

2001-18

*Assessing The Role of Korean Employment
Insurance and Work Injury Insurance As A
Social Safety Net*

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WORKING PAPER

Korea Institute for Health and Social Affairs

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Abbreviations

EIS: Employment Insurance System

LMI: Labor Market Information

PES: Public Employment Service

UB: Unemployment Benefits

WII: Work Injury Insurance

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1. Introduction

On July 1, 1995, before the financial crisis, Korea put into place the ambitious Employment Insurance System (EIS) as the fourth pillar of the social insurance system. The Korean EIS consists of three components: unemployment benefits, job training, and employment maintenance/promotion subsidies (See Yoo (2000) for more details on the structure of the Korean EIS). Prior to the introduction of the EIS, Work Injury Insurance (WII) was established in 1964 as the nation's first type of social insurance. WII includes seven benefit programs to compensate for injury, disability and death caused by work-related accidents. Both the Korean EIS and WII are types of compulsory social insurance.

In November 1997, the Korean economy was hit by a devastating financial crisis. The following year, declining macroeconomic conditions brought about major disruptions in the labor market. Soaring unemployment caused disproportionate suffering among non-regular and low-educated workers. Remaining jobs became unstable and the hard-core disadvantaged group in the Korean labor market experienced recurrent unemployment. Wage differentials between low-end workers and others widened while income distribution was aggravated.

The existing welfare system, including the WII and EIS,

turned out to be insufficient to cover all types of workers. In light of such shortcomings, the Korean welfare system, including the social insurance system, went through major revisions. Scope of application was extended so that all employees are appropriately protected from unemployment or potential hazards of work-related injuries throughout their lifetimes. Beyond its extension of application, EIS took other meaningful measures during the crisis to protect against the risk of income loss due to unemployment such as introducing the extended benefit and lengthening the duration of benefits.

The objective of this paper is to assess the role of the Korean EIS and WII as social safety net components of Korea's productive welfare policy and to set forth a list of complementary tasks to be carried out for these two social insurance schemes. Section 2 evaluates the roles implemented by the Korean EIS to cope with the labor market turmoil. Section 3 explains the role of Korean WII as a social safety net and presents some policy alternatives for further development of the system. Section 4 presents a summary as well as a commentary on remaining policy initiatives.

2. Role of the Employment Insurance System as a Social Safety Net

Korean labor market fell into unprecedented turmoil after being hit by adverse shocks. In the face of high and continued increasing unemployment, the Korean EIS contained diverse and intense measures to alleviate the adverse impacts of the crisis on the labor market. Services of the EIS can be classified into four categories: (1) unemployment benefits as a means of income support, (2) job training for reemployment, (3) employment subsidies for job maintenance and employment promotion for disadvantaged workers, and (4) public employment service (PES) and labor market information (LMI) system.

2.1. Labor Market Context

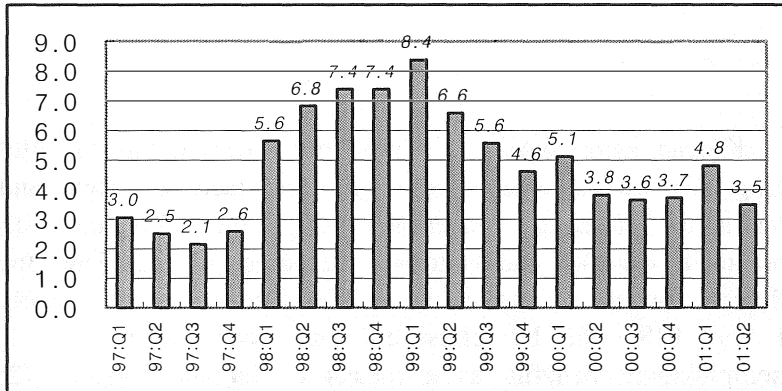
Before assessing the role of the EIS, it is worthwhile to take a brief look at the evolution of the Korean labor market after the financial crisis.

The unemployment rate in Korea was as low as 2~3% before the financial crisis. However, the unemployment rate made a dramatic jump to 5.6% in the first quarter of 1998

and began to rise continuously until it reached 8.4% in the first quarter of 1999 (Figure 1). The unemployment rate has since decreased to 3.5% in the second quarter of 2001, the lowest level subsequent to the onset of the financial crisis in 1997.

<Figure 1> Trends in the Unemployment Rate

(Unit: %)



Source: National Statistical Office, *Monthly Report on the Economically Active Population Survey*, various issues.

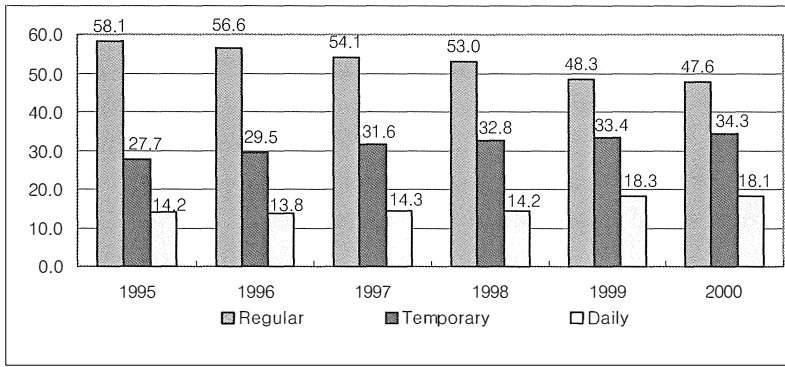
The proportion of regular employees stood at 54.1% in 1997 and continued to decrease, reaching 47.6% in 2000. During the same span, the proportion of temporary and daily employees rose correspondingly (Figure 2). This increasing tendency of non-regular employment was observed even before the crisis, although the crisis seems to have accentuated the trend.

After the financial crisis, the Gini coefficient drastically increased to 0.316 in 1998 and has not fallen below that mark since (Figure 3). A recent study by Jeong and Choi (2001) confirms that the aggravation of income distribution

results from the reduction of low-income earners' wages rather than from a fall in medium-income earners' wages.

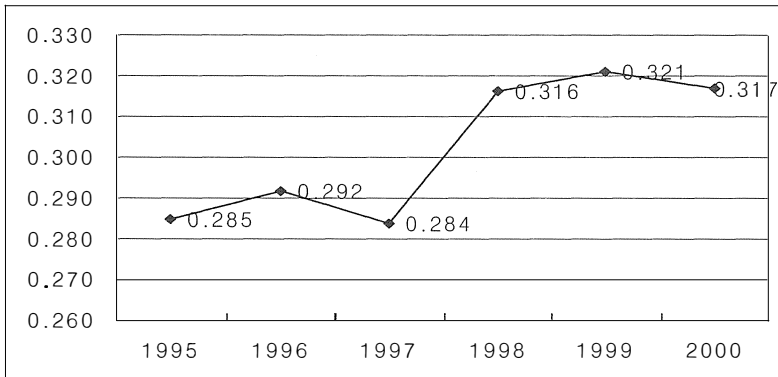
<Figure 2> Trends in the Proportion of Employees by Employment Type

(Unit: % of total employees)



Source: National Statistical Office, *Annual Report on the Economically Active Population Survey*, various issues.

<Figure 3> Trends in the Gini Coefficient



Source: National Statistical Office, *Family Income and Expenditure Survey* database.

During the crisis, non-regular workers and low-educated workers suffered disproportionately. Jobs became unstable and the hard-core disadvantaged group in the Korean labor market experienced recurrent unemployment, even if they did not fall into the long-term unemployment trap. Wage differentials between low-end workers and others widened and income distribution became highly aggravated. Given the labor market situation, non-regular workers were most in need of a social safety net, but most of them were not covered by the EIS. This situation, however, provoked a need for more refined social safety net and contributed for Korean social safety net to be extended.

2.2. Unemployment Benefits

With severe economic recession and massive unemployment, poverty among the jobless and low-income families emerged as a critical social issue that needed to be addressed immediately. Income support programs were implemented in two directions. First, in order for the EIS to care for as many unemployed as possible, its scope of application was extended, qualification requirements were relaxed, and UB beneficiaries were given up to 60 additional benefit days. Second, the low-income jobless were given income or credit support such as loans for living expenses (including family medical and educational expenses) and other public aid benefits.

When the EIS was first introduced, scope of UB application was limited to workers employed at firms with 30 or more employees. In the face of rising unemployment and growing unemployment vulnerability of low-wage earners

at small size firms, extending scope of UB application was deemed critical to expand the social protection of the unemployed. In response, the Korean government extended scope of UB application to firms with 10 or more employees in January 1998, to firms with 5 or more employees in March 1998, and finally, to all firms with at least one employee in October 1998 (Table 1). After these three consecutive amendments of the Employment Insurance Law in 1998, only those part-time employees working less than 80 hours a month and daily workers employed for less than a month remained 'legally' excluded from EIS application.

The extension of EIS application had a very limited effect on protecting the unemployed in that simply being insured did not suffice for UB eligibility. Under the old rules, one must be involuntarily laid off after having contributed insurance premiums for more than 12 out of the last 18 months to be qualified for UB. With these requirements, however, temporary workers and other unstably employed workers at small firms found it difficult to be eligible for UB. To better protect those marginal workers and newly covered employees, the government relaxed eligibility conditions, including easing the minimum contribution requirement from 12 out of the last 18 months to 180 days out of the last 12 months.

<Table 1> Scope of EIS Application

Date	Unemployment Benefit Component	Employment Maintenance/Promotion Subsidies & Job Training Component
July 1, 1995	30 employees	70 employees
January 1, 1998	10 employees	50 employees
March 1, 1998	5 employees	50 employees
July 1, 1998	5 employees	5 employees
October 1, 1998	1 employee	1 employee

Source: Ministry of Labor (2001a), *White Paper on Employment Insurance*, Seoul.

The duration period of UB varies depending on the insured's employment period and the claimant's age. The range was from a minimum of 60 days to a maximum of 210 days. However, since Korea's EIS was implemented only on July 1, 1995, the insured period of employees could not exceed five years and thus the actual duration of UB could not exceed 150 days until June 30, 2000.

Given the limited benefit duration and the unprecedented unfavorable labor market situation, the extended benefit rule was put into operation from July 1998 so that the qualified unemployed could receive up to 60 days more than the period designated by the benefit duration matrix. Further, the UB duration matrix from 60 to 210 days was modified to 90 to 240 days, with the new matrix going into effect in January 2000 (Table 2). In essence, the average duration of UB increased to 126 days in 1999 from 85 days in 1997 and 91 days in 1998.

<Table 2> Benefit Duration Matrix

(Unit: days)

Age of Claimant	Insured Employment Period				
	Less than 1 year	1-3 years	3-5 years	5-10 years	Over 10 years
Below 30	90	90	120	150	180
30-50	90	120	150	180	210
Over 50 and Handicapped	90	150	180	210	240

Source: Ministry of Labor

Despite all these efforts implemented by the government such as extension of scope of application, relaxation of eligibility criteria and lengthening of benefit period, the beneficiaries represented a too limited portion of the unemployed for UB to be considered as a primary safety net against unemployment. In 1999, the beneficiary ratio was 10.7%, which is significantly lower than that of any other OECD country (Table 3).

<Table 3> Ratio of UB Beneficiaries relative to Total Unemployment

(Unit: thousands, %)

Country	Unemployment (A)	Beneficiaries (B)	B/A × 100
Germany (1990)	1,971	858	43.5
Japan (1992)	1,420	395	27.8
Korea (1999)	1,353	145	10.7
U.S.A. (1990)	6,874	2,475	36.0
U.K. (1993)	2,900	870	30.0

Source: National Statistical Office (2000), *Annual Report on the Economically Active Population Survey*.

Central Employment Information Office, *Monthly Statistics of Employment Insurance*, various issues.

Phang (1999).

Five reasons can be attributed to the low beneficiary ratio. First, wage workers explain only 62.4% of total employment while UB, by nature, does not cover non-wage workers (the difference between A and B in Table 4).

Second, the compliance rate is low. This shortcoming comes from two different origins. Daily workers who work less than a month in a firm are legally excluded from EIS application (a considerable part of the difference between B and C in Table 4). Also, all legally insurable employees are not actually insured because of the disincentive for frequent turnover of non-regular employees, regular worker-oriented burdens such as the declaration process and filing of administrative forms, limited administrative capacity, and informal characteristics of economic agents in the labor market (Hur, 2001a; Hur and Yoo, 2001). As of December 2000, the compliance rate was only 73.4%, which means that there is a large gap between the scope of application *de jure* and the scope application *de facto* (the difference between C and D in Table 4). Many temporary and daily employees are still excluded from UB application and remain exempt from protection.

Third, actual benefit duration is limited because the benefit duration matrix depends on the insured employment period whereas the EIS has only been in existence for 6 years. Fourth, the eligibility criteria for Unemployment benefits are strict, in particular, the criteria judging whether or not a claimant is involuntarily unemployed. Workers who quit their jobs without justifiable reasons are generally regarded as voluntary unemployed and are not eligible for benefits even though they remain unemployed. This requirement is much stricter than most countries except for a few such as the U.S., Czech Republic, and Spain (OECD,

2000). Fifth, there is a considerable number of white-collar unemployed who feel shameful about presenting themselves at the Employment Security Center to receive unemployment benefits.

<Table 4> Compliance rate of EIS (December 2000)

(Unit: thousand persons, %)

Employment (A)	Employees (B)	Legally Insured Employees (C)	Actually Insured Employees (D)	$(D/A) \times 100$	$(D/B) \times 100$	$(D/C) \times 100$
20,857	13,265	9,190	6,747	32.3	50.9	73.4

Source: Authors' calculations based on the *Economically Active Population Survey* database and *Employment Insurance* database.

2.3. Job Training for Reemployment

Programs in the job training component of the EIS accommodated the unemployed to enhance their job skills and thus increase their employability through providing retraining opportunities for the unemployed.

Since the outbreak of the economic crisis, the EIS expanded training programs for the unemployed. In 1998, about 163 thousand unemployed participated in and benefited from EIS job training programs for the unemployed, approximately eight times as many as those in the preceding year. The expenditure amounted to 191 billion won. In 1999, the EIS provided training opportunities for 171 thousand jobless workers with a budget of 307 billion won. In 2000, 132 thousand unemployed workers participated in training programs and the expenditure was 216 billion won. On

average, 48.6% of job trainees for reemployment benefited from job training component of the EIS (Table 5).

<Table 5> Job Training for Reemployment

(Unit: billion won, thousand persons)

	1998		1999		2000	
	Expenditure	Beneficiaries	Expenditure	Beneficiaries	Expenditure	Beneficiaries
Training for Reemployment by the EIS	191.0	163	306.7	171	215.5	132
Training for Reemployment, Total	656.8	363	514.4	371	440.3	222

Source: Central Employment Information Office, *Employment Insurance* database.

Ministry of Labor (2001b), *White Paper on Policy against Unemployment*.

Those unemployed workers who had worked at firms covered by the EIS were eligible to apply for the reemployment training programs and received training allowances that lasted from one month to one year, up to a total of three times, until they found a new job. Training allowances were cut in half if participants continued to partake in the second training course and were reduced to zero for the third training course.

Training allowances ranged from 200,000 to 300,000 won (equivalent to 60-90% of the minimum wage). Trainees who were learning skills for non-favored jobs, which had been facing a labor shortage amidst the deep recession, received additional bonuses. Similar training opportunities, financed by the general government budget, were given to those unemployed who had not been insured by the EIS. Therefore, substantial opportunity for vocational training was provided to all of the unemployed.

Job training programs for the unemployed offered opportunities to those out of work to retrain themselves in order to enhance their own future employability, while training allowances helped alleviate their immediate economic difficulties. That is, apart from the formal purpose of job training, such programs served as a type of social safety net for those unemployed who could not receive cash benefits. Those who participated in job training programs and received training allowances.

However, diverse training programs that were loosely regulated and lacked appropriate monitoring and inspection led to the moral hazard of some training institutions and trainees. Some unqualified training institutions took advantage of the training programs and provided time-killing courses in order to receive reimbursement from the government, thus limiting the effectiveness of the training programs. Also, some trainees were solely interested in receiving the training allowances instead of acquiring actual skills.

Furthermore, an underdeveloped labor market information system and lack of experts to manage the training programs tended to limit the effectiveness of the training programs. Training institutions and programs were authorized depending purely on preexisting conditions such as available equipment, facilities, etc. Little consideration was given either to changing demand in the labor market or to the needs of the potential participants. Training institutions tended to routinely provide the same training programs as were conducted in the past. As a result, some training programs did not significantly aid in the reemployment of the trainees. As of October 2000, the reemployment rate of training program participants stood at 32.5%, which is lower than in other countries.

Lee and Kang (1999) identify factors that underlie the low reemployment rate. First, the number of trainees increased rapidly while labor demand was still low during the economic crisis. Second, the quality of training programs did not catch up with the pace of quantity expansion. Third, the contents of training programs were not suitable for the changing demand in the labor market. And fourth, the PES had little capacity to reintegrate the participants into the labor market.

2.4. Employment Subsidies

Subsidy programs were implemented via the employment maintenance/promotion component of the EIS. Employment maintenance subsidies intended to minimize employment adjustment through dismissals by providing wage subsidies to firms that made efforts to avoid laying-off redundant workers.

<Table 6> EIS Employment Subsidies

(Unit: million won, persons)

	1998		1999		2000	
	Expenditure	Beneficiaries	Expenditure	Beneficiaries	Expenditure	Beneficiaries
Employment Maintenance Subsidies	74,223	654,375	79,197	369,591	29,297	148,246
Hiring Subsidies	5,878	169	75,888	101,550	42,204	63,407
Employment Promotion Subsidies	16,186	120,721	29,149	198,783	42,148	233,426
Total	96,287	775,265	184,234	669,924	113,649	445,079

Source: Central Employment Information Office, *Monthly Statistics of Employment Insurance*, various issues.

To be subsidized, firms needed to be in a situation in which employment reduction was inevitable for managerial reasons and had to adopt subsidizable practices such as: (1) temporary shut-down, (2) reduction of working hours, (3) provision of training to redundant workers, (4) provision of paid/unpaid leave, and (5) dispatch or reassignment of workers. Subsidies equivalent to one-half to two-thirds (depending on the size of the firm) of the wages or allowances paid to their workers were refunded for a maximum of 6 months.

The requirements of employment maintenance subsidies were relaxed during the crisis and the assistance level was increased to provide more incentives and to cover more firms and workers. In 1998, a total of 74.2 billion won was paid for the employment maintenance of about 0.7 million workers while, in 1999, 79.2 billion won was spent for a total of 0.4 million workers. With the improving labor market situation in 2000, the employment maintenance expenditure decreased to 29.3 billion won covering 0.15 million beneficiaries (Table 6).

Subsidy programs were first criticized by some economists on the grounds that they might hamper or delay structural adjustment of the economy by subsidizing marginal firms that had lost competitiveness in the market. However, subsidized firms were not necessarily bad firms destined to end up in bankruptcy. Good firms could face temporary cash flow difficulties in the midst of financial crisis as financial institutions did not function properly. In addition, since firms were free to decide whether to make use of subsidy programs or lay off redundant workers, there were no *a priori* reasons to believe that the subsidy programs prevented firms from restructuring. Thus, subsidy programs were

advocated and maintained as an important element of labor market policy. In fact, according to Hwang (1999), firms with good human resources tended to utilize the employment maintenance subsidies.

However, the contribution of employment subsidies in reducing unemployment should not be exaggerated. The number of workers that benefited from the program was, on average, around 25,000 per month in 1998-99. Kim et al., (1999) analyzed the employment maintenance effects of employment subsidy programs using employer surveys as well as case studies. The estimated effect was 22.3% on average, which implied that deadweight loss was in the 70% range. According to the assessment of PES staff and monitoring reports, deadweight loss and substitution effects of the 'grants to promote employment of displaced workers' have been serious (Hwang, 1999; Kim et al., 1999).

The other two subsidy programs in the employment maintenance/promotion component of the EIS are hiring subsidies and employment promotion subsidies, which are intended to assist disadvantaged workers of the labor market such as those involuntarily laid off, elderly workers, female workers, female household heads, and the long-term unemployed.

2.5. Public Employment Services and Labor Market Information System

With the surge in unemployment benefit claimants, the number of public employment service staff was insufficient to administer even Unemployment benefit payment service. Immediate expansion of PES capacity to meet the demand

for both benefit payment and administration of other active labor market programs was deemed urgent.

In 1998, to improve the quality of employment services and to promote a user-friendly environment, the government combined the employment insurance division and the job information service division of local labor offices into PES centers called Employment Security Centers (Table 7). These centers were based on the concept of one-stop service to provide job seekers with job vacancy and vocational training information as well as Unemployment benefit payment service all at the same place. The government also eased regulations on job brokerage by private agencies and strengthened its support of free job placement services to trade unions and employers' organizations.

<Table 7> *Composition of Employment Service Agencies and Staff*

(Unit: agencies, persons)

	1997	2000
Local Labor Office	46	-
Employment Security Center	3	126
Manpower Bank	3	7
Employment Service Center for Daily Workers	-	16
Total PES Agencies	52	149
No. of Staff	141	2,436

Note: 1) PES agencies and staff of the central government only.

2) Manpower Bank is a PES agency co-invested and co-managed by the Ministry of Labor and local government. It specializes in job matching and job counseling, but does not deal with UB payment service.

Source: Ministry of Labor.

Although one may marvel at the progress that the Korean PES has made during the three consecutive years

after the economic crisis, the capacity of the Korean PES still remains insufficient to play an active role in meeting labor market needs. Rather, it has made the government realize future policy tasks required to effectively meet the demands of job searchers via the PES. For example, strengthening 'counseling' services in a proper sense based on improvement of counselors' expertise, development of a new occupational classification system that will serve more effectively in job matching, collaboration with private sector employment service agencies, etc. are some of the remaining areas to be addressed.

One way to evaluate PES capacity is to look at the ratio of workers in the labor force to PES staff. For example, Germany's PES has a ratio of 450 workers per PES staff, while that of Sweden and the United Kingdom are 403 and 882, respectively. Each of these countries' PES has a relatively high capacity level. In contrast, an average Korean PES staff has to deliver service to 9,011 workers (Table 8).

As for the labor market information system, the government launched an electronic system in May 1999, called Work-Net, benchmarking Canada's WorkInfoNet. Work-Net, accessible on the Internet, provides various information on job vacancies, vocational training programs, career guidance, employment policies, employment insurance services, labor market statistics, and labor laws. Almost all job vacancies registered at public employment agencies can be found on Work-Net unless employers refuse to allow the information to be uploaded. In order to make the system more effective and easier to use, the government plans to introduce a number of improvements including faster access speed and more user-friendly interface; development of job

vacancy information based on new occupational classification; provision of detailed information on labor market trends, employment outlook and wages; etc.

<Table 8> Number of Public Employment Service Agencies and Staff

(Unit: agencies, persons)

Country	No. of Agencies	No. of PES Staff	No. of Labor Force per PES Staff	No. of Employees per PES Staff
Germany	841	87,570	450	364
Japan	666	15,290	4,388	3,445
Korea	149	2,436	9,011	5,395
Sweden	570	11,000	403	339
United Kingdom	1,159	33,000	882	711
USA	2,538	71,378	1,953	1,717

Source: Authors' calculations based on internal document of the Ministry of Labor and KLI Foreign Labor Statistics.

2.6. Evaluation and Policy Directions

As of December 2000, there were 13.2 million wage workers in the Korean labor market. Of these, only 6.7 million employees (50.9% of wage workers) were working as insured. Thus, one of the major problems with Korea's unemployment insurance is that even if the scope of EIS application has been extended to all firms, the compliance rate is still quite low. The main obstacle to providing EIS to temporary and daily workers is the lack of any mechanism certifying employment career for them. EIS should refine its employment record-keeping system and cover daily workers in order to overcome this shortcoming.

Enhancing the efficacy of the training system is another

important issue to be addressed. Training allowances helped alleviate economic difficulties for trainees who are unable to receive other cash benefits or participate in public works programs. But job-training programs should place more emphasis on enhancing the employabilities of the unemployed rather than just providing income support.

The capacity of the PES has been expanded quantitatively during the economic crisis. But the counseling services and the labor market information system still leave much room for improvement. Counselors do not spend much time in in-depth counseling. Rather, they are preoccupied with such activities as registration of workers' records, recording job vacancies, and processing unemployment benefit claims of workers and subsidy claims of firms. Now that the labor market has been stabilized, counseling should play a greater role through improvement in the quality of counseling services. Besides, improvements should also be made in the labor market information systems through developing the occupational classification system which reflects labor market changes more closely.

3. Role of Work Injury Insurance as a Social Safety Net

3.1. Key Features of Work Injury Insurance

Like other social insurance programs, WII was designed to provide protection against economic insecurity and catastrophic losses. WII benefits include medical treatment benefits for work-related injuries or illnesses and wage-replacement benefits for the lost earnings during the period of injury or illness. It also provides disabled workers with a substantial proportion of income loss.

In Korea, WII differs from other social insurance programs in the following way.

First, employers contribute to WII through payment of premiums to government insurance funds. There is no direct employee contribution, although much of the cost may be shifted to employees in the form of lower wages. A large part (about 85percent) of the premium is experience-rated, and thus vary among firms based on the benefit. The other part (about 15percent) of the premium is set at a fixed-rate and is evenly spread among all the firms in the industry. Second, WII is a no-fault system. Employers are liable regardless of fault, and employees qualify as recipients only

if the injury or disease is work-related. Employers' liability is limited to the benefits in the program. And employees can receive benefits regardless of the employers' ability to pay.

WII coverage is mainly financed by the premiums paid by employers and the returns from asset management, while a part of the operation costs is financed by the government budget. The Ministry of Labor is in charge of estimating, with the help of the Korea Labor Institute, the approximate figures of payments for the following year, and thus, the rough estimate of total premiums to be collected from the owners of firms. The Ministry of Labor also determines the premium rate for each type of business based on the experience rate of the past three years. Once the premium rates for the different types of businesses are determined, each firm has to submit its own premium, which is adjusted by the variation rate depending upon the individual firm's experience rate.

3.2. Classifications and Contents of WII Payments

There are seven classifications of WII benefits according to the different conditions of work-related injury or illness: medical treatment benefit, income indemnity benefit, disability benefit, nursing benefit, survivors' benefit, funeral expense benefit, and long-term indemnity pension benefit. Most of these are cash benefits with the exception of medical treatment. Medical treatment is provided when the injury requires more than three days of treatment.

If the injury requires up to three days of treatment, employers are supposed to pay the medical expenses in

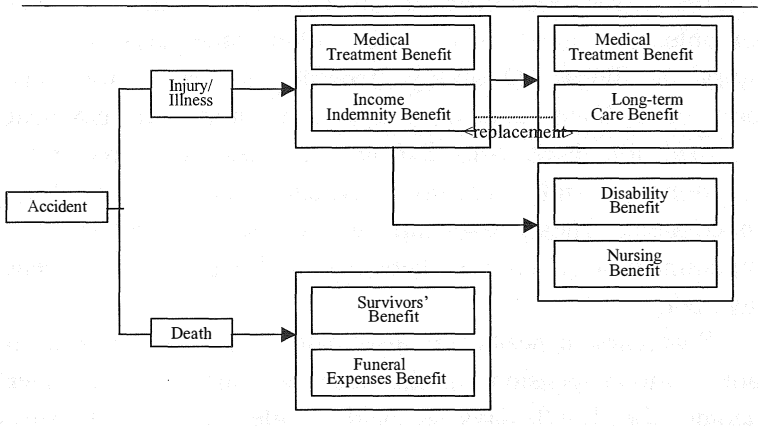
accordance with the Labor Standards Act. Income indemnity benefits cover 70percent of income loss when a worker is not able to resume his/her job within three days due to the injury or illness. Disability benefits are paid either in the form of a lump sum or pension: a lump sum payment is provided for those who fall in the class of degree 8-14 of impediment, and pension payment for degree 1-3 of impediment. Those who fall in the class of degree 4-7 of impediment can choose between a lump sum or pension payment.

Survivors' benefits are also paid either in the form of a lump sum or pension: in the case of lump sum, the average income for 1,300 days is paid; while in case of pension, 47percent of the average annual income plus 5percent for each additional recipient is paid. The maximum annual pension payment should not exceed 67percent of the average annual income.

An amount of 120 days of average income is paid for funeral expenses. Long-term indemnity pension benefits are the payments to those injured workers who do not recover after 2 years of medical treatment and fall in the incurable disease classification of degree 1-3.

For the recipients of long-term indemnity pension, income indemnity benefits are not applied. Long-term indemnity pension benefits are paid in the form of a pension, the amount of which differs according to the severity of the disease: As for degree 1, the average income for 329 days will be paid; for degree 2, 291 days; and for degree 3, 257 days. The amounts of these payments are the same as those for disability benefits.

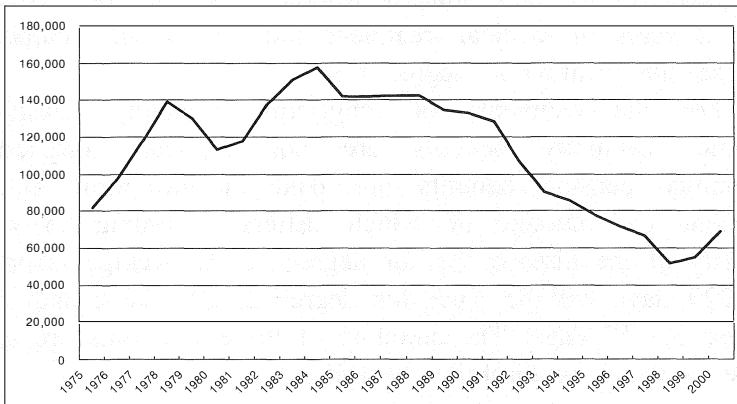
<Figure 4> Benefits of WII



Source: Kim, Hokyung, et al., (2000), p. 9.

3.3. Trends in Work-related Injury

<Figure 5> Number of Injured Workers



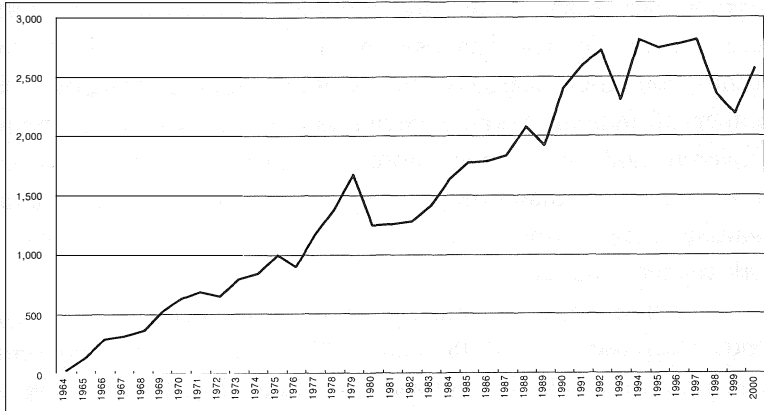
Source: Ministry of Labor; Korea Labor Welfare Corporation database.

As represented in <Figure 5>, the number of injured workers had been decreasing for the last decade. In_1998, there was a sharper decrease in the number because of the recent economic recession. In 1999 and 2000, however, the number of injured workers began to increase as the economy recovered and thus hired more employees as the operation ratio of manufacturing industry rose. In general, manufacturing firms are faced with a higher risk of work-related injuries.

The number of deaths, which had been on a rising trend, decreased in 1998 and 1999 due to the economic recession. In 2000, the number of deaths rose once again as the economy recovered, especially in those industries characterized by high risk of work-related injury such as construction, manufacturing, etc. (Figure 6).

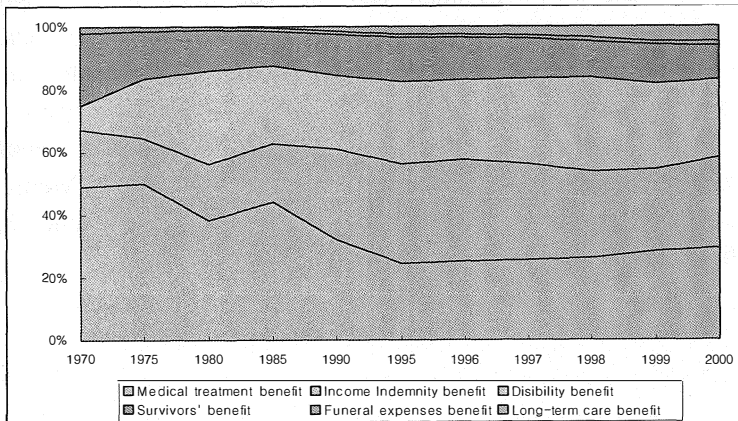
This kind of phenomena can be seen also from <Figure 7>, which represents the progress of the portion of each type of benefit payments of WII. This chart indicates that the portion of long-term indemnity pension benefits grew in the last couple of years while income indemnity benefit payments decreased over the last half-decade. Medical treatment benefits have increased for the last half-decade due to the rise in medical fees.

<Figure 6> Number of Funeral Expense Recipients



Source: Ministry of Labor; Korea Labor Welfare Corporation database.

<Figure 7> Trends in the Portion of Benefit Payments



Source: Ministry of Labor; Korea Labor Welfare Corporation database.

3.4. Scope of the WII Application

In 1964, WII was initiated for a total of 64 firms and 80,000 employees in the mining and manufacturing industries. In order to apply for WII, a firm had to employ at least 500 workers. Thereafter, as represented in <Table 9>, the target industries for WII have been expanded, and the minimum number of employees required per firm has been alleviated up to now. From 1998, WII was extended to student apprentices and students in vocational schools, and from July 1st of the year, finance and insurance firms with more than 4 employees were included in the WII system. From July 1, 2000, the minimum number of employees required were reduced to 1 and thus virtually any firm is now a target of WII. Moreover, employers with no more than 50 employees are able to join WII under the notion that most of them actually participate themselves as workers.

Even with this extensive application of WII, some contingent low-income workers and atypical workers are still not included in this social safety net, which poses significant potential hazard. Among those are insurance solicitors, home visiting test-kit providers for children, golf caddies, etc. Since their main source of income is commissions rather than salaries, the owners of the businesses that they work for often do not acknowledge them as employees. This is an issue that is still under heated debate. It is argued that since these workers maintain some kind of continuous employment relationship with specific companies, they must be treated as employees in the event of work-related injury. However, the counter arguments point out that, in many cases, it is hard to prove that they work for specific companies, and moreover, it is hard to determine whether the injuries are

indeed work-related.

As mentioned above, WII has recently extended its application to virtually all firms (except self-employees) by alleviating the minimum required number of employees to one. However, some types of businesses are still excluded because of the difficulties in administration and confirmation of employment relationships. Among them are construction businesses with less than 20,000,000 won of total expenses; private construction businesses with total project areas of less than 330m; farming, fishing, hunting, and home care service businesses with less than 5 employees; other types of businesses or industries where the work injuries are covered under different laws; and firms whose regular number of employees is less than 1 due to the irregular use of part time workers.

<Table 9> Minimum Number of Employees Required for WII

Year	Required Number of Employees in a Firm	Industry
1964	500	Mining, manufacturing only
1965	200	Addition of electrical, gas, transportation, and warehouse industries
1966	150	All existing industries
1967	100	All existing industries except brassware, which requires at least 25,000 employees annually.
1969	50	Addition of construction, service, water service, sanitary equipment, telecommunication
1974	16	All existing industries
1976	16 (5)	All existing industries except mining, chemical, petroleum, coal, rubber goods, and plastic, which require at least 5 employees.
1982	10	Addition of logging industry
1983	10	Addition of agricultural goods brokerage business
1986	5	14 industries only including veneer plywood
1987	(5)	20 industries including timber, which require at least 5 employees
1988	5	16 industries including electronics appliance manufacturing
1991	10	Addition of mining, forestry, fishery, hunting, retail/wholesale business, real estate brokerage
1992	5	Mining, forestry, fishery, hunting, retail/whole sale business, real estate broker- age industries
1996	-	Addition of education, health, and social work services
1998	-	Addition of financial, insurance, and overseas dispatch industries
2000	1	All existing industries, including owners of firms with at most 50 employees

Source: Kim, Hokyung, et al., (2000), p. 13; Ministry of Labor.

3.5. Coverage of WII

When WII was first introduced in 1964, medical treatment was provided only for those injuries or illnesses that required more than 9 days of treatment. (Table 10) However, the required number of days was reduced in 1971 to more than 7, and in 1982 to more than 3 days.

Income indemnity benefits, which paid only 60percent of average income in 1964 was increased to 70percent in 1989. Disability benefits paid according to 10 different degrees of disability in 1964 were subdivided into 14 degrees in 1971, and the payment level was increased as well for each of the different degrees. In 1989, those who fell into the category of degree 1-3 were obligated to receive benefits in the form of pension, while those between degree 4-7 were given the choice of lump sum or pension. However, from 2000, they are also obligated to receive 50percent of benefits in the form of pension.

Survivors' benefits, which were provided in the form of lump sum payments in 1964 and paid in the amount of 1,000 days of average income, were increased to 1,300 days of average income. In 1970, pension type payment was introduced and the amount of payment increased in the years 1971, 1977, and 1982. Payment in the form of pension was basically obligatory, however in 1999, recipients were given the option of receiving half the benefit amount as a lump sum.

As for funeral expenses, the benefit was increased in 1989 from the original 90 days of average income to 120 days. However, in 1999, the maximum and minimum limits were fixed in order to reduce the difference between low and high benefit recipients. Long-term indemnity pension

benefits had been paid in the form of lump sums since 1964, but a pension type form of payment was introduced in 1982.

A major revision was made to workers' compensation in July 2000, the content of which is as follows.

First, when it is difficult to calculate total income of the employee to determine the premium and coverage, 'standard income' is applied. Standard income is typically applied to those firms that are bankrupted, closed, or when employers file the total income gathering the reports of workers. The standard income in this case is the same as that of unemployment insurance monthly payments are 723,000 won and hourly payments are 3,200 won.

Second, nursing benefits were newly introduced to cover the care service cost for the severely disabled workers. This benefit is restricted to those who fall into the disability classification of degree 1-2. Full-time care benefits are 24,775 won/day and part-time benefits are 16,516 won/day.

Third, the indemnity payment for old-aged workers whose age exceeds 65 is decreased from the existing level of 70percent to 65percent.

Fourth, a maximum compensation standard, 28 times as much as the low benefit recipients, was set to alleviate the difference between low and high benefit recipients.

Fifth, in order to determine the total income for those who work in construction business and whose working days are typically far less than other workers, the coefficient of usual working period will be applied.

<Table 10> Expansion of WII Coverage

Date of Implementation	Medical Treatment Benefit	Income Indemnity Benefit / Long-term Care Benefit	Disability Benefit	Survivors Benefit	Funeral Expense Benefit
1964.7.1	Lapse period: more than 10 days	60% of average of income Lapse period: more than 10 days	Lump sum: Maximum (Grade 1: 1000 days) Minimum (Grade 10: 50 days) Lump sum amount: 1000 days of average income in case of incomplete recovery after 1 year of progress	Lump sum: 1000 days of average income	90 days of average income
1971.1.1	Lapse period: more than 7 days	Lapse period: more than 7 days	Subdivision of grade: Maximum (Grade 1: 1340 days) Minimum (Grade 14: 50 days) Pension benefit introduced Target: Grade 1-3 Annual benefit: Grade 1 (240 days of average income) Grade 2 (213 days) Grade 3 (188 days) Lump sum amount: 1340 days of average income in case of incomplete recovery after 2 years of progress	Introduced pension benefit Amount of benefit according to the number of survivors: 1 survivor: 30% of annual income 2 survivors: 35% of annual income 3 survivors: 40% of annual income 4 survivors: 45% of annual income	
1977.12.19			Increase annual pension benefit: Grade 1 (279 days of average income) Grade 2 (248 days of average income) Grade 3 (219 days of average income)	Increase annual pension benefit: 1 survivor: 45% of annual income 2 survivors: 50% 3 survivors: 55% 4 survivors: 60%	
1982.1.1	Lapse period: more than 3 days	Lapse period: more than 3 days	Increase annual pension benefit: Grade 1 (313 days of average income) Grade 2 (277 days) Grade 3 (245 days) Grade 4 (213 days) Grade 5 (184 days) Grade 6 (156 days) Grade 7 (131 days)	Increase annual pension benefit: 1 survivor: 52% of annual income 2 survivors: 57% 3 survivors: 62% 4 survivors: 67%	
1983.7.1		Long-term card benefit Amount of payment established Grade 1 (313 days of average income) Grade 2 (277 days of average income) Grade 3 (245 days of average income)	Discontinuance of lump-sum benefit payment		

Source: Kim, Hokyung, et al., (2000), pp. 17-18.

In addition, in order to enhance the services for the rehabilitation of disabled workers, WII will extend its service range for the after-effects of an injury/illness to include respiratory diseases. Moreover, WII plans to strengthen the financial support for the (economic) restoration of the disabled by extending the number of disabled workers who have access to the fund for opening small businesses at low interest rates from the present 80 to 500 in 2005. It will also run vocational adjustment programs for the disabled.

3.6. Evaluation and Policy Directions

In retrospect, the WII system has made great strides in Korea, yet there are several major tasks that still need to be accomplished.

First, although the application of WII has been continuously extended since its establishment in 1964 to include virtually all kinds of firms, the actual number of firms applied by WII is around 65.2 percent of the total industry as of Jun 30 2001. Many employers, typically those of small businesses, have been unwilling to join WII, even though they are required to pay 50 percent of the coverage and the premium for 3 years after a work-related injury has occurred and is reported. Thus, in order to extend the WII's scope of application to include as many workers as possible, specific measures are needed to help firms automatically join WII as they establish or continue their businesses.

Another issue that needs to be addressed is to find ways to reduce the rate of accidents (i.e., work injuries). The Korea Occupational Safety & Health Agency (KOSHA)

implements risk management programs in the workplace such as the KOSHA 2000 program, which is designed to reduce work injuries and is operated on voluntary basis. However, since the application of the program is not compulsory, it has generally been applied to large firms that maintain relatively good safety conditions and can afford the program fee. Thus, in order to achieve the best effects in reducing work injuries, policy devices are needed not only to enhance the efficiency and credibility of the safety check itself, but also to implement a compulsory safety check program in work area. Moreover, in order to set forth a pro-incentive device for the owners of firms to reduce injuries at the work place, a rate discounting system that applies the degree of workplace safety when rating WII premiums may be called for.

On the other hand, in the face of increasing number of pension receivers and thus escalating benefit payments in the future, the WII program needs to be more carefully applied to maintain financial soundness. In order to accomplish this, an extensive information system including a well-maintained database as well as more rigorous researches and studies on the financing methodology, the rate making system and the effectiveness of work-injury insurance policies and related programs are needed.

In summary, under the perception that every worker faces the risk of being injured, even if the probability is very small, the role of WII is very important for the economic stability of employees. In light of this, WII has extended its scope of application and increased its coverage since 1964 in order to strengthen its role as a social safety net and thus reduce the potential hazards of workers throughout their lifetime.

However, regardless of the extension of the application of WII, there still remain some contingent workers that are not covered by the existing safety net because of the irregularity in their employment relationship and the difficulty in proving that the injury is related to work. For some of these workers, whose incomes are substantially low and are thus unable to pay WII premiums, it may be necessary to consider a separate social aid program rather than try to include all types of workers into WII. In order to maintain a stable social insurance system and to reduce the problem of moral hazard and/or reverse selection in the system, different programs may have to be considered for different groups of workers according to their varying needs.

4. Conclusion

The protection of workers from various risks such as illness, work injury, disability, unemployment, and retirement, without deterioration of work incentives, and thus ensuring improved welfare and productivity of workers are at the core of the philosophy of productive welfare. Hence, it seems evident that the extension of the coverage of EIS and WII will improve workplace safety and productivity of small firms as well as the welfare of workers

Every worker faces the risk of being injured or unemployed. In this sense, the WII and EIS are required to play an important role for the economic stability of employees. The WII and EIS have extended their scope of application since their introduction in order to strengthen their roles as a social safety net and thus reduce the potential hazards of workers throughout their lifetime.

The WII and EIS have actually extended their application to include workers of small firms with less than 5 employees in 2000 and 1998, respectively. However, despite the extension of WII and EIS application, there remain a considerable number of contingent workers who find it difficult to be covered by the existing insurance programs.

The remaining issues that need to be addressed are the following. First, for those who are legally ensured for WII and EIS coverage but are actually uninsured, some policy measures that help to raise the participation rate should be implemented. Second, for those who are currently legally uninsured, the WII and EIS should extend their scope of application in order to cover workers who work on daily basis or whose employment arrangements are not typical, particularly daily workers. For this, it is vital to keep a good record of workers concerning employment. Another thing that needs to be addressed in the near future is whether we should protect those workers within the framework of the WII and EIS or whether we should design a new system appropriate for them.

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