

In 1999, the *National Committee for Self-employed Income*

*Assessment* recommended various measures designed to resolve the issue of mis-declaration of income. In the course of 1999 and 2000 taxation reform executed by the National Taxation Service, several measures were put into practice including revamping the value added tax system, accelerating credit card use, and restructuring ways to improve relevant income data of the self-employed. This overhaul can be evaluated to set the tone for assessing the accurate income status of the self-employed. It is also expected to play an important role in understanding employment and wage status of employees at small workplaces, as well as documents on charging contributions for social insurance schemes. A variety of measures to promote credit card use, in particular, the credit card lottery scheme, have almost doubled credit card use for the first half of 2000 compared to the same period of 2001. The use of credit cards has been on a steady rise, becoming a significant help in exposing the undeclared income of the self-employed. However, the utilization of the effects of these various taxation reforms will take too long to be used as the basis for collecting social insurance contributions. Therefore it would be desirable to carry out tax investigations on a random basis, as observed in many other nations and when violation is found, stern punishment should be imposed. The measure will boost the public awareness that tax evasion is a serious crime. Only then will it be possible to obtain a better grip on the size of income in the self-employed, during a relatively short period of time.

## **Optimizing the Level of Social Security Benefits**

Even if income maintenance is applied and minimum insured period is met, these benefits cannot provide full protection against

risks if the social security benefit level is too low. The level of NBLS payment was set based on the research on minimum cost of living by the Korea Institute for Health and Social Affairs (KIHASA). The minimum cost of living measured by KIHASA goes through a thorough review of *the Central Minimum Living Standard Committee* which consists of government officials, scholars, labor union and NGO. Therefore, the level of NBLS payment has been estimated to be appropriate for the current situation.

Under Industrial Injury Insurance, the cash benefits have met the international level set by the ILO, but not yet in rehabilitation and medical service.<sup>16)</sup> Job seeking benefits under Employment Insurance were pointed out to be less than it should be and therefore recent policies have been introduced to boost the benefits (beginning January 2000, benefit provision period was increased from 60 to 210 days to 90-240 days and minimum job seeking benefits have been pulled up from 70% to 90%). This means that as long as they are entitled for coverage, the marginal workforce will find it more beneficial. In Health Insurance case, it has been estimated that it provides relatively low benefits and no disease or injury cash benefits. As for National Pension, it is designed that those insured with shorter contribution periods receive smaller pensions. Therefore the marginal workforce whose insured period is relatively short may appear to face disadvantages. However, given the fact that National Pension is designed for income redistribution, from which the low-income class can benefit the most,<sup>17)</sup> the marginal workforce and employees belonging to small workplaces and earning less income are not in a disadvantageous situation when it comes to National

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16) Kim, Yeon-Myung 1997b

17) Kwon, Moon-il 2000

Pension.

Benefit levels under social insurance which are proportional to contribution levels and contributory period are commonly found. It is considerably limited to adjust benefit levels and contributory periods as long as the social insurance scheme is being operated within the insurance framework. In a related move, the issue of increasing benefit levels and benefit provision periods should be discussed in line with the mounting burden of contribution payments and government support. In the case of the marginal workforce and employees at small workplaces, they could be entitled to government support in paying contributions.

## **IV. Conclusive Remarks**

It was only as recent as 3-4 years ago, the general public began to regard the welfare scheme as being substantial to their daily life. This is because the welfare scheme has been mainly applied for the poor being not able to work or for workers employed in big companies, excluding often the self-employed or the poor with working ability. However, the 1997 economic crisis made the Korean government to speed up to respond to the surging unemployment rate and poverty ratio. It was a beginning that the government declared Productive Welfare as one of the fundamental governing principles in parallel with Democracy and Market Economy. The efforts to strengthen social security system allowed it to take another leap forward. However, inherent problems have appeared in the course of trying to develop social welfare system within a short time frame, which had taken the advanced nations several decades. As a result, blind spots in social security coverage and the lack of effective links among systems have become the downsides of the process.

This paper presented a comprehensive review of social security system including major public assistance program and social insurance schemes. It also discussed the counter measures to scale down blind spots in social security coverage. As discussed in this paper, Korea's social security has developed

based on the two pillars of social insurance and public assistance. Despite problems arising in the process of evolution, Korea's Health Insurance system is cited as one of the most successful social security systems of developing nations. Therefore, assuming that these issues could be resolved through revision and reform of the existing scheme, this study focuses on exploring ways to create an environment, where functions of the existing social security scheme can be improved. Additionally, ways to resolve defects in the system were also reviewed. As a result, the following conclusion has been made.

Measures to scale down blind spots in social security coverage boils down to dealing with the marginal workers. Their exclusion from social insurance coverage is cited as major shortcoming of Korea's social insurance, along with accurate assessment of income of the self-employed.<sup>18)</sup> The problem also stems from the combination of characteristics of the economic structure (size of black market), contribution rates of social insurance by employers and employees (rate of contribution avoidance), income level of insured persons, level of taxation administration, managerial capability of social insurance administration, and others. Nonetheless, the strengthening of the managerial capability of social insurance organizations in which the function of determination of recipient eligibility and contribution charging is transferred to the National Tax Service, will serve as a breakthrough in consolidation of the social

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18) Accurate assessment of income of the self-employed will determine success of Korea's social insurance scheme as well as the ability to cover employed persons with social insurance schemes. It seemed impossible even 2-3 years ago, however, it is now possible not only to figure out the income size of self-employed persons but also to assess the income and employment status of employees at the workplaces run by self-employed person, more accurately.



insurance funds, and in particular in the efficiency of the social insurance expansion. So, in the future, administrative organizations for social security system need to improve the targeting for the benefit service provision to boost social credibility and ease the burden stemming from the standard control of the beneficiary criteria and charging and collection of contributions. For these matters, related government authorities and social insurance officials are required to have a creative approach.

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