

Chapter 4. Policy solutions for a broader and fairer safety net in Korea

This chapter discusses various policy solutions Korea can implement towards achieving more complete social protection coverage and better labour market outcomes. Drawing from the experiences of other OECD countries, Korea has managed to put in place an effective legislative framework with a strong focus on activation and employment. Nevertheless, various steps can be taken to broaden and improve Korea's existing social protection measures. First, Korea can achieve considerable improvements through more rigorous enforcement of current policies and legislation. Second, Korea can enhance each of its existing social protection measures to further narrow down their remaining coverage gaps. Third, Korea should urgently introduce more far-reaching changes to support workers encountering temporary work incapacity due to poor health.

The current progress on social protection

Korea has taken remarkable initiative over the past 25 years to develop and expand a welfare state with sound activation features oriented towards positive labour market outcomes. Since 1995, Korea's Employment Insurance (EI) measure has provided insurance-based support for millions of workers encountering involuntary unemployment. Since 2000, the Basic Livelihood Security Programme (BLSP) has guaranteed a minimum floor of income support for Korea's poorest families. Since 2008-09, the Employment Success Package Programme (ESPP) and Earned Income Tax Credit (EITC) provide additional employment support and in-work benefits for vulnerable participants and struggling households.

Nevertheless, important debates linger around the considerable blind spots that remain around coverage under each of these social protection measures – which groups to encompass and who to exclude as the system continues to mature. Blind spots are the combined result of eligibility and entitlement rules that explicitly exclude some workers (*institutional* blind spots) and a labour market that either hinders or neglects others who, by all rights, should be covered (*effective* blind spots). The result is that many Koreans who lose or change their jobs do not receive any income or employment support. This is problematic for at least the following reasons:

- *First*, it creates considerable discrepancies between jobseekers who are covered and those who are not, with the latter struggling more to re-enter work or more readily settling for a poor-quality, low-paid job or for work in the informal sector.
- *Second*, it poses a considerable risk for many jobseekers of poverty, social exclusion and disengagement from the labour market. Especially in an economic downturn effective income support acts as an important economic stabiliser.
- *Third*, a lack of effective employment support for often disadvantaged workers leads to poorer matching in the labour market and thus poorer job outcomes overall and, consequently, less inclusive economic growth.

Policy makers in Korea are aware of these measures' weaknesses and the imperfect outcomes coverage gaps produce. Successive governments have introduced incremental policy reforms to gradually broaden out the coverage of social protection measures and enhance the support they deliver. Gradual reform of this kind is very common in social and labour market policy-making given how any new change can distort finely-tuned institutions and behavioural norms in unpredictable ways (and often be tricky to reverse after the policy is implemented). Irrespective of how rapidly any reform might take place in Korea, the changes introduced over the past ten years have had too little impact: while they have succeeded in broadening coverage at the margins, they have largely failed to capture the bulkiest groups of disadvantaged workers. Labour market dualities present ongoing problems, in particular, consistently demonstrating their resistance to change.

Korea is thus at a crossroads. Public spending on social and labour market programmes is still relatively low in Korea – only half the level of the OECD average, relative to GDP, and just one-third of that in most European countries. Providing better services for more people cannot be achieved without additional investments which in turn will require some increase in taxes or social contributions. The government should decide how much more it is willing to spend in order to provide better services and realise its social and labour market objectives.

Bolder decisions are necessary to finally tackle Korea's ongoing coverage gaps; to ensure that considerably more people can benefit from statutory income and employment support; and to promote high-quality employment for more workers. Successful policy action will require at least three key elements:

1. Considerably stricter and more consistent enforcement of legislation already in place to ensure affiliation to social insurance measures for all workers who ought to be covered.
2. Continuation on the current reform path of expanding social protection measures to those not currently covered and increasing support for those in need.
3. Introducing a degree of statutory support for workers experiencing health problems and temporary work incapacity – an issue whose neglect currently leads to much strife among individuals and weakens labour market outcomes.

Enforcing existing legislation

Korea's four main social protection programmes – EI, ESPP, BLSP and EITC – entail strong support mechanisms that neatly complement one another. Sequential reforms have continuously improved each measure. Moreover, each measure has proven effective for those it covers at delivering income support, improving jobseeker's employability, encouraging activation and making work more rewarding.

All four measures, nevertheless, suffer the same drawback in terms of coverage levels that fall far below the potential in each case. While policy-level reforms could improve the situation somewhat, potentially more could be achieved by simply enforcing each measure's existing rules more strictly and consistently.

Stricter implementation could especially benefit EI. Recent estimates from Korea's *Economically Active Population Survey* reveal that as many as 4.0 million workers were not enrolled in EI during 2016 out of a total group of 16.6 million salaried workers eligible for the measure. These estimates imply that EI's effective blind spot encompasses almost a quarter of all eligible workers, especially workers employed in micro-businesses, signifying a significant shortcoming on the implementation side.

Much of this discrepancy inevitably arises from illicit practices among employers (sometimes in collusion with workers) who evade their formal obligation to register workers for social insurance and pay the necessary contributions. Enforcement of EI obligations currently happens relatively rarely: Korea's labour inspectorate lacks the resources necessary to monitor EI registration systematically while penalties for wrongdoers are far too low to be a real deterrent (currently just KRW 300 000 per worker under EI's arbitration process). Meanwhile, insufficient use is currently made of existing taxation and social insurance records whose databases could be linked together to pinpoint irregularities – after all, most of those people not insured by EI are covered by IACI and many of them are registered for tax purposes.

Enforcing EI legislation will require political will and leadership. Employers that renege on social insurance obligations could be treated with less discretion; be monitored with more scrutiny; and fined with higher penalties. A broader mandate for Korea's labour inspectorate to monitor compliance could be part of a possible solution. Retrospective payment of EI contributions by way of EI's existing arbitration process could also play a stronger role alongside stronger sanctions for offenders. In turn, more could be done to

raise workers' awareness of their labour rights and encourage more to secure affiliation in the first place or, failing that, complete the arbitration procedure upon dismissal. The short lifespan of many businesses in Korea cannot be a reason for inaction. In most European countries, every single day of employment has to be reported to the corresponding insurance authority. Having a single, unified registration in place for all social insurance branches would simplify matters and generate more consistent compliance with existing rules.

More can also be done to raise the effective coverage of Korea's other main social protection measures, including by more systematic, proactive outreach and by making claims and participation sufficiently attractive to ensure high take-up on a voluntary basis.

- To raise EITC participation, tax authorities could play a more proactive role in raising awareness by reaching out to low-income workers who should be entitled. Existing tax records should contain all of the information needed to identify such individuals and families.
- To raise BLSP participation, a targeted outreach programme could also increase claims and take-up to boost not only households' income but also the employment outcomes of potential (conditional) recipients. Take-up of last-resort income support measures like BLSP is stigmatised in all OECD countries and therefore often lower than it should be.
- To raise ESPP participation, better incentives could be provided for Job Centres and private services suppliers to reaching out to potential clients and those in need of employability support. The financial support provided to participants themselves could also be increased.

Improving existing social protection measures

Legislative changes will be needed to boost social protection coverage and participation under Korea's main social protection measures. Coordinated reforms to EI, BLSP, ESPP and EITC should ensure a robust safety net that supports all jobseekers, workers and low-income households in need.

Employment insurance for the entire workforce

While much of EI's low coverage can be addressed through stronger enforcement, its institutional blind spots will require new entitlement conditions for some groups of the workforce. Since 2012, self-employed persons in Korea have had the opportunity to opt in for EI coverage on a voluntary basis. In practice, however, extremely few of them do. This may be unsatisfactory and potentially unsustainable in view of the very large number of self-employed persons in Korea who (together with contributing family workers) make up one quarter of total employment.

The blurring of boundaries between employment and self-employment – in the form of “dependent self-employment” – has led many countries to question their social protection measures and explore ways of extending unemployment insurance to all or most self-employed people. Like Korea, several OECD countries including Germany have introduced voluntary affiliation for self-employed persons over the past few years. Greece and Slovenia have recently introduced mandatory affiliation, as has Portugal for employers and for most dependent self-employed persons.

Policy makers in Korea should also consider mandatory EI affiliation for some groups of self-employed persons, building upon the existing rules for voluntary affiliation. Such a policy could ensure that effective employment services benefit a much bigger base within the workforce to help previously self-employed jobseekers move into better jobs (whether salaried or non-salaried). Such a policy would manage the risk of unemployment more broadly within society, thus insuring against it more effectively. Such a measure could also be further expanded to include contributing family workers plus workers in situations of dependent self-employment.

Policy makers in Korea should also explore ways of relaxing EI's entitlement conditions, which currently disqualify all jobseekers who left their jobs on a voluntary basis. Most OECD countries penalise such jobseekers through benefit sanctions or suspensions lasting for a few weeks or up to several months instead of disqualifying them from EI entitlements altogether. A similar approach could be implemented gradually under EI also in Korea, possibly starting with a somewhat severe penalty that policy makers can then relax in steps once the relevant implementation channels are established and any undesired behavioural effects (including moral hazards) are contained.

Restoring the link between earnings and EI benefits

The way income support is structured under EI has gradually changed over time. When EI was first introduced in 1995, it generally replaced 50% of beneficiaries' usual earnings between benefit floor and ceiling amounts set at roughly 20% and 80% of Korea's average monthly wage. By 2017, the floor and ceiling amounts have converged so much that EI is in actual fact a flat-rate benefit of KRW 46 584-50 000 per day. Moreover, Korea's EI floor has become the highest unemployment benefit minimum in the entire OECD which might be an unsustainable situation. From January 2018, both amounts will be pushed up to KRW 54 216 per day by Korea's rising minimum wage.

This gradual shift over time has effectively eroded the original link between EI benefits and jobseekers' regular earnings. Low and high earners may pay different EI premiums although they ultimately receive virtually the same amount of income support under EI. Given such a significant policy drift over time, policy makers might benefit from going back to the drawing board to decide what type of structure would be best for EI benefits:

- Whether delivered as a genuine flat-rate benefit for all beneficiaries regardless of their previous earnings and, if so, at what value.
- Whether delivered as a genuinely variable-rate benefit, the value of which is bound within a broader range and linked more closely to beneficiaries' previous earnings or insurance contributions.

Whatever the ultimate choice, the EI benefit floor and ceiling amounts should entail an adjustment mechanism that preserves its basic structure more coherently over time. This may require pegging *both* the benefit floor and ceiling amounts to the minimum wage or an alternative variable like the national average wage. Any such adjustment in the benefit structure might also require the premium structure and levels to be adjusted, accordingly.

EI also has two specific features that are ineffective and carry large deadweight losses: the *Social Insurance Subsidy Programme* and the *Early Re-employment Allowance*.

The *Duru Nuri Social Insurance Subsidy Programme* subsidises part of the EI premium for low-paid workers and their employers in enterprises with fewer than 10 workers to help ensure compliance with EI affiliation rules. This incentive scheme could find a

valuable complement in tighter EI enforcement if financial support could be coupled with stricter penalties for those who continuously fail to comply by their EI obligations. The scheme could also reduce its current large deadweight costs if its support was gradually phased-out for individual workers after a given period of time.

EI's *Early Re-employment Allowance* offers a lump-sum payment to jobseekers finding work before they exhaust their EI claim period. The measure carries large deadweight costs, especially in view of Korea's relatively short average duration of unemployment of only three months (in 2016). It would be more effective to abolish this allowance altogether and invest the funds in something else, such as improving EI compliance.

Social assistance for people in need

BLSP is Korea's last resort social assistance payment and the primary source of income support for jobseekers after EI. Recent reforms have done away with many of BLSP's previous weaknesses. The different payments provided under BLSP are now better customised to individual needs and work incentives have improved as the various payments are no longer phased out simultaneously. The reform has also increased the number of claims, especially for the payment that supports young people's education.

There are still relatively few claims, however, from individuals classified as *conditional* recipients who are capable of working and gain activation support through either BLSP's *Self-Reliance Programme* or a referral to ESPP. Ways should be sought to bring bigger numbers of low-income jobseekers capable of working who receive no other statutory income support under BLSP and into these activation programmes. Participation could be made more accessible for low-income jobless families while at the same time becoming more conditional on labour market participation and job search in harmony with the behavioural requirements applied to EI participants.

Further easing and, eventually, phasing out BLSP's "family support obligation" would help to increase the number of BLSP recipients and spread its benefits more fairly (even though such change would probably affect older claimants more than those of working age). The strictly applied family support obligation implies that the income of parents and children of any BLSP applicant is taken into account in determining BLSP entitlement, irrespective of whether the applicant receives any support from close relatives.

Many BLSP recipients encounter a range of labour market barriers, ranging from physical and mental health problems to broader social and skills deficiencies or financial insolvency. Korea has made important steps towards addressing such multiple obstacles by co-locating various support and counselling services under one roof within the Job Centres. Such services could be improved further by bringing them under the responsibility of a single provider offering a truly integrated service. The current dispatching of social workers from local government authorities, for example, offers an imperfect solution since end-users are ultimately made to identify and seek out the right services by themselves. This does not guarantee that multiple problems are systematically identified and addressed, back-to-back with other employment barriers.

Korean-style unemployment assistance

There was much debate in Korea about expanding ESPP into a broader "Korean-style" unemployment assistance measure. This might offer a logical step insofar as ESPP seeks to fill the gap between EI and BLSP by targeting jobseekers not eligible for either of the two programmes. An expanded ESPP could potentially bridge a significant gap in

Korea's social protection system. One tangible proposal recommended to policy makers a few years ago was to broaden ESPP's eligibility criteria by alleviating the low-income threshold in such a way as to double the current number of participants. The proposal would have raised the income support component of ESPP to around 20% of Korea's average wage, payable on a monthly basis for periods of up to 12 months.

Under its latest five-year plan, the current government has announced it will move in this direction, earmarking new funding for a higher participation grant during stage 3 of ESPP, initially only for youth but from 2020 on encompassing low-income jobseekers as well. The revised payment will amount to KRW 300 000 per month for up to three months in 2018 and KRW 500 000 per month for up to six months from 2019.

These changes offer a positive policy direction for ESPP, although they could be disappointingly small in terms of fulfilling ESPP's full potential. ESPP has shown to deliver strong employment outcomes for all types of participants, especially among low-income households. Data reveal that outcomes have improved over time for both the programme's reach and for participants' immediate and medium-term employment outcomes. Such results should prompt policy makers to broaden ESPP access further.

The proposed benefit increase is not particularly high, though the amount is roughly comparable to unemployment assistance benefits in other OECD countries. Nevertheless, the increased payment appears very low relative to the EI benefit floor of 90% of the minimum wage (which will rise to KRW 60 240 per day from January 2018) – amounting to a minimum benefit of KRW 1.6 million per month in 2018. Such a large discrepancy between these benefit amounts may be difficult to justify under a two-tier system.

International comparisons offer limited lessons regarding how far ESPP coverage could or should be expanded. The purpose and target groups of unemployment assistance measures can differ massively from country to country. In view of the limited income support alternatives jobseekers in Korea have, ESPP should be accessible for all low-income groups – perhaps even all those earning below the median wage – and encompass (as it currently does) new labour market entrants, those who have exhausted their EI entitlement and those who have never been entitled to any public income support (irrespective of their previous employment type and status).

However large the expansion of ESPP might be, there is no reason to rebrand it as an unemployment assistance measure. ESPP's current design nicely reflects the central aims unemployment assistance measures have in common anyway, delivering effective employability support and employment services to people in need of them.

Managing the expansion of ESPP

The rapid expansion of ESPP over the past five years was a challenge to administer. In particular, it proved difficult to increase the number of ESPP counsellors sufficiently enough, as a result of which the average caseload per counsellor increased to 120 customers (and 100 in the public Job Centres). Such caseloads could endanger ESPP's consistently strong employment outcomes. The average caseload per counsellor should be changed back nearer to what it used to be when introduced to ensure quality standards, though this might not be possible under a rapidly increasing ESPP caseload.

To maintain and further improve ESPP results, policy makers have already taken steps to ensure the quality of services delivered by the many (often new) private employment service providers. Outsourcing and subcontracting ESPP services in this way has generally been a success. Nevertheless, it will be important that only effective private

providers delivering the highest-quality services stay in business – which may come as a key challenge at a time of expanding the programme’s capacity. A stronger quality assurance framework could be implemented – potentially following the example of Australia’s start rating system – and the contracts of underperforming private providers discontinued more decisively and perhaps more frequently. In exchange, it will be necessary to offer contracts lasting longer than the current one-year timeframe to encourage private providers to develop more specialised competencies.

Improving performance measurement should also be a priority for public Job Centres. First, their performance could be audited more systematically and steps taken to improve practices among under-performing ones – perhaps including through more transparent sharing of performance data, as other countries have done. Second, some variation could be introduced into the way Job Centres are currently funded and to the sorts of performance targets they have to take better account of the differences between different types of jobseekers and how difficult some might be to manage than others. Such variable funding might equally benefit private employment service providers.

Moving forward, the chosen split of responsibilities between private and public providers and the efficiency of the current choice could also be reconsidered. Publicly-run Job Centres currently serve all low-income and disadvantaged clients, while all others plus youth are dealt with by private employment service providers. Evidence from other countries suggests that there is no real justification for keeping the provision of services for the most disadvantaged jobseekers under public control – a robust legal framework should enable private providers to deliver equally good outcomes. Further expansion of ESPP among low-income jobseekers could thus in large part be stemmed by private providers. Australia and the United Kingdom offer a useful benchmark for policy makers in Korea to consider: both countries outsource and subcontract employment service provision for all clients, irrespective of their level of disadvantage, while concentrating public Job Centres’ efforts on monitoring both employment outcomes among jobseekers and the quality of services among providers.

Addressing in-work poverty

In-work poverty represents a key problem for Korea, where roughly one in every six workers earns the minimum wage or lower.

Korea currently addresses in-work poverty through EITC – an in-work benefit measure that provides tax breaks for low-income families and, since recently, single-member households and, very recently, self-employed individuals. The number of EITC recipients is currently about 1.4 million, which represents only around one-fifth of the 7 million individuals with low earnings in Korea. Despite continuous expansion, EITC thus remains a relatively marginal programme affecting too few households.

EITC provides a relatively low level of income support, currently amounting to only around 2% of the average wage per year for an average beneficiary. EITC was modelled after a similar programme in the United States. One major feature EITC adopted is to initially increase the value of its support in line with working hours before gradually phasing it out at higher income levels (though the phase out happens at much lower levels of incomes in Korea than it does under the United States’ measure). What limited evidence is available suggests that EITC improves incomes and raises employment in the income range where the benefit increases.

To tackle in-work poverty more decisively, additional steps will be necessary. These could include an expansion of EITC through a later and longer phase-out and, possibly, less stringent asset tests in line with BLSP, to increase the number of households eligible while maximising their work incentives. EITC could also increase the value of the tax credit it provides.

Korea's current government is strongly advocating for further policy changes that will improve conditions for low-earners. One such initiative is to increase the statutory minimum wage, from its current KRW 51 760 per day to a target of KRW 80 000 per day by 2020 – setting in place a nominal increase of 15.6% per year over the next three years. This will bring a rapid pay rise to many formal low-wage workers – as 2020's minimum wage converges close to 2016's average wage – entailing likely knock-on effects for informal low-wage workers. All the same, a minimum wage increase of such magnitude will have larger effects on the economy and on social protection measures further down the line – not the least because the EI floor is currently pegged explicitly to the minimum wage. It will therefore be important to carefully evaluate the wider impacts of the planned minimum wage increase and its interactions with other labour market institutions.

BLSP could also play a stronger role around in-work poverty. In most OECD countries, it is common for social assistance benefits to support workers and self-employed persons with low incomes. This is effectively not the case in Korea, given that BLSP has a considerably low number of recipients who are working (only 7% of the caseload are in the labour force and most of them are unemployed) – despite the fact that reforms made in 2015 made it easier for families with earnings at or below the minimum wage to qualify for BLSP support. More could be done to promote BLSP among such groups, while ensuring and enforcing a strong activation approach.

Some OECD countries provide large in-work benefits – often related to family status, such as Ireland's Family Income Supplement – or family benefits capable of addressing in-work poverty issues. If a much expanded EITC, the promotion of BLSP top-ups for working families and a higher minimum wage fail to sufficiently address Korea's issues around in-work poverty, such approach to help poor families might also be needed in Korea. Korea's Child Tax Credit falls in this category but again, beneficiary numbers and the actual credit provided (KRW 500 000 per child per year) are small.

Introducing a much-needed safety net for sick workers

Workers encountering acute or chronic health problems and resulting temporary work incapacity receive very little attention under Korea's current social protection policies. Most OECD countries have measures in place to provide income support for workers during a period of ill-health. Such measures virtually always put mechanisms in place to ensure that workers' sickness does not result in their job loss and that all those who regain their work capacity receive help in making a timely return to work – a process known as “rehabilitation”. Korea currently has neither a statutory income support measure in place to address the needs of sick workers, nor any given strategy to ensure their rehabilitation.

Despite the veritable progress Korea has made in recent decades around developing a contemporary welfare state, the apparent policy vacuum in this area represents its biggest remaining gap. Inaction on workers' rehabilitation simultaneously leads to significant wasted opportunities for the labour market and the economy, as workers recovering from sickness gain no support for re-entering the labour market – prolonging unemployment for most while leading others to disengage from economic activity altogether.

Some collective agreements in Korea may contain allowances for paid sick leave and define protocols for workers' subsequent rehabilitation. Nevertheless, most workers encountering temporary work incapacity in Korea are treated according to their employer's discretion and many are promptly dismissed.

Two relevant regulations within the framework of EI touch upon this issue, though neither goes nearly far enough:

- When *jobseekers* falls ill while receiving EI benefits, they may seek relief from EI's behavioural conditions (availability and active search for work) until they regain their health or, alternatively, until the end of the regular maximum EI entitlement period (lasting between 90 and 240 days, in any case). In 2015, 8 250 people benefited from this rule.
- Alternatively, when *workers* fall ill and relinquish their job as a result, EI allows them to postpone the start of their benefit claim for a period of up to four years or until they are well enough to look for work (ordinary jobseekers may also choose to postpone the start of their EI claim period but only for up to one year). Under such circumstances, entitlement to support necessitates a worker to sever their employment relationship – which can significantly hamper their rehabilitation. Such workers gain no income support during the time of their actual sickness but only once they are well enough to abide by EI's behavioural rules and begin their formal EI claim period. Those experiencing sickness for longer than four years effectively lose their EI entitlement altogether. In 2013, 9 810 people received EI benefits following a delay of this sort.

Among EI's roughly 1.3 million beneficiaries per year, fewer than 20 000 generally benefit from either of the two regulations. On the other hand, sick workers who are not entitled to EI fail to benefit even from these very limited options.

Korea's limited statutory support for workers undergoing sickness is particularly problematic for workers' rehabilitation. Research unequivocally shows that workers recovering from sickness find it significantly easier to return to the *own* job or stay with the *same* employer than to gain alternative work. Social protection measures should therefore ensure every effort is made to help sick people return quickly to work and to prevent long periods of inactivity. Otherwise, many such workers – especially those suffering from chronic illness – can easily enter a path into unstable employment and, eventually, permanent labour market exit.

Typically, OECD countries have a dual system in place to ensure both income support and rehabilitation for workers undergoing sickness:

- Most OECD countries legislate for employers to face a liability for their workers' absences in case of sickness over a given period of time. Employers' liability typically obliges them to continue paying all or part of their absent worker's wage during a stated period – the length of which varies from several days in some countries to a matter of years in others (roughly three weeks or a month is the mode in most OECD countries). In most countries workers cannot be dismissed during this period and in many countries employers and workers have specified obligations to facilitate rehabilitation and return to work.
- Most OECD countries complement statutory employers' liability with statutory cash sickness benefit measures. Entitlement for such benefits commonly begins immediately after the employers' liability period expires. Cash sickness benefits

are usually insurance-based and replace a fraction of the workers' usual earnings (typically 50-80%) over a longer period of time. The maximum duration of claims may differ among countries but tends to last for around 6-12 months. Benefits of this kind always entail assertive rehabilitation strategies, combining a number of policy tools to ensure that workers transition back into their jobs (or to another opportunity) as soon as they are able.

Countries administer cash sickness benefit measures in various different ways. Virtually all such measures, however, are insurance-based and financed from employer and employee contributions. Most either form part of a broader health insurance measure (like in Japan); part of a broader employment insurance measure (like in Canada); or exist as stand-alone social insurance measures, operating their own insurance funds.

For Korea, cash sickness benefits could emerge directly from a modified EI measure, making use of the existing EI infrastructure to manage benefit administration and premium collection. Workers in Korea would thus gain income support over a given duration of time when sickness prevented them from working. Upon recovery, those who regained their full work capacity could return to their original jobs without ever having had to sever their employment relationship. Workers regaining only part of their work capacity could undertake an alternative role for the same employer or seek out alternative opportunities through employment services specifically tailored towards rehabilitation.

How much such benefits could be worth and how long they would last are matters for political deliberation. Cash sickness benefits in Canada form part of the country's broader EI measure, delivering income support equivalent to unemployment benefits in terms of both their value and their maximum duration. Canada's example could be a worthwhile starting point for Korea for cash sickness benefits under an expanded EI measure.

Complementing social sickness insurance with legislation on employers' liability for their workers' sickness would be advantageous. It would enable workers not entitled to social insurance to retain their jobs, nevertheless, and benefit from a period of income support – if at least for a certain period. Such protection could encompass regular and non-regular workers alike. Finally, a degree of employers' liability would take some of the cost burden off from statutory sickness insurance, enabling them to charge smaller premiums. This might offer a more equitable solution for Korea – where individual workers currently take on the entire burden of their sickness.

Any effective cash sickness benefit measure requires a robust rehabilitation strategy and return-to-work focus – the counterparts of a strong activation strategy under any unemployment benefit measure. Any such new measure in Korea should therefore ensure it has rigorous channels in place to assess and regularly reassess beneficiaries' work capacity; that it has tools in place to help them return to work (including on a gradual basis, if necessary); and that it puts protocols in place to define the various rights and obligations sick workers, their employers, their doctors and the insurance authorities should have under different circumstances.

The combined effect of the proposed reforms

The reform proposals outlined in this report will help Korea to: i) reach more individuals within the existing support framework, closing the large blind spots that there currently are; ii) achieve fairer outcomes across the board – especially for workers who encounter sickness; and iii) realise higher employment and higher incomes for the poorest and most disadvantaged families.

Figure 4.1 illustrates social protection coverage in Korea under the current status quo (Panel A), comparing it with a stylised illustration of what a reformed social protection system could look like, based on this report’s recommendations (Panel B). The figure indicates situations under which coverage conditions might involve means-testing (indicated by an “M”), voluntary affiliation (indicated by a “V”) and additional employers’ liability (indicated by an “L”).

Broadly speaking, Korea’s social protection system currently provides sound support in case of unemployment for some but not for others; virtually no statutory support in case of sickness; and relatively comprehensive support against poverty regarding coverage (though not necessarily in terms of its value) (Figure 4.1, Panel A):

- EI benefits cover only just over half of the workforce as they exclude several categories of non-regular workers; contributing family workers; jobseekers in voluntary unemployment and jobseekers with insufficient contributions; and effectively fail to cover most self-employed persons and many workers working in micro-businesses. ESPP provides a degree of support for some of those groups, including low-income jobseekers ineligible for EI; those who have exhausted their EI entitlement; and new labour market entrants.
- Income support for workers and jobseekers experiencing sickness is non-existent. Under limited circumstances, support can continue for those who become sick when they are already claiming EI benefits. All other sick employed individuals and sick jobseekers not entitled to EI gain no income and return-to-work support.
- BLSP benefits tackling out-of-work poverty cover all poor families, pending a means test, but exclude those who have potential family support (whether or not such support is actually provided) under Korea’s unique family support obligation rules. EITC benefits tackling in-work poverty cover virtually all low-wage salaried employees and self-employed individuals, even though effective take-up is relatively low, but with only indirect support for contributing family workers.

The recommendations outlined in this report could be applied to close virtually all of the remaining coverage gaps within Korea’s social protection system (Figure 4.1, Panel B).

- Much of the additional coverage would result from an expanded EI measure. Several categories of workers currently excluded from EI benefits could come under the measure’s protection if affiliation became mandatory for self-employed persons; if voluntary affiliation encompassed contributing family workers; and if jobseekers in voluntarily unemployment were not disqualified from EI altogether but penalised, instead, through a benefit sanction of some duration.
- Millions of workers every year who experience sickness would also gain income support if EI (or another social insurance measure altogether) could provide cash sickness benefits. This new protection could cover the entire workforce and be complemented for salaried workers through employers’ liability. BLSP could provide a secondary tier of (means-tested) income support for those ineligible for cash sickness benefits or who have exhausted their entitlement.
- Finally, the remaining coverage gaps for poor households could be addressed via better support opportunities for contributing family workers under EITC and by gradually phasing out of BLSP’s family support obligation alongside efforts to improve the actual take-up of EITC and BLSP.

Figure 4.1. Stylised social protection coverage in Korea – status quo and potential**A. Social protection coverage of the working-age population in Korea today**

		Social protection in case of unemployment	Social protection for work absence due to sickness	Social protection against poverty
Employed	Regular salaried employees			M
	Non-regular salaried employees	(only some*)		M
	Self-employed persons	V		M
	Contributing family workers			
Unemployed	With adequate UI contributions			M
	- Of which are voluntarily unemployed	(disqualification)		M
	With inadequate/exhausted UI entitlement	M^		M
	- Of which have potential family support	M^		
	New labour market entrants	M^		M

B. Social protection coverage of the working-age population in Korea after implementation of all reforms

		Social protection in case of unemployment	Social protection for work absence due to sickness	Social protection against poverty
Employed	Regular salaried employees		L	M
	Non-regular salaried employees		L	M
	Self-employed persons			M
	Contributing family workers	V	V	M
Unemployed	With adequate UI contributions			M
	- Of which are voluntarily unemployed	(with sanction)		M
	With inadequate/exhausted UI entitlement	M^	M	M
	- Of which have potential family support	M^	M	M
	New labour market entrants	M^	M	M

Legend:

- Employment insurance (EI)
- Employment Success Package Programme (ESPP)
- Basic Livelihood Support Payment (BLSP)
- Earned Income Tax Credit (EITC)

“M” indicates coverage is conditional on a means test. “V” indicates coverage is available but only on a voluntary basis. “L” indicates employers’ liability protections are also in place.

Note: Information assumes local nationality status (i.e. excludes non-national workers). *: Some non-regular salaried workers are excluded from EI coverage, such as dependent self-employed workers, seasonal workers and domestic workers, among others. ^: Two broad groups are exempted from a means test under ESPP – certain “vulnerable groups” under type-1 programmes and jobseekers aged 18-34 under type-2 programmes.

Source: Authors’ own compilation.

The combined effect of such changes would be a more comprehensive social protection system with significantly broadened coverage. A large part of income support would be means-tested, except for a temporary period of unemployment and sickness that would be covered through insurance benefits. All participants would be subjected to a robust activation and rehabilitation framework.

Conclusion

Korea faces a challenging task to close the many blind spots in the coverage of its social protection measures while delivering income and employment support to a greater number of vulnerable jobseekers and low-income workers. In a labour market replete with non-regular and informal work arrangements, self-employment and a dominance of micro-businesses, the path to success is not straightforward.

Korea's incredible economic development now gives policy makers the fiscal space to upgrade existing social protection measures and expand the system still further. The opportunity is also there for streamlining the system, as a whole, and finally addressing its remaining enforcement gaps. Any further reform will have a stronger impact if policy makers further address Korea's widespread labour market dualities and eliminate the incentives for employers to hire workers on a non-regular basis.

The characteristics of Korea's labour market place it in a somewhat unique position. Providing adequate income and employment support may be more difficult but, potentially, enhanced social protection measures will bring about a brighter situation for workers and their families. It is unclear what shape Korea's labour market will take in the future but labour markets in most OECD countries are changing, with developments characterised by a growth in new forms of non-regular work (such as "gig economy" or "platform-based" work) often similar in nature to self-employment. Addressing Korea's current social protection deficits can therefore go a long way towards preparing its institutions for the future. Many countries are currently struggling to provide social protection coverage for the newly-arising forms of work, putting social protection reform squarely back on the agenda. Not too long from now, other OECD countries might well turn to Korea to learn how to manage a more fragmented labour market. When that time comes, Korea's institutions should show that they are fit for purpose.



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