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 1st 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
<table>
<thead>
<tr>
<th>Item</th>
<th>NP (national pension)</th>
<th>HI (health insurance)</th>
<th>EI (employment insurance)</th>
<th>WC1 (workers' compensation insurance)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance type</td>
<td>“Income security”</td>
<td>“Medical security”</td>
<td>“Employment security”</td>
<td>“Workers’ compensation”</td>
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<tr>
<td></td>
<td>“Long-term insurance”</td>
<td>“Short-term insurance”</td>
<td>“Mid-term insurance”</td>
<td>“Short-term insurance”</td>
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<td>Payment conditions</td>
<td>“Cash benefits”</td>
<td>“Cash benefits”</td>
<td>“Cash benefits”</td>
<td>“Benefits in kind: uniformly paid”</td>
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<tr>
<td></td>
<td>“Income-indexed”</td>
<td>“Uniformly-paid”</td>
<td>“Income-indexed”</td>
<td>“Cash benefits: income-indexed”</td>
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<tr>
<td>Funding &amp; management</td>
<td>“Adjusted FS (funded system)”</td>
<td>“PAYGS (pay-as-you-go system)”</td>
<td>“Adjusted FS”</td>
<td>“Net PAYGS”</td>
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<tr>
<td></td>
<td>“Integrated management”</td>
<td>“Dualized management (workplace-based &amp; non-workplace-based)”</td>
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<td></td>
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<tr>
<td>Management basis</td>
<td>“Individually managed”</td>
<td>“Workplace &amp; household”</td>
<td>“Workplace”</td>
<td>“Workplace”</td>
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<tr>
<td>Overall responsibility for premium management</td>
<td>“Minister of the MOHW ♦”</td>
<td>“Minister of the MOHW ♦”</td>
<td>“Minister of the MOEL ♦”</td>
<td>“Minister of the MOEL ♦”</td>
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<tr>
<td>Eligibility management basis</td>
<td>“Integrated management for workplace &amp; non-workplace”</td>
<td>“Integrated management for workplace &amp; non-workplace”</td>
<td>“Simultaneous management for both workplace &amp; beneficiary”</td>
<td>“Simultaneous management for both workplace &amp; beneficiary”</td>
</tr>
<tr>
<td>Premium billing basis</td>
<td>“Billed for each workplace or non-workplace (i.e. individually billed)”</td>
<td>“Billed for each workplace or household”</td>
<td>“Billed for workplace”</td>
<td>“Billed for workplace”</td>
</tr>
</tbody>
</table>

MOHW: Ministry of Health & Welfare, MOEL: Ministry of Employment & Labor
1. Comparison of Social Insurance, Korea

• Premium rates (as of 2019)

<table>
<thead>
<tr>
<th></th>
<th>NP*</th>
<th>HI</th>
<th>EI</th>
<th>WCI</th>
</tr>
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<tbody>
<tr>
<td>Total</td>
<td>9.0%</td>
<td>6.67</td>
<td>1.6</td>
<td>1.56%</td>
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<tr>
<td>employer</td>
<td>4.5</td>
<td>3.335</td>
<td>0.8</td>
<td>1.56</td>
</tr>
<tr>
<td>employee</td>
<td>4.5</td>
<td>3.335</td>
<td>0.8</td>
<td></td>
</tr>
</tbody>
</table>

*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

<table>
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<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>firms under 150</td>
<td>0.3%</td>
<td>0.4%</td>
<td>0.25%</td>
<td>0.25%</td>
</tr>
<tr>
<td>SMEs over 150</td>
<td>0.5</td>
<td>0.6</td>
<td>0.45</td>
<td>0.45</td>
</tr>
<tr>
<td>firms 150~1000</td>
<td>0.7</td>
<td>0.8</td>
<td>0.65</td>
<td>0.65</td>
</tr>
<tr>
<td>firms over 1000</td>
<td>0.7</td>
<td>1.0</td>
<td>0.85</td>
<td>0.85</td>
</tr>
</tbody>
</table>

• 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)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate</th>
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<tbody>
<tr>
<td>1995</td>
<td>0.6%</td>
</tr>
<tr>
<td>1999</td>
<td>1.0%</td>
</tr>
<tr>
<td>2003</td>
<td>0.9%</td>
</tr>
<tr>
<td>2011</td>
<td>1.1%</td>
</tr>
<tr>
<td>2013</td>
<td>1.3%</td>
</tr>
<tr>
<td>2019</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

• 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
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  

• **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 Em. 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 \( \rightarrow \) '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
  - 1st: UB
  - 2nd: Jobseeking allowance
  - 3rd: Providing opportunities for public works
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