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# **Employment Policy & Employment Insurance System, Korea**

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# **I. Economic Development & Employment Policy**

# 1. Korea's Economic Development & Employment

- **Beginning Stage in the 1960s and 1970s**
  - Economy devastated, after *Korean War (1950~1953)*
  - one of the poorest countries in the world

## ◆ **Launching Economic Development Plans, 1962**

- **Goal:** economic growth → employment creation
- **Barriers:** capital shortage and lack of technology
- **Sufficient labor, relatively well-educated but unskilled**
  - semi-employed in rural areas, unemployed in cities
  - problem : lack of employment opportunities, mobilization required

## 2. Employment Policy taken in the 1960s

- Employment policy to support economic growth
  - to mobilize surplus labor, to train basic skills
  - As labor is key factor available for growth in the 1<sup>st</sup> stage
- Employment Security Law enacted in 1961
  - Regional employment centers established in regional governments for basic placement services, mobilization
- Vocational Training Law in 1967
  - To set up systematic criteria for vocational training and qualification

### 3. Heavy/chemical Industrialization: Supply of skilled workers

- As economy grew, target industry changed in the 1970s, from labor-intensive to heavy/chemical industries
- **Massive demand of skilled workers from heavy/chemical & construction industries**
  - TVET became key policy of the government
    - strong policy initiatives & supports required
- ❖ **Social mobilization** : Relatively limited needs for public employment services
  - skilled workers easily found good jobs through schools, training centers, ads, attracting youths to training

## 3-1. Government initiated public training to supply the skilled

- **Founded public vocational training institutes**
  - in many regions (over 20), 1973~80
- Established technical high schools
- Special institute for training instructors established in 1971
- ❖ **Procured funds from ADB & IBRD loans**
  - ➔ Exceptional measures for SW-projects showing higher priority on TVET of the Government

## 3-2. Mandatory in-plant training enforced in 1974

- **Obligation of big firms to train youths within their plants**
  - Covering manufacturing, construction & some service industries
  - To firms with 300 employees → later extended to 150
- **Training levies imposed on non-compliant firms**
  - VT fund accumulated
  - \* **levy rates different by firms size**
  - With this fund to finance various training programs & SW development
- **Active participation roles of big firms to train or to pay levies**
  - later social consensus basis of ALMP premium of EI in 1995

## 4. Employment Instability in early 1990s

- Change in industrial structure, incurring **restructuring & labor shortage in SMEs simultaneously → increasing instability in the labor market**
  - 1) Labor shortage in manufacturing industries, especially small & medium firms and 3D jobs (dirty, difficult, dangerous)
  - 2) Restructuring : firms' downsizing, subcontracting, temporary jobs and turnover increased
- **Turning point to change employment policy for establishing fundamental system in early 1990s, with social consensus**
  - to increase stability in labor market & competitiveness of workers

## 5. Establishing Legal Framework to integrate employment policies

- **Integrating legal systems and resources on the basis of common principles and implementation system**
  - **Comprehensive labor market policies, linking several laws**  
(Framework Law on Employment Policy, Employment Security Law, Vocational Competency Development Law, Employment Insurance Law, etc.)
- **Securing legal basis, program & fund for ALMP and employment service together**
- **Based on social consensus to introduce Employment Insurance System in early 1990s**

## 5-1. Introducing Employment Insurance (EI) and incorporating ALMPs into EI , 1995

- ALMPs : Employment Stability, Competencies Development, Unemployment Benefits and Employment Service

being incorporated and connected, within the framework of Employment Insurance System

- Establishing integrated legal framework for ALMPs → supporting strong implementation of the Gov't
- \* Still functioning as the backbone of Korea's labor market policy system

## 6. Lifelong Competencies Development through EI in 1990s

- **Innovations from traditional vocational training system**
  - 1) Emphasis on incumbent employees, rather than unemployed
  - 2) Continuous training through career, rather than one-off training
  - 3) Upgrading & retraining during working life, rather than initial training on entrance
  - 4) **Covering all workers (w/b collars) at all levels**
- **Strong activation programs through training in EI**
- **Core of Korea's EI system**

# Transition in the 1990s ( EI System )

## Before EI

- **Mandatory in-plant training**
- **Non-compliers to pay training levies**
- **Selected industries: manufacturing, construction, electricity, transportation, etc.**
- **Firms with over-300 employees**

*Aim: To supply skilled workers for rapid economic development to meet quantitative demand from industries*

## After EI

- **ALMPs incorporated in EI: Employment Stability, Competencies Development, Unemployment Benefits and Employment Service**
- **Mandatory EI premium → subsidy when training**  
\*premium: 0.25%~0.85% of total wage, depending on firm size
- **Expanded to all industries**
- **Applied to all firms through gradual expansion covering all employees**
- **Continuous competencies development introducing life-long learning**
- ***Safety net for the unemployed***

## **II. Employment Insurance of Korea**

| Item   | NP (national pension)   | HI (health insurance)   | EI (employment insurance)                                  | WCI (workers' compensation insurance)                                   |
|--|---|---|--|---|
| <b>Year of enforcement</b>                           | ▪ 1988  | ▪ 1977(long-term care insurance for the aged additionally enforced as of July 1, 2008)          | ▪ 1995   | ▪ 1964  |
| <b>Insurance type</b>                                | ▪ Income security<br>▪ Long-term insurance                              | ▪ Medical security<br>▪ Short-term insurance  | ▪ Employment security<br>▪ Mid-term insurance              | ▪ Workers' compensation<br>▪ Short-term insurance                       |
| <b>Payment conditions</b>                            | ▪ Cash benefits<br>▪ Income-indexed                                     | ▪ Cash benefits<br>▪ Uniformly-paid   | ▪ Cash benefits<br>▪ Income-indexed                        | ▪ Benefits in kind : uniformly paid<br>▪ Cash benefits : income-indexed |
| <b>Funding &amp; management</b>                      | ▪ Adjusted FS (funded system)<br>▪ Integrated management                | ▪ PAYGS (pay-as-you-go system)<br>▪ Dualized management (workplace-based & non-workplace-based) | ▪ Adjusted FS  | ▪ Net PAYGS   |
| <b>Management basis</b>                              | ▪ Individually managed  | ▪ Workplace & household   | ▪ Workplace  | ▪ Workplace   |
| <b>Overall responsibility for premium management</b> | ▪ Minister of the MOHW ☞  | ▪ Minister of the MOHW ☞  | ▪ Minister of the MOEL ☞                                   | ▪ Minister of the MOEL ☞  |
| <b>Eligibility management basis</b>                  | ▪ Integrated management for workplace & non-workplace                   | ▪ Integrated management for workplace & non-workplace   | ▪ Simultaneous management for both workplace & beneficiary | ▪ Simultaneous management for both workplace & beneficiary              |
| <b>Premium billing basis</b>                         | ▪ Billed for each workplace or non-workplace (i.e. individually billed) | ▪ Billed for each workplace or household  | ▪ Billed for workplace                                     | ▪ Billed for workplace  |

# 1. Comparison of Social Insurance, Korea

- **Premium rates(as of 2019)**

|          | <u>NP*</u> | <u>HI</u> | <u>EI</u> | <u>WCI</u> |
|----------|------------|-----------|-----------|------------|
| Total    | 9.0%       | 6.67      | 1.6       | 1.56%      |
| employer | 4.5        | 3.335     | 0.8       | 1.56       |
| employee | 4.5        | 3.335     | 0.8       | -          |

\*There is a cap on NP premium i.e. premium becomes flat above certain income level.

- **Coverage :**
  - NP, HI : applied to all nationals
  - EI, WCI : applied to all firms

## 2. Korea's EI system launched in 1995

- **Comprehensive system to integrate & insure ALMPs**
  - EI providing programs & fund for ALMPs :  
Employment Stability, Competency Development, Unemployment Benefits and Employment Service altogether
- **Establishing Lifelong Competency Development System**
  - Human capital as key element of Korea's competitiveness
    - **Gradual expansion covering all employees & all industries, applied to all firms**
- **Safety net for the unemployed with activation programs**
  - **Completing social security insurance system of Korea**

### 3. Structure of Korean EI Programs(ALMPs)

#### < Initial stage >

- 1) Employment Stability & Employment Services
- 2) Competency Development (Skill Training)
- 3) Unemployment Benefits

#### < Expanded after 2001 >

- 4) Maternity and Parental Leave Benefits

#### < Who is to pay? >

- for 1) & 2), employers only
- for 3) & 4), employers & employees, equally

## 4. Korea's EI premium rates

- Initial EI premium, started at lower rates
  - ALMP premium of firms: 0.3%~0.7% of total wage, depending on firm's size
  - UB premium : 0.3% each
- Present premium rates(as of 2019) :
  - ALMP premium of firms : 0.25, 0.45, 0.65, 0.85%
  - UB premium : 0.8 % each  
(including maternity & parental leaves)

## 4-1. Adjusting rates & coverage for ALMPs

- Premium rates for ALMPs flexibly adjusted as needed

\* Employers(firms) to pay exclusively

|                 | <u>1995</u> | <u>1999</u> | <u>2003</u> | <u>2006~</u> |
|-----------------|-------------|-------------|-------------|--------------|
| firms under 150 | 0.3%        | 0.4%        | 0.25%       | 0.25%        |
| SMEs over 150   | 0.5         | 0.6         | 0.45        | 0.45         |
| firms 150~1000  | 0.7         | 0.8         | 0.65        | 0.65         |
| firms over 1000 | 0.7         | 1.0         | 0.85        | 0.85         |

- Applied to firms initially with 70 employees('95)  
→50('98.1)→all firms('98.10)

## 4-2. Adjusting rates & coverage for unemployment benefits

- Premium rates for unemployment benefits  
(including maternity & parental leaves from 2001)

1995    1999    2003    2011    2013    2019  
0.6% → 1.0% → 0.9% → 1.1% → 1.3% → 1.6%

- Employers & employees to pay half of premium equally
- **Expanded employment insurance coverage gradually:**
  - firms with more than 30 employees → all firms
  - \* 30 employees('97) → 10 → 5 → 1(Oct. '98)

# 5. UB(Unemployment Benefit)

- Level of UB (Replacement rate):
  - 50% of average earnings of last 3 months
- **Duration of UB:** 30~210 days → 90~240 → 120~270 days
- **Qualifying conditions of UB**
  - 1) Employment requirements
    - insured period : 12 months(out of 18 months) → 6 months
  - 2) Waiting period : 14 days → 7 days
  - 3) Register at the PES office and active job search or active participation in the ALMPs
  - 4) To be able to work and be available for work
- **EI disqualifications** : Refusal of job or training offer without good causes

## 5-1. Incentives systems for activation in EI

- **Incentives for Early Reemployment Efforts and Sanctions on inactive Job Search**
  - ▶ **Incentives for active job search**
    - Early Reemployment Allowance
    - Nationwide Job-seeking Allowance, Moving Allowance
  - ▶ **Sanctions on inactive job search**
    - Suspension of UB on refusal of job placement service or training recommendation, etc.
- **Strong incentives for participation in training programs for the unemployed**
  - Upgrading competitiveness and employability of the unemployed
  - Extended Training Allowance, Vocational Training Promotion Allowance

## 6. Maternity and Parental Leave Benefits

### (1) Maternity leave

- Reform in 2001: from 60 days (firm's liability by Labor Standard Law since '53) to **90** days
  - 30 additional benefits to be covered by EI
- for SMES, 90 days fully covered by EI since 2017

### (2) Parental leave

- Full-time or part-time childcare leave up to 1 year, for a parent of child under age 3 (mother or father, but not simultaneously)
- Benefits : gradual increase from fixed amount → 40% of current wage (2011) → 80% for initial 3 months (2017)

## 6-1. Nature of Parental Leave Benefit Reform (maternity & parental leave)

- Political decision in 2001 to protect female workers in line with ILO standard, strongly supported by women's organizations, after long political & social dialogue
  - 1) Extension of the leave duration
  - 2) Funding to be supported by social insurance (EI)
- Integrating maternity & parental leave into UB Funds,
  - thus insurance premium borne by both employer and employees, securing sufficient fund
- EI Legislation Principle of Korea
  - Set-up of a new benefit & qualification regulated by the law
  - while its level (amount & specific details) to be set by sub-law

## <Topic> **Choosing organization type of job centers**

- **Centralized or decentralized?**
  - very important decision for efficient employment service
  - \* hot/long debates between central vs. regional government, often power games
- **Korea: initially decentralized system**
  - Job centers(44 regions) under Regional Gov't in 1964
  - Limited roles, inactive function, regionally different activities
- ➔ **Centralized under the M. of Labor in 1968**  
to secure nationwide quality services

# **III. Upgrading EI & Employment Policies**

# 1. Strengthening employment policies in the 1990s

- **1997~9, Systematic measures to massive unemployment during the Financial Crisis**
  - Expanded employment insurance coverage to the full scale, ALMP, enlarging employment services & job centers
  - Employment Insurance played a core role as a safety net in overcoming massive unemployment
- **Expanded public employment services dramatically**
  - in the number of centers & staffs, and budgets
    - \* job centers: 45('97)→122('99)
  - enlarging scope & quality of services

## 2. Employment policies during the financial crisis

- **Expanded employment insurance coverage :**
  - firms with over-30 employees → all firms
  - \* 30 employees(1997)→ 10→ 5→ 1(Oct.1998)
- **Implemented huge amount of unemployment policy measures(Korean New Deal)**
  - Creating public temporary jobs, training programs with allowances etc.
- **Private job centers & training centers increased**
  - Sub-contracting public programs in specialized fields and attracting customers

### 3. Providing Customized services for individuals

- **Korea's EI. D/B for the insured(13.4 mil. of 2.3 mil firms)**  
managed by public job centers
  - individual career path, transitions, wages
  - benefit recipients, training records
- **To offer customized services to job-seekers, based on his/her own career records**
  - training, benefit, placement service
  - specialized SW developed & provided by experts
- \* The President's strong initiative →resources, programs, staffs expanded greatly
- ❖ **D/B : fundamental data for labor market policy and efficient development of human resources**

## 4. Strengthening protection through upgrading employability

- **Upgrading job center → 'jobwelfare+ center'**
  - providing employment service
  - along with welfare & social safety net
  - \* 98 centers out of 100 job centers changed since 2014
- Success Package Program to feasible workers : training with allowance, intensive placement service
  - \* supported 308K job-seekers in 2018
- Expanding Worknet service
  - renovating Worknet menu, information, data
  - access to Worknet with SNS id
  - preparing national work information platform

# **IV. Social Dialogue & Current Issues**

# 1. Tripartite Social Dialogue

- **Social consensus to establish comprehensive system** for employment policies with introduction of EI **in early '90s**
  - due to instability in the labor market and need of continuous restructuring
- What's good for employers? (expected benefits)
  - abolishing training levy system
  - restructuring made easier than before
  - \*Social understanding to reconsider retirement pay system adopted in 1953
- **Tripartite EI-consultation Committee to operate EI**
  - Operation of EI, fund, sub-regulation etc.

## 2. Recent Social Dialogue -

### “The Economic, Social and Labor Council (ESLC)”

- ESLC, being Korea’s Tripartite commission, established in 1998 as a presidential advisory body
  - for the purpose of overcoming the economic crisis in late 1997.
- Social dialogue body among labor, management, government and public interest groups, providing consultation
  - for labor, industrial, economic and social policies.
- **ESLC agreed in 2019 to introduce Unemployment Allowances after UB, and expand UB**
  - Duration of UB : 90~240→120~270 days
  - Level of UB : 50%→60% of former wage
  - minimum UB : 90% of MW

### 3. Unemployment Protections after UB

- **Introducing Jobseeking Allowance : KRW 500K for 6 months from 2020**
    - low-income job-seekers, 18~60 (age)
  - New laws enacted in 2019
    - the Employment Encouragement for Job Seekers and Support for Stable Livelihood Act
- ➔ **Strengthening Employment Safety Net**
- 1<sup>st</sup> : UB
  - 2<sup>nd</sup> : Jobseeking allowance
  - 3<sup>rd</sup> : Providing opportunities for public works

## <Topic> How to secure qualified staffs?

- To secure public officers(staffs) in job centers is difficult.
- **Korea : large numbers of semi-public staffs rather than officers for employment service**
  - later mostly turned to officers status
  - For expertise, semi-public staffs better, but lack of stability & pride
- As various programs expanded, sub-contracting to private agencies increased
- **To secure proper staffs is key issue to provide quality services**

## <Topic> How to secure fund for ALMPs?

- Government budget not sufficient, inflexible
  - Special fund required and preferred
- **Korea : secured special fund within EI**
  - premium of firms for ALMPs  
initially 0.3~0.7% of total wage, separate from UB
  - very unique/flexible system
    - ➔ providing sufficient, flexible fund to implement ALMPs
- Reserve fund diminishing, due to rapid expansion of UB & ALMPs
  - ➔ increase of premium rates required → need for social consensus