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The Social Security System in Korea

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Korea Institute for Health and Social Affairs

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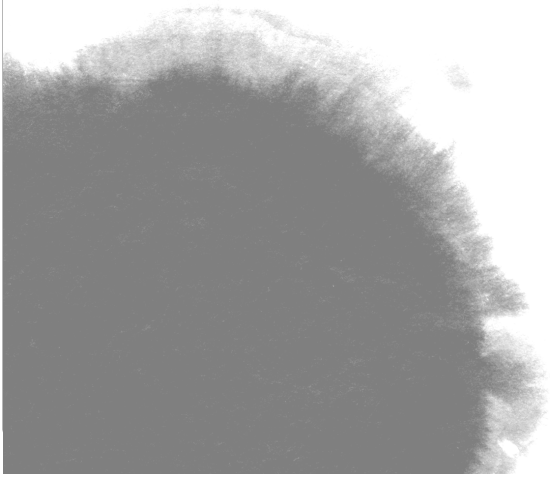


Chapter1 National Pension Program in Korea

1. Outline

The current national pension system has been established in 1988 for workplaces with 10 or more 10 employees as contributors and has expanded to workplaces with 5 or more employees in 1992. Afterwards, it has been expanded to local contributors of rural area residents in 1995 and urban dwellers in April of 1999. The successful enlargement of the system from 4,433 contributors in 1988 to 18,031,000 in 2007, which is almost four times in increase rate. However, the current number of contribution exception cases show to be 5,107,000 in the urban and rural areas. The national pension is yet to be recognized as an effective system.

Financial resources of national pension are provided through contribution from both the employer and the employee, national treasury support of administration costs and interest from reserve financial operations. Throughout 1988 to 1992, the employee and employer paid 50% with 3% as standards for monthly compensation of contributors. Through 1993 to 1997, the employee and employer paid 2% and additional 2% conversion from the retirement allowance with 6% standards. After 1998, retirement allowance conversion rate of the employee and employer increased to 3%. However, as

retirement allowance conversion system had been abolished in the 1999 national pension law revision, the employee and employer are currently paying 4.5% each. Pension payment used to retain a compensation system for the old, disabled, relatives of the deceased and a return payment system for seceders but it has been abolished in the 1999 law revision.

After establishment of the national pension system, the number of contributors and contribution rate have continuously increased as to permit increase in revenue and interest. On the other side, as the expense from compensations has not been so influential at the meantime, the amount of reserved pension funds is constantly increasing. At the end of 2007, the reserved pension funds have shown to be about 212 trillion Korean Won(KRW), 23.5% of the GDP. However, such increase in reserve funds is just an early stage phenomenon and it is irrelevant to the financial issues of national pension in the long run.

〈Table Ⅰ-1〉 History of national pension

1973. 12. 24 Promulgation of National Pension Act(postponed due to the oil shock)
1986. 12. 31 Promulgation of National Pension Act
1988. 1. 1 Establishment of national pension system in workplaces with 10 or more employees
1992. 1. 1 Expansion to workplaces with 5 or more employees
1993. 1. 1 Increase of contribution rate (3 ⇒ 6%)
1995. 7. 1 Expansion to residents in rural areas
1998. 1. 1 1st reorganization of the national pension: rate of income replacement from 70% to 60%, payment age 60 ⇒ 65 (Year 2033), pension insurance premium rate 6 ⇒ 9%
1999. 4. 1 Expansion to urban dwellers
2004. 7. 1 Obligation of national pension contribution for workplace with at least one employee
2007. 7. 3 National Pension Reform Act passed: maintains the current 9% contribution rate but decreases the rate of income replacement from 60% to 40% by 2028.

II. National pension scheme[1)]

1. Coverage

1) Coverage criteria

□ General coverage criteria

— General coverage criteria for the National Pension are age and residence. Income is not included in general coverage criteria. Accordingly, all residents in Korea from 18 to less than 60 years of age, regardless of their income, are covered under the Scheme. Of course, foreigners from 18 to less than 60 years of age residing in Korea are covered under the Scheme except special cases.

□ Who are excluded from the coverage of the scheme?

— Those falling under any of the following items are excluded from the coverage of the scheme even if they satisfy the general coverage criteria.

- The government employees, military personnel, private school teachers, and employees of specially designated post office, because they are covered under their own pension plans.
- National Pension beneficiaries from 55 to less than 60 (an early old-age pensioner and a old-age pensioner as a miner or fisherman)

□ Exceptional cases

— First, anyone aged less than 18 and working at a workplace

1) This section is from www.nps.or.kr, the website of National Pension Service.

covered under the National Pension Scheme may participate in the scheme as a workplace based insured person with the consent of his/her employer.

- In addition, an insured person with less than a 20-year insured period can be covered under the scheme after reaching 60 if he/she wants to be covered (as a voluntarily & continuously insured person).
- Besides these, the National Pension Scheme temporarily has allowed people aged from 60 to less than 65 to be covered under the scheme. This exceptional coverage program was temporarily enforced twice (in 1995 and in 1999) to help the old-aged acquire pension right with a 5-year insured period.

2) Categories of insured persons

- The insured persons under the National Pension Scheme are largely divided into mandatorily and voluntarily insured persons. Mandatorily insured persons cannot choose between participation and withdrawal and are further divided into workplace based insured persons and individually insured persons. These two groups are different in that the contribution of workplace based insured persons is equally shared between the employer and the employee.
- On the other hand, those who participate in the scheme on a voluntarily basis have the choice between participation and withdrawal. These people are divided into voluntarily insured persons and voluntarily & continuously insured persons.

- Voluntarily insured persons are those subject to the general coverage criteria. Voluntarily & continuously insured persons, who are not subject to the general coverage criteria, may participate in the scheme and extend their insured period.

□ Workplace based insured persons

- The contribution of workplace based insured persons is equally shared between the employer and the employee. Acquisition of the pension right, loss of the insured status, and payment of the contribution are conducted by the employer. The persons falling under the category of workplace based insured persons are as follows.
  - All employees and employers from 18 to less than 60 years of age shall mandatorily be workplace based insured persons, if they are working at a workplace with one or more employee
  - Those aged less than 18 working at a workplace covered under the National Pension Scheme may participate in the Scheme, subject to their employer's consent.

□ Individually insured persons

- Individually insured persons should pay all their contribution and report thing regarding by themselves. Individually insured persons are those subject to the general coverage criteria, and they are neither workplace based insured persons nor voluntarily insured persons. Those falling under the category of individually insured persons are as follows;
  - The self-employed
  - Non-income earners aged 27 or older

- Non-income earners under 27 who have paid one or more month contribution
- Others who fall under the category of individually insured persons.

□ Voluntarily insured persons

– Voluntarily insured persons are those not subject to mandatory coverage, but acquiring insured status by their own application. And they have to bear all of their contributions by themselves. And all of voluntarily insured persons are allowed to be covered with median or higher value of the Standard Monthly Income of all workplace based and individually insured persons except for those protected under the National Basic Livelihood Security Act. Anyone falling under any of the following categories may become a voluntarily insured person.

- Non-income earning spouse of those covered under public pension schemes or a public pensioner Public pension schemes include National Pension, Government Employees Pension, Military Personnel Pension, Private School Teachers Pension, and Specially Designated Post Office Employees Pension.
- Non-income earner less than 27 who has not paid any pension contribution
- Persons protected under the National Basic Livelihood Security Act
- Retired government employees (military personnel, private school teachers & staff and specially designated post office employees) entitled to Government Employees

Pension (Military Personnel, Private School Teachers, and Specially Designated Post Office Employees Pension)

□ Voluntarily & continuously insured persons

— The current or former insured person will lose his/her insured status upon reaching 60 years of age. But those with less than a 20-year insured period may continue their participation in the Scheme if they apply to do so. This is how one becomes a voluntarily & continuously insured Person. Those eligible to become voluntarily & continuously insured persons are as follows.

- Insured person reaching 60 years of age with an insured period less than 20 years
- Special occupation employees such as miners or fishermen, who are aged 55 or more and entitled to an old-age pension with an insured period from 10 to less than 20 years. Special occupation employees are those engaged in occupations with high possibility of occurrence of calamity and low retirement age due to hard working conditions, such as miners or fishermen. They are entitled to an old-age pension from 55 years of age while the pensionable age for others is 60. They are recognized as special occupation employees only if their insured period as special occupation employees takes 3/5 of their total insured period or more.

— The purpose of the voluntarily & continuously coverage plan can be summarized as follows. First, it increases benefit opportunities. In other words, it enables those not meeting the minimum insured period (10 years) to gain the pension

right by encouraging continuous participation. Second, it gives those with an insured period from 10 to less than 20 years a chance to increase their pension amount.

- Voluntarily continuously insured persons include voluntarily continuously workplace based insured persons, voluntarily continuously Individually insured persons, and other voluntarily continuously insured persons. Voluntarily continuously insured persons pay all of their contributions by themselves, but the criteria of imposing the contribution differ from one another. The income criteria for workplace based insured persons are applied to voluntarily continuously workplace based insured persons, and voluntarily continuously Individually insured persons are subject to the criteria for Individually insured persons. Other voluntarily continuously insured persons are under the criteria for voluntarily insured persons.

〈Table Ⅰ-2〉 Number of insured persons(as of July 2007)

(Unit: persons, %)

Total	Workplace based Insured Persons	Individually Insured Persons	Voluntarily Insured Persons	Voluntarily & Continuously Insured Persons
18,031,281 (100.0)	8,968,762 (49.74%)	9,009,812 (49.97%)	27,487 (0.15%)	25,220 (0.14%)

2. Contribution

- The National Pension Scheme is a social insurance scheme. Accordingly, the expenditure required for payment of benefits and others is mainly financed from contributions

paid by insured persons and their employers. The contribution of workplace based insured persons is equally shared by the employer and the employee (the insured person), while individually insured persons, including voluntarily insured persons and voluntarily & continuously insured persons, pay all amount of their contributions by themselves. The government's financial support is temporarily provided for some portion of contributions paid by farmers and fishermen. On the other hand, some part of administration costs of the National Pension Service(NPS) is supported by the government because National Pension Scheme is enforced under its responsibility.

1) Contribution rate

- The contribution rate was set low at the initial stage of the Scheme and has been gradually increased for the purpose of alleviating the financial burden on the insured persons and employers, with consideration of its effects on the national economy. Also, the maximum limit of contribution rate will remain in the region of 9% until 2009 and will be adjusted afterward according to the financial recalculation planned to be conducted every five years.

□ Workplace based insured persons and voluntarily & continuously workplace based insured persons

- The contribution rate for both workplace based insured persons and voluntarily & continuously workplace based insured persons was raised from 3% in 1988, through 6% in

1993, and to 9% in 1998.

- During the period 1988-1992, the contribution of the workplace based insured persons was equally shared by the employee and employer. And, during 1993-1998, the contribution was equally shared by the employee, employer, and retirement payment reserve. However, since April 1999, each of the employee and the employer has been taking a half of the responsibility of paying contributions. But Voluntarily & Continuously workplace based insured persons should pay all their contributions by themselves.
- Table Ⅰ-3 shows the contribution rate of the workplace based insured persons and voluntarily & continuously workplace based insured persons.

※ Retirement payment reserve: The retirement payment program was part of the National Pension Scheme. At the time of introduction of the Scheme, the employers and employees disagreed about whether to abolish retirement payment programs or not and the compromise policy was that one part of contribution is shared by retirement payment reserve and that amount shared by it is deducted from retirement payment. However one part of contribution's being shared by retirement payment reserve was abolished by the revised Act in 1999.

〈Table Ⅰ-3〉 Contribution rate for workplace based insured persons and voluntarily & continuously workplace

(Unit: %)

Year		1998~1992	1993~1997	1998	1999 and thereafter
Workplace based Insured Persons	Total	3.0	6.0	9.0	9.0
	Employee	1.5	2.0	3.0	4.5
	Employer	1.5	2.0	3.0	4.5
	Retirement Payment Reserve	-	2.0	3.0	-
Voluntarily & Continuously Workplace based Insured		3.0	6.0	9.0	9.0

□ Individually insured persons and voluntarily & continuously individually insured persons

- The contribution rate for individually insured persons and voluntarily & continuously individually insured persons was 3% from July 1995 to June 2000 and began to increase annually by 1% from July of 2000 until reaching 9%, which is the same as that for workplace based insured persons, in July of 2005.
- The Government has provided the farmers and the fishermen with financial subsidy since July 1995.

※ From July 2007 until December 31, 2014, the farmers and the fishermen will be subsidized up to one half of contributions, as determined by the Presidential Decree, the concerned persons are obliged to pay.

〈Table Ⅰ-4〉 Contribution rates for individually insured persons and voluntarily & continuously individually insured persons

(Unit: %)

Jul.1995 ~Jun.2000	Jul.2000 ~Jun.2001	Jul.2001 ~Jun.2002	Jul.2002 ~Jun.2003	Jul.2003 ~Jun.2004	Jul.2004 ~Jun.2005	Jul.2005 and thereafter
3%	4%	5%	6%	7%	8%	9%

□ Voluntarily insured persons and other voluntarily & continuously insured persons

- The contribution rate for voluntarily insured persons and other voluntarily & continuously insured persons was set at the same level as that for workplace based insured persons during the period 1988-March 1999. But as the mandatory coverage extended to the general public in April 1999, the contribution rate was applied with the same rate as that for Individually insured persons in order to achieve equity with Individually insured persons and voluntarily & continuously Individually insured persons.
- Table Ⅰ-6 shows changes in the contribution rate for voluntarily insured persons and voluntarily & continuously Insured persons.

〈Table Ⅰ-5〉 Contribution rates for voluntarily insured persons and voluntarily & continuously insured persons

(Unit: %)

1988~ 1992	1993~ 1997	Jan.1998~ Mar.1999	Apr. 1999~ Jun. 2000	Jul.2000 ~Jun.200 1	Jul.2001 ~Jun.200 2	Jul.2002 ~Jun.200 3	Jul.2003 ~Jun.200 4	Jul.2004 ~Jun.200 5	Jul.2005 and thereafter
3	6	9	3	4	5	6	7	8	9

2) Calculation of contributions

- The contribution is calculated by multiplying the insured person's Standard Monthly Income by contribution rate. Monthly Income is the amount equivalent to the monthly income reported by an employer or the insured person, within the scope of a minimum of 220,000 KRW but not exceeding 3,600,000 KRW. (amounts less than one thousand KRW are rounded off) The Standard Monthly Income is a basis for the calculation of contribution and also is an important factor for the calculation of pension amount.

□ Workplace based insured persons and voluntarily & continuously workplace based insured persons

- The income of an employee working at workplace is based on the taxable income under the Income Tax Act. The income of the employer of a non-corporate workplace is the income earned from business

□ Individually insured persons and voluntarily & continuously individually insured persons

- The income of individually insured persons and voluntarily & continuously individually insured persons is equal to the amount gained by summing the following incomes.
  - Agricultural income; Income gained from sowing, growing fruit, horticulture, silk raising, planting seedlings, raising of special crops, raising livestock, breeding stock or hatching, and gained in return of services accompanying those.
  - Forestry income; Income gained from forest management,

forest products, raising of wild birds and animals, and gained in return of services accompanying those.

- Fishery income; Income gained from fishery, and gained in return of services accompanying that business.
- Earned income; The taxable earned income under the Income Tax Act.
- Business income; Income gained from whole sale, retail sale, manufacturing industry and other business.

□ Voluntarily insured persons and other voluntarily & continuously insured persons

— The Standard Monthly Income of voluntarily and other voluntarily & continuously insured persons is decided based on that of the insured person which corresponds to the median value of the Standard Monthly Income of all workplace based and individually insured persons as of December 31 of the preceding year of every year. And their income may be reported as more than that, if they want to. But, in the case that those protected under the National Basic Livelihood Security Act want to be covered as voluntarily insured persons, their income is decided based on the amount gained by summing earned income and business income under the National Basic Livelihood Security Act.

3) Payment of contribution

— The employer is obliged to pay his portion of the contribution with the employee's contribution deducted from wage. The individually, voluntarily, and voluntarily &

continuously insured persons are responsible to pay all their contributions. In the event of failure to pay the contribution by due date, an arrears charge will be imposed at a rate ranging from 3% to 9% of the contribution amount, according to the number of months delayed.

- The unpaid period is not considered as an insured period and if voluntarily and voluntarily & continuously insured persons do not pay contributions for three consecutive months, they will automatically lose their insured status.
- The National Pension Service's right to collect the contribution and arrears charges is valid for 3 years. Table Ⅰ-6 shows contribution collection rates. And the tax credit will be applied to contributions paid from the year 2002.

〈Table Ⅰ-6〉 Contribution collection rates(as of July 10, 2007)

(Unit: %)

Total	Workplace based Insured Persons	Individually Insured Persons	Voluntarily Insured Persons and Voluntarily & Continuously Insured Persons
95.7	99.2	77.9	100.0

3) Exception of contributions payment

□ The general coverage criteria under the Scheme are not income. Accordingly, in the case where a mandatorily insured person cannot pay contribution or has difficulty in paying it because he has no income and his income is largely reduced, he can be exempted from paying it during the relevant period instead of losing the insured status. Exception of contributions payment is

introduced with a view to alleviating the burden of contribution payment temporarily in the case that the insured person has no income due to termination of business, loss of employment, calamity and accident, etc.

□ Exception of contributions payment are allowed because repetitive acquisition and loss of insured status is administratively inefficient. The exemption system is also conducive in protecting insured persons in the following ways. For example, although the period of exception of contributions payment is not regarded as insured period which is a basis of calculation of benefits, insured persons may increase their insured period by paying postponed contributions. Also it helps the insured persons get the disability or survivor pension right in the event of disability or death because they are able to maintain their insured status without paying contributions during the period of exemption. However, if an insured person under this exception earns an income again, the person should report it to the NPS in order to be covered under the scheme; if he/she doesn't, the pension rights could be restricted to him/her.

□ If a person has no income and falls under one of the following conditions, he/she may apply for contribution exemption and be exempted from payment of contributions during the period requested.

- When the insured person is in termination of business, loss of employment, or suspension of business.
- When the insured person serves in the army.
- When the insured person attends school.
- When the insured person is imprisoned.

- When the insured person is in confinement probation or treatment institutions under the Social Confinement Law.
- When the insured person is missing for less than 1 year.
- When the insured person's income has been reduced due to disaster or accidents or he/she is not engaged in economic activity.

4) Credit period (Non contributory period)

□ Childbirth credit period

- A childbirth credit period, which is a period designed to grant additional coverage(see table below) to a parent when he/she gives birth to more than two children, will be introduced. The average of the total insured persons' Standard Monthly Income over the last 3 years(refers to "A", 1,618,914 KRW as of 2007) will be used as the income for those periods.
  - This period will apply to a child who is born after January 1 of 2008. The source of funds will be wholly supplied by the government, or shared with the national pension fund.

Number of Children	2	3	4	More than 5
Additional coverage granted	12months	30months	48months	50months

□ Military service credit period

- A military service credit period, which is a period designed to grant 6 months' coverage to a person who has

successfully finished his/her military service will be introduced. One half of the average of the total insured person's Standard Monthly Income over the last 3 years will be used as the income for those periods.

- This period applies to a person who starts his/her military service since January 2008. The government wholly finances the funds for this.

5) Payment of postponed contribution

– Under the regulation of payment of postponed contribution one is able to increase one's insured period by paying the contributions corresponding to the period of exemption after resuming income-earning activities. Postponed contributions may be paid in a lump-sum or on an installment basis. There is no restriction on the application period for it.

3. Benefits

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

1) Calculation of benefits

- The pension amount is generally composed of two factors. One is the amount based on the current or former insured person's contributions paid in the event of old age, disability, death, etc. The amount varies depending on the benefit type, insured period, the age of first benefit, existence of income, the degree of disability, etc.
- The other is the dependents' pension amount. This is additionally provided to pensioners(in the case of survivor pension, the current or former insured person) for their dependents. Therefore, the dependents' pension amount will not be paid to those who do not meet recognition criteria regarding livelihood support. Also, it shall not be provided under an active old-age pension.

□ Basic Pension Amount (BPA)

- The BPA is the basis for the 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 by multiplying the BPA by the payment rate based on the insured period. In the event of disability or death, the pension amount is calculated by multiplying the BPA by the payment rate based on the disability degree even for an insured period of less than 20 years. The factors determining the amount of the BPA are insured period, average income of all the mandatorily insured person and the insured person's average income

during his insured period. BPA is in direct proportion to the insured period, but not to the insured person income because the average income of all the mandatorily insured person is included in determining factors. This average income functions to help the pension scheme to redistribute incomes between economic classes. Namely, it protects those with a low income and unites society by setting the income replacement rate for the insured persons with a lower-than-average income high while making that for the insured persons with a higher-than-average income low. BPA also helps the beneficiaries maintain their pre-retirement standard of living because it is adjusted in proportion to the insured person's average income during his/her insured period.

— BPA is applied to the person who gains a pension right during the period between April of the year and March of the next.

〈Table Ⅰ-7〉 Formula for calculation of basic pension amount

Basic Pension Amount = 1.5 (A + B) × (1 + 0.05N)

[1.5] is a proportional constant to make the income replacement rate of the insured person with average income (A=B) and 40-year insured period 50% (in the case of an insured person with a 20-year insured period, about 25%)

※ The proportional factor is reduced annually by 0.015 starting from 1.5 in 2003 until reaching 1.2 in 2028.

[A] is the average (the redistributive component) of the price-indexed average monthly income for the 3 years prior to pension payment.

※ Average monthly income is the average of Standard Monthly Incomes (SMI) of the all the mandatorily insured person (except for those exempted from contributions payment) as of December 31 each year.

[B] is the average amount of the SMI of an insured person during his/her insured period. This is the earnings-related element adjusted into the value of the year prior to pension payment. The revaluation is based on the fluctuation rate of A.

※ The Standard Monthly Income is the representative amount determined by classes based on the insured person's monthly incomes for calculating the contribution and benefit.

[0.05] represents an additional annual rate (5%) for the insured period exceeding 20 years.

[N] represents the number of insured years in excess of 20 years. Each month is calculated as 1/12 year.

- insured period: insured period included in benefit calculation means the period during which contributions are paid. Accordingly, any period with payment of postponed contributions or repayment of a lump-sum refund is taken as insured period. In the case that there is a change in the type of coverage, the insured period of each category is totalled. On the other hand, the period of unpaid contributions and that of contribution exemption are excluded from insured period. But until the employee in the delinquent workplace gets notified of delinquency with deduction of contributions from wages, the half of the total period of delinquency is regarded as insured period.

□ Dependents' Pension Amount (DPA)

- DPA is a type of family allowance. Dependents eligible for DPA include spouse, children aged less than 18 or with disability of the 2nd or 1st degree, and parents aged 60 or over or with disability of the 2nd or 1st degree (including spouse's parents), supported by the pension beneficiary (the current or former insured person, in the case of a survivors pension).
- DPA is paid in fixed amount. In 2007, the DPA for a spouse is 200,220 KRW per year and for a child or parent is 133,470 KRW per year. The determined amount of DPA is applied to the person who gains the pension right during the period between April of the year to March of the next. But DPA is not provided in the case of an active old-age pension, a divided pension and a lump-sum disability compensation.

□ Benefit adjustment

- A price indexation system is adopted to maintain the real value of the pension amount. Accordingly, BPA and DPA, which are bases of calculating benefit amount, shall be adjusted in proportion to the rate of change in the Consumer Price Index every year. The adjusted pension amount is applied from April of the year through to the following March.

□ Maximum pension amount

- The monthly pension amount may not be larger than one of the following two: at the time of occurrence of a reason for benefit payment, the average of Standard Monthly Income (adjusted into the value of the year prior to the payment of pension) over the last 5 years of the insured period and the average amount of the Standard Monthly Income (adjusted into the value of the year prior to the payment of pension) during the total insured period, and thereafter the larger one of the two, each of which is adjusted based on the price fluctuation rate of the previous year. This is to keep the pension amount lower than income gained from economic activity so as to protect economically viable people from intentionally retiring early.

2) Types of benefits

- Depending on payment methods, National Pension benefits are divided into annuities and lump-sum benefits. Annuities include an old-age pension, a disability pension, a survivor

pension, and a divided pension, and lump-sum benefits include a lump-sum refund and a lump-sum death payment.

□ Old-age pension

– An old-age pension is designed to guarantee the insured person's old-age income when he/she becomes economically less active or inactive due to old-age. An old-age pension is paid to beneficiaries while they are alive, and it is classified into the full, reduced, active, early, and special old-age pensions, depending on the age of first benefit payment, insured period, and participation in economic activities. On one hand, the divorced spouse can be paid a divided pension. At present, the age eligible for an old-age pension is 60, but it shall be 61 years in 2013 and increase by one year every 5 years to be 65 years in 2033.

[(Full) Old-age pension]

- A full old-age pension is paid to a person reaching 60 with an insured period of 20 years or more. However, a special occupation employee such as miner or fisherman is specially paid the pension even if his/her age is from 55 to less than 60.
- The pension amount is the one gained by summing the BPA and DPA.
- In addition, if an (full) old-age pensioner aged from 60 to less than 65 is engaged in income-earning activity, active old-age pension, which is calculated by applying the reduced rate based on age, is paid to him/her (in the case of the special occupation employee, from 55 to less than 60).

[Reduced old-age pension]

- A reduced old-age pension is paid to a person reaching 60 with an insured period from 10 to less than 20 years. In the case of the special occupation employee, it is paid even if his age is from 55 to less than 60.
- Reduced Old-age Pension = (BPA × Payment Rate By Insured period) + DPA

Insured period	10years	11years	12years	13years	14years	15years	16years	17years	18years	19years
Payment rate	50%	55%	60%	65%	70%	75%	80%	85%	90%	95%

- In addition, if a reduced old-age pensioner aged from 60 to less than 65 is engaged in income-earning activity, an active old-age pension, which is calculated by applying the reduced rate based on age, is paid to him/her (in the case of the special occupation employee, from 55 to less than 60) instead of the reduced old-age pension.

[Active old-age pension]

- The active old-age pension is paid to a person from 60 to less than 65 years of age who meets the requirement for a full old-age pension or a reduced old-age pension and who participates in economic activities (in the case of the special occupation employee, from 55 to less than 60 years) instead of a (full) old-age pension or reduced old-age pension.
- Different rates are applied to the active old-age pension amount based on the benefit age. Namely, an active old-age pension amount is the amount calculated by

multiplying his/her Basic Pension Amount by the rate depending on the benefit age, and a reduced old-age pension one by multiplying the amount gained by multiplying BPA by the rate based on the insured period by the rate based on benefit age.

Benefit Age	60	61	62	63	64
Payment Rate	50%	60%	70%	80%	90%

※ The old-age pension or survivor pension beneficiary is considered to be engaged in income earning activities if her/his income (total amount of real-estate rental income, business income and earned income) divided by the number of working months of that year exceeds the average monthly income over the past 3 years before receiving benefits.(Amount of "A" in the formula for calculating pension amount)

- "A" in 2007 : 1,618,914 KRW
- Applied period : pension benefits from January to December 2007 can be suspended or paid at a limited rate according to the person's age.
- Applicable pension : old-age pension (Special old-age is not included), survivor pension(for a survivor pension beneficiary who is a spouse of the deceased and under 55 years of age)

[Early old-age pension]

- An early old-age pension is paid to a person aged from 55 to less than 60 with an insured period exceeding 10 years, if he does not participate in any economic activity.
- The early old-age pension amount comes with the DPA and is subject to differential rates depending on the age of first benefit payment. Namely, in the case of an insured period 20 years or longer, the pension amount is calculated by summing the DPA and the amount gained

by multiplying the BPA by the rate based on the age of first benefit payment. In the case of the insured period with from 10 to less than 20 years, the amount is calculated in the following way.

※ (BPA × Payment Rate By the insured Period
× Payment Rate By the age of first benefit payment) + DPA

Age of the first benefit payment	55	56	57	58	59
Payment Rate	70%	76%	82%	88%	94%

※ If an application is made more than a month after the appropriate age has been reached, additional 0.5% will be accumulatively added to the payment rate for each month that has passed.

- If an early old-age pensioner becomes reengaged in income-earning activity before reaching 60 years of age, not only will his/her early old-age pension be suspended, but he/she also has to be covered in the National Pension Scheme and pay contributions. And after he/she stops the income-earning activity, his pension amount is recalculated by adding the new insured period to the former one. On the other hand, if an early old-age pension beneficiary is engaged in an income-earning activity while aged from 60 to 64, it is not mandatory for him/her to participate in the scheme. However, during that period, he/she can receive an active old-age pension corresponding to the amount determined by multiplying the early old-aged pension by the above payment rate of the active old-age pension specified based on the age of the person.

[Special old-age pension]

- A special old-age pension program is designed to cover those aged from 50 to less than 60 who cannot meet the

requirement for an old-age pension (10 years) because of their old age. Under this program, they can receive pension benefits after 60 years of age, if their insured period is 5 years or longer.

- In addition, the elderly aged from 60 to less than 65 has been given an opportunity of being covered under the Scheme twice before (in 1995 and in 1999) and the special old-age pension program is also applied to them.
- This pension amount is the amount by adding the DPA to the amount gained by multiplying the BPA by 0.25 for a 5-year insured period. An additional 5% of BPA is added for each one-year increase in insured period. The active old-age pension program is not applied to the beneficiaries even if they are engaged in income-earning activity while aged from 60 to less than 65.

[Division of pension right]

– A person who has been married for at least five years during his or her spouse's insured period may be granted 1/2 of the pension amount corresponding to the marriage period, among his/her spouse's old-age pension, when falling under one of the following conditions:

- When a person reaches age 60 after having divorced from his or her spouse who is an old-age pensioner.
- When a person, after reaching age 60, is divorced from his or her spouse who is an old-age pensioner.
- When after a person reaches age 60, his/her ex-spouse is entitled to old-age Pension .
- When a person reaches age 60 after his/her ex-spouse is

entitled to old-age Pension.

- Once a person acquires the right to a divided pension, the entitlement of the divided pension is not affected by the termination or suspension to the former spouse's old-age pension right. A divided pension, which is paid to a divorced spouse, is continuously paid to the beneficiary after the person remarries. Furthermore, when a person is entitled to the divided pension and the old-age pension at the same time, both pension benefits are paid to him/her.

□ Disability pension

- A disability pension is provided to a person having physical or mental disability even after treatment of the disease or injury occurred during his/her insured period. Under the Scheme, a disability pension is paid during disability and the benefits level is determined on the basis of the degree of disability.
- There is no required minimum insured period in the case of a disability pension. But a disability pension is not paid to the person who does not pay contributions faithfully. In other words, a disability pension benefits shall not be paid to one who has not made contributions at all until the first medical examination date of the relevant disease or injury, or whose contribution period is less than 2/3 of the total period during which contributions should have been paid (except for the case where the unpaid period is less than 6 months).

[Determination of the degree of disability]

- The degree of disability is determined by National Pension

Service, and it is classified to 4 degrees depending on disability conditions. The degree of disability is determined on the basis of the day when any injury or disease as the cause of the disability is medically cured or such symptoms are fixed (completely cured) to the extent that no further treatment effect can be expected.

- However, if the symptoms are not completely cured even 1 and a half years after the first medical examination of the relevant disease or injury taken to be the cause of the disability, the degree of disability is determined on the day when the 1 and a half years have passed since the first medical examination.
- Further, the degree of disability is determined on the date of application for a disability pension when a person is not eligible for a disability pension on the date when one and a half years have passed since the first medical examination, but eligible for the pension prior to age 60 due to worsening of the disease or injury, or if a person losing the right to a disability pension due to the favorable turn of the disability conditions, becomes subject to the disability pension again before 60 years of age owing to worsening of the disease or injury at the time of obtaining the right to the disability pension.

[Benefit levels]

- The amount of disability benefit is determined by the degree of disability. To the persons falling under the 1st to 3rd degree, benefits are paid as annuities and, to those under the 4th degree, benefits are paid as lump-sum amount. Pension amount is the sum of DPA and the amount gained by multiplying the BPA by the payment rate based on the degree of disability. The lump-sum disability benefits paid to the person falling under the 4th degree are the amount equivalent to 225% of the BPA.

※ Disability Pension

= (BPA × Payment Rate By Disability Degree) + DPA

Degree of disability	1st degree	2st degree	3st degree
Payment Rate	100%	80%	60%

※ Lump-sum disability benefit = BPA × 225% (no DPA)

[Change and adjustment of pension amount]

- The NPS reviews the degree of disability of the person entitled to a disability pension and, if there is any change in the degree, it will change the amount of a disability pension. Further, one who is entitled to a disability pension may request the NPS to adjust the disability pension amount if his/her disability is worsened. If another disability occurs, the disability pension is paid on the basis of the degree of the old and new disabilities combined. If the amount gained by combining the disabilities is less than the former one, the former shall be paid.

□ Survivor pension

[Payment of survivor pension]

– If the current or former insured person falling under any of the following items dies, a survivor pension shall be paid to his/her surviving dependents.
  • an old-age pensioner
  • a disability pensioner with disability of the 2nd or 1st degree
  • an insured person (in the case of insured persons with an insured period less than one year, entitlement is limited to death caused by disease or injury occurred during the insured period).
  • former insured person whose insured period is 10 years or more - an insured person with an insured period of less than 10 years, who dies within 2 years from the first medical examination made within 1 year after disqualification or during the insured period owing to the disease or injury occurred during the insured period.
– There is no required minimum insured period for a survivor pension. But a survivor pension is not paid to the person who does not pay contributions faithfully. In other words, the survivor pension shall not be paid to a person who has not paid even one contribution at the time of the beneficiary's death or whose contribution period at the time of occurrence of a reason for benefit payment is less than 2/3 of the total period during which contributions should have been made (except for the case where the unpaid period is less than 6 months).

[Scope and order of survivors]

– A survivor pension is paid to surviving dependents with the

priority in the order of the spouse, children, parents, grandchildren, and grandparents. If there are 2 or more persons having the same order, the pension is paid by equal distribution. And if the spouse's right to a survivor pension is extinct or suspended, the children supported by the current or former insured person at the time of his death succeeds to the right.

- If a survivor pension is paid to the spouse, it is paid for 3 years from the time when the right occurred, and is suspended until she is 55 years old. But it is not suspended if she has the 2nd or 1st degree of disability, or is not engaged in income-earning activity, or supports the current or former insured person's children who are less than 18 years old or have the 2nd or 1st degree of disability.
- In addition, to acquire the survivor pension right, one must have been supported by the current or former insured person at the time of his/her death and also must fall under one of the following categories.
- Spouse - Children and grandchildren aged less than 18 or having a disability of the 2nd or 1st degree - Parents and grandparents (including the spouse's parents and grandparents) aged 60 or over, or having a disability of the 2nd or 1st degree

[Benefits level]

- The amount of a survivor pension benefit is calculated by summing the DPA and the amount gained by multiplying the BPA by the payment rate based on insured period. The amount of a survivor pension due to death of an old-age

pensioner cannot exceed the old-age pensioner's pension amount.

Survivor Pension

= (BPA × Payment Rate based on Insured period) + DPA

Insured period	Less than 10 years	From 10 to less than 20 years	20 years or more
Payment rate	40%	50%	60%

[Lapse of the right to survivor pension]

- The right to a survivor pension lapses under one of the following conditions.
  - When the entitled person dies.
  - When the entitled person (spouse) remarries.
  - When the entitled person (child or grandchild) is adopted, or sent back.
  - When the entitled person (child or grandchild) who does not have the 2nd or 1st degree of disability turns 18 years old.
  - When the person who obtained the right owing to a disability no longer falls under the 2nd or 1st degree of disability.
  - When the current or former insured person's baby unborn at the time of his death is born and comes to obtain the right (in this case, the right of the parents, grandchildren, or grandparents lapses).

□ Lump-sum refund

- When the current or former insured person falls under one of the following categories, lump-sum refund is paid to

him/her or his/her survivor. The scope and order of survivors who can request a lump-sum refund is the same as in the case of survivor pension. The right to a lump-sum refund is extinct if the beneficiary is covered again, or gain the right to old-age, disability, or survivor pensions.

- When a person whose insured period is less than 10 years reaches the age of 60.
- When a current or former insured person dies and a survivor pension is not paid.
- When a person loses his/her Korean nationality or emigrates to a foreign country.

– A lump-sum refund is the amount of contributions(paid by the employee and the employer)plus the fixed interest.

– In the case that the person who received a lump-sum refund regains an insured status, he/she may pay the amount equal to the lump-sum refund plus its interest to the National Pension Service by his/her choice. And the period corresponding to the amount paid shall be counted as an insured period.

□ Lump-sum death payment

– When a current or former insured person dies without leaving survivors eligible for a survivor pension or a lump-sum refund due to age or other reasons, a lump-sum death payment is paid to a spouse, children, parents, grandchildren, grandparents, brothers or sisters, in that order. However, a person whose whereabouts are unknown, due to being missing, etc, at the time of death of the person who is/was insured, is excluded. If there is no one falling under

the above category, the lump-sum death payment is paid to a relative such as an uncle, aunt or cousin who is supported by the beneficiary at the time of his/her death. In addition, there is no age restriction for survivors who can receive a lump-sum death payment, differing from a survivor pension and a lump-sum refund. The spouse's parents and grandparents, however, are not eligible to receive a lump-sum death payment.

- A lump-sum death payment is the amount equivalent to a lump-sum refund, but shall not exceed four times the larger of the deceased insured person's last Standard Monthly Incomes (SMI) (adjusted to the value of the previous year to payment of the benefit) and the average SMI (adjusted to the value of the previous year to payment of the benefit) during his/her insured period.

3) Adjustment of concurrent benefits

- When a pensioner has the rights to two or more benefits (including a lump-sum refund), only one benefit is allowed at his/her choice and the other benefits are suspended.
- However, if the unchosen pension is a survivor pension or a lump-sum refund, a fixed amount is added to the amount of the chosen benefit.
- When a person entitled to a disability or a survivor pension under the National Pension Act is also eligible for a disability or survivor benefit under the Labor Standard Act, the Industrial Accident Compensation Insurance Act, the

Seamen's Act or the Accident Compensation Insurance Act for Fishing Boats and the Members of Fishing Boats, on the basis of the same reason, his/her pension under the Scheme is reduced by as much as a half of the pension amount.

- In addition, if the old-age pensioner aged from 55 to less than 65 is concurrently entitled to job seekers' benefit under the Employment Insurance Act, his/her old-age pension will be suspended while he/she is receiving job seekers' benefits.

4) Request and payment of benefits

- Benefits are paid upon request of the person with the right to benefits. But in the case that the person with the right is a minor, a legal agent can request and in the case that the person with the right cannot request because of unavoidable reasons such as staying abroad, etc., his/her proxy may do so. Also, if there remains benefit unpaid when the beneficiary dies, it shall be paid to his/her surviving dependents at the time of his/her death.
- Pension will be paid on a monthly basis. Pension benefit for a certain month is paid to a pensioner on the last day of the month (on the preceding day if the last day is saturday, sunday or a holiday).

〈Table Ⅰ-8〉 Status of pension benefit payment

(Statistics of July 2007, Unit: cases, million KRW, %)

	Total	Old-age Pension					Disability Pension	Survivor Pension
		Total	Special	Reduced	Early	Divied		
Beneficiar-ies	1,982,127 (100.0)	1,627,021 (81.8)	1,364,246 (69.9)	149,561 (6.4)	99,280 (5.4)	1,231 (0.1)	59,562 (3.1)	295,544 (15.1)
Amount	404,374 (100.0)	329,657 (80.1)	223,526 (57.5)	47,024 (13.4)	66,526 (9.2)	164 (0.0)	20,201 (5.6)	54,516 (14.3)

〈Table Ⅰ-9〉 Status of Lump-sum benefit payment

(Statistics of July 2007, Unit: cases, million KRW, %)

	Total	Lump-sum Disability Compensation	Lump-sum Refund	Lump-sum Death Payment
Beneficiaries	11,608(100.0)	437(5.7)	10,702(86.8)	472(7.5)
Amount	42,500(100.0)	4,179(15.1)	37,062(80.0)	1,259(4.9)

〈Table Ⅰ-10〉 Total number of beneficiaries and benefits payment amount by year

(As of the end of each year, Unit: cases, million KRW, %)

		2001.12	2002.12	2003.12	2004.12	2005.12	2006.12	2007.12
Total Benefit	Beneficiar-ies	948,164	1,052,327	1,169,441	1,533,059	1,757,674	1,985,502	2,074,060
	Amount	1,569,257	1,915,255	2,328,449	2,914,015	3,584,901	4,360,239	2,919,104
Pension benefit	Beneficiar-ies	770,568	916,630	1,052,414	1,424,083	1,651,681	1,858,769	1,997,970
	Amount	1,301,142	1,652,529	2,017,911	2,568,966	3,210,044	3,899,369	2,647,504
Lump-sum benefit	Beneficiar-ies	177,596	135,697	117,027	108,976	105,993	126,733	76,090
	Amount	268,115	262,726	310,538	345,049	374,857	460,870	271,600

5) Restrictions on benefits and suspension of pay

- Payment of benefits will not be made for unjust requests involving insured person's self-induced disease or injury, or accidents causing such damages, or insured person's death intentionally induced by his/her survivor(s).
- Furthermore, if the person with the right to benefits does not submit required documents or other materials, or follow

the request of medical examination, or order of medical treatment without any just reasons, payment of all or some of benefits may be suspended.

6) Follow-up management

- When changes in benefit entitlement-such as death or remarriage of the person entitled to an old-age pension, a disability pension, or a survivor pension-or changes in benefit amount-such as receipt of compensation benefits under the Industrial Accident Compensation Insurance Act-the NPS receives the relevant reports from the concerned pensioner or check the facts to ensure the reasonable payment of benefits.

7) Period of prescription

- The right of pensioners to claim a benefit is valid for 5 years beginning from the initial date of entitlement. For an application after the elapse of 5-year period, the benefit except for a lump-sum benefit is retroactively paid for 5 years from the date of application.

4. Foreigners and lump-sum refund

1) Foreigners and coverage

- Foreigners aged between 18 and 59 working and residing in

Korea are subject to the compulsory coverage of the national pension scheme, the same as Korean nationals. If he/she is working in the workplace covered under the scheme, he/she shall mandatorily be a workplace-based insured person and in other cases, an individually insured person.

- At the time of the introduction of the Scheme, foreigners were not mandatorily covered. Only foreigners working in a workplace covered under the Scheme could be covered as an Workplace based insured person by submitting an application. From August 1995, foreigners working at a workplace with 5 or more full-time employees were included in the mandatory coverage. People working at a workplace with less than 5 employees, including the self-employed, were also included in the mandatory coverage from April 1999. Accordingly, at present, foreigners aged from 18 to less than 60 who reside and work in Korea must be, in principle, covered under the National Pension Scheme.
- However, foreigners falling under any of the following items are excluded from the coverage.

□ Who is excluded from coverage?

- Those nationals whose country does not mandatorily cover Korean people under its pension scheme.
  - Under this rule, only the nationals from the following 16 specified countries do not have to enroll and pay the NPS contributions.

    ※ the Republic of South Africa, Nepal, Maldives,

Myanmar, Bangladesh, Vietnam, Saudi Arabia, Armenia, Ethiopia, Iran, Egypt, Tonga, Pakistan, Fiji, Cambodia, Singapore

- Foreigners who are not registered under the Immigration Act, or to whom the forced deportation order has been issued under the same Act, or who are staying in Korea without being permitted to extend their term of stay.
- Among the registered foreigners under Immigration Act, those whose stay status falls under any of the followings; culture & art, studying abroad, industrial training, general training, religion, visiting & living together and others.
- People excluded from the mandatory coverage of National Pension Scheme, by the social security agreement.

□ Aquisition & loss of insured status has to be reported

- Who must report facts regarding acquisition & loss of insured status?
  - For Foreign Workplace-based Insured Person: Employer of the workplace
  - For Foreign Individually Insured Person: The insured person. However, if the person is unable to report for a particular reason, the spouse or other family members may report on behalf of the insured person.
- Due Dates for Reporting
  - Foreign Workplace-based Insured Person: By 15th of the month following the month which the relevant facts occur Example) if he/she starts to work in February, he/she must make a report by March 15.
  - Foreign Individually Insured Person: By 15th of the

month following the month which includes the day on which acquisition of the insured status occurs

2) Foreigners and payment of lump-sum refund

- Foreign insured persons under the national pension scheme are treated equally as a Korean national insured person.
- If a foreigner becomes eligible to receive an old-age, survivor or disability pension, he/she can be paid any of pension benefits under the Korean National Pension Act (refer to each section on types of pension)
- For example, there is no discrimination in terms of the benefit amount and remitting benefits abroad, etc. But there is a certain distinction in regarding a lump-sum refund. In principle, a lump-sum refund is not paid to foreigners leaving Korea after having been covered under the scheme.
- But, in the case of foreigners falling under any of the following conditions, a lump-sum refund will be paid.
  - In cases where a foreigner whose home country grants Koreans a benefit corresponding to a lump-sum refund under the National Pension Scheme.
    ⇒ Under this rule, only the nationals from the following 29 countries may receive the Korean lump sum refund.
  - In cases where a foreigner whose home country has concluded a social security agreement with Korea regarding the payment of the lump-sum refund
    ※ As of June 2007, Canada, The U.S., Germany, Hungary, France

• Regardless of minimum insured period, in cases where a foreigner, who has been covered under the national pension scheme with a stay visa of E-8 (Employment for Training), E-9 (Non-professional Employment), or H-2 (Visiting Employment) returns to his/her home country

〈Table Ⅰ-11〉 Countries whose nationals are granted a Lump-sum refund

(as of November, 2008)

Regardless of Country		E-8 (Employment for Training), E-9 (Non-professional Employment), H-2 (Visiting Employment)
Under the Social Security Agreement (7 countries)		Germany, US, Canada, Hungary, France, Australia, Czech Republic
Minimum Insured Period	Over 6 months	Belize
	Over 1 year (9 countries)	Granada, Barbados, Zimbabwe, Cameroon, Congo, Thailand, Togo, Jordan, Saint Vincent and Grenadine
	Over 2 years	Venezuela
	None (17 countries)	Ghana, Malaysia, Vanuatu, Bermuda, Sudan, Sri Lanka, Switzerland, El Salvador, India, Indonesia, Kazakhstan, Kenya, Colombia, Trinidad and Tobago, Turkey, Philippines, Hong Kong

※ If a foreigner applies for a lump-sum refund because he/she is going to return to his/her home country, the lump-sum refund will be paid as long as the NPS can confirm that the person has left Korea after August 29, 2007. However, if he/she submits the required materials such as airplane tickets verifying his/her departure within one month, he/she will be able to apply for the refund before leaving Korea.

□ Benefits

– Like Korean nationals, a foreign national working and residing in Korea also receives, a lump-sum refund, of which the total amount of the contributions that he/she has paid during his/her insured period includes interest on the sum during the same period, and interest earned until the day on which the person becomes eligible to receive his/her pension benefits.

※ The interest rate that is applied to the benefits is determined by taking an average from nation wide banking institutions established under the Banking Act, announced January 1st of each year.

※ Example) Interest rate of time deposit with a maturity of three years for 2008: 4.2%, Interest rate of time deposit with a maturity of one year for 2008: 3.8%

3) Procedures on How can a foreigners apply for a lump-sum refund(If an applicant is a national from a country without a social security agreement with Korea)

- Applying before departing Korea (If the applicant is in Korea)

The applicant should visit a regional office, having the following documents ready

[Required documents]

- An Application for Lump-sum Refund (This form is available at any regional office.)
- An Alien Registration Card
- A copy of bankbook or similar (registered in the applicant's name)
- A copy of an airline ticket. (the date of departure has to be in less than a month from the date of the claim)

※ In the case that an applicant has been insured under an other public pension scheme since before July 23, 2007 and he/she had insured periods under the National

Pension Scheme before being insured under the public pension scheme, he/she can receive his/her national pension contributions as a lump-sum refund if he/she submits a certificate of employment and a copy of a certificate of coverage.

- Applying after arriving home or from another country (If the applicant is in overseas) An application can be made by an agent or mail.

□ In the case of an application by mail in a foreign country

[Required documents]

- An application for Lump-sum Refund (it must be notarized from a notary's agency in the country where the applicant resides and be attested by the Korean embassy).
- A copy of bankbook or similar (registered in the applicant's name)

※ If the applicant apply for overseas remittance, an application for overseas remittance and a bank statement or void check which shows his/her name and account number are required.

- A copy of passport

□ In the case of an application by a relative living in Korea

※ The legitimate scope of relatives: spouse, lineal ascendants or descendants, siblings, parents in law, spouses of lineal descendants, siblings in law.

[Required documents]

- An application for Lump-sum Refund
- A hand-written letter of attorney
- A copy of applicant's passport

- A family register document to confirm a relative's relations.
- An Alien Registration Card of the relative
- A copy of an relative's or a copy of applicant's bankbook or similar (registered in the applicant's name)

(If the applicants apply for overseas remittance, an application for overseas remittance and a bank statement or void check which shows the applicant's name and account number are required)

□ In the case of an application by agent in a foreign country

- In case that an applicant resides in a foreign country, he/she may apply for the benefit by notarizing his/her letter of attorney in the country where he/she resides and be attested by the Korean embassy.

[Required documents]

- A letter of attorney (it must be notarized from a notary's agency in the country where the applicant resides and be attested by the Korean embassy).

※ An applicant should specify that he/she intends the agent in Korea to receive his/her lump-sum refund on behalf of him/her. In this case the applicant must provide a signed or stamped letter of attorney containing the agent's full name, address, etc.

※ An agent living in Korea who has received the letter of attorney and the document above should get their Korean-translated texts notarized again so the letter's contents can be generally identified.- A copy of the applicant's passport

- An application for Lump-sum Refund

※ An applicant must fill out the "Application by Agent" section in the "Application for Lump-sum Refund" form and then notarize it in a notary's agency of the country where the applicant resides and attest it in the Korean consulate or embassy. If the applicant's letter of attorney is tested by a public notary in the country where he/she resides or a Korean consulate or embassy, the "Application by Agent" is not necessary.

- A copy of applicant's ID card (public documents issued by the government of the applicant's home country including a passport, social security card or other ID)
- applicant's bank book (it must be notarized from a notary's agency of the country where the applicant resides and be attested by the Korean embassy)

□ In the case of application under the MOU through a social insurance institution of the beneficiary's country

- In order to improve efficiently, convenience and accuracy in paying benefits, a foreign national who has returned to his/her home country can apply for a lump-sum refund through a social insurance institution of his/her country with the same procedure in Korea.
  - Person who affected by this way: A national returning his/her home country whose country has concluded the MOU with Korea
  - Benefits which can be applied for through this way: Lump-sum Refund, Lump-sum Death Payment or unpaid benefits of the two.
  - Institution receiving and sending an application for

pension benefits: Social Insurance Institution of the beneficiary's home country

- Institution paying benefits and making a notice of it: Korean National Pension Service

– Country which has concluded the MOU with Korea

- Mongolia (signed on November 15, 2007, entered into force on November 26, 2007)
- The number of country concluding the MOU will be expended

III. Current issues of the national pension system

1. Financial inequality

The biggest concern of Korea's National Pension system lies in the long term instability of finance. Primary cause of the concern lies in the unbalanced benefit-contribution structure. Despite the National Pension Act revision in 1998, many financial issues exist. While the National Pension benefit remains relatively high, the system that increases contribution to acquire financial resources remains uncertain. The National Pension Improvement Group proposed the reduction of income replacement rate from 70% to 40% at 40 years of insurance term. This proposal was intended to suppress the contribution rate to 12% and maintain financial equality as to normalize benefit and contribution. However, this proposal was not accepted. Moreover, the 55% income replacement rate suggested by the Ministry of Health, Welfare and Family Affairs was readjusted to 60% without an open

discussion. Although the pension act revision in 1998 decreased the rate of income replacement from 70% to 60% and increased contribution rate from 6% to 9%, the financial system of the scheme remained to be unbalanced. Only a delay of the funds depletion term from 2030 to 2047 was conducted. Afterwards in 2007, the pension act revision retained contribution rates but adjusted the rate of income replacement from 60% to 40% by 2028. This allowed the funds depletion term to be delayed from 2047 to 2060. The 2007 pension act revision was significant as to have acquired the necessary time to review the establishment of a successful pension system in the long run.

The National Pension system adapted to the current day has basis in the paradigm of western developed countries during their economic growth period after World War II. However, as indicated by World Bank, such pension system is threatened by the aging society, economical and social changes. Furthermore, it may cause negative effects to the entire Korean economy. Therefore, the "pay as you go" pension system only deteriorates savings and subsequently hinders potential growth. Speaking through experience of OECD countries, public pension may become the primary factor in standardization of financial scale and resolve financial loss. In addition, excessive amounts of contribution cause an increase in operation costs and may provide avoidance of employment or distort the labor market. Therefore, there is a need to exert effort in security of funding for the old in planning the public pension scheme. In addition, the economical effects mentioned above need to be considered in general to provide an appropriate amount of benefit and contribution.

2. Income verification and dead zones

The current issues of the National Pension scheme, which were caused by the 1999 urban area expansion process, are a result of overheated pension expansion. It led to the development of dead zones of low wages workers and own account workers. Furthermore, failure to verify income of own account workers created inequality between the wages workers and the own account workers. According to the estimated figures of Ministry of Health, Welfare and Family Affairs and National Pension Service, the reported income of own account workers remain at a 60% level of the actual income. The problems of own account workers and their false tax return settlements have become a major issue. This leads to the problem of balance in between wages workers and own account workers. Ministry of Health and Welfare and National Pension Corporation are in progress of preparing measures as to determining earnings. Management of false statements, confrontation, adjustment of authority, incorporation of temporary and daily workers, and encouraging of proper tax return settlement are the measures to be taken. However, the proper tax return settlement level of own account workers in the urban areas remain to be 70% of the wages workers.

The problem with failure in income verification will continue to distort income redistribution function of National Pension and cause a drawback for contributors who fulfill their taxation duties. Furthermore, there is a limit in the current resolution plan of the situation and it would be rather difficult to expect positive changes in the near future. It is difficult to develop an improved system that

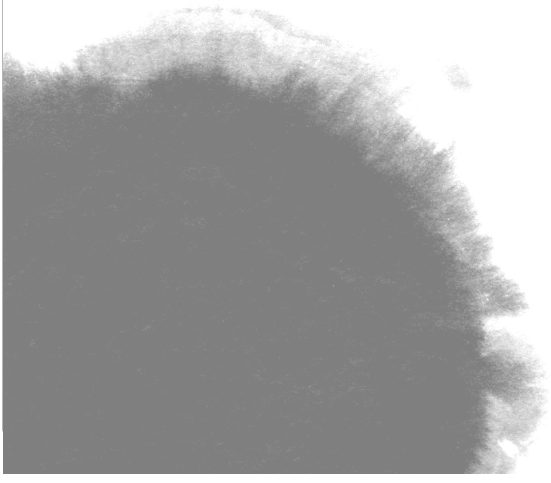
verifies the income of own account workers in a short period of time. In fact, the possibility of the income gap between wages workers and own account workers would only increase. While the increase of wages workers' earnings is automatically shown, there are limitations in determining the different changes in income of an own account worker. In addition, the gradual increase in contribution would only encourage own account workers to lower their tax return settlement of income. In use of the National Tax Service, tax administration reform must be done for income verification. However, this process is a complex process. With the growth of temporary workers due to the increase in flexibility of the labor market, management of contributors and income verification have become a bigger issue.

As for National Pension, most of own account workers with low income, temporary workers and daily workers are omitted in the process of tax return settlement. This may lead to the occurrence of dead zones in national pension coverage. In 2007, among 18,031,000 total insured persons, 5,107,000, rate of 28% have been classified as contribution exceptions. It generally means that they are excluded from the benefits of pensions. People who are unemployed or cannot pay contributions due to poverty cover a great portion of the excluded. A large number people from the low income class are excluded from the benefits or are not given the opportunity due to reduction of the insured period. People suffering from poverty are in desperate need of the benefits of this pension scheme than others. The occurrence of dead zones would exclude them from such benefits and lead to flaw of social safety nets.

KIHASA

02

National Health Insurance Program in Korea



Chapter2 National Health Insurance Program in Korea

I. Key characteristics of health care system

□ Total health spending accounted for 6.4 per cent of GDP in Korea in 2006, the third lowest share among OECD countries and 2.5 percentage points lower than the OECD average of 8.9 per cent. Korea also ranks below the OECD average in terms health spending per capita, with spending of 1480 USD (calculated based on purchasing power parity), compared with the OECD average of 2,824 USD in 2006. Health expenditure per capita has nonetheless increased rapidly in Korea since the second half of the 1980s when the national health insurance was established. During the 1990s, the rate of growth in health spending has been two-times greater than the average across OECD countries. This trend continued between 2000 and 2006, when the growth rate in health spending per capita in Korea reached 10.7 per cent per year, compared with the OECD average of 5.0 per cent. The increase in health spending in Korea over the past decade or so has been driven mainly by a rapid rise in public spending on health.

□ Although the share of public spending on health in Korea steadily increased during the past decade, rising from 36 per cent of total health spending in 1995 to 55 per cent in 2006, it remains well

below the OECD average of 73 per cent. The relatively high private share of health funding in Korea is linked to substantial out-of-pocket payments, which account for 37 per cent of total health spending in 2006.

□ Korea's expenditures for pharmaceuticals comprise a large part of health expenditures (25.8 per cent in 2006) compared with the average OECD of 17.6 per cent. The number of doctors per 1,000 population in Korea was 1.7 in 2006, the second lowest among OECD countries (the OECD average was 3.1). The number of acute-care beds in hospitals was 6.8 per 1,000 population in 2006, well above the OECD average of 3.9 and the average length of stays for acute care in hospitals, 10.6 days in 2003, was also relatively high compared with the OECD average of 6.3 days.

□ Life expectancy at birth in Korea has increased outstandingly over the last four decades reflecting sharp reductions in mortality rates at all ages. Changes in life expectancy are related to a range of interdependent variables such as living standards, lifestyles, and access to quality health services. In 1960, life expectancy in Korea was 16 years below the OECD average. By 2006, it stood at 79.1 years, above the OECD average of 78.9. Among OECD countries, Korea achieved the greatest gain in life expectancy between 1960 and 2006. The infant mortality rate decreased to 6.0 in 2005 from 16.0 in 1980. Meanwhile, mortality and morbidity patterns have changed from communicable diseases to chronic and lifestyle-related diseases, a common trend amongst developed countries. For the year 2003, the major causes of mortality were cancer, cardiovascular diseases, and external causes, comprising 26.2 per cent, 24.5 per cent, and 12.8 per cent, respectively.

Accidents are the primary cause of early death in Korea. Smoking still remains a major health risk factor.

II. National health insurance scheme[2)]

1. Health insurance

1) Brief history of national health insurance

□ 1960s

- Dec. 1963 The Medical Insurance Act was legislated

□ 1970s

- Jul. 1977 Compulsory Medical Insurance program was introduced for companies with more than 500 employees
- Jan. 1979 Medical Insurance program was extended to companies with more than 300 employees, and the public officials and private school employees(Korean Medical Insurance Corporation; KMIC). Medical care institutions came to be compulsory designated as medical service providers of Medical Insurance program.

□ 1980s

- Jan. 1981 Companies with more than 100 employees was included in the National Health Insurance (NHI) program. The 1st pilot program for self- employed medical insurance started in three rural areas
- Jul. 1982 The 2nd pilot program for self-employed medical

2) This section is from www.nhic.or.kr, the website of National Health Insurance Corporation.

insurance was initiated in two other rural areas and urban area. The coverage of employees medical insurance was compulsorily expanded to the workers who were employed at companies with 5 workers or more.

- Jan. 1988 The persons who were self-employed in rural area came to be covered. The employees from companies with 5 workers or more came be covered compulsorily.

□ 1990s

- Oct. 1998 All self- employed insurance societies and KMIC were merged into the National Medical Insurance Corporation.

□ 2000s

- Jul. 2000 All insurers were integrated into a single insurer, National Health Insurance Corporation (NHIC). Independent organization for health care service review and evaluation, Health Insurance Review Agency (HIRA), was established. Contract System for determining medical fee was introduced. The separation of prescribing and dispensing of drugs was implemented.
- Jan. 2000 Special Act for the Financial Stability of National Health Insurance was enacted(enforced on July 1, 2002).
- Jul. 2003 The separated health insurance funds between employee and self-employed insurance program was fully integrated in 29 July 2003.
- Jul. 2004 Co-payment Ceiling System was introduced to alleviate financial burden of households against catastrophic or high-cost diseases.
- Jun. 2005 Road Map for extending benefit coverage was

made and publicized.

- Jan. 2006 Foreigners employed in Korea were mandatorily covered with the NHI program by law. Costs of meals for hospitalization were covered by the NHI program.
- Jul. 2008 Introduction of Long term care Insurance.

2) Related laws

□ Introduction

- There are two Acts that regulate the national health insurance program of the Republic of Korea. One is a National Health Insurance Act which was promulgated on February 8, 1999. The other is a Special Act for Financial Stabilization of National Health Insurance which was promulgated on January 19, 2002 as a law in force only for a limited period of time.

□ National Health Insurance Act

- The main objectives of the National Health Insurance Act are to integrate multiple insurance societies into a single insurer system, to enhance administrative efficiency and equity of financing, and to provide comprehensive health care services including health prevention and promotion for the people.

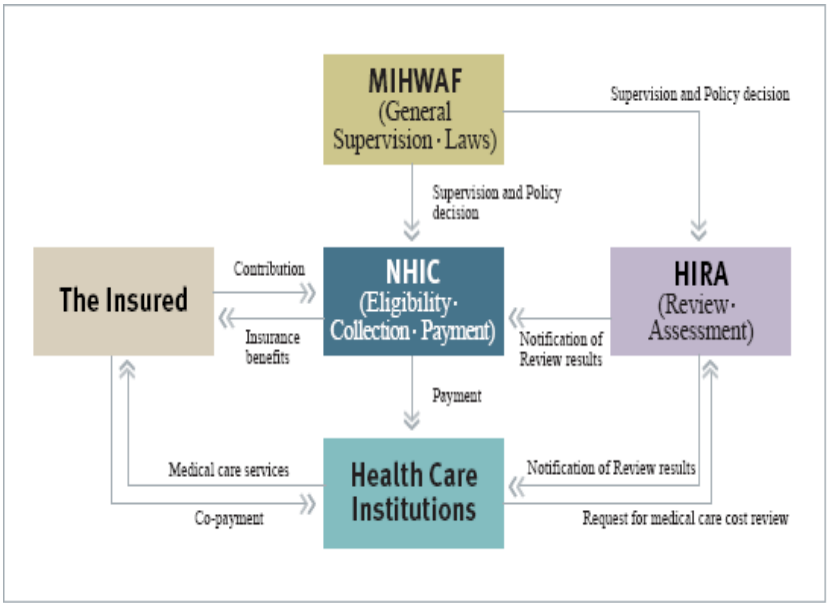
□ Special act provides for financial stabilization

- This Act was legislated to address the financial crisis in the NHI which had been getting deteriorated rapidly since 1999, while maintaining a balance between revenue and expenditure for a sustainable health insurance system. Most

importantly, the Special Act provided for Government's financial responsibility to secure a certain level of funds through government subsidy. However, the Act expired on Dec. 31, 2006.

3) Operation structure of health care system

[Picture II-1] Relations between parties of national health insurance



□ Ministry for Health, Welfare and Family Affairs (MIHWAF)

- The Ministry for Health, Welfare and Family Affairs (MIHWAF) provides general supervision about the operation of the NHI program through the formulation and implementation of policies.

□ National Health Insurance Corporation (NHIC)

- The National Health Insurance Corporation (NHIC) is a

public insurer for the public health insurance program in Korea. The NHIC is responsible for administering the national health insurance, including management of the enrollment of the insured and their dependents, the collection of contributions, the setting of medical fee schedules through negotiation with providers, the provision of health insurance benefits, and so on.

□ Health Insurance Review Agency (HIRA)

- The Health Insurance Review Agency (HIRA) is responsible for reviewing medical fees and evaluating whether health care services are medically necessary and delivered to beneficiaries at an appropriate level and cost.

4) Health care delivery system

□ Health care delivery system

- Patients can select any practitioner or any medical care institution. When a patient wants to receive the medical care from a secondary hospital (specialized general hospitals), the patient must present a referral slip issued by the doctor who saw the patient first. Exceptions in the referral system are in the case of childbirth, emergency medical care, dental care services, rehabilitation, family medicine services and medical services for a hemophiliac in which case any health care institution can be utilized without any limitation.

□ Referral arrangement

- First step : all institutions except for specialized general hospitals

- Second step : specialized general hospitals

5) Population coverage

(1) Mandatory coverage

- By covering the total population, the Health Insurance System of Korea constitutes one of major parts of the Korean social insurance system. Enrollment is mandatory for all Koreans residing in Korean territory, except for some Medical Aid beneficiaries.
- The insured persons under National Health Insurance Program are classified into two categories : the employee insured and the self-employed insured.

〈Table II-1〉 Number of covered population, 2007

(unit: person)

Classification		Coverage	(%)
Total		49,672,388	100
Subtotal		47,819,674	96.3(100)
NHIC	Employee Insured	28,424,424	59.2(61.5)
	Self-Employed Insured	18,395,250	37.1(38.5)

(2) Covered population

- In 2006, the total number of persons covered by the NHI reached over 47 million, or about 96.4%of the total population. The remaining 3.6%, 1.7 million, who are indigent

or belong to low-income brackets, are covered by the Medical Aid program, a Korean public assistance program.

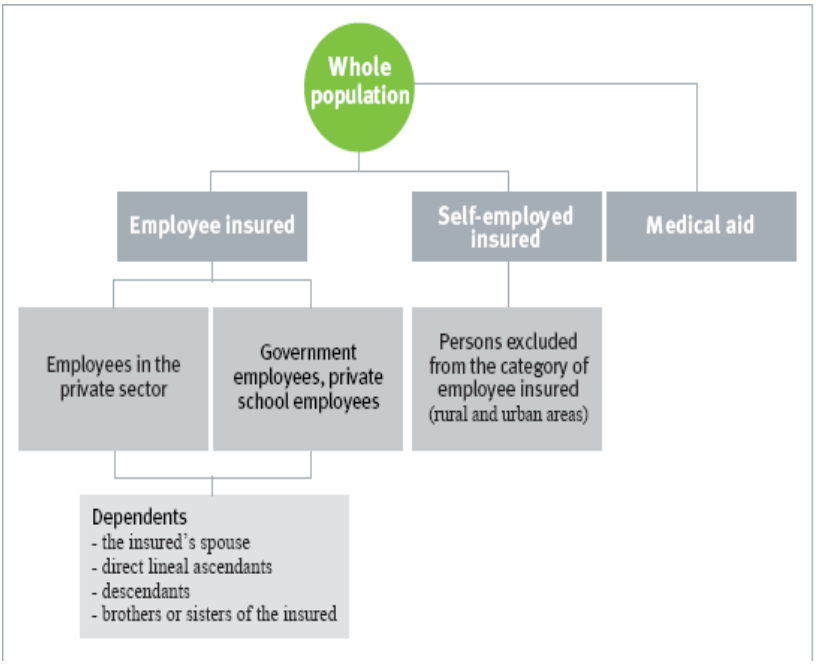
〈Table II-2〉 Number of covered population, 2006

(unit: person)

Classification		Coverage	(%)
Total		49,238,277	100
Subtotal		47,409,600	96.3(100)
NHIC	Employee Insured	28,455,033	57.7(59.9)
	Self-Employed Insured	18,964,567	38.6(40.1)
Medical Aid		1,828,627	3.7

(3) Category of the insured

[Picture II-2] Category of the insured persons



〈Table II-3〉 Number of insured 2006

(unit: person)

Classification	No. of companies	No. of employees	No. of dependents	Dependency ratio
Employee Insured	727,622	10,415,340	18,029,693	1.73
	No. of households	Insured individuals		Insured members per household
Self-employed Insured	8,107,304	18,964,567		1.34

□ Contribution

- The payment of contributions is the responsibility of employers and all members of households. In the case of any failure of payment, the insurer (NHIC) could carry out coercive collection in accordance with the relevant provisions of the law.

□ The employee insured

- The contribution of employee insured is based on salary of the insured. And the current contribution rate of the employee insured is 5.08%. The contribution of the employee insured is borne by both the employee and the employer.
- Monthly contribution = average monthly salary × contribution rate(5.08%)

□ The self-employed insured

- For the self-employed insured, contributions are basically calculated on the basis of income. The contributions are calculated by using a formula in which the insured persons' properties, income, motor vehicles, age, and gender are taken into consideration.
- Monthly contribution = contribution points × value per point(148.9 KRW)

〈Table II-4〉 Contribution rates

Classification	Year	2005	2006	2007	2008
Employee Insured	Contribution Rate	4.31%	4.48%	4.77%	5.08%
Self-employed Insured	Value per Point	126.5 KRW	131.4 KRW	139.9 KRW	148.9 KRW

〈Table II-5〉 Imposition and payment of contribution

	Employee Insured		Self-employed Insured
Monthly Contribution	Average Monthly Wage × Contribution rate(currently 5.08%)		Contribution points × value per point(currently 148.9 KRW)
Responsibility of payment	Corporate Employees - employee 50% - employer 50%	Government employees: - employee 50% - government 50%	Members of household
		Private School employees: - employee 50% - owner of private school 30% - government 20%	
Collection	Deducted from salary		Monthly billing, individual payment
Due Date	By the 10th day of following month(every month)		

□ Reduction of contribution

- For the insured in rural areas
  - 50% of contribution can be reduced for the insured in islands or remote rural areas, 22% for the insured in rural areas, 10 ~ 30% for insured who have a low income.
- For the insured who have a family member aged 65 or over and the disabled
  - The maximum reduction rate for contribution is 30%.

(4) Foreigners

□ What is the national health insurance ?

- To enhance the public health and strengthen social security, the National Health Insurance Corporation (NHIC) is providing health care benefits against illnesses and injuries for the insured persons. The insured persons under the NHI program are classified into two categories: the employed insured (including the public officers) and the self-employed insured (including farmers, fishermen and the self-employed in urban areas)

□ Condition for enrollment

- The employed insured: Those who have registered as foreigners at the Immigration Office and are the employers or the employees of work places in Korea are covered as the employee insured.
  - The coverage for foreigners who work at the work places under the NHI has been compulsory since the first of January in 2006.
  - For the following, regarding company employees, they can be excluded from application as of July 31, 2007.
- For foreigners receiving medical benefits under foreign law and insurance.
- For those receiving medical benefits under contract with employer.

  ※ But for holders of E-9 and H-2 residing certification visas, the benefits are provided unconditionally.
  - For the French health insurance company plan subscribers, tentative application is possible (From June 1, 2007)
- The self-employed insured: Foreigners who have the following status of sojourn and are excluded from the

category of the employee insured can be the self-employed insured on the voluntary basis.

- The status of sojourn: F-1~5, D-1~9, E-1~10, H-2, Korean nationals residing foreign countries *However, the coverage of those who have the status of stay E-6 and E-10 are effective from the first of January, 2008.

□ Enrollment procedures and documentations required

- The employed insured: Foreign workers shall make an application for enrollment to the employer of their work places who is by law responsible for submitting the application to the NHIC with relevant documents including a certificate of foreign registration.
- The self-employed insured: For the self-employed coverage, foreigners shall make an application for enrollment at any nearest NHIC branch office in their residential area with a certificate of foreign registration.

□ Imposition of contributions and payment

- The employed insured:
  - Monthly Contribution = 「Monthly Wage × Contribution Rate」 (50% of which are paid by the employer)
  - The obligation of contribution payment is retroactive up to the date the enrollee was employed and the contribution shall be deducted from the monthly salary.
- The self-employed insured
  - For those who have identified income,

Monthly Contribution = 「Monthly Wage × Contribution Rate」

※ If monthly Contribution of household is below the average Contribution, NHI imposes the average

Contribution on the household

- In case of unavailability of income information, the average Contribution for the region based on the end of the previous year should be applied. For residential qualification, holders of religion (D6) with residing certification visas receives a reduction of 30%, holders of overseas education visa (D2) and Korean nationals who usually reside abroad receiving education in Korea are given the reduction of 50%.
- However, the foreigners who have a residence status of F1~ F2 or F5 shall pay the contribution amount calculated by the same imposition standard of Korean nationals on a monthly basis.
- The obligation of contribution payment is retroactive to the date the applicant was registered as an alien in Korea and the contributions shall be paid in advance every month.

※ For foreigners who is self-employed insured: Contribution bill notice available in English, Japanese and Chinese.

– Contribution for Long-term Care Insurance

= 「Health Contribution × Long-term Care Insurance Contribution Rate(4.05%)」

□ Insurance benefits

– The insurance benefits for foreigners are all the same as those for the Korean nationals.

– A patient is required to pay 20% of the total medical charges for inpatient care and 30~50% for outpatient services depending on the level of health care facilities or

the total amount of service charges.

- In addition, the NHIC is providing cash benefits including childbirth expenses and is carrying out various customer support programs such as health education, temperance movement, etc. in an effort to improve the health of the population and prevent illness.

〈Table II-6〉 Benefit of health examination

Category	Examination Subject	Examination Period	Examination Contents	Charge of Expense
Infant Health Examination	Infant under 6years old	4, 9, 18, 30 month old, and 5years old. Total 5times	Physical measurement, Examination, Development assortment evaluation	No expense on the examinee
General Health Examination	The employed insured, The self-employed insured, (Household) over 40 years old, Company Supporter	White Collar: Every other year Non-white Collar: Yearly	Primary: 23 items including examination, consultation Secondary: 28 items of 8 diseases	No expense on the examinee
Cancer Examination	Among the subject of general health examination, depending on the	White Collar: Every other year Non-white Collar: Yearly	Stomach cancer, Large Intestine cancer, Liver cancer, Breast cancer, Uterus Cervical cancer etc. step by step examination depending on the types of cancer	*Top 50% of Contribution → 20% charge on the examinee *Bottom 580% of Contribution → No expense on the examinee
Lifetime Transition Period Health Examination	Person at the age of 40, and 66	Once a person reaches the age of 40 and 66	40years old: 23 items 66years old: 26 items	No expense on the examinee

□ Long-term care insurance services

- From the first of July 2008, medical treatment service including bath, taking care of the body waste of the elderly, laundry, nursing care are to be commenced for the aged and those who with restricted movement suffering from senile diseases such as Alzheimer's disease, paralysis, Parkinson's disease

– In the case of benefiter (person him or herself) receives long-term care grant from long-term care facility, benefiter shall bear a portion of long-term care grant expenses. The assessment of the expense is as follows:

Stay at home care grant	In patient care grant (Old-age care facility)
15% of the long-term care grant expenses	20% of the long-term care grant expenses

6) Financial resources

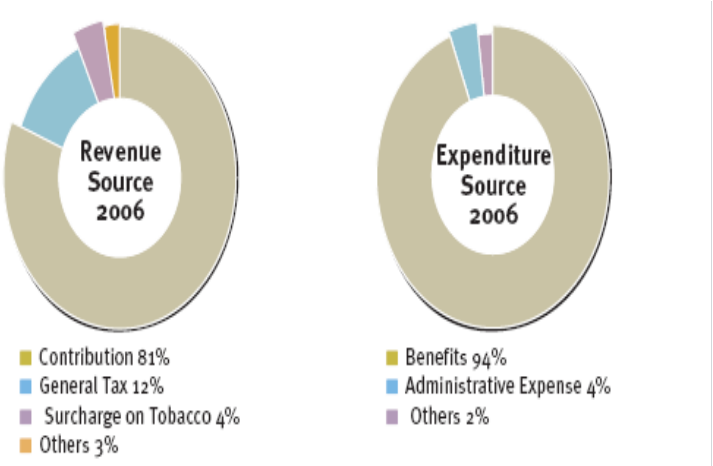
The National Health Insurance is financed through the contributions paid by the insured and their employers, and government subsidies. As the National Health Insurance Program has been run as a social insurance program, the contributions from the insured contribute the major source of its revenue of the program.

(1) Contribution

□ The Employee Insured: The contribution of employee insured is based on salary of the insured. And the current contribution rate of the employee insured is 5.08%.

□ The Self-employed Insured: For the self-employed insured, contributions are basically calculated on the basis of income. The contributions are calculated by using a formula in which the insured persons' properties, income, motor vehicles, age, and gender are taken into consideration.

[Picture II-3] Annual revenue and expenditure



□ Reduction of contribution amount

- For the insured in rural areas: 50% of contribution can be reduced for the insured in an island or remote rural areas, 22% in rural areas, 10~30% for insured who have a low income.
- For the insured who have a family member aged 65 or over and the disabled

: The maximum reduction rate for contribution is 30%.

(2) Government subsidy

Through government subsidy the government provides 14% of the total annual projected revenue raised through NHI contributions from the insured. The NHIC gets further financial support from the Health Promotion Fund at 6% of the total annual projected revenue raised through NHI contributions from the insured.

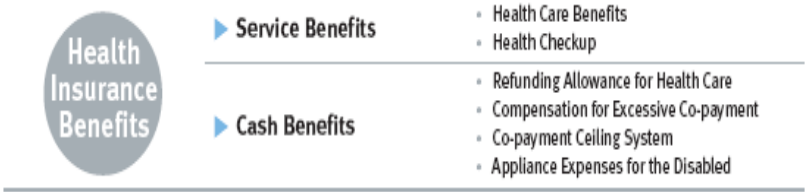
(unit: person)

Classification	2002	2003	2004	2005	2006	2007
General Tax	2,575	2,779	2,857	2,770	2,870	2,704
Surcharge on Tobacco	439	645	626	925	966	968

7) Insurance benefits

(1) Insurance benefits

[Picture II-4] Types of insurance benefits



□ Service benefits

- Health Care Benefits
  - Provided by health care institutions in case of diseases, injuries, and etc.
  - Including diagnosis, tests, drugs, medical materials, treatments, surgery, preventive care, rehabilitation, hospitalization, nursing, and transportation.
- Health Screening
  - Periodic Health Examination Program
- 2 steps procedure (1st screening test → 2nd confirmative test)
- cost-free
  - Cancer Program
- Cost : shared by NHIC(80%) and beneficiary(20%)

- Stomach, colon, breast, and liver cancer screening and pap-test

□ Cash benefits

- Refunding Allowance for Health Care
  - When received treatments in an emergency situation from non NHI provider
  - Peritoneal dialysis purchases for chronic renal failure
  - Childbirth at a place other than a health care institution
- Compensation for Excessive Co-Payment
  - Co-payment exceed 1.2 million KRW within 30 days
  - Compensated 50% of the exceeding amount
- Appliance Expenses for the Disabled
  - 80% of the expenses for medical appliances e.g. canes, wheelchairs, hearing aids

(2) Uncovered service

□ Criteria for Non-benefits

- any medical services, drugs, or materials provided or used for diseases which do not cause serious problems in daily life or business
- any medical services, drugs, or materials provided or used for care, which is not for the improvement of physically essential functions

  ex) plastic surgery, freckles, and simple snoring

□ Example of Non-benefits

- the services not considered necessary for activities in daily life such as plastic.

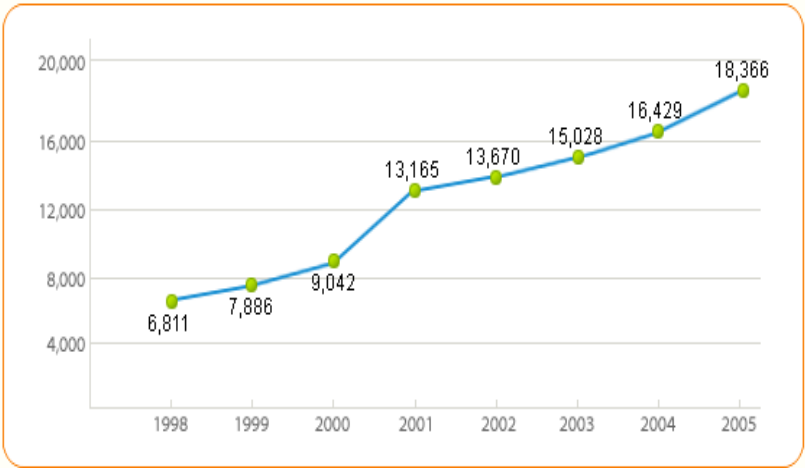
– freckles, and simple snoring

(3) Insurance benefit expenditure

〈Table II-7〉 Expenditure of insurance benefits, 2005

		Number of Cases (thousand)	Amount (billion KW)
Total		807,673	18,366
Service Benefits	Sub-total	807,200	18,224
	Health care benefit	800,080	17,989
	Health Screening	800,080	236
Cash Benefits	Sub-total	473	142
	Refunding Allowance for Health Care	17	17
	Funeral Expenses	197	49
	Compensation for Excessive Co-payment	143	28
	Co-payment Ceiling System	68	26
	Appliance Expenses for the Disabled	49	22

[Picture II-5] Trends of NHI benefits cost



〈Table II-8〉 Expenditure of service benefits by type

(unit : billion KRW, %)

Year	Total	Medical Facility			Pharmacy
		Sub-total	Inpatient Care	Outpatient Care	
1998	6,584	6,422	2,693	3,729	162
1999	7,653(16.9	7,452(16.0	3,059(13.6)	4,393(17.8)	201(23.8)
2000	8,789(14.9)	7,941(6.6)	3,144(2.8)	4,797(9.2)	848(322.3)
2001	12,941(47.2)	9,532(20.0)	3,533(12.4)	5,999(25.0)	3,409(302.1)
2002	13,425(3.7)	9,796(2.8)	3,653(3.4)	6,142(2.4)	3,409(302.1
2003	14,755(9.9)	10,798(10.2	4,354(19.2)	6,444(4.9	3,957(9.0)
2004	16,130(9.3)	11,641(7.2)	4,737(8.8)	6,904(7.1)	4,489(13.5
2005	17,989(11.5)	12,897(10.8)	5,277(11.4)	7,620(10.4	5,091(13.4)

〈Table II-9〉 Expenditure of cash benefits

(unit : billion KRW, %)

Year	Total	2002	2003	2004	2005
Total	case	6,422	2,693	3,729	162
	amount	6,422	3,059(13.6)	4,393(17.8)	201(23.8)
Refunding Allowance	case	21,168(9.7)	22,577(6.7)	21,099(-6.5)	16,515(-9)
Refunding Allowance	amount	24(10.5)	25(7.1)	24(-5.0)	17(-11)
Funeral Expense	case	208,486(3.9)	205,187(-1.6)	200,038(-2.5)	196,790(-1.6)
	amount	52(4.2)	51(-1.6)	50(-2.5)	49(-1.6)
Compensation for Excessive Co-payment	case	169,812(7.8)	125,784(-25.9)	134,689(7.1)	142,779(6.0)
	amount	32(-22.0)	25.7-20.3	27.9(8.8)	27.6(-1.4)
Co-payment Ceiling System	case	-	-	5,708	67,985
	amount	-	-	6.7	26
Appliance Expense for the Disabled	case	24,566(10.9)	27,067(10.2)	32,079(18.5)	48,957(52.6)
	amount	6.7(3.1)	77(6.8)	8.6(20.3)	22(152.0)

8) Co-payment system

Persons who receive health care treatments pay certain portions of the health care costs as co-payments. In order to curtail overuses of health care services, and lessen the concentration of medical services in large urban hospitals, the co-payment for outpatient and in-patient

services have been set differently according to the level and type of medical care institutions.

〈Table II-10〉 Types of co-payments

	Co-payment
Inpatient	10~20% of total treatment cost
Outpatient	
Tertiary care hospital	Per-visit consultation fee + 50% of treatment cost
General hospital	50% of (treatment cost + Per-visit consultation fee
Hospital	40% of (treatment cost + Per-visit consultation fee
Clinic	30% of treatment cost
Pharmacy	30% of total cost

□ Co-payment ceiling system

- When an insured individual pays for co-payments exceeding the co-payment ceiling threshold currently set at 3 million KRW within a period of 6 consecutive months, he or she is exempted from any further co-payments incurred. This is to alleviate the financial burden of households against catastrophic or high-cost diseases helping to prevent them from falling into bankruptcy. This ceiling system is applicable for inpatient, outpatient, and pharmaceutical services.

9) Health promotion

Active health management is required on a preventive basis to ensure the good health of the general public and the diversification of disease structures, a reduction in the birth rate, and society's becoming an aging society, etc. In accordance with these trends, we

are actively pushing ahead with projects promoting health checkups and health promotion in order to discover and treat diseases early and, thus, improve the people's health.

- Current employees : Total 10,334

□ Examinations for specific cancers

- Subjects
  - Those eligible for health checkups in the year concerned
  - Stomach cancer and breast cancer : Those 40 years of age or older
  - Colon cancer : Those 50 years of age or older
  - Cervical cancer : Those 30 years of age or older
  - Liver cancer: Those 40 years of age or older (However, this is also open to younger persons found to be hepatic sufferers during regular health checkups.)
- Costs
  - The NHIC funds 80% of all medical costs, and the examinee contributes 20%. (However, costs for eligible cancer checkups are borne by the national treasury.)

□ Health promotion and disease prevention

- Campaign for a healthy life
  - A campaign for measures of health improvement, such as non-smoking and drinking in moderation campaigns, and the distribution of paperback books on healthy living.
  - The implementation of health classes targeted to middle and high school students.
  - The provision of health information for campaigns in non-smoking, drinking in moderation, and the prevention of high blood pressure and arthritis among adults.

- The provision of customized information and telephone or in-person counseling for persons with abnormalities found during health checkups.

– Health promotion projects in which people participate
  - The implementation of targeted and customized exercise classes for personal physical characteristics, such as gymnastics for the elderly, dances and gate balls, all suitable for those 65 years of age or older.
  - Everyday health practice through healthy walking programs, the operation of a health camp, and so forth.
  - Health risk evaluations (HRA) and the provision of corresponding materials for health improvement.
  - Free-of-charge measurement of obesity, blood pressure, and bone density by the installation of body composition analyzers, blood pressure meters, and bone density meters.

□ Obesity-related projects

– The operation of obeiity treatment programs, such as exercise and dietary treatment, targeted for overweight primary school children over a 2 to 3 month period.

– The installation of health booths at local festivals providing health counseling services and obesity measurements.

10) Customer support program

The NHIC provides advanced services, such as health counseling, case management, support for necessary medical treatment, the provision of health and medical information, all aimed to actively protect the health of the insured.

□ Expansion of the health and medical information system

- Implementation of the Health Risk Assessment (HRA) to measure health age
  - The provision of customized health information by the analysis of health data, such as personal blood pressure and diabetes numbers.
  - Self-measurement with visits to our homepage.
- Provision of reliable health information on the health information website (Healthy info)
  - The provision of a life habit improvement program for obesity management, etc.
  - The provision of the "Encyclopedia of Health", containing a medical encyclopedia, expert columns, FAQs, health news, etc.
  - The provision of medical institution information in terms of traffic to each medical treatment institution, consultation hours, number of medical practitioners, and so forth.

□ Case management projects for chronically Ⅲ patients

- The provision of health-related information and counseling services for the reduction of complications, by health risk factors and diseases, and the use of appropriate medical treatment and health management practices.
- The implementation of visitor counseling, targeted for persons suffering from high blood pressure, diabetes, stroke, and arthritis.
- Intensive case management over 8 to 12 weeks, and the leasing of self blood pressure meters and self blood sugar meters.

□ Operation of health insurance guidance centers

- The establishment of health insurance guidance centers within university hospitals, and the on-the-spot solutions for complaints in order to protect the rights and interests of the insured.

□ Leasing business of care aids and appliances

- Provision of free-of-charge leasing services for care aids and appliances to those insured, helping them with their temporary needs in the course of treatment and revitalization.
- Lease items : wheelchairs, baby walkers, sticks, and crutches;
- Branches in charge : 36 across the country

2. Long-term care insurance

□ Preparing for introducing long-term care insurance scheme

- A rapidly ageing population, growing female participation in the labor market, and longer life expectancy are increasing the demand for long-term care. Moreover, the need for public intervention is growing rapidly as the informal family network is weakening. Traditionally, the informal family network was responsible for providing social and health care support to the elderly.
- In Korea, there is no clear separation between chronic beds and acute care beds in hospitals, which puts a heavy financial burden on National Health Insurance. Accordingly, inappropriate hospitalization of the elderly in acute-care beds

strains the NHI system with longer stays and the higher cost of hospital treatment, compared to nursing care in residential homes. However, sufficient long-term care facilities with adequate and affordable care services are not yet available.

- To combat this situation, the Korean Government introduced in July 2008 a new social insurance scheme for long-term, based on a pilot implementation study in several regions across the country. Currently, the program covers 3.3% of elderly Koreans with serious limitations in their Activities in Daily Lives (ADL). The NHIC has a plan to gradually expand long term care coverage to the elderly with less serious limitations in their ADL. The plan will consider the insured's ability to pay and the capacity of long term care facilities.
- In order to provide affordable, efficient and equitable care to the needy elderly, future policy must focus on issues like the adequacy (how many and who should be covered) and type of benefits (cash vs. direct service provision), and sustainable financing. It is important to plan for the future needs of the elderly, for their long term care and the necessary personnel and facility capacity. The Long Term Care Insurance program is designed to meet these critical needs.

III. Health insurance finance and coverage

1. Outline

□ The foremost important objective of national health insurance lies in the efficient procurement of financial resources in the insurance

business. The Republic of Korea has a policy to follow social insurance systems on procurement of financial resources. Health insurance premiums comprise of fee payment by the insured and support from the government. In order to operate a stable insurance financial system, revenue and expenditure must be balanced. Insurance premium of the insured and government financial support should cover all expenses.

□ In relation to our nation's health insurance finance, expenditure has increased to cause loss since 1996 due to increase in coverage, medical fees, aged population, chronic diseases and etc. The financial loss has become a major issue in 2001 with a net loss of 4 trillion 197 billion and 800 million KRW. In 2001, financial measures and two other measures have been taken. In the end of 2006, one of the measures taken, National Health Insurance Financial Stability Special Act has guaranteed the support from tobacco taxation for 5 more years. Furthermore, the national health insurance law has been revised as to provide government support in relation to estimated revenue with consideration to areas with decreasing rate of the self-employed insured to establish a stable financial system.

2. Promotion of financial stability in health insurance

1) Progress

□ Changes in the health insurance environment such as the deficit factors of the increasing expenditure, medical insurance unification

in 1998 and separation of dispensary from medical practice in 2000 has caused a net loss of 1 trillion and 9 billion KRW in 2000 and 4 trillion and 200 billion KRW in the end of 2001. As such, the financial status of insurance has been aggravated. With support from national health insurance corporation, medical related personnel and the insured, the government has taken measures as to subjugate the financial crisis through minimization of insurance premiums and has announced a general countermeasure plan (31 May 2001). The government has made a statement as to be able to overcome the financial crisis and maintain a sound finance system by May of 2006.

□ Subsequently, the government has established additional measures such as the additional health insurance financial stability measures (5 October 2001) that includes restriction of insurance coverage days, discontinuance of general medication support and other issues followed by a third additional measure in April of 2002. Furthermore, measures have been consistently supplemented as to establish a "national health insurance financial special law (19 January 2002)" and adopt a stabilized financial system.

2) Principal issues of financial stability measures

□ General health insurance financial measures mainly attempt to provide an efficient structural plan through management of cost by improvement of pay system, increase in government financial support, increase of insurance premium in annual equation and other actions as to result to net income in 2003 and resolve the accumulated loss issue by 2006.

□ As for expenditure management plans, cost management may be practiced through decrease of medical fees, change in additional application time at night, and other measures. In addition, expenditure containment through change in co-payment rates, investigation of false claims and continuous investigation of medication cost as to manage expenditure. Establishment of a partition payment system for long term contribution delinquents, activation of automatic contribution transfer system and other various measures have been executed for increase in revenue together with continuous efforts for finding of dependents with income.

□ Enactment of "special act for the financial stability of national health insurance" has established a health insurance review committee for reviewing of contributions and medication cost. In addition, legal obligation of a 50% government support for the self employed insurance finances and other necessary measures such as providing of medical personnel and installation of medical equipments have been introduced.

3) Promotion of financial stabilization measures

□ One of the main concerns in the development of health insurance systems is financial stabilization in a short period and increase in coverage. Recent studies show that the increasing rate of rapid aging phenomena has led to development of more chronic diseases while expenditure continuously rises 10% each year and double in two years due to development of new technology and change in the medical environment. In order to manage such expenditure,

contributions need to be increased 5% each year for balance, in which it shows the rapid increase of expenditure and the burden on the insured. Widening of coverage or other measures to increase pay in the insurance industry would only induce an increase in the contribution. Therefore, there is a need for the government to consistently promote the various financial measures necessary for financial stabilization of health insurance and establish financial measures in the basic fundamentals.

□ In 2007, the government has reduced medication costs and established financial stability systems that have been proposed since 2001, in which there is a fixed co-payment rate for small amount out-patient treatments. However, such short term financial measures, improvement of medical systems, contributions and other financial issues must be managed by the entire society as a whole to present financial measures in the long run.

3. Widening the coverage of the national health insurance

1) Promotion background

□ Currently, Korea's "less burden but low benefits" health insurance system has shown that contribution is one-third or even one-fourth that of the advanced countries. Meanwhile, insurance benefits extent and standards remain to be rather low. However, the recent improvement in standards of living has caused changes in medical treatment and development of new technology in treatment of chronic diseases. Basically, medical expenses have increased,

followed by higher demands of the insured in terms of coverage.

□ As for patients suffering from severe illness of expensive medical treatment, medical expenses have led to the breakdown of families. Patients and their families may feel that benefits of the insurance are rather limited and it may incur distrust of the health insurance system. As regards to such issues, the Korean government has actively promoted widening of the coverage with foundation in a stabilized financial structure in 2004.

□ Since July of 2004, the price cap systems for co-payments have been established. However, demands for more systematic measures have been requested and the government has announced a "road map on widening the coverage of the national health insurance" in June of 2005. National Health Insurance Corporation, Health Insurance Review Agency and related expert groups have organized a "Health Insurance Innovation TF" in preparation of measures to widen the coverage. Numerous discussions were focused on support of expensive medical treatments such as cancer and the expansion on the coverage level of the health insurance to achieve a 70% coverage rate.

2) Principal issues of “Widening the coverage of the national health insurance"

□ The coverage rate of health insurance was 61.3% in 2004, rather low in comparison with advanced nations. The coverage rate of 49.6% for cancer shows the desperate need for increase in the coverage rate for development of the health insurance system.

□ The "widening the coverage of the health insurance" focuses on

reduction of medical costs for patients suffering from severe illnesses. This plan attempts to prevent the breakdown of families due to expensive medical costs and intensify its role as a social safety net by increasing the coverage rate of medical costs of patients suffering from chronic diseases. Subsequently, this plan has been designed to increase the health insurance coverage rate to the level of advanced nations and holds the objective of presenting coverage rate over 70% by 2008. There was a need for social agreement by convincing the insured of the inevitable increase in contribution in the process of acquiring financial resources. Related personnel from Ministry for Health, Welfare and Family Affairs, National Health Insurance Corporation, Health Insurance Review Agency and other experts have organized "Health Insurance Innovation TF" for operation. TF has conducted various investigations and prepared specific plans for the innovative widening of insurance coverage.

□ The coverage widening plan for 2008 focused on expansion of coverage level on serious diseases while 2005 plan focused on reduction of medical costs of serious diseases such as cancer. On the other side, after 2006, the coverage widening plan focused on food costs and ward costs of severe diseases not covered by the health insurance. For execution of the plan, the government designed a financial plan of 1 trillion and 500 billion KRW in 2005, 1 trillion KRW in 2006, 700 billion KRW in 2007, 500 billion KRW in 2008. At the same time, the contribution increase plan was settled to be over 2.38% in 2005, over 3.5% in 2006, over 6% in 2007, over 3.5% in 2008.

□ Experts have evaluated coverage priorities based on the size,

emergency, treatment effectiveness of medical expenses and the results have shown cancer, cerebrovascular and heart disease patients to be of the highest priority group. Afterwards, a discussion on the specific support method of this patient group was conducted. As for cancer patients, the support of items that were not supported previously and reduction of co-payment from 20% to 10% had been settled.

□ In addition, a review agency for severe diseases, which plays a significant role in the medical association in relation to acknowledging insurance issues, has been established. Subsequently, patient focused, accommodating and prompt decisions were possible in addition to reduction of medical expenses. Along with health insurance support for the social disadvantaged, contributions to social cohesion has been made possible. Health insurance supports such as reduction of exceptions from separation of dispensary from medical practice, medication support for incurable diseases, support for organ transplant, co-payment exemption for in-patients below age six and other medical costs have been reduced through government support of health insurance.

□ Meanwhile, PET(Positron Emission Tomography) is mainly used in examination for cancer. Its average cost of 1 million KRW is rather burdensome and it has been covered by health insurance since June of 2006. Food expenses for in-patients hold 20.7% of the total medical costs and it was to be paid by the patients. Although this amount wasn't all that burdensome, the government has decided to reduce costs of the patients by supporting funds for food expenses since June of 2006. Furthermore, the co-payment cap for patients has been reduced to 2 million KRW in July of

2007 for further cost reduction. Therefore, the compensation system for the co-payment which has been less effective had been abolished.

3) Outcomes of widening coverage and promotion plans

□ National Health Insurance Corporation has conducted investigations on co-payment rates of medication costs by patients. Results have shown to be 49.6% coverage rate for cancer patients in 2004 with an increase of 20.5% to 70.1% in 2006. The rate seemed to be relevantly high for out-patients being 73%. The Korean government looks forward to continuous widening the coverage of the health insurance. Massive financial resources are necessary for expansion of the coverage. Incessant government support and increase in contributions are inevitable. Furthermore, the government plans to carry out a rational support plan side by side. There is a need to reduce benefits level of mild diseases for out-patients and establish a reasonable structure that concentrates on diseases of high expenses.

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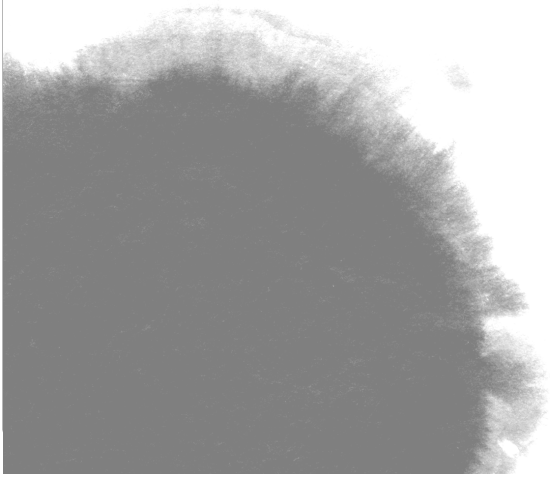
03

Industrial Accident Compensation Insurance Program in Korea



Chapter3 Industrial Accident Compensation Insurance Program in Korea

Ⅰ. Overview

Industrial Accident Compensation Insurance (IACI) was the very first social insurance program introduced in the Republic of Korea in 1964 as industrialization sped up to protect workers from industrial disasters[3]. In the beginning, industrial disasters meant accidents in the construction areas, or in work places utilizing dangerous equipment, but with modernization of industry, advancement of technology and widespread of information, newer workplace accidents due to occupational diseases, overwork and stress are at an increase. In order to protect laborers from industrial disasters, the best and most ideal approach would be to prevent industrial disaster itself, but for those industrial disasters that have already occurred, workmen's accident compensation insurance takes great meaning by compensating the injured worker, or the family of those workers who passed away due to such work accidents. IACI is an obligatory insurance on the government's part, protecting and assisting laborers and their family

3) Industrial disaster refers to a condition where a laborer gets injured or killed (accidental disaster) at work, or gets sick due to hazardous working conditions (occupational diseases) and requires four or more days of medical treatment. Accidental disasters are referred to as 'work accidents,' and occupational diseases are referred to as 'diseases due to work.'.

who fall victim to workplace accidents. According to the Labor Standard Act, the government levies a small amount of premium from the company to guarantee the responsibility of accident compensation, utilizing those collected funds (financial resources) to aid the injured or the family of the deceased in lieu of the business proprietor. Current IACI regulation protects workers from work accidents and occupational diseases. Pneumoconiosis, a special case of occupational disease is covered by a special regulation, 'Prevention of Pneumoconiosis and protection of workers with pneumoconiosis.'

The purpose of IACI is to fairly and speedily compensate for the losses due to industrial disaster, install and operate the necessary insurance program and execute projects to prevent industrial disasters and better the wellbeing of workers to provide protection for workers.

First, for the worker, the IACI recompenses the worker and family speedily for the loss due to industrial disaster to relieve them, and promote their wellbeing.

Second, for the business proprietor, by solving the problem of industrial disaster through the means of social insurance, IACI disperses the possible dangers of the business proprietor in remedying the accident, and enables them to focus entirely on stably managing the corporate body.

Third, for the country and the society, it secures and maintains a healthy workforce, contributing to economic development and promotion of national wellbeing.

The unique characteristic of IACI are: First, IACI is based on a liability without fault principle guaranteeing the compensation responsibility of the business proprietor to the worker who has been harmed due to work accident, serving as a business proprietor's

liability insurance.

Second, the major distinction of IACI in terms of insurance management is that it is workplace-based management. In other words, insurance subscription is by unit of individual workplace, not individual worker.

Third, establishment of the insurance relationship and other administrative works are based on a voluntary reporting and voluntary payment principle.

Fourth, many tasks are decided and processed by the first line person in charge.

Fifth, it is a comprehensive compensation program providing both cash payment and resource payment.

Sixth, unlike rightful relief through the general court, IACI compensation recovers and protects victims of industrial disasters immediately. The compensation is impartial, unchanged by administrative acts or the will of the first line personnel in charge, and it sufficiently compensates the victims of industrial disasters when they most need it.

II. Beginning days of the program

When it first began, the IACI program limited its coverage to companies in the mining industry and the manufacturing industry with over five-hundred full-time employees, and coverage area was limited to harm caused by the work during execution of tasks. Looking at the payment terms, recuperation pay was given to those who required eleven or more days of medical treatment due to work accident and suspension pay of 60% of normal wage was given to

those who were unable to get employment for eleven or more days due to work accident, and disability pay was classified into ten levels of disabilities with the highest level, level 1 disability pay, was 1,000 days' normal salary, whereas level 10 disability pay was 50 days' normal salary. Payment for the surviving family was 1000 days 'normal salary and funeral costs were paid 90 days' normal salary. Later on, IACI continuously increased the coverage area, accepting more variety of cases as work accidents, and through increase of industrial accident compensation program and increase of insurance payout, prioritized the protection of workers as its utmost goal to this day.

III. Expansion of the business objective

The original purpose of the industrial disaster compensation regulation was to operate an industrial disaster insurance according to Social Security Law, so that workplace accidents would be speedily and fairly covered for. Afterwards, through several revisions of law, IACI has been enlarged and the coverage broadened. The revision of December 31st, 1970 states that IACI is based on Social Security Law and the Labor Standard Act to make it official standard procedure to take on the responsibility of industrial disaster compensation under the Labor Standard Act, and install insurance facilities required for the insurance business the revision of December 22nd, 1976 deleted the statement regarding Social Security Law and Labor Standard Act: the basis of the insurance operation: and simultaneously added the objectives of operation of insurance facilities required for insurance business and contribution to the protection of workers; and the revision of May 9th, 1986 stated the

objectives to be prevention of disasters and promotion of workers' wellbeing, thus including disaster prevention to the purpose of IACI. Also, the revision of December 31st, 1999 ordered installation and operation of rehabilitation facility, which set the goal and direction of the insurance facility installation and operation. As seen above, IACI began with the objective of fair and speedy compensation of victims of industrial disasters, and to better perform its task, has added insurance facilities to contribute in worker protection, prevention of industrial disaster and promotion of workers' wellbeing, broadening its coverage area to aid in rehabilitation of injured workers.

IV. Legal revision according to the improvement plan agreed by the economic and social development commission (ESDC)

Even with such notable developments such as broadening of insurance coverage, expansion of compensation system and increase in benefit amounts compared to the beginning days of the IACI program, IACI operation's administrative subjects such as victims, the insured and related organizations still demand improvements to the IACI program. There is a stark contrast between those receiving insurance benefits, who think the benefits sums are too small, and the insured, who think the contribution is too expensive. Trying to adjust these contrasting positions is an extremely difficult task, but if a reasonable improvement plan is plausible for both sides, it will be the best solution. With that in mind, between 2004 and 2005, the Ministry of Labor operated a IACI Development Committee consisted of professionals in the related fields. With the improvement plans

researched by the IACI Development Committee and the ESDC's agreement on the improvement plan, IACI decided to expand medical and rehabilitation services for victims of workplace accidents, but speed up the rehabilitation process to streamline the care and operation of medical and rehabilitation facilities as well as install IACI evaluation committee at the Korea Worker's Compensation and Welfare Service (COMWEL) to monitor the claim and review claim process for fairness and professionalism. By classifying industrial disasters into workplace accidents and occupational diseases and adopting partial suspension pay, IACI promoted occupational treatment, improved the benefit standard to balance the insurance benefit for low-income workers and high-income workers, improved the average wage increase system to balance the insurance benefit for both workers of large enterprises and small to medium enterprises as well as those employed and retired, and focused on the protection of low-income workers by increasing the suspension pay standard for low-income workers. Also, with broader patient-care benefit recipient criteria, implementation of disability level review system, the start of work rehabilitation benefit and application of IACI for workers in special occupation, IACI has gone through many dramatic changes and systematic developments since the beginning.

V. Supplementing the current system's insufficiency

IACI has continued to develop itself by increasing benefits, broadening the coverage, and streamlining the administrative processes. Thus, future improvements must occur within these boundaries to supplement the insufficiencies of the current system,

while broadening the coverage to those workers currently ineligible. Also, the reason for supplementing the insufficiency is to establish the most reasonable rehabilitation facility and process where injured workers are able to receive satisfactory care and treatment as well as receive equal and fair compensation for physical, mental and psychological damage, and also establish funds to backup the coming of work rehabilitation benefit system.

1. Negligence of employees of small businesses

Classification of accident during an event as a workplace accident based on IACI enforcement regulation article 37 may be considered reasonable for large enterprises to come up with evidence for such. However, in the case of small businesses, even if there is an accident during an event, the only evidence for such may be word of mouth, which leads to a relatively unfair treatment of such a case compared to large enterprises. In addition, in such cases as a disabled person employing one or two part-time employees (often students) to run a car wash, the business applies to 'vehicle manufacture and maintenance' (enterprise tax code 22702), paying equal amount of insurance contribution rate (33/1,000) as Hyundai/Kia Motor Company, Samsung Motor Company, GM Daewoo Motors and Ssangyong Motor Company. However, regardless of the contribution, there are many large motor company employees who receive IACI medical treatment for musculoskeletal disorders, while hardly any car wash employees receive such medical treatment as occupational disease. By applying the same insurance contribution, IACI collects funds from both the small business and the large

enterprise only to benefit the employees of the large enterprise. Additionally, normal construction labor rate is 28% of the total construction cost, while subcontracting construction labor rate is 34% of the subcontracting construction cost. This also indicates that subcontractors are relatively unfairly treated. Therefore, IACI must come up with systematic processes to protect such small businesses as seen in above cases.

2. Treatment costs for extra-occupational pre-existing diseases

Treatment costs for pre-existing diseases previous to occupational diseases were excluded from IACI benefit during the beginning years of IACI. However, if pre-existing diseases such as diabetes are not treated, treatment of other occupational diseases or injuries takes longer. Thus, the medical treatment period extends beyond necessity and the treatment costs rise. As a result, it would greatly reduce the treatment costs if IACI covered extra-occupational pre-existing diseases such as diabetes in order to reduce the overall cost of treatment. Also, should a patient require a general anesthesia for a surgery due to a workplace accident, if the patient is known to have an extra-occupational disease called hyperthyroidism, going under general anesthesia without treatment of the patient's hyperthyroidism would lead to a cardiac arrest, and the patient may die. Thus, in such a case, IACI covers the treatment of hyperthyroidism before treatment of the occupational disease or injury. However, the treatment of hyperthyroidism may take up to three or four months depending on the patient. Thus, IACI's expenditure increases.

However, technically speaking, treatment for such pre-existing diseases should be covered by the national health insurance. Regardless, these practices have continued on since days prior to the national health insurance system. However, since the national health insurance system is now set in place, these technical issues must be solved by rightful coverage.

3. Coverage based on the cause of occupational disease

Taking a look at the occupational disease treatment of cerebrovascular diseases and cardiovascular diseases, workers who have pre-existing disease symptoms such as high blood pressure or arterial sclerosis are overworked to the point of such deadly symptoms as seizure, or myocardial infarction and are paralyzed, or even die. In such cases, overwork is only a minor cause of the inability to work, but the real cause of such symptoms is the pre-existing high blood pressure or the arterial sclerosis. Yet, the treatment costs and other costs are fully paid by IACI, which needs improvement, because in such cases, the national health insurance is partially responsible for the coverage depending on the percentage of the cause of the pre-existing disease. This is not exclusively for cerebrovascular and cardiovascular diseases, but also true for musculoskeletal diseases as well; these also may be caused due to private life practices that are straining to the muscles and bones, and treatment costs such cases should also be shared with the national health insurance.

4. Preparation of a system to promote accident-prevention efforts of the insured

During the beginning days of the implementation of the IACI system, several safety measures were installed to stabilize the financial situation, and these safety measures were also effective in promoting accident-prevention efforts of the insured. In the IACI regulation's supplementary provision article ③, if the insurance benefit amount exceeds 85/100 of the contribution during the first year of the effective date of the regulation, IACI is to collect the excess amount, while if the benefit is less than 75/100 of the contribution, the difference is to be returned. Also, in the revision of December 19th, 1977, suspension benefit prior to the revision was limited to 30%, and the revision of December 31st, 1983 called for an additional 50% contribution to be collected. Such changes had a by-effect of motivating the insured to try hard to prevent industrial disasters. However, in the current system, all these revisions have been revised and deleted, and only individual contribution rate stays to promote disaster-prevention efforts. Meanwhile, though compensation is IACI's main operation, in its expansion as seen above, the operation covers industrial disaster prevention. Thus, within the efforts of disaster prevention, something must be done to motivate the insured to prevent disasters as well. One of those is implementing Schedule Rating, and another is implementing France's additional contribution system. Schedule rating is different from the current actual contribution in that regardless of the history of disasters, it evaluates the insured's efforts to prevent such disasters, and applies it to the calculation of the insured's contribution. In other

words, even in a hazardous workplace with numerous accidents, if much preventative measures and efforts are taken, the contribution is lowered in this system. The additional contribution system (unlike the current additional contribution system in Korea) means in the case of a workplace accident, the amount of the injured employee A's annual wage multiplied by the company's insurance contribution rate is additionally billed to the insurance contribution. This also serves to balance the insurance burden between high risk and low risk work places, thus killing two birds with one stone.

5. Supplementing the insufficiencies of individual actual rate calculation

Occupational diseases come from long-term exposure to various physical and chemical reasons in the workplace such as straining work posture, noise, drastic change in the work environment and accumulation of stress, which gradually builds to physical disabilities or abnormalities after a long-term dormancy. In order to find out whether such disease may be considered within the coverage of IACI, the starting point of the disease must be decided, which has been a tough question. Current regulation (see IACI enforcement regulation article 12, line 1) states that the confirmation date of a disease as an occupational disease, or the most recent day of a doctor's diagnosis is to be the starting date of benefit. According to this regulation, day-to-day construction workers who shift jobs frequently and suffer many physical pains such as back pain, may very well have had prolonged physical stress previous to working at site 'A,' yet if the period in which the worker's back pain is during employment at

'A,'then even though the worker may only have worked at 'A' for a short period of time and have incurred back pain from another previous site 'B' (may even be site 'C' before site 'B'), the insurance contribution would be billed to site 'A' instead of 'B' or 'C.' Thus, it is only fair and reasonable to bill the original source of the back pain applying the individual actual rate calculation, instead of billing the contribution to the least contributing source 'A'. Such cases are not only true for back pains, but also applies to vibration shock and pneumoconiosis. Also, mesothelioma from asbestos appears over twenty years after exposure to asbestos, night time hematuria due to benzene poisoning also appears fourteen to fifteen years after exposure to benzene. As discussed, if the disease takes a long period of time to appear after the initial exposure to the danger, figuring out which workplace to calculate the individual actual rate and bill the insurance contribution, and which workplace to process the worker as are very sensitive issues as it alters the respective workplace's insurance contribution, causing much friction during IACI accident processing; this is a real problem and source of headache for the staff in charge. Therefore, for diseases such as back pains, vibration shock, mesothelioma and hematuria that occur in workers in easily shifting positions, the insurance benefit should not be billed to the processed workplace through individual actual rate calculation, but come up with a system to calculate the contribution as general rate per respective industry.

6. Demand for benefit to unregistered spouse

Unregistered spouses are eligible to receive IACI benefit. However, when a worker dies of an accident of third-party fault, an

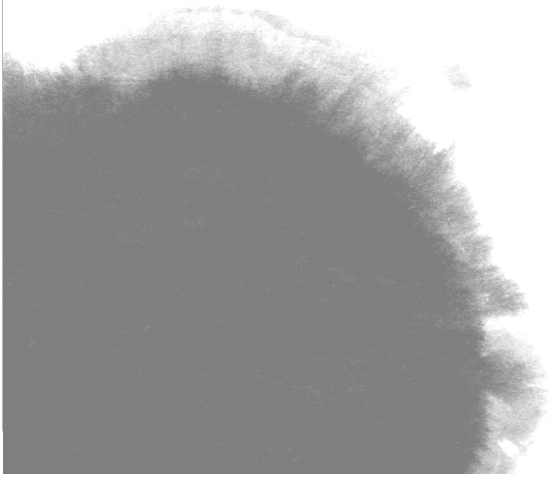
unregistered spouse is priority recipient of the bereaved family benefit, but if IACI demands payment from the third-party who is responsible for the death of the worker, IACI loses the lawsuit, because an unregistered spouse is not eligible by civil law to inherit anything. Thus, the unregistered spouse has no right to claim compensation for damage. In such a case, the defendant is unjustly released from responsibility. In other words, if there is a legal spouse or other inheritable (by civil law) family to whom the defendant compensates for the damage, the victim's family is unfairly compensated double: by the defendant and by IACI. This issue has been on the table for a while, and solutions were sought, but legal technicalities have been getting in the way. A similar type of unreasonable legal matter is the automotive damage compensation security insurance regulation article 28, line 1. According to this regulation, when an unidentified vehicle causes injury or death, payout amount is secured within the coverage of the liability insurance. However, if, in the same case, the victim is being compensated by State Tort Liability Act, IACI regulation, or any other presidential legislature, the government is released of its liability within the payout coverage limit. However, automotive liability insurance (human compensation I) and IACI are compulsory for everyone. Thus, receiving payout from the automotive insurance and IACI, but instead of the government bailing out on payout, the additional funds within coverage should be directed to IACI funds. A more systematic supplementation would be necessary for this issue

7. Review of disability level appropriation standard

Disability level appropriation issue is such a vast topic that it is not possible to discuss the entirety of it in such limited space. Regardless, there are parts of the IACI disability level appropriation standard incomprehensible, needing immediate attention and improvement. Current disability level standard appropriates a urinary disorder with 'non-functional bladder' as level 3, class 4, and under IACI enforcement ordinance article 31, line 5, disability level 1 through 3 are considered 'lost all ability of labor.' In the past, when medical technology was not as advanced as it is today, a full loss of bladder function may have meant a full loss of labor ability. However, today, if the bladder is disabled, the small intestine may be partially incised for a bladder-replacement, and patients treated are able to function nearly as normally as anyone else. Considering such able people 'loss of all ability to labor' is problematic. There are several unreasonable factors in the IACI disability appropriation standard due to its non-specificity of thoracic and abdominal disabilities and diseases. Of all the specific cases, the above mentioned bladder case is probably the worst example, and this calls for a necessity to redefine the disability appropriation standard.

04

Unemployment Insurance Program



Chapter4 Unemployment Insurance Program in Korea

Ⅰ. Introduction and development of unemployment insurance

Unemployment insurance in Korea is not limited to simply providing financial support for the unemployed. Korea's unemployment insurance program attempts to prevent unemployment, facilitate reemployment, promote employment of potential workforce, develop occupational capability, and smooth supply of manpower. The scheme has been adopted as active means of human management.

Although unemployment insurance program had been established on July 1 of 1995, the idea of such system had been proposed back in 1970s. However, the need for establishment of the unemployment insurance program for workers' social protection had only been officially announced in the late 1980s by the labor world and labor academic world. However, the government's economic policies were focused on growth and naturally the proposed program could not be established as being too early to adopt.

The Korean government officially announced the establishment of the unemployment insurance program in the 7th Economic and Social Development Project. During the period of the 7th Economic and

Social Development Project in 1991, pros and cons of the unemployment insurance had existed. However, a great number of people felt that Korea needs to establish the unemployment insurance program, just like Japan and Germany, for an active promotion of man power policy. Accordingly, the government organized an unemployment insurance plan team in 1992. Former President Kim Young Sam's term of service started in February of 1993. He had announced the establishment of the unemployment insurance program through the Economic Development Project in July of 1993. Accordingly on July 1 of 1995, the program had initiated in workplace with over 30 full time employees. After the economic crisis in 1997, the unemployment rate has rapidly increased and the application scope of the unemployment insurance program had been applied to workplace with over 10 full time employees in January 1 of 1998, over 5 full time employees in March 1, below 4 full time employees in October 1. Such expansion of the program had been applied to temporary employees and it has established a social safety net to unemployment.

Unemployment insurance programs of the U.S.A., Germany, and Japan had been influential to Korea's adoption of the program. In fact, it is similar to the program used in Japan. The reason beyond this is that Japan's employment process, custom and other management environment is rather similar to the environment in Korea.

II. Principal Issues of unemployment insurance program

Unemployment insurance program is classified into three main projects, which are employment stability, occupational capability development and unemployment aid.

1. Employment stability project

Employment stability project attempts to minimize unemployment during changes in the industrial structure such as reduction of labor hours, production of jobs through shift systems, change in market condition and other changes in the industrial environment. The project has two main programs which are the unemployment support program and the employment promotion program.

2. Development of occupational capability

Development of occupational capability aims to develop capability in a rapidly changing society through activities such employees support, training of the unemployed and conducting training on occupation categories. This program focuses on providing various incentives to companies in job training to achieve development of job capabilities. Development of job capability is conducted at workplace as to make it a site of learning. The program would lead to continuous development, increase productivity of workforce, increase wages of workforce and strengthen competence.

3. Unemployment aids

Unemployment aid provides financial support to the unemployed during their unemployment period as to stabilize livelihood and lead to reemployment. Besides the basic unemployment aid, continuous support is extended throughout the job training period as to facilitate the training. Various incentives are given and upon early reemployment, a bonus payment is given to prevent the unemployed from being lazy on finding jobs. Furthermore, female employees are supported by maternity leave aids.

Unemployment aids may be generally classified into job seeking aid and job promotion allowance. Job seeking aid is provided for stabilization of livelihood and it is the principal support program. For further protective measures of the unemployed, sick and wounded aids and extension of job seeking term is provided to the unemployed who are sick or injured. Job promotion allowance is given to the unemployed who are receiving job seeking aid. This program would help them find job positions in a short period and it may be broken down into early reemployment allowance, occupational capability development allowance and job seeking allowance.

4. Maternity protection aids

Women produce the next generation of workforce through pregnancy and child birth. There is a need for social measures to be taken for women during their pregnancy period. Maternity protection aid has been designed to offer benefits for these women. Maternity

protection may be defined as broad or narrow depending on the view of the social reproduction function.

In a narrow point of view, maternity safety and health would be the only concerns of this policy. However, a broad view considers the bringing up of the child as part of the social reproduction process. The Labor Standard Act states that women are given leave at child birth, restricted from overtime work and prohibited from dangerous work for maternity protection. In addition, women are guaranteed maternity leave as regulated in the Equal Employment Opportunity Law.

〈Table IV-1〉 Maternity protection range of female employees

Definition	Classification	Policy
Biological Maternity	Health, safety	Restrictions from harmful, dangerous workplace, limited in work hours, restricted from night shifts and holiday work
	Maternity leave	Child birth leave, menstruation holiday
Social Maternity	Childcare support	Company childcare facility, nursing hours
	Maternity Leave	Childcare leave

III. Evaluation of unemployment insurance

1. Contributions to overcoming high rate of unemployment after the foreign exchange crisis

Korea had to face with a high rate unemployment during the economic crisis in the end of 1997. The unemployment insurance program had made great contributions in stabilization of livelihood and development of occupational capability for a successful overcoming of the unemployment rate. Unemployment insurance does

not simply function as a social safety net during high unemployment period. It also serves as means of the active labor market policy in expanding its scope. This allows a more efficient function of the program. The adoption of a special extension payment system allows 60days extension of the unemployment aid period during high unemployment. This system had been executed throughout July of 1998 to December of 1999. Furthermore, job seeking support days would be extended from 60 ~ 210 to 90 ~ 240 starting January 1 of 2000. In order to stabilize livelihood of the low income earners, minimum amount of job seeking support was regulated as 70% of the minimum wage starting March 1 of 1999. On January 1 of 2000, it was adjusted to 90% of the minimum wage.

The unemployment insurance program had continuously improved as to minimize unemployment, conduct job training and facilitate reemployment through providing of unemployment aids. Meanwhile, unemployment job training had been expanded as to serve as a great opportunity in increasing job capabilities of employees and overcome high unemployment.

2. Development of lifelong occupational capability

The unemployment insurance system had established job training programs for production related workforce and this served as a great opportunity in developing employees' lifelong occupational capability. Prior to the establishment of the unemployment insurance program, job training was more focused on training of young people who were not in schools.

However, the government's policy to obligate job training was

criticized. Instead of encouraging job training, obligating and regulating them would hinder the activation of job training. Unemployment insurance law states that job training may be self-regulatory. However, companies must actively promote and support training. Upon establishment of the unemployment insurance program, obligation of job training had been abolished on January 1 of 1999. Since then activities to develop occupational capability had been activated to further develop as development of lifelong occupational capability.

3. Expansion of unemployment insurance infrastructure

By 1997, unemployment insurance section and job stabilization section had been established in 46 regional labor offices for operation of unemployment insurance. However after the foreign exchange crisis, the rate of unemployment had rapidly increased and employment management center had been established in 1998. 99 employment management centers had been established by 1998 and this figure had been enlarged to 168 centers by 2001. These centers provide the basis of unemployment insurance program and an internet labor market information system, Work Net was introduced. Employment service had been actively promoted since 2005. By 2007, employment service centers were upgraded to employment support centers in the progress of unification and expansion. Facilities were modernized and there was a great increase in the number of related personnel.

4. Economical inefficiencies of unemployment insurance

A fraction of the unemployment insurance program is facing problems in relation to economic efficiency and cost effectiveness. One example is the expansion of an ineffective employment stabilization project under the name of the activation of active labor market policies. It is widely known that Korea is facing major issues with deadweight loss, substitution effect and displacement effect in relation to employment stabilization systems and employment programs. Deadweight loss happens during employment regardless of employment subsidies. In such case, the employer receives the benefits of employment subsidies. Subsequently, this unnecessary support leads to social loss. Substitution effect happens when an employee loses the chance of employment due to government aids. This refers to a decrease of employment rate of the entire society in general. Displacement effect happens when a company that receives subsidies reduces employment of other companies that do not receive subsidies.

The effectiveness of employment subsidy systems are estimated to be 20~25%. According to EU Report (European Commission, 2006), the effectiveness of employment subsidies are relatively low. Employment service including job placement and development of occupational capability were evaluated to be most effective. In relation to Korea's employment stabilization effectiveness, deadweight loss of employment financial aids is estimated to be about 80% and net employment is estimated to be about 20%. According to the 2002 research on 393 businesses receiving employment financial aids have shown a deadweight loss of 67.9%. As for small and medium

enterprises aids, shift system conversion aids, old-age employment subsidies, new employment subsidies, reemployment subsidies, wage peak system bonus, maternity leave subsidies, employment in supplementation of employees on maternity leave bonus, the deadweight loss and substitution effect has shown to be 70% and net employment effect to be below 30%.

Great portion of the employment stabilization system is criticized for high rate of deadweight loss, substitution effect and the low rate of net effect. Disregarding these issues, employment stabilization system continues to be expanded each year and its management is highly criticized.

5. Insufficient target efficiency in development of occupational capability

Target efficiency refers to the amount of benefits that target groups are receiving upon establishment of the policy. In reference to <Table Ⅳ-2>, it shows that the bigger the size of the business, the greater the benefits in development of occupational capability. According to researches, 73% of workers in a company with less than 300 workers are insured by the unemployment insurance. However, only 25.5% of them receive benefits of occupational capability development subsidies. On the other side, only 16.5% of workers in a company with more than 1,000 workers are insured by the unemployment insurance. However, their occupational capability development subsidies hold 59.2% of the total subsidies.

A study shows that amongst the workforce supported by occupational capability development aids, 16.6% were middle school

graduates, 22.1% college graduates, and 61.0% university graduates in 2006. Research results show that employees of high academic achievements received more benefits (Korea Research Institute for Vocational Education & Training, 2007). As for support of training and education leave, 88% of the benefit recipients were employees of large company with over 1,000 employees. 73.1% are working in finance, insurance, real estate and 12.4 are working in manufacturing industry (Korea Research Institute for Vocational Education & Training, 2007).

These researches and statistical figures show that development of occupational capability is unable to fulfill its role in the aid of small and medium business employees, employees of low academic achievement, and temporary employees. There is an urgent need to improve the target efficiency of the current occupational capability development system.

〈Table IV-2〉 Financial aid results according to size of business (2006)

(Unit: place, thousand personnel, hundred million KRW, %)

	Total	Below 50	50~150	150~300	300~500	500~1,000	Over 1,000
Number of Business Insured (A)	1,176,462 (100.0)	1,145,199 (97.3)	21,671 (1.8)	5,741(0.5)	1,888(0.2)	1,270(0.1)	693(0.06)
Number of Employees Insured (B)	8,537 (100.0)	4,226 (49.5)	1,259 (14.7)	751(8.8)	386(4.5)	506(5.9)	1,409(16.5)
Number of Businesses in Benefit (C)	76,580 (100.0)	60,650 (78.9)	9,295 (12.1)	3,315(4.3)	1,257(1.6)	1,175(1.5)	1,157(1.5)
Number of Employees in Benefit (D)	2,752 (100.0)	260 (9.5)	813 (6.6)	259(9.4)	134(4.9)	207(7.5)	1,709(62.1)
Support Amount	2,969 (100.0)	409 (13.8)	209 (7.0)	250(8.4)	141(4.7)	203(6.8)	1,757(59.2)
Rate of Business in Benefit (C/A)	6.5	5.3	42.9	57.7	66.6	92.5	167.0
Rate of Employees in Benefit (D/B)	32.2	6.2	14.5	34.5	34.7	40.9	121.3

Data: Ministry of Labor, 2007 Unemployment Insurance Statistics

6. Setback of unemployment insurance infrastructure and delivery system

After the foreign exchange crisis, the infrastructure of Korea's unemployment insurance and labor market has been greatly expanded. Currently, Korea's employment support centers are one of the finest facilities throughout the world. However, there still is a need to develop better quality of service, consulting service of vulnerable workforce and systematic service according to the demands of its users.

There still is a room for development in consultations and job placements at employment support centers. A system to classify job applicants according to their risk of long term unemployment must be established. This would provide selection of certain employment service to better aid users. At the moment, the tendency is to miss out unemployment aids to those in desperate need.

In regard to job training of the unemployed, there are no guides or consultations to the various training fields. Subsequently, it would cause a setback on the efficiency of the training programs in the long term period.

The unemployment insurance DB system also has many flaws in its function and ability to retrieve statistical data. The current statistical data system is able to retrieve only the basic administrative statistics such as the number of businesses insured by the unemployment insurance, number of insured people, and financial aid amounts of various unemployment insurance. The system fails to provide important data as to determine how beneficial the system is.

7. Insufficient evaluating system of unemployment insurance

The current system lacks devices to monitor the unemployment insurance program in general. Unemployment insurance research center in charge of labor market analysis and evaluation existed within Korea Labor Institute up to 2002. At the moment, there aren't any organizations that conduct systematic evaluations on unemployment insurance program. As a result, there are no devices to neither point out the problems of the current program nor prevent those problems. This serves as the primary factor in hindering the development of the unemployment insurance program.

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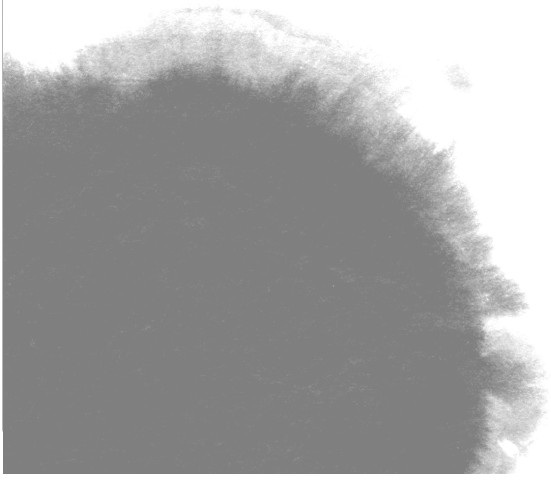
05

National Basic Livelihood Security System in Korea



Chapter5 National Basic Livelihood Security System in Korea

Ⅰ. Basic livelihood security

1. System introduction

National Basic Livelihood Security System (NBLSS) is a system for those who have no ability or family member(s) with the ability to maintain livelihood, where the government guarantees their basic needs such as living, education, medical and housing in the form of benefits, and providing self-support assistance service to those who are able to work.

1) Background and history

Living Protection Act of 1961 passed the responsibility of one's poverty to themselves and their family in a rather passive and preventative perspective. It had many problems in its target, availability, sufficiency of funds, fairness amongst recipients, productivity and the efficiency of the system. Meanwhile, the economic crisis of 1997 brought mass-unemployment and mass-produced the poor population, which resulted in an increase of

divorce, abandonment of children and elders, people running away from homes, homeless people, suicides and starved children, making poverty the most important problem on the table.

In such an economic crisis, the government failed miserably to serve as the safety net for catching social and economic fallouts, and seeing the ineffectiveness of legislature and the importance of a government-scale basic livelihood security system, forty-five citizens' groups gathered in 1998 to established the 「National Basic Livelihood Security Legislature Promotion Collective」 to petition the enactment of the law. With this, the ruling party and the opposition as well as government agreed in a nationwide consensus to enact the National Basic Livelihood Security Act on September 7th, 1999. Since then, a National Basic Livelihood Security Preparation Team was established with government officials, professionals, and citizens' groups to prepare for one whole year to launch the National Basic Livelihood Security System (NBLSS) on October 1st,, 2000.

2) Meaning of implementation

The enactment of the National Basic Livelihood Security Act is a drastic conversion from the past forty years of passive protection for the low-income people to a strong emphasis on the government's responsibility for the poor, while its goal is not to forever-maintain the support, but to enable the recipient to become self-sufficient through various rehabilitation service and step-wise support.

The major characteristics of the National Basic Livelihood Security Act are as follows: First, it takes on great meaning as the first legislature fully acknowledging the constitutional rights of the

low-income individuals. The Living Protection Act of the past was a passive protection of the poor, but this new law has brought enlightenment to the philosophy of welfare: welfare is a right of every citizen and the responsibility of the government. Secondly, it implies that the government supports the basic living needs of those who are earning less than the minimum standard of living. While the past system did not support living costs to those who were able to work, the new system supports everyone below the poverty line, regardless of their ability to work. Thirdly, it provides a step-wise self-sufficiency training service to help people get back on their feet, enacting a truly productive welfare program. By providing the opportunity to work one's own way out of poverty while supporting the rights to everyday life, this system maximizes the utilization of the individuals' abilities to pursue their own happiness as well as work one's way to helping others, the society and the nation in the long run: a true integration to society.

3) Major details

(1) Recipient selection standard

In order to be eligible for benefits, an individual must not have someone responsible for support, or have someone responsible for support who is unable to support anybody, or not have any support, and the deemed income per household must be equal to or less than the minimum standard of living.

〈Table V-1〉 2007 Minimum standard of living by household size

household size	1 person	2 persons	3 persons	4 persons	5 persons	6 persons
minimum standard of living (KRW)	435,921	734,412	972,866	1,205,535	1,405,412	1,609,630

※ household with 7 or more persons: for every 1 person increase, KRW 204,218 is added(e.g., a 7 person household is calculated at KRW 1,813,848)

〈Table V-2〉 Status of NBLSS recipients

classification	total		normal recipient		facility-bound recipient
	households	population	households	population	population
2000. 10	688,354	1,488,874	688,354	1,412,473	76,401
2002. 12	691,018	1,352,858	691,018	1,277,298	76,560
2003. 12	717,861	1,376,524	717,861	1,294,809	81,715
2004. 12	753,681	1,425,371	753,681	1,338,997	86,374
2005. 12	809,745	1,515,281	809,745	1,427,613	87,668
2006. 12	831,692	1,535,352	831,692	1,450,234	85,118
2007. 12	852,420	1,549,848	852,420	1,463,140	86,708

Since the enactment of NBLSS until December of 2002, the income evaluation standard and the asset standard were used instead of the individual household's deemed income, the change allows for fairness and balanced calculation of the benefits by combining the two former standards into one.

(2) Benefits details

Those who are chosen as NBLSS recipient receive livelihood benefit, housing benefit, medical aid, educational benefit, pregnancy benefit, funeral benefit and self-sufficiency benefit. To ensure the minimum living condition, the benefit is designed to be above the minimum standard of living when added to the household's deemed income amount. As for the benefit details, the NBLSS is different

from the previous Living Protection Act in following ways:

First of all, the housing benefit is separate from the rest. In the previous legislature, housing benefit was included in the livelihood benefit, but NBLSS takes the type of housing the recipient is living in to make the appropriate benefit, so that the recipient may live in a better housing environment.

The NBLSS implements conditional livelihood benefit. Those who are able to work, but are not currently employed are paid on the condition that they would join the self-sufficiency program, and if the recipient does not take part in the program without a valid reason, this conditional livelihood benefit automatically stops.

By enabling all low-income individuals under the minimum standard of living to receive basic living support from the government regardless of their ability to work, conditional benefit helps prevent moral hazard such as a person fully capable of work living off of the government's livelihood benefit.

Additionally, should a recipient capable of work of conditional livelihood benefit participate in the self-sufficiency program and earn wage from it, a portion of that wage is tax deductible as to promote the worker's will to continue work.

Finally, NBLSS implements emergency assistance system for households needing immediate attention and support even before the benefit decision is made. The emergency assistance is possible by the direct authority of the mayor/county magistrate/district head, and allows one month of emergency living assistance (and may be extended an extra month if necessary).

II. Emergency welfare assistance system

1. System introduction

Emergency Welfare Assistance System (EWAS) provides households without their main source of income, namely by death, disappearance, imprisonment of the primary income earner, or households whose family member have suddenly fallen victim to a severe disease, or households where the housing has been severely damaged or lost with immediate housing, medical or livelihood assistance previous to the determination of eligibility and benefit calculation.

1) Background and history

In December of 2004, a five year-old boy was found dead in a closet in Bulo-dong, Daegu Metropolitan City. The boy's family was going through many difficulties with financial troubles and disease, but the boy's father never actively sought help, and no one nearby thought to notify the administrative offices about their situation. This case presents two major implications:

First, a system to rapidly rescue households suffering from loss of the primary income earner, or households with a victim of severe diseases that cost astronomical amounts of money to treat. In other words, there was a need for a cooperation system of civilians and government centered upon a highly accessible resource to the low-income households. Secondly, a rapid assistance system must be established to send out immediate assistance should an emergency situation be confirmed.

A need for a quick field analysis and assistance (if necessary) previous to any administrative processing was mentioned, and to answer this call, the EWAS was implemented.

Starting the process in March of 2005, on December 23rd, 2005, the Emergency Welfare Assistance Act was enacted, and as subordinate statutes were later established, the EWAS began its service on march 24th, 2006.

2) Fundamental principles of emergency welfare assistance

(1) Assist first, process later

Should there be a report or a request from those in an emergency situation, the EWAS officer performs a field analysis to determine if an emergency assistance is necessary. Once determined as such, the necessary assistance is given, then the assets and income are reviewed later for appropriateness of the assistance.

(2) Short-term assistance

In principle, one month's (in the case of medical assistance, one instance) assistance is given, but exceptions of additional month are approved, but even with approval, the extension may be no more than four months (in the case of medical assistance, two instances).

(3) Assistance from other legislature first

If the recipient is receiving assistance of similar nature from other

legislature, emergency aid is not provided. Also, if the recipient is eligible for assistance from other legislature, EWAS connects the recipient to the respective authority first.

(4) Material assistance first (as opposed to monetary)

In order to fulfill the initial objective of assisting with medical services or temporary housing, aid is initially made by material resources, and if necessary aid may not be given in the form of material resources, monetary aid is given.

(5) Household-level assistance

Assistance is given in a household-level, unless members of the household must be held in custody or protected due to household violence or sexual assault. In such cases, the victim and those related to the victim necessary of protection are deemed as one household.

3) Target for emergency welfare assistance

EWAS recipient is defined as one (and/or one's family member living with them) who is in unable to continue living due to following reasons:

A. death, disappearance, abandonment or imprisonment of the primary income earner, leaving household members income-less
B. falls victim to a severe disease or injury
C. left uncared for, abandoned by, assaulted, or abused by member of the household

D. victimized by family violence or sexual assault by member of the household, and is not capable of normal family life with members of the household

E. housing environment damaged by fire or other disasters and unlivable

F. divorced from the primary source of income with no other household member with income

G. suspension of power supply for over one month

4) Details and duration of emergency assistance

〈Table V-3〉 Details and duration of emergency assistance

Types	Details	Duration
livelihood	• costs for food, clothing - 4 person household standard at KRW 1,170,422	1 month (max. 4 months
medical	• various diagnosis, treatment and medical services - no more than KRW 3,000,000 (one's share and unpaid matter)	1 instance (max. 2 instances)
housing	• temporary housing - 3~4 persons in metropolitan area standard at KRW 447,865	1 month (max. 4 months)
social welfare facilities	• Admittance into a social welfare facility - 4 persons household standard at KRW 1,001,424	1 month (max. 4 months)
other support	• fuel: KRW 60,000 - winter (OCT~MAR) heating • birth: KRW 500,000 (1 instance) • funeral: KRW 500,000 (1 instance) • electricity: within KRW 500,000 (1 instance) - suspension of power for more than 1 month	1month (max. 4 months)
connection to other legislature	• NBLSS or other penultimate medical aid • civilian support programs such as Social Welfare Collective Fund, Red Cross	no limit

5) Emergency welfare assistance status

〈Table V-4〉 Emergency welfare assistance status

classification	total	livelihood	medical	housing	facility use	other
assistance cases (instances)	24,932	2,921	21,273	252	23	463
assistance recipient (persons)	30,176	7,349	21,273	559	33	962
assistance amount (KRW n,000,000)	30,381	1,812	28,417	46	4	102

III. Basic medical security system

1. System introduction

1) Purpose

Medical aid system is where the government offers medical services to persons who are not capable of living, or have lost economic ability; its purpose lies in securing the medical treatment of low-income people to improve overall health and welfare. According to studies thus far, diseases are one of the main cause of poverty, and most developed countries secure medical treatment as part of citizens' fundamental rights.

Korea has established medical aid and national health insurance to secure the health of all its citizens, and persons with income below the minimum standard of living are selected as medical aid recipients, and are able to utilize medical facilities at relatively cheap prices. This also serves to reduce the social cost due to diseases.

2) Background and history

The medical aid program began in 1977 as medical protection even in tough national economic state, and continued to expand the recipients and benefit coverage, advancing as the medical security system for the low income population. However, the medical protection recipients of the beginning days had geographical and coverage days limitations, and the services were only available at designated medical institutions. Thus, it very much hindered utilization of the medical services, and the coverage level was lower compared to the national health insurance.

In order to relieve these differences, the program strategically increased the coverage days, strengthened the coverage of medical aid and continued to improve the system. First, the coverage days were increased. In 1995, what used to be 180 days per year of coverage days were increased to 210 days per year, and lifted the coverage days limit from senior citizens over the age of 65, registered disabled persons and persons of national merit. In 1996, the coverage days were increased to 240 days, 270 days in 1997, 300 days in 1998 and 330 days in 1999, and then the coverage days limit was lifted all together in 2000.

However, since the coverage days limit was lifted, recipients started abusing the medical benefits, and in January of 2002, the medical aid coverage days were once again limited to 365 days with various exceptions to flexibly aid those with multiple diseases, and simultaneously not allow abuse. This means that for the eleven listed diseases, one may use additional thirty days, and if due to complexity of multiple diseases, the individual requires additional

days, the individual may apply for an extension approval. In case of a public health center, up to 120 days may be deducted from the coverage days.

Secondly, medical aid institutions were expanded. In the past, treatment was only allowed at medical institutions within the Minister of Health, Welfare and Family Affairs, or the mayor/governor designated treatment district, but in 1998, the medical aid treatment district system was removed and in 1999, with the establishment of a medical institution, no special administrative process became necessary to automatically be designated as medical aid institution. As a result, the ease of medical aid recipients increased drastically, and that became the opportunity to remove the differences with the national health insurance program.

Thirdly, the medical aid system promoted increase in coverage area and increase in calculation per type of disease. In 1998, benefit limit for disabled persons' protection gear extended to cover canes and crutches, and calculation per type of disease was increased from 50% of the national health insurance program to 75% in November of 2000, closing the gap between medical aid and national health insurance. Also, to relieve the medical burden of low income persons, the deductible was decreased from 20% to 15% in 2004, and compensation of deductible was decreased from KRW 300,000 to 200,000 per thirty days. Since July of 2004, maximum deductible system was implemented, so that if the treatment deductible exceeded KRW 1,200,000 per six months, the excess was entirely supported by the medical aid fund to strengthen medical coverage. In April of 2005, electric wheelchairs and motor scooters were added to the expensive protective gears coverage, and increased the number of rare terminal

diseases list from 74 in 2004 to 98 in 2005 and 107 in 2006.

Fourthly, with the enactment of NBLSS in 2000 and Medical Aid Act in 2001, strengthened the health rights of citizens, and raised the system's efficiency by entrusting the operations to professional institutions. What used to be a preventative measure for the government became the fundamental right of citizens, and what used to be paid out by city/county/district is now collectively paid out by the National Health Insurance Corporation to make the payout process more efficient and quick. This contributed to change the environment so that the medical institutions began to treat medical aid patients and national health insurance patients equally. In addition, the medical aid certificate used to be issued by the National Health Insurance Corporation, but was transferred to the city/county/district who more easily could observe the living conditions of the recipient, and is much more approachable, shortening the issuing time.

Fifth is, beginning in May of 2003, the case management system was implemented to prevent unnecessary medical aid and strengthen close-medical counseling. Medical aid managers were positioned by cities, counties and districts, and they monitored the medical needs of recipients whose medical aid coverage days were drastically long to counsel them in health maintenance to guide recipients to properly utilize the medical aid system and maintain a healthy lifestyle to increase their quality of life.

Lastly, the eligibility was increased, so that if a recipient was injured, killed or died of natural causes, the system would support the recipient with medical aid, and as of May, 2004, even active duty military personnel were allowed to receive medical aid upon

enlistment, extended leave and short leave.

Meanwhile, to remedy the fact that the recipients are not receiving appropriate healthcare even though medical treatment charges of recipients were increasing, they established the Revolutionary Solution for Medical Aid in July of 2006. According to this solution, administrative changes were made in July of 2007, such as newly established healthy life maintenance payout support and deductible for type 1 recipients, selective medical institution program and implementation of eligibility-maintenance system.

2. Major details

1) Recipient selection standard

Medical aid is offered to recipients eligible by the NBLSS, human cultural asset, persons of national merit eligible persons according to other legislature and persons of the penultimate class who have remarkable want for medical attention (patients of chronic diseases and children under the age of eighteen).

(1) Income and assets standard

If an individual has no supporters, has a supporter who is incapable of supporting them, or is one who may not be supported, and if their deemed income(evaluated income plus converted amount of assets)is below the minimum standard of living, that individual is eligible for NBLSS. Penultimate class recipient (according to the medical aid regulation) is eligible if the individual is a patient of

chronic disease or a child under the age of eighteen in a household not covered by NBLSS with deemed income less than 120% of minimum standard of living.

〈Table V-5〉 2007 deemed income standard for minimum standard of living household and penultimate class

(unit: KRW)

classification	1 person	2persons	3persons	4persons	5persons	6persons
Minimum standard of living (per month)	435,921	734,412	972,866	1,205,535	1,405,412	1,609,630
Penultimate standard (per month)	523,105	881,294	1,167,439	1,446,642	1,686,494	1,931,556

Deemed income is the amount of actual income minus the household specific costs and wage, and the converted amount of assets is the number derived from subtracting the basic deductible and liabilities from the assets, multiplied by the income conversion rate. Basic deductibles of assets takes into account the difference of regional lease amount (lease amount of the smallest residential unit), but regardless of the household size, KRW 38 million for metropolitan cities (KRW 95 million for penultimate class), KRW 31 million for small to medium cities (KRW 77.5 million for penultimate class) and KRW 29 million for rural areas (KRW 72.5 million for penultimate class) are applied.

Conversion rate of assets are classified by type of asset: general property is 4.17%, financial asset is 6.26% and vehicle is 100% per month.

(2) Standard for responsibility of support

If the individual is with someone of responsibility coverage (a

blood relative within the forbidden degree and their spouse), and if so, whether that individual has the ability to support the household, and if that secondary individual is able to support the household, whether they are or not are the determining factors of the standard for responsibility of support.

The requisite for becoming a recipient is to not have any such secondary persons, have a secondary person in the household who is unable to support, or have a secondary person who is able, but is not supporting the initial recipient candidate.

(3) Types of recipient

Of the medical aid recipient, those who are eligible by NBLSS are classified as type 1 and type 2 recipients to gradate the deductibles. Type 1 and type 2differ based on the ability to work: those who are NBLSS recipients who are not able to work are type 1, while those NBLSS recipients able to work are type 2.

〈Table V-6〉 2007 Medical aid selection standard by type

classification	Recipient
Type 1	• NBLSS recipient without ability to work • persons of national merit, human cultural asset, refugee • victims of calamity • escapees from North Korea • Kwang-Ju democratic rising victims • domestically adopted child under 18 • rare incurable disease patient in the penultimate class
Type 2	• NBLSS recipient with ability to work • chronic disease patient in the penultimate class • child under the age of 18 in the penultimate class

Type 1 recipient is one of the following according to legislature: ① either does not have the ability to work, or is deemed unable to work by the Minister of MHWF (under 18, over 65, child not in school, member of the household with difficulty moving due to disease, injury or disability, a recipient taking care of one who requires special attention due to dementia, pregnant woman, or one who receives aid from various welfare centers such as welfare center for the disabled, senior medical center, child welfare center) ② is a domestically adopted child under 18 years of age ③ is a person of national merit ④ is a human cultural asset ⑤ is a refugee ⑥ is a victim of calamity ⑦ is a refugee from North Korea ⑧ is related to the Gwangjoo democratic uprising ⑨ a charity patient. Type 2 recipient is classified ever year as a recipient who is able to work (over 18 and under 65), one who belongs to the penultimate class and has a chronic disease , or is a minor under the age of 18.

A person of national merit, an intangible cultural asset, or refugee from North Korea is selected as a recipient each year by the mayor/counsel/governor once they are notified by the respective government offices (the Ministry of Patriots and Veterans Affairs, the Cultural Properties Administration, or the Ministry of Unification) as one eligible by the standards set by the Minister of MHWF.

2) Medical aid level

Medical Aid assists recipients with aid from the state economy for diagnosis, testing, prescription, payment of treatment equipment, surgery and other medical needs such as treatment, prevention, rehabilitation, hospitalization, care and transportation related to

diseases, injuries, births and other physiological changes to fulfill the desired medical goal.

The state aids the full sum, excluding the legally designated deductible, but the legally designated deductibles are different for type 1 and type 2 recipients. Deductibles for type 1 recipients are outpatient care, and for inpatient care, everything except for the meals (20% aided) is free of charge. Outpatient care deductibles for type 1 recipient are: KRW 1,000 for visitation to a primary medical aid institution, KRW 1,500 for visitation to a secondary medical aid institution, KRW 2,000 for visitation to a tertiary medical aid institution, and KRW 500 per prescription at the pharmacy.

Meanwhile, type 2 recipient must pay for all of hospitalization and outpatient care, while deductibles are KRW 1,000 for visitation to a primary medical aid institution only, KRW 500 at the pharmacy, and 15% of all treatment charges from primary, secondary and tertiary medical aid institution inpatient care.

With this, to ease the burden of recipients, the medical aid system also operates substitute payment system, deductible compensation system and deductible maximum cap system. Substitute payment system is only for type 2 recipients, and taking into consideration that type 2 recipients are below the minimum standard of living, should inpatient treatment charges exceed KRW 200,000, the medical aid fund initially pays for the excess, then the excess amount is charged to the recipient in installments without interest.

With these systems in place, it eliminates lack of self-reliance in the recipients, and promotes their willingness for self-sustainment. Deductible compensation system is where, if, for a period of time, the deductible exceeds the legal limit, 50% of the excess amount is

returned to the recipient: for type 1 recipient, KRW 20,000 per 30 day period, and for type 2 recipient, KRW 200,000 per 30 day period are the applied standards.

Deductible maximum cap system is where, if, for a period of time, the deductible amount exceeds the legal limit, the excess amount is fully returned to the recipient: for type 1 recipient, KRW 50,000 per 30 day period, and for type 2 recipient, KRW 1,200,000 per 6month period are the applied standards.

〈Table V-7〉 2007 Standard of medical aid

classification		personal liability
Type 1	outpatient	• public health center/clinic/welfare center treatment: none • primary medical aid institution KRW 1,000 • secondary medical aid institution KRW 1,500 • tertiary medical aid institution KRW 2,000 • PET, MRI, CT: 5% of payout
	inpatient	• free. but, food deductible KRW 680 per meal (excludes patients applied psychiatry flat sum charge and charity patient)
	pharmacy	• KRW 500 per patient (KRW 900 without prescription)
Type 2	outpatient	• public health center/clinic/welfare center treatment: none • primary medical aid institution KRW 1,000 • secondary medical aid institution: chronic diseases as designated by MHWF, KRW 1,000 other diseases, 15% of treatment charges * patient of chronic disease according to MHWF (medical aid standard and general standard article 17) 1. Chronic heart failure patient continues artificial kidney dialysis or peritoneal dialysis in a one-time ambulatory care, receipt of peritoneal dialysis fluid in a one-time ambulatory care 2. Hemophiliac patient receives medication for hemophiliacs such as anti-coagulant factor cry oprecipitate in a one-time ambulatory care 3. Metabolic disorder patient receives outpatient care on the day of medical aid receipt for the respective disease 4. Cancer patient receives outpatient care on the day of medical aid receipt for the respective cancer 5. Muscular disease patient receives autonomic antispasmodic or immunoinhibitor in a one-time ambulatory care 6. Organ transplant (kidney, liver, heart, or pancreas) patient receives immunosuppressant for tissue transplant rejection (includes hepatitis vaccine for liver transplant patients) in a one-time ambulatory care • tertiary medical aid institution: 15% • PET, MRI, CT : 15% of payout
	inpatient	• hospitalization treatment at a medical aid institution (10% deductible for cancer and other severe diseases): 15% - except, food deductible KRW 680 per meal (excludes patients applied psychiatry flat sum charge and charity patient)
	pharmacy	• KRW 500 per prescription (KRW 900 without prescription)

3) Medical examination system

Medical aid recipient may receive treatment in a step-wise manner from the first medical aid institution, secondary medical aid

institution and tertiary medical aid institution according to the Medical Aid enforcement regulation article 3. According to the medical regulation, the first medical aid institution includes medical institution, public health center, public clinic, public welfare office and pharmacy authorized by the mayor/counsel/governor, while the secondary medical aid institution is a medical institution authorized by the mayor/governor. According to the medical regulation, tertiary medical aid institution is a medical institution amongst the secondary medical aid institution, which is designated by the Minister of Health, Welfare and Family Affairs.

4) Medical charge system

Medical aid amount is calculated at 100% of national health insurance medical charge level, and difference exist amongst medical institutions per coverage type calculation rate.

〈Table V-8〉 Calculation of medical aid rate per types of institution

classification	tertiary medical aid facility	general hospital	hospital	Clinic
medical aid calculation rate	22%	18%	15%	11%
health insurance calculation rate	30%	25%	20%	15%

5) Maintenance and operation system

The operation of medical aid operation is divided into medical aid operation institutions such as the Ministry of Health, Welfare and Family Affairs, regional autonomous districts, the National Health Insurance Corporation and the Health Insurance Review Agency

enable recipients to easily receive payout.

Ministry of Health, Welfare and Family Affairs operates the overall supervision of the medical aid program's administrative, policy development and decision making, while each city/province takes on the supervision of fund management, operation and monitoring of guarantor institutions.

Guarantor institutions such as city/county/district manage the recipient eligibility evaluation and other first-hand operations, and the Health Insurance Review Agency evaluates the treatment cost and reviews the appropriateness of the medical aid, while the National Health Insurance Corporation takes on the treatment charge payment, management of recipient eligibility and management and computation of personal payout record data.

6) Fund investment and maintenance

In order to make up for the medical aid costs, each city/province has a separate medical aid fund. Medical aid fund is constituted of national treasury aid, regional contribution, payment exchange funds, unlawful gain, surcharges, fund settlement surplus and other revenues.

National treasury aid rates as directed in the related legislature, are 50% for Seoul and 80% for the rest, and according to the annexed list of the regulation on monetary obligation standard of regional autonomous regions in the Regional Finance Act article 26, line 1, metropolitan autonomous areas have no burden, while the city has 6% and the county has 4%.

〈Table V-9〉 Contribution of medical aid funds from national treasury aid and regional funds

classification	Seoul		Metropolitan Cities		Provinces		
	city	autonomous region	city	autonomous region	province	city	county
regional expenditure	50%	N/A	20%	N/A	14~16%	6%	4%
national expenditure	50%		80%		80%		
total	10%		100%		100%		

3. Basic medical security status

1) Number of recipients

What used to be 1,420,000 medical aid recipients in 2002 increased to 1,760,000 in 2005, 1,830,000 in 2006 and 1,850,000 as of the end of 2007 due to the application of medical aid for the penultimate class of national health insurance holders.

〈Table V-10〉 Transition of medical aid recipient numbers over the years

(unit: persons, %)

classification		'03		'04		'05		'06		'07	
		recipients	increase rate	recipients	increase rate	recipients	increase rate	recipients	increase rate	recipients	increase rate
total		1,453,786	2.3.	1,528,843	5.2	1,761,565	15.2	1,828,627	3.8	1,852,714	1.3
Type 1	subtotal	867,305	4.6	919,181	6.0	996,449	8.4	1,028,5.6	3.2	1,062,236	3.3
	NBLSS	690,766	4.5	729,537	5.6	793,508	8.8	822,484	3.7	850,760	3.4
	social welfare facilities	81,715	3.3	86,374	5.7	87,668	1.5	85,118	-2.9	86,655	1.8
	national merit (veteran)	80,574	6.0	83,999	4.2	85,287	1.5	85,214	-0.1	84,332	-1.0
	NK refugee	2,994	12.9	4,481	49.7	5,158	15.1	6,335	22.8	7,933	25.2
	Human cultural asset	425	10.4	434	2.1	410	-5.5	317	-22.7	312	-1.6
	Gwangju demonstrations	9,221	1.2	9,342	1.3	9,322	-0.2	9,281	-0.4	9,219	-0.3
	victims of natural disasters	1,172	305.5	20	-98.3	561	2,705.0	59	-89.5	13	-78.0
	persons wounded of killed for a righteous causes	428	-1.6	525	22.7	574	9.3	732	27.5	791	8.1
	military enlistees	-	-	-	-	-	-	-	-	1,988	-
	penultimate	-	-	4,469	-	13,258	196.7	17,773	34.1	17,989	1.2
	adoption	-	-	-	-	703	-	1,223	74.0	2,241	82.2
Type 2	Subtotal	586,481	-0.9	609,662	4.0	765,116	25.5	800,091	4.6	790,451	-1.2
	NBLSS	586,481	-039	596,639	1.7	630,792	5.7	617,016	-2.2	596,391	-3.3
	military enlistees	-	-	-	-	-	-	-	-	4,012	-
	penultimate	-	-	13,023	-	47,378	263.8	70,063	47.9	73,182	4.5
	under 12 years of age	-	-	-	-	86,946	-	113,012	30.0	116,866	3.4

2) Total costs of medical aid

Total medical aid treatment costs increased from KRW 2,031,300,000,000 in 2005 to KRW 3,925,100,000,000 in 2006 and KRW 4,223,800,000,000 in 2007, but the treatment costs increase rate dropped from 23.8% in 2005, to 21.4% in 2006 and 7.6% in 2007. Cause of treatment costs increase until 2006 were the increase of coverage area and target, increase of medical charges, inclusion of MRI and artificial cochlea in the payout coverage, and decrease of deductible for natural childbirth, newborn and severe diseases. Additionally, aging and increase of chronic disease patients forecast an ever increasing medical fee in the future. However, since 2006,

with the enactment of economic stabilization plan, the medical fee increase rate is decreasing, and this economic stability must be maintained.

〈Table V-11〉 Transition of medical aid treatment fee over the years

(unit: KRW n00,000,000, %)

Classification	'03		'04		'05		'06		'07	
	amount	increase rate	amount	increase rate	amount	increase rate	amount	increase rate	amount	increase rate
total medical cost	22,149	9.0	26,111	17.9	32,337	23.8	39,251	21.4	42,238	7.6
type 1	18,059	115	21,556	19.4	26,219	21.6	31,180	18.9	33,510	7.5
type 2	4,089	-0.7	4,556	11.4	6,117	34.3	8,071	31.9	8,728	8.1

3) Budget

The government continued to increase the budget for medical aid as coverage increased over the years. As a result, the budget increased from KRW 2,211,900,000,000 in 2002 to KRW 3,488,500,000,000 in 2006 and KRW 4,675,300,000,000 in 2007. Even in such continuing budget increase, unpaid medical aids still exist. The economic stability plan was enacted in 2002, and by 2003, all the unpaid medical aid institutions were paid in full, but as the minimum standard of living increased, the number of NBLSS recipients increased, penultimate medical aid recipients increased and with expansion of the benefit coverage, the unpaid amounts again started appearing since 2004. The total unpaid amounts in 2006 was KRW 857,000,000,000, and even though the medical fee increase rate decreased in 2007, the unpaid amount was still at KRW 373,800,000,000

〈Table V-12〉 Transition of medical aid budget and unpaid amounts

(Unit: KRW n00,000,000)

classification	2002	2003	2004	2005	2006	2007
budget	22,119	23,073	24,631	29,057	34,885	46,753
national expenditure	16,901	17,612	18,807	22,145	26,621	35,927
regional expenditure	5,218	5,461	5,824	6,912	8,264	11,234
unpaid amount (national treasury)	902(722)	239(166)	1,069(823)	4,255(3,277)	8,570(6,599)	3,738(2,878)