Means Tests in the South Korean Social Security System

Shinwook Kang

【Principal Researcher】
Shinwook Kang Senior Research Fellow, Korea institute for
Health and Social Affairs

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Introduction

I   Introduction «

This study[1] examines the means test and its asset limit that are used for social security benefit determinations in Korea. Many of the current social security programs in Korea, aside from social insurance schemes, decide the eligibility of beneficiaries on the basis of their income and assets (worth). As a result, only individuals and households whose income and assets fall below certain thresholds can receive the benefits and assistance offered by these programs.

The higher the income and asset limits, the greater the number of persons benefitting from a given program. In other words, the income and asset limits determine the coverage, and thus the effectiveness, of the social security system. Income and asset limits are therefore key components of the social security system.

Much has been discussed with respect to the way the income limit is determined in the social security system and if it is determined at an appropriate level. Considerably less has been talked about asset limits. This study explores the asset limits in place in the Korean social security system, and discusses the attendant issues and problems.

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1) This article is a summary of Shinwook Kang et al. (2016), How to Improve the Means Tests of the Korean Social Security System: Focusing on Income and Asset Distribution in the Low-Income Class.

Ⅱ Application of Means Tests

II

Application of Means Tests «

1. Eligibility & Benefit Amount Thresholds

It requires a certain set of criteria to determine whether given individuals, households, or institutions (facilities) are eligible for social security benefits. These criteria shall be referred to as "eligibility criteria" from now on in this study. These eligibility criteria take on the form of income or asset limits, limiting the access of individuals or households to the assistance provided by social security programs according to their income or assets. The means tests that represent the threshold amounts of assets or income that individuals or households possess form the eligibility criteria of social security programs.

Some criteria are used to determine the amount of benefits eligible beneficiaries are to receive. These criteria may or may not coincide with the eligibility criteria. The National Basic Livelihood Security Program (NBLSP), for instance, uses the same thresholds to determine eligibility and the amount of basic livelihood income to be provided. The means test cutoff line for eligibility for the NBLSP was a monthly countable income of less than KRW 471,201 in 2016 (29 percent of the median income--> Standard Median Income) for one-person household. According to this threshold, the Korean government provides

each eligible household with the amount of income equivalent to the difference between the means test and the household's actual income every month. On the other hand, NBLSP housing benefits apply different thresholds to determining eligibility and the amount of benefits. The eligibility threshold for housing benefits for one-person households in 2016 was an income of KRW 698,677 or less a month, or a maximum of 43 percent of the monthly Standard median household income. However, the maximum amount of housing benefits that each eligible household earning less than this threshold income can receive is KRW 195,000 a month in Seoul. The ceiling on the maximum amount of benefits to be provided for each beneficiary shall be referred to as the "amount threshold" hereinafter.

As the main purpose of this study is to examine whether the means tests—particularly the asset limits—of Korea's social security programs are inclusive enough of the low-income class, much of the following discussion will focus upon eligibility thresholds.

2. Structure of Applying Eligibility Thresholds

The most typical way in which social security programs apply means tests is by comparing the financial ability of a given household with the given threshold level. Beneficiaries that fail

to rise to the threshold level are regarded as eligible for receiv-
ing public assistance through the social security system.
Individuals and households that exceed the threshold level are
consequently excluded from the benefits. Below is a summary
of the structure of means tests applied by social security pro-
grams to determine eligibility.

Financial ability (of individuals or households) ≤ Threshold level

(A) (B)

Whether social security programs apply means tests of this
kind is often the decisive key to categorizing the given
programs. There are social security programs that are universal
in reach and that do not employ these means tests in determin-
ing eligibility.

Social security programs applying means tests substitute dif-
ferent economic or financial variables for (A) and (B) shown in
the inequation above. Social security programs are therefore
further subdivided according to which variables or parameters
they use for (A) and (B).

There is always the question of what should be used to meas-
ure the financial ability (or inability) of potential beneficiaries.
The two main variables used are income and assets. Some pro-
grams regard both (i.e., substitute both for (A)), while others
choose one or the other. Still others reject both.[2] There are al-

so concepts like the "countable income" that combine both in-come and assets (more on this concept to follow later).

There is also the question of what the threshold, i.e., (B), should be. The most widely known in the Korean social security system is the minimum cost of living. This concept, originally introduced by the NBLSP to determine eligibility, was used in a considerable number of other social security programs as well. Since the NBLSP switched to a different threshold (i.e., the rel-ative threshold) in July 2015, other social security programs, too, have followed suit, replacing it with percentages of the threshold median income (e.g., 30 percent). There are also pro-grams that use neither the minimum cost of living nor the threshold median income, but certain proportions of (potential) beneficiaries as their threshold levels. The basic pension in Korea, for example, provides monthly income for all seniors in the lower 70 percent in the income distribution. Childcare al-lowance(---> Service voucher) programs used to employ similar thresholds in the past. Childcare allowances are today provided for all households irrespective of income or assets. Until June 2009, however, different amounts of childcare allowances were provided for households in the bottom 50 percent, households in the lower 50 to 60 percent, households in the lower 60 to 70

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2) Blindness of certain social security programs to the financial ability of beneficiaries does not necessarily mean that the programs are universal. Many such income-blind programs consider other socio-demographic factors to limit the scope of beneficiaries.

percent, and households in the upper 30 percent in the income distribution.

In discussing how the asset limits should be applied, this study mainly focuses on the first of the two questions: namely, in terms of what the financial ability or inability of potential beneficiaries should be measured to determine their eligibility. Conversely, this study will focus on what thresholds should be used when discussing to what extent the asset limits should apply.

In the actual practice of determining the eligibility of beneficiaries and the amount of benefits to be provided, the two questions cannot be separated. If the choice of variables for determining financial inability or eligibility is a problem of logic, there are diverse aspects of the real world that ought to be considered before choosing these variables.

3. Different Means Tests & the Typology of Social Security Programs

The first and foremost criterion by which we might categorize social security programs is whether they employ means tests. Means tests, in turn, are divided between income limits and asset limits. Some programs apply both, while others apply only one or the other. As this study's focus is upon asset limits,

the second criterion it uses to categorize social security programs is therefore whether the given programs apply asset limits.

Programs that apply asset limits are then divided between those that apply asset limits only and others that apply both income and asset limits. Programs of the latter type are further divided into two subtypes. The first subtype applies the income and asset limits separately (dual cut-off), providing benefits only for beneficiaries that pass both tests. We may call these programs dual cut-off programs. The second subtype combines the income and asset limits into a single threshold to determine eligibility. While this method will be explained in greater detail later, let us understand, for now, that this method applies predefined conversion rates to the assets that individuals or households possess to convert these assets into income equivalents and add them to their actual income. Korean programs that use this method define the sum of income and assets converted to income as "countable income." Figure 1 illustrates the logical flow along which these different means tests are chosen and employed.

〔Figure 1〕 Different Means Tests & the Typology of Social Security Programs

III

Types of Social Security Programs
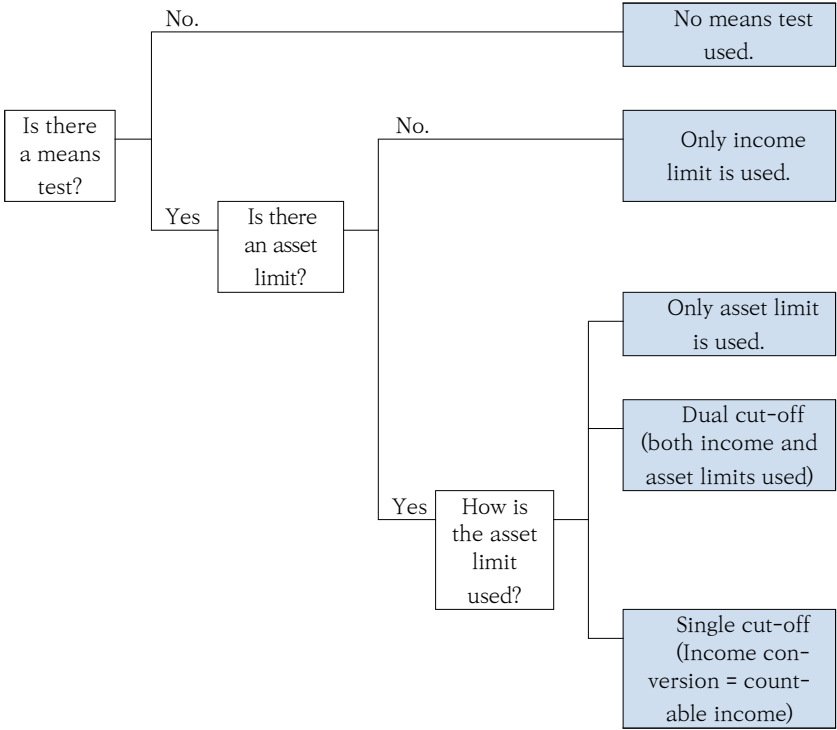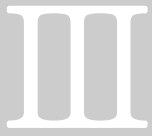
III Types of Social Security Programs

1. Distribution of Programs by Means Testing

A. Examples

1) NBLSP

The most well-known social security program in Korea that applies a means test is the NBLSP, a representative feature of the country's public assistance system. The program applies means test and family support rules in determining eligibility. Amendment of the National Basic Livelihood Security Act (NBLSA) in 2014, however, reformed the eligibility decision process. Aside from a requirement that the NBLSP provide benefits for individuals and households without family members on whom they could depend for financial support, individuals and households had to have recognized income below the minimum cost of living in order to be eligible for the NBLSP benefits prior to June 2015. Since July 2015, however, the amount of each eligible beneficiary's countable income has had to be below a certain percentage of the threshold median income.[3] As

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3) As of 2016, NBLSP eligibility meant 29 percent or less of the median income

before amendment of the NBLSA, the NBLSP continues to apply the countable income threshold.

The next poorest group of individuals and households that are not eligible for NBLSP benefits, but that form the so-called "near-poverty" group in Korea, is also defined according to the amount of countable income. The Ministry of Health and Welfare (MOHW, 2015) defined the near-poverty group as the poorest group next to NBLSP beneficiaries whose countable income amounts to 120 percent or less of the minimum cost of living prior to June 2015. As of July 2015, however, this definition changed to 50 percent or less of the threshold median income. The majority of social security programs in Korea limit their benefits to "NBLSP recipients" and "near-poverty" beneficiaries only, without providing further detail on eligibility. While these programs, too, apply the countable income threshold, they accept the NBLSP-proven and near-poverty beneficiaries without conducting background checks of their own on beneficiary means.

2) Programs Using Countable Income Thresholds of Their Own

There are other programs that apply countable income thresholds that do not coincide with those used by the NBLSP

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for basic livelihood benefits, 40 percent or less for medical benefits, 43 percent or less for housing benefits, and 50 percent or less for education benefits.

and the definition of the near-poverty group. The Educational Support Program for High-School Students with Single Parents, for example, provides benefits for households earning, in countable income, 60 percent or less of the threshold median income. The Educational Subsidization Program for the Children of the Disabled applies 52 percent or less of the threshold median income.

3) Dual Cut-Off Programs

Programs of this type apply both income and asset limits to determine the eligibility of beneficiaries. These programs form the Emergency Support System. The Emergency Livelihood Support Program, for example, required that a one-person household, in order to be eligible, earn 75 percent or less than the threshold median income (approximately KRW 1.22 million a month) and possess KRW 135 million or less in assets (living in a metropolitan city) as of 2016. There is also a separate financial asset limit in use, requiring that beneficiaries hold KRW 5 million or less in financial assets each.

4) Programs Applying Asset Limits Only

Programs of this type apply asset limits only, without income limits, in determining eligibility. As of 2014, there was only one

program—the Basic Old-Age Housing Pension Program—in this type. In order to be eligible for this program as of 2016, each beneficiary had to be the owner of a home valued at KRW 900 million or less on the housing market.

5) Programs Applying Income Limits Only

Programs of this type apply income limits only without asset limits, contrary to the programs of the foregoing type. A good example is the Job Hunting Success Package Program, which promotes employment and financial self-sufficiency for the poor. In order to be eligible, each beneficiary could earn only 60 percent or less of the median income or less than KRW 80 million a year in sales revenue (as of 2016).

6) Programs without Specific Means Tests

There are also social security programs that take candidate beneficiaries' financial means into account, but that do not specify the financial means thresholds applying to eligibility. The Disabled Students' Helper Program, for example, simply states that it assigns preferences to university-enrolled students with severe disabilities and from low-income backgrounds, without providing further detail on eligibility. The Basic Caregiving Service for the Elderly, too, states that it limits its

reach to seniors who are in need of welfare services due to their lack of financial means, health, proper housing environ- ment, and social contacts, but does not go further into eligi- bility detail.

7) Programs Not Applying Means Tests

Programs of this last type provide social security benefits for certain socioeconomic groups without detailing income or as- set limits. Examples include the Childcare Allowance Program for children aged five and under and the Toddler Tuition Subsidization Program for children aged three to five. These programs provide different amounts of monthly allowances solely according to children's age without looking into parental income or assets.

B. Distribution of Programs by Type

Tables 1 and 2 below list the programs of each type as of 2014. Table 1 rearranges the order of program types according to the count, but follows the same flow of logic as the one illus- trated in Figure 1. The 170 social security programs listed in these two tables form part of the 360 social security programs that the Social Security Commission subjected to its coordina- tion and assessment and that were in effect as of 2014.[4]

〈Table 1〉 Distribution of Social Security Programs by Means Test (as of 2014)

Uses means test?	Uses asset limits?	Means tests applied		N	%
Yes	Yes	Countable income	NBLSP recipients and near-poverty group	35	20.6
			Separate tests	30	17.6
		Dual cut-off (both income and asset limits)		16	9.4
		Asset limits only		1	0.6
	Income limits only (no asset limits)			26	15.3
	Other			7	4.1
No means tests				55	32.4
Total				170	100.0

Source: Re-compiled by the author on the basis of Kang et al. (2015).

Of the 170 social security programs analyzed in this study, 115 employed means tests. Of these, 82 implemented asset limits, and 26 applied income limits only without asset limits. Seven programs had means tests, but without specifying details. The majority of programs employing asset limits applied them via the concept of countable income. There were 65 of these programs. Programs that cater to NBLSP recipients and the near-poverty group, too, employed countable income test to determine their eligibility. These programs made up 35 of 170

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4) See Shinwook Kang et al. (2015), The Aims and Tasks of Evaluating South Korea's Social Security Policy, for the list of all 360 social security programs. The tables presented here omit the programs catering to special groups, such as North Korean defectors, National Heroes and their descendants, and patients of certain rare diseases.

programs. Thirty of the programs using countable income test specified other criteria for eligibility.

There were 16 dual-cut off programs applying both income and asset limits, but separately. The only social security program that determines eligibility on the basis of assets alone without considering income was the Basic Old-Age Housing Pension Program. Table 2 lists the specific programs for each type listed in Table 1. [5]

〈Table 2〉 Social Security Programs by Means Test Type (as of 2014)

Means test	Programs
RIA (NBLSP recipients and near-poverty group)	NBLSP (basic livelihood benefits, education benefits, funeral benefits, housing benefits, housing benefits in kind and housing support, childbirth benefits, self-help allowances), near-poverty group support (discounts on co-payments), Medical Benefits (health allowances, emergency care loans, compensation for co-payments, ceilings on co-payments, exemption from co-payments, select hospital and clinic support, care benefits, benefits for patients with severe and/or rare diseases, mobility devices for the disabled, subsidies for pregnancy and childbirth), Diaper and Baby Formula Subsidization, High-School Tuition Subsidization, Education Digitalization Support for Primary and Secondary School Students, Prioritized Educational Welfare, After-School Class Vouchers, School Milk, Housing Renovation Program for Rural Residents with Disabilities, Free Lighting Apparatus Replacement Program for the Energy-Vulnerable, Energy Efficiency Enhancement Program for Low-Income Households (subsidies for insulation, window paneling, flooring, and energy-efficiency systems), Emergency Caregivers for Seniors Living Alone, Oral Health and Dental Prosthesis Program for

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5) For the specific eligibility criteria of the major social security programs, see MOHW (2016c), Guidebook on the National Government's Support Programs for NBLSP Recipients and the Near-Poverty Group and the Social Security Commission's website (www.ssc.go.kr/ menu/info/info030300.titles, retrieved on September 10, 2016).

Means test	Programs
	Seniors, Medical Subsidization Program for the Disabled, grain discounts, self-help public works (for NBLSP recipients and near-poverty group), Culture Vouchers
Countable income (separate criteria)	Child Development Support Account, Childcare Subsidization for Single-Parent Households, Dream Start (Integrated Childcare Services), Tuition Subsidization for Single Parents, After-School Care Subsidization, Special Youth Subsidization, High-School Tuition Support for the Children of Single Parents, National Scholarship (Types I and II), subsidies for the legal proceedings required to appoint legal guardians for legal-age persons with developmental disorders, subsidies for the appointment of legal guardians for adults, subsidies for disability diagnosis and tests, Tuition Subsidization for Children of the Disabled, mobility aids and devices for the disabled, Disabled Children Allowance, Disability Pension, financial support for the treatment of Internet addiction in youth, Broadcast Media Access Guarantee Program (receiver sets for seniors with hearing impairment, caption receiver sets for the hearing-impaired, screen curation receiver), information and communication devices, Indoor Environment Diagnostics and Improvement Program for Vulnerable Groups, Workforce Support for Rural Households (farming and domestic helpers), Living Allowances for Residents in Development-Restricted Areas, Gas Facility Improvement, Water Pipe Repair and Replacement for Low-Income Households, Permanent Public Housing, purchase and lease of existing residential buildings, charter lease of existing residential buildings, Visiting Nurse and Domestic Helper Program, Basic Pension, Hope Ribbon
Dual cut-off (income and asset limits)	Emergency Welfare Program (support for the use of welfare facilities, funeral subsidies, childbirth subsidies, education subsidies, fuel and electricity subsidies, housing subsidies, living subsidies, medical subsidies), Work Program for the Disabled, Local Community Work Program, public housing (on lease or affordable ownership), savings support for rural households, long-term housing charter leases, National Public Housing, national tax exemptions (34 kinds), financial incentives to work
Asset limit	Basic Old-Age Housing Pension
Income limit	Neonatal Hearing Impairment Diagnostics and Treatment Subsidization, Medical Subsidization for Neonatal Care for Congenital Deformities, Maternal and Neonatal Health Management, Pre-School Blindness Prevention, Dementia Care Subsidization, Cancer Diagnosis, Medical Subsidization for Patients with Rare Diseases, Medical Subsidization for Infertile

Means test	Programs
	Couples, Eye Test and Surgery Subsidization for Seniors, Medical Subsidization for Hospitalized Tuberculosis Patients and Living Allowances for Dependents, Care Facility Subsidization for the Disabled, Developmental Rehabilitation Service, Psychological Counseling for Parents with Developmentally Challenged Children, Language Development Support, Support for the Financial Self-Sufficiency of Single-Parent Households with Teens, Support for Families with Disabled Children, Hope Growth Account/financial incentives to work, Job Hunting Success Package (job hunting allowances, participation allowances, living support), Integrated Care Service for Seniors, Child Care Service, Emergency Welfare Support for Artists, Pension Premium Support for Farmers and Fishers, Local Community Service Investment, Work-Study Program for University Students, school meal subsidies, discounts on co-payments by low-income households.
Other	At-Home Cancer Care, Medical Subsidization for Cancer Patients, Basic Care Service for Seniors, After-School Care Class for Elementary-School Students, Family Capability Enhancement Support, Disabled University Students' Helpers, Non-Special Job Support for the Disabled.
No means tests	Maternity Support (pre- and post-partum wages, maternity leave benefits), Family Childcare Allowance, Childcare Allowances (for children under 5), Toddler Tuition Support (aged 3 to 5), Extended-Hours Childcare Subsidization, Children's Safety Guards, Special Education Support (at national/public schools), General Physical Checkup Subsidization, Lifecycle Physical Checkups (40 and 66 years of age), insurance benefits (mobility aids and devices for the disabled), High-Risk Cardiovascular Patient Registration and Management, Inborn Error of Metabolism and Patient Support, national vaccinations, medical benefits for immigrant workers, NHI premium subsidization for farmers and fishers, Standardized Maternal and Prenatal Health Notes, free infant and toddler medical tests (under 6), childbirth subsidies for women with disability, pregnancy and childbirth subsidies for underage mothers, Teenager Hotline 1388 (SMS available), support for out-of-school teens, WEE Class Counseling, therapy and rehabilitation of teens involved in prostitution, National Merit Scholarship (for humanities/social sciences and natural sciences/engineering), childcare support for disabled children, activity support for the disabled, occupational rehabilitation support for persons with severe disability, Rehabilitation Training and Support for the Blind, occupational capability development support (training allowances) for the disabled, employment support (training allowances) for persons with severe disabilities,

Means test	Programs
	driving lessons and car rental for disabled drivers, Educational Support for Disabled Women, Employment Support for Housewives, Employment Support for Highly Educated Housewives, support for families at risk of divorce (court-associated), legal service for child support execution (for single parents), Domestic Violence Counseling Centers, housing support for women victims of violence, regional support centers for unmarried parents, free legal aid for victims of domestic and sexual violence, therapy programs and medical subsidies for domestic violence victims, protection and support for missing children, Old-Age Design Service, support for the social activities of seniors living alone, culture programs for seniors, digitalization education for seniors, Elderly Employment, Green PC, forest fire monitoring, passenger vessel fare subsidies for island residents, Forest Service Helpers, remedies for asbestos damage, special allowances for childcare teachers in rural areas.

Note: Programs in "Other" prioritize low-income households, but without specific means tests.

Sources: MOHW (2016c), Guidebook on the National Government's Support Programs for NBLSP Recipients and the Near-Poverty Group; Social Security Commission's website (www.ssc.go.kr/menu/info/info030300.titles, retrieved on September 10, 2016).

2. Discussion

Table 1 shows that programs employing asset limits make up the majority of social security programs. The proportion of programs using countable income test is especially high. The 82 programs that apply asset limits make up 71.3 percent of the programs with means tests. The 65 programs that use countable income test make up 79.2 percent of the programs applying asset limits.

The programs that apply countable income test as asset limits also take up much of the social security budget and cater to

the majority of social security beneficiaries. Table 3 compares the budgets and the number of beneficiaries (individuals and households alike) associated with the programs of each type of means tests as of 2014. Programs using countable income test take up 58.3 percent of the total budget allotted to social security programs, and benefit 70.7 percent of all eligible households.

⟨Table 3⟩ Budget & Recipient Distribution by Program Type (as of 2014)

(Unit: %)

	Budget	Recipients (individuals)	Recipients (households)
Near-poverty group	25.9	32.2	66.1
Countable income	32.4	10.9	4.6
Dual cut-off	10.8	1.3	3.4
Income limits only	3.8	24.4	5.1
Asset limits only	0.0	n.a.	n.a.
Other	0.3	0.8	6.9
No means tests	26.8	30.4	13.9
Total	100.0	100.0	100.0

Note: The number of individual recipients was tallied up with respect to social security programs catering to individual recipients only. The number of household recipients was tallied up with respect to programs catering to household recipients only.

Table 4 lists social security programs of each type of means tests by their specialty or focus. Programs using countable income test make up the majority of programs on almost all specialties.

Figure 2 shows the areas of specialty with greater pro-
portions of programs applying income limits only without con-
sidering assets. Medical and healthcare programs mostly fall in-
to this type. Twelve of 26 programs that apply income limits
only are programs that provide medical benefits. These pro-
grams determine eligibility on the basis of the amount of
National Health Insurance (NHI) premiums they pay. Programs
that provide emergency financial assistance and living support
also employ income limits only, as shown in Table 4. As these
programs provide urgently needed financial relief, they natu-
rally forgo the time-consuming process of asset investigation.

Similarly, few of the programs that support beneficiary em-
ployment require background checks on assets. Many of these
programs do not require means tests at all. Programs that pro-
vide continued financial assistance for living, by contrast, gen-
erally require asset investigation because they provide benefits
in cash. That programs applying asset limits still make up a sig-
nificant number of education support programs, despite the
growing demand for making those programs universal, and that
programs that apply asset limits in the form of countable in-
come testing pose new problems to explore.

〈Table 4〉 Distribution of Social Security Programs by Specialty & Type of Means Test

Means test \ Specialty	Education	Care	Medical	Employment	Housing	Living assistance	Living wage	Emergency relief	Total
Near-poverty	5	2	14	2	5	4	3	0	35
Other countable income	4	8	3	1	6	5	3	0	30
Dual cut-off	1	0	1	2	5	3	4	0	16
Income limits only	2	5	12	1	1	2	3	0	26
Asset limits only	0	0	0	0	0	0	1	0	1
Other	1	2	2	1	0	1	0	0	7
No means tests	7	11	13	11	1	11	0	1	55
Total	20	28	45	18	18	26	14	1	170

Note: Created by the author on the basis of Table 2.

[Figure 2] Distribution of Social Security Programs by Specialty & Type of Means Tests

(Unit: %)
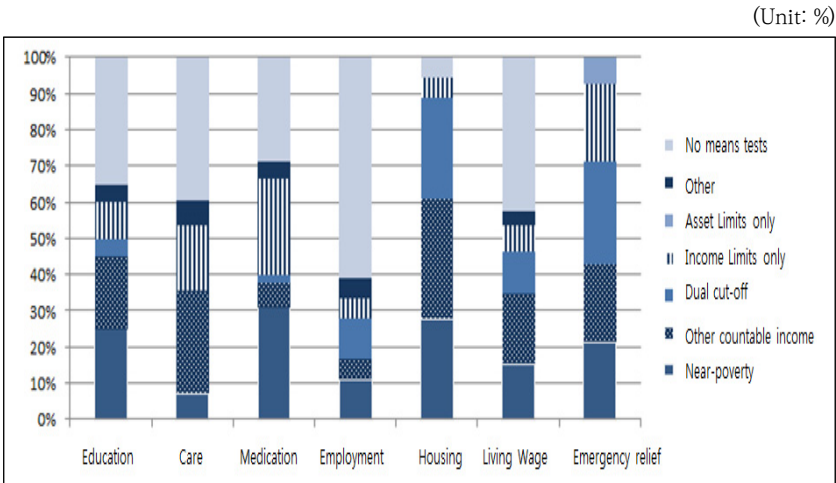
Note: Created by the author on the basis of Table 2.

Table 5 and Figure 3 show the distribution of Korean social security programs with different types of means tests by the age group they cater to. The "infants and toddlers" here refer to children age 5 and under, and "all children" refer to all under-age minors age 18 and under. With multiple policy programs introduced to raise Korea's rapidly plummeting birth rate, all social security programs catering to toddlers and infants are universal in reach, without applying means tests to limit eligibility. Even the ones that do employ means tests use income limits without requiring asset checks. Programs that cater to older children and teens, which make up the majority of all programs catering to under-age persons, still employ means tests. Over 45 percent of these programs apply income limits.

⟨Table 5⟩ Social Security Programs, Means Tests, & Age Groups

Age group \ Means test	Infants & toddlers	Children & teens	All children	All adults	Seniors	All age groups	Total
Near-poverty	1	2	4	10	2	16	35
Other countable income	0	3	7	10	2	8	30
Dual cut-off	0	0	1	9	0	6	16
Income limits only	4	1	5	8	3	5	26
Asset limits only	0	0	0	0	1	0	1
Other	0	1	0	2	1	3	7
No means tests	7	4	7	24	4	9	55
Total	12	11	24	63	13	47	170

Note: Created by the author on the basis of Table 2.

〔Figure 3〕 Social Security Programs, Means Tests, & Age Groups

(Unit: %)
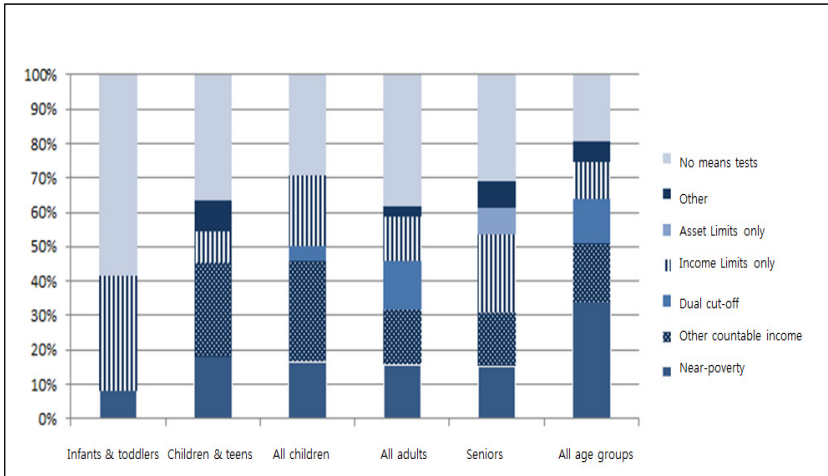
Note: Created by the author on the basis of Table 2.

Seniors are regarded as more likely to possess assets even if their incomes are limited. Programs applying asset limits therefore make up a significantly greater proportion of programs targeting seniors, but still a smaller proportion than in the case of programs catering to all age groups.

IV

Calculating Countable Income & Asset Limits

IV Calculating Countable Income & Asset Limits «

1. Calculating Countable Income for the NBLSP

We have determined that the majority of social security programs in Korea that apply means tests apply asset limits, and the vast majority of the programs that apply asset limits employ the concept of countable income. In order to understand the specific ways in which these programs apply means tests, it is therefore essential to understand what countable income means, and how it is calculated.

The process of calculating countable income can be summarized as follows. Countable income is calculated for each household, on the basis of household income, spending, assets, and debts (MOHW, 2016a). Note that the "Guide to the Calculation of Countable Income" (2016) for the NBLSP uses the term "means" to refer to "assets" as used in this study. For example, the guide mentions "means-converted income" and "basic worth of means" in the places of "asset-converted income" and "basic worth of assets." For clarity and consistency of the concept, this study maintains the use of "assets." Countable income is calculated according to the following process:

(1) Add up all the income earned by all household members.

(2) Deduct the deductibles from the total household income (e.g., certain expenses associated with household types and the categories of deductibles from earned income) to calculate the evaluated income amount.

(3) Distinguish the assets owned by the given household into several types, i.e., housing, general assets, financial assets, automobiles, etc. The security deposits for lease fall into the category of housing assets. The worth of housing assets is recognized to predefined limits (i.e., up to KRW 100 million in metropolitan cities, up to KRW 68 million in small and medium cities, and up to KRW 38 million in rural areas).

(4) Deduct financial assets worth KRW 3 million or less from the total assets.

(5) Deduct basic assets in addition to financial assets. The deduction ceilings in use are KRW 54 million in metropolitan cities, KRW 34 million in small and medium cities, and KRW 29 million in rural areas.

(6) Deduct debts from the given household's total assets. The asset limits applied by Korean social security programs, in other words, are based on net assets and not total assets. While there are limits to the types of deductible debts, there are no such limits on the amounts of deductible debts.

(7) If the given household consists only of members unable to work for a living, extra basic asset deductions apply, up to KRW 85 million in metropolitan cities, KRW 65 million in small

and medium cities, and KRW 60 million in rural areas.

(8) The amount of assets remaining after all deductions is then converted into income. The applicable conversion rates differ by type of assets, i.e., 1.04 percent/month for housing assets, 4.17 percent/month for general assets, 6.26 percent/month for financial assets, and 100 percent/month for automobiles.

(9) The evaluated income amount (2) and the amount of asset-converted income (8) are added up to arrive at countable income.

2. Calculating Countable Income for Other Social Security Programs

There are also other social security programs applying countable income to determine eligibility. The processes by which these programs calculate countable income, however, differ widely. Specifically, differences arise in terms of the types of deductibles used, whether the programs limit the worth of housing assets they count (and, if so, up to what amounts), the ceilings on basic asset deductions that can be made, whether the programs apply extra basic asset deductions in the case of households consisting of members who are unable to work for a living, and the conversion rates the programs

apply to convert assets into income.

Table 6 summarizes these differences across the five major social security programs that apply countable income test. The five programs compared are the NBLSP, two programs supporting the near-poverty group (confirming the near-poverty qualifications and reducing financial burdens), the basic (national) pension, and the Ministry of Education (MOE)'s financial aid program for university students (National Scholarship Type I).

〈Table 6〉 Comparison of Countable Income Tests for Different Social Security Programs

(Units: %/month, KRW 10,000)

Program / Countable income test		NBLSP	Near-poverty qualification	Near-poverty financial burden reduction	Basic pension	National Scholarship
Deductibles in income evaluation		Certain types of spending and earned income deductibles	Certain types of spending and earned income deductibles	Certain types of spending and earned income deductibles	KRW 560,000 deducted from earned income first, and another 30% of remaining balance	KRW 700,000 or KRW 500,000 from student's income and KRW 500,000 from household members' daily income
Countable housing asset limit	Metropolitan cities	10,000	10,000	10,000	n.a.	n.a.
	Small/medium cities	6,800	6,800	6,800		
	Rural areas	3,800	3,800	3,800		
Financial asset deductibles		300	300	300	2,000	n.a.
Basic asset deductions	Metropolitan cities	5,400	5,400	13,500	13,500	5,400
	Small/medium cities	3,400	3,400	8,500	8,500	
	Rural areas	2,900	2,900	7,250	7,250	
Extra basic deductions on households with members unable to work	Metropolitan cities	8,500	n.a.	n.a.	n.a.	n.a.
	Small/medium cities	6,500				
	Rural areas	6,000				
Conversion rate (%)	Housing	1.04	1.04	1.04	4.0/year	4.17/3
	General assets	4.17	4.17	4.17	4.0/year	4.17/3
	Financial assets	6.26	4.17	6.26	4.0/year	6.26/3
	Automobiles	100	100	100	4.0/year1)	4.17/3
Basic unit of asset test		Households	Households	Households	Individuals or couples	Part of households

Note: A conversion rate of 100 percent applies to automobiles valued at or above certain prices.

Sources: MOHW (2016a); MOHW (2016b). Guide on Integrated Social Security Tasks; Korea Student Aid Foundation (KOSAF) (2016). Student Income Quantile Manual for the First Semester of 2016.

Compared to the NBLSP's countable income test, the near-poverty qualification confirmation program applies a lower rate of conversion to financial assets (4.17 percent/month) and does not make extra basic asset deductions for households consisting only of members unable to work. On the other hand, the near-poverty financial burden reduction program applies a ceiling on basic asset deductions that is 2.5 times higher than that of the NBLSP. Yet it also does not make extra basic asset deductions for households consisting only of members unable to work.

Unlike the other social security programs compared, the basic pension calculates income and assets not for households, but for individual seniors or elderly couples. This is because the National Pension provides benefits for individuals and not whole households. The basic pension deducts up to KRW 20 million in financial assets from countable income, far greater than is the case with the other social security programs. Most importantly, the basic pension program applies very low asset conversion rates. Whereas the NBLSP and the near-poverty support programs apply the asset conversion rates monthly, the basic pension program applies the rates annually, and a meager 4.0 percent at that. An individual who holds KRW 10 million more in financial assets beyond the ceilings on deductible amounts of financial or basic assets will be counted as having an extra income of KRW 7.51 million per year under the

NBLSP, but the basic pension program will see him as having only KRW 400,000 in extra income per year.

The MOE's financial aid program for university students divides eligible students into different quantiles according to countable income, and differentiates the amount of financial aid provided by quantile. Unlike the NBLSP, this program does not deduct financial assets for the purpose of supporting life; does not impose regional variations on the maximum amount of basic assets to be deducted; and applies only one-third of the asset conversion rates used by either the NBLSP or the near-poverty support programs.

The different ways in which these programs recognize beneficiary assets as income produce sizable differences in the practice of social welfare. The problem only grows worse when we consider the fact that programs using countable income test make up a great portion of social security programs in Korea. A household may have a countable income of KRW 2 million, but this amount means quite different things under different programs. The considerable differences in the criteria used to convert and recognize assets as income serve to enlarge the ambiguity and uncertainty of social security, and ultimately undermines support for means tests.

V

Major Problems in Applying Means Tests

Ⅴ   Major Problems in Applying « Means Tests

Based on our foregoing survey of the different means tests used by Korean social security programs and the dominance of countable income as the main means tests employed by the majority of these programs, we can raise the following problems.

First, review is needed as to whether there are too many social security programs employing means tests or asset limits. Of course, it would be very difficult to find and fix an "appropriate" number of which such programs should be in a society like Korea. Nevertheless, as asset limits are criticized the world over for perpetuating the poverty trap, leaving stigmatizing effects on recipients, and even encourage non take-up (van Oorschot and Schell, 1991), on top of the considerable administrative expenses they generate, we need to critically assess whether too many social security programs in Korea rely on means-test.

For the same reason, it is necessary to revisit the fact that over 70 percent of programs employing means tests require asset test. The majority of these programs also require income test as the first step toward determining eligibility. Asset tests form the second step in these programs, and the exact mean-

ings of assets vary from program to program. We need to question whether it is really necessary that so many social security programs require asset checks, and start identifying criteria for selecting programs where asset tests are not necessary.

That programs applying asset limits in the form of countable income test make up a significant proportion of social security programs is another problem. Almost 80 percent of programs requiring asset tests use countable income test. Aside from the logical and empirical problems concerning the conversion of assets into income, the fact that there exists wide variation in the ways these programs convert and assets into income remains a major source of controversy. If different programs use different types or amounts of financial resources by "assets" and "income," these concepts would lose meaning as the criteria according to which government benefits are provided.

Furthermore, that numerous programs apply the same means tests as those used to determine eligibility for the NBLSP and support for the near-poverty group presents another problem. This means that the benefits of the social security system are concentrated in certain income groups, and could therefore amplify inequity between beneficiaries and non-beneficiaries, while also perpetuating the poverty trap and dependency on government help.

The majority of programs applying countable income test use net assets to determine the countable amount of income by de-

ducting debts from total assets. These programs do not limit the amount of deducts that may be so deducted. Under this approach, a household that possesses sizable total assets may possess zero net assets after all its debts are deducted. This raises the question of whether it is justifiable to put households possessing much wealth and great debts on the same line as households that hold little in both assets and debts. Moreover, the net asset approach could also act to discourage households from reducing their debt.

Diverse factors are considered in determining countable income, such as the amounts of basic asset deductions, ceilings on the worth of housing assets recognized, and the conversion rates applicable. These specific factors, however, have been determined independently of the characteristics of households and remain immune to rapid changes in the economic environment. The limits on basic asset deductions, for instance, are based upon the average cost of renting a home under a *jeonse* lease (a charter to use the house for two years for a lump sum deposit without monthly rent) in each given region. The average cost of renting a home, however, does not reflect the diverse sizes of homes(---〉 households) (MOHW, 2016a, p. 187). Despite the steady increase in the cost of renting homes on *jeonse*, the amounts of basic asset deductions are readjusted only occasionally. The means tests, in other words, fail to reflect substantial changes in the economic environment and the

makeup of assets held by low-income households.

There are also issues to be raised with respect to the levels of asset limits that social security programs impose. These asset limits are either too high or too low, compromising the ability of the social security system to protect the truly needy and the poor adequately. We can determine the legitimacy of these issues only by examining the distribution of all households in Korea by income and assets.

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