Korean Social Welfare Reform during the Economic Crisis*

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This paper deals with the Korean welfare reform carried out due to the extremely unstable societal atmosphere, caused by the 1997 economic crisis. Introduction of the National Basic Livelihood Security Act and expansion of the coverage of social insurance are characterized as the projected reform. Nevertheless, the newly introduced public assistance program and the social insurance schemes still have room for improvement. For example, social insurance schemes had provided a protective umbrella in favor of regular workers, but it did not do the same for temporary contract-based workers or the self-employed. The government's efforts have not been sufficient to overcome these problems. This paper suggests some measures to resolve problems still existing in the Korean welfare system today.

Keywords: public finance, income distribution, poverty, social insurance, social assistance

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1. INTRODUCTION

After a long period of rapid economic growth, Korea ran into serious economic difficulties in late 1997. Companies were forced to carry out corporate restructuring to retain their competitiveness, leaving an unprecedentedly high rate of unemployment in the process. As shown in Table 1, the poverty ratios rose sharply from 7.67 percent in 1997 to 14.28 percent in 1998 due to the 1997 economic crisis. After the 1997 economic crisis, the government undertook various anti-poverty programs designed to ease the impact of mass lay-offs, including temporary livelihood protection for those rendered jobless. While overall household incomes shrank, households with lower income were most likely to see their income contract even further. Likewise, the situation worsened income distribution and pushed those at the bottom of the middle class down into the poverty class, widening the gap between the rich and the poor.

Table 1 displays the incidence of poverty in Korea, 1975–2001. The poverty line used in this study is set by the Korea Institute for Health and Social Affairs (KIHASA) in 1994, and then adjusted by the Consumer Price Index (CPI) for the other years. It was measured by Rowntree's Basic Needs Approach. The table shows a spectacular decline in absolute poverty ratio from 21.52 percent of urban households in 1975 to only 7.41 percent in 1996. However, the absolute poverty ratio increased in 1997 as a result of the economic crisis, reaching 14.28 percent in 1998 before dropping again to 9.84 percent in 2001. A comparison between the absolute poverty ratio and the administrative poverty ratio (public assistance recipients' ratio) revealed a considerable gap between the two ratios because of several factors. First, for eligibility the public assistance recipients must satisfy not only the income criteria, which are based on the poverty line, but also the property criteria, so some of those who qualified by the income criteria might be excluded because their property value exceeded the property criteria. Second, even those who qualify for both income and property criteria can be excluded if they are under the livelihood support of persons legally responsible. If such excluded persons were added into the calculation, the two ratios are likely to be closer to each other.

The economic crisis in 1997 demonstrated weaknesses in the ability of the Korean anti-poverty system to deal with external shocks. The Korean government and ministries concerned with anti-poverty policies evolved a new model for welfare tailored to the prevailing circumstances of Korea. The changes made to the social protection system reflected the desire to extend benefits to all of society and to update the older system. With such a background, Productive Welfare was born in 1999 as a new paradigm of Korean social policy. Productive Welfare is an ideology that seeks to secure minimum living standards for all low-income households, provide human resource development programs to support self-reliance of the poor and guarantee a basic living standard by expanding the coverage of social insurance to all people for the purpose of maintaining human dignity. As such, Productive Welfare endeavors

to improve the quality of life for all citizens by promoting social development and a fair distribution of wealth.¹

TABLE 1. POVERTY RATIOS (%)

	Estimated Poverty Ratio	Administrative Poverty Ratio
1975	21.52 ¹⁾	-
1980	15.25 ¹⁾	4.8 ⁴⁾
1985	18.50 ¹⁾	5.6 ⁴⁾
1990	15.74 ¹⁾	5.3 ⁴⁾
1995	8.47 ¹⁾	3.9 ⁴⁾
1996	7.41 ²⁾	3.3 ⁴⁾
1997	7.67 ²⁾	3.1 ⁴⁾
1998	14.28 ²⁾	3.2 ⁴⁾
1999	13.67 ³⁾	4.1 ⁴⁾
2000	10.39 ³⁾	3.6 ⁴⁾
2001	9.84 ³⁾	-

Note: The poverty ratios appeared with superscript numbers 1), 2) or 3), were estimated on the basis of the data from "The Family Income and Expenditure Survey" of the National Statistical Office of Korea, which covered only urban households, excluding rural and one-person households.

Source: 1) Park and Kim, 1998; 2) Park, Kim, and Kim, 1999; 3) Park and Kim, 2003; 4) Ministry of Health and Welfare, Internal Documents.

II. WELFARE REFORM AND ITS ACHIEVEMENT

Welfare reform was carried out due to the extremely unstable societal atmosphere, which was caused by the 1997 economic crisis. Hence, whether the reform based on Productive Welfare has helped stabilize the society through protection programs to the poor and the unemployed is the greatest criterion to discuss its achievement. In this dimension, welfare reform can be evaluated as a national management that enabled the society to overcome the difficult situation. According to the concept defined above, introduction of the National Basic Livelihood Security Act (hereinafter NBLSA) and expansion of the coverage of social insurance are characterized as the projected reform under Productive Welfare. In addition to these are enhancements of the accessibility of the vulnerable class to the labor market through human resource development, which lays stress on labor welfare; measures to protect irregular employees; and extension of the application of a minimum wage system for all industries. Other projected policies based on Productive Welfare such as augmenting cultural and leisure lifestyles for the poor, building a healthy environment and providing education are

¹ Presidential Committee for Quality of Life (1999).

too broad to be argued in this paper. Hence, discussion is narrowed down to policies that are relevant to social security and then examines their achievements and limits.

Public Assistance

The NBLSA, which started in October 2000 as a replacement for the Livelihood Protection Act, guarantees minimum living standards to all low-income families whose income are below the official poverty line without considering their ability to work. So all low-income earners with the ability to work also become eligible for benefits unlike the previous system. The NBLSA puts emphasis on the nation's responsibility for the low-income class. Its introduction has tripled the number of livelihood payment beneficiaries from 540,000 in 1999 to 1.51 million in 2001.^{2 3}

The official poverty line for the NBLSA beneficiaries or recipients is described in Table 2. Those who meet the criteria and do not have any family support will be chosen in the selection. The criteria for those who support the eligible are quite complex. It is limited to immediate family members, spouses, and any siblings who are financially supporting them. The supporters are furthermore divided into three groups based on their asset and income: those able to support, those who have difficulty in supporting and those unable to support. Only in the latter two cases are their families eligible for benefit.⁴

TABLE 2. OFFICIAL POVERTY LINE (2001)

Criteria \ Number of Household Members	One	Two	Three	Four	Five	Six	Seven & More
Income (Thousand Won)	330	550	760	960	1,090	1,230	Add 120 per person
Property (Thousand Won)	31,000		34,000		38,000		

Source: Ministry of Health and Welfare, 2001.

Livelihood payment of the NBLSA is designed to provide supplementary payment to households whose incomes do not meet the official poverty line and the amount of support is equal to the difference of household income and the official poverty line. Also, civil rights were enhanced through acknowledging the NBLSA as a social

² Legislated in September 7, 1999 and enacted in October 1, 2000, the NBLSA, which is one of the public assistance programs, has improved the nation's welfare system greatly.

³ Park, Ch., Y.-M. Kim and T. Kim (2000).

⁴ If the combined income or asset of an applicant's household and his financial supporter's household is over 120 percent of the income criteria or property criteria of the official poverty line, the supporter under question is regarded as an official supporter. If the applicant is unable to work and has no income, but owns a house, then the combined income level is raised to over 150 percent of the official poverty line.

duty. The NBSA fostered a condition in which the number of *Self-Reliance Aid Centers*⁵ increased from 6 in 1997 to 161 in 2001. The newly introduced NBS requires the poor with work ability to participate in the self-reliance aid programs. The requirements are judged from the current individual environment of the concerned people with specified conditions for the exemption of the work requirement. At the beginning, while only a small portion of the poor with work ability were taken care of by the Self-Reliance Aid Centers, the principle of conditional benefit provision for the poor with work ability is expected to bring about a significant result in Korean welfare development. Also, the number of social workers increased from 3,000 persons in 1997 to 5,500 in 2001. Specifically, the increase in the number of *Self-Reliance Aid Center* participation in self-supporting assistance programs within the community and the inducement of social concerns to the program can be regarded as an achievement.⁶

Nevertheless, the National Basic Livelihood Security (NBS) system still has room for improvement. Firstly, the NBSA was legislated in response to a plea stemming from the bad circumstances of the 1997 economic crisis without a full examination of its implications. For instance, the supplement of officials who are charged with social welfare has not reached its goal and the Ministry of Health and Welfare in charge of the NBSA has had difficulties in inducing relevant Ministries to collaborate with an investigation into the financial assets of those eligible in the NBS system and their relatives who have a duty to support. This caused some mis-targeting towards the poor at the beginning of its implementation. It is expected that this problem will remain due to difficulties in surveying incomes of the self-employed. Secondly, the self-support system has not been fully enforced due to a lack of administrative networks with the Ministry of Labor. The self-supporting programs of the Ministry of Health and Welfare have been projected to collaborate with the Ministry of Labor and then, it is pointed out that the official poverty line of selection that is applied equally among all regions (metropolis, medium and small-sized cities, and rural areas) should be resolved.^{7 8}

Social Insurance

The Social insurance system has undergone rapid changes since 1998. The rationality of this change is to drastically reduce uncovered groups through applying the National Pension scheme to all people⁹; integrate the management systems of the *Health Insurance*

⁵ The Self Reliance Aid Center was established in 1996 to support recipients of the Livelihood Protection System (LPS) as well as the low-income earners who are not covered by the LPS. The main activities of the center is to provide information on available jobs; to offer job counselling and job placement services to support the community-based businesses and the self-employed; to mediate the self-reliance fund; and to teach skills and management techniques. Self-reliance Aid Centers are operated by civil groups and designated by the government, but both the central and local governments can partly or wholly provide the operating funds (<http://www.mohw.go.kr/english/intro8.html>).

⁶ Ministry of Health and Welfare (2001).

⁷ Park, Ch., Y.-M. Kim and T. Kim (2000).

⁸ Ministry of Labor (2001).

⁹ Major changes brought by the amendment of the National Pension Act in January 1999 are as follows.

Funds for Wage Earners (hereinafter HIFW) with the *Health Insurance Funds for Non Wage Earners* (hereinafter HIFNW); and expand coverage of Employment Insurance and Industrial Injury Insurance to all workplaces.

As a result, anyone who has an income is now covered by the National Pension scheme, regardless of employment category, opening an era of universal National Pension. Now, even if a pension premium is paid only once, pension payment for the disabled and survivors is permitted.¹⁰ In addition, through integration of management systems of Health Insurance, it could obtain a ground to raise the social solidarity.¹¹ Also, as the number of days for which the medical care services can be covered by the Health Insurance has been extended to 360 days, one can get more medical services throughout the year.^{12 13}

First, the self-employed in urban areas were included into the scheme beginning in April 1, 1999. The beneficiaries of the scheme are divided into two groups: wage earners employed by workplaces and local scheme members. Persons insured through the workplace refer to employees aged between 18 and 60, who are either employees or employers at a workplace with five or more full time workers. Those 18 or younger are able to join the workplace pension plan with employer consent. Those 60 or older can have the extended contribution period to age 65 if their insured period is less than 20 years. However, excluded from the coverage of the National Pension Scheme for the workplace are those who have temporary work with contracts of three months or less, those who have seasonal work with periods of three months or less, and those who often move from workplace to workplace. Temporary and part-time workers are also excluded from coverage of the National Pension Scheme. But those who are excluded from coverage of the National Pension Scheme for the workplace are nevertheless insured through the local scheme of the National Pension (Park, Ch. et al. 2000).

¹⁰ The new National Pension scheme strengthened pensioners' rights and sought for livelihood stability. The minimum contribution period was shortened from 15 years to 10 years. Pension installment is provided for those who turn 60 after divorce or those who divorce after 60 in case marriage has lasted for five years or more (with benefit provision terminating at the time of remarriage). Deferred payment for pension contribution arrears is permitted for those obligated with child rearing and military service, as well as for students and those serving prison terms. Legislation is being formulated to provide loans to the unemployed for livelihood stability (Park, Ch. et al. 2000).

¹¹ Since the introduction of Health Insurance in 1977, it has gone through several phases before maturing into a universal Health Insurance scheme due to its inherent problems. Specifically, Health Insurance Funds did not have the same premium calculation systems. As a result, the insured could have ended up paying different premiums if they belonged to different Health Insurance Funds, although their income and asset levels were the same. This caused equity problems and at the same time widened the financial gap among Health Insurance Funds. The independent management of small-size Funds also brought up operational inefficiency when the Health Insurance system was divided into Health Insurance Corporations for Employees of Government, Private School, Military, HIFW, and HIFNW. To resolve the problems, the government consolidated the HIFNW and Health Insurance Corporations for Employees of Government and Private Schools. It was the first step towards the grand consolidation of Health Insurance taken on October 1998. As the second step, the plan integrated HIF-WE into the already consolidated comprehensive Health Insurance Funds, to be the National Health Insurance Corporation. The new universal Health Insurance Corporation has the integrated management system for the insured but classifies them into two groups: HIFW and HIFNW. Those, who are covered by HIFW consist of employees and employers at the workplace with five or more people and employees of government and private schools who earn monthly wages. Those who are covered by HIFNW consist of the self-employed and employees at the workplace with four or less people. The new system applies the same premium rates in line with income level, regardless of which Health Insurance Funds are in charge of the coverage. The new Health Insurance system has shifted its focus from treatment-orientation to prevention, rehabilitation and health promotion (Park, Ch. et al. 2000).

¹² The Health Insurance system abolished the regulation of limiting the period covered by Health Insurance to a certain level. Instead it promises unlimited Health Insurance coverage year-round beginning July 1, 2000. Previous Health Insurance laws covered only disease, injury, and death excluding pre-natal care from coverage. The new Health Insurance expanded the scope of coverage to include preventive care, diagnosis, rehabilitation, health promotion, not to mention treatment and death (Park, Ch. et al. 2000).

¹³ Kim, Y-M. (1997b).

Since the 1997 economic crisis, economic recession and dramatic restructuring accelerated the unemployment rate. Accordingly, the expansion of Employment Insurance coverage was applied earlier than previously planned, beginning March 1998, in order to provide unemployment benefits even to workers at the workplace with five or more persons. Considering the severe unemployment situation, the coverage scope was expanded again in October 1998, to include those at workplaces with four or less persons as well as temporary or part-time workers.¹⁴ As for Industrial Injury Insurance,¹⁵ membership has become mandatory even for workplaces hiring less than five persons beginning July 2000. Expanded implementation of social insurance by reduction of the mandatory employment period was geared towards expanding coverage to include temporary and daily workers.¹⁶

Under the National Pension scheme, temporary, daily, and other part-time employees are classified as local participants.¹⁷ As for Health Insurance, since July 2001, temporary and daily workers were transferred to the workplace participant group. Upon the initial enactment, Employment Insurance was not applied to those who work for less than a three-month period and less than 30.8 hours a week. Since October 1998, the mandatory employment period was shortened to include those who work more than one month and more than 80 hours per month (or more than 18 hours a week). Recent changes in regulations regarding expanded coverage of employment insurance by shortening the mandatory work period are described in Table 4.

¹⁴ Since its introduction and implementation in 1995, Employment Insurance has become the primary social safety net for the unemployed during the economic crisis when the jobless rate surged. The number of recipients of Employment Insurance was estimated at 50,000 throughout 1997, but in 1998, the number surged to 438,000. Unemployment benefit provision also skyrocketed to 799.1 billion Won, ten times that of 1997's 78.7 billion Won. Likewise, the sharp increase in the number of beneficiaries for 1998 is attributable to the expanded scope of coverage; a string of bankruptcies and firm closures; lay-offs; early retirement; the reduction of the minimum coverage period; and the implementation of special expanded payments. In the end, the contribution income of 1998 worth 576 billion won was exceeded by unemployment benefits expenditures worth 799.2 billion won. In other words, the ratio of contribution income to benefit payment recorded 139 percent. Unemployment benefit serves the primary social safety net with extended coverage scope, eased eligibility criteria, extended coverage period and extended average coverage period. But despite the eased beneficiary standards, the ratio of unemployment benefit recipients to the total jobless is 10.5 percent, which is significantly lower in comparison to those of advanced nations such as Japan (27.8 percent, 1992); Germany (43.5 percent, 1990); the US (36.0 percent, 1990); and Britain (30.0 percent, 1998) (Ministry of Health and Welfare 1999).

¹⁵ Industrial Injury Insurance was the first social insurance to be adopted in Korea. During introduction, its implementation scope was limited to mines or manufacturing factories with 500 or more people. In industrial injury insurance, employers are fully liable for the contributions, which is different from other social insurances. The premium per person is determined by multiplying the premium rate and the total amount of salaries. In 1999, a major legal amendment was made to the industrial injury insurance system. The amendment was made to enhance the fairness by setting maximum and minimum coverage limits with the aim to narrow the benefit gap. Thanks to the amendment, new insurance payments were introduced, and more small and medium size firms were included into the system, thereby strengthening its role as a social safety net (Ministry of Labor 1999).

¹⁶ Lee, G. (1999).

¹⁷ National Pension classifies workers between 18 and 60, at workplaces with five or more employees, and daily or temporary workers who work for more than three months, into workplace pension groups. Those between 18 and 60 who are not workplace workers or insured under the special occupation pension schemes are classified as local pension participant groups. Full-time workers employed for three months or less; part-time workers at workplaces with five or less workers; workers at workplaces with five or less employees; and the self-employed can join the National Pension but many of them are believed to be delinquent contributors to the insurance (Park, Ch. Y-M. Kim and T. Kim 2000).

TABLE 3. PROCESS OF KOREA'S SOCIAL INSURANCE COVERAGE EXPANSION:
BY YEAR AND GROUP

National Pension	Health Insurance
1960: Government employees	1977: Wage earners at workplace with 500 or more people
1963: Military personnel	1979: Employees in government, private school and wage earners at workplace with 300 or more people
1975: Private school teachers	1980: Wage earners at workplace with 300 or more people
1977: Private school personnel	1982: Wage earners at workplace with 16 or more people
1988: Wage earners at workplace with 10 or more people	1988: Wage earners at workplace with 5 or more people and fishermen and farmers
1992: Wage earners at workplace with 5 or more people	1989: Urban residents (national coverage)
1995: Fishermen and farmers	
1999: Urban residents (national coverage)	
Employment Insurance	Industrial Injury Insurance
1995: Workplace with 30 or more people	1964: Workplace with 500 or more people
1998: Workplace with 10 or more people	1965: Workplace with 200 or more people
1998: Workplace with 5 or more people	1967: Workplace with 100 or more people
1998: Workplace with 1 or more people	1969: Workplace with 50 or more people
	1974: Workplace with 16 or more people
	1982: Workplace with 10 or more people (some with over 5 people)
	1992: Workplace with 5 or more people
	2000: Workplace with 1 or more people

Source: Ministry of Health and Welfare, 1963-2001.
Ministry of Labor, 1990-2001.

TABLE 4. RULES TO IMPLEMENT SOCIAL INSURANCE FOR NON-FUL-TIME WORKERS
(AS OF DECEMBER, 2000)

Classification	Pension Scheme	Health Insurance	Employment Insurance	Industrial Injury Insurance
Temporary daily workers	3 months or more	2 months or more	1 month or more	Applied
Part-time workers	Classified as locally insured persons	Classified as locally insured persons	More than 80 hours or more than 1 month (18 hours or more a week)	Applied

Source: Park, Ch., Y-M. Kim and T. Kim, 2000.

Note: Temporary and daily workers join as local participant group in National Pension and as non wage earners in Health Insurance.

However, there are still difficulties in improving the systems of National Pension and Health Insurance because of the low rate of income assessment carried out for the self-employed. Due to the self-employed often reporting less than their actual income in an effort to pay a low insurance premium, it's not easy to disclose the scale of the problem. In contrast, salary earners pay their full National Pension and Health Insurance premiums by having their premiums deducted at their income source. This may lead to the unfair circumstance in which the self-employed and the salary earners receive the same medical service to the salary earners' discontent, resulting in boycotting payments of social insurance premiums. Resolutions for this problem have not yet been made due to the fact that the Ministry of Health and Welfare does not have the ability to handle the problem. However, the Ministry in charge of the income assessment of the self-employed could find enforcing the income assessment for effective management of social insurance a great burden. Consequently, a low rate of income assessment of the self-employed has been maintained and resolutions have not been reached up to this point.¹⁸

Moreover, destabilization of Health Insurance fund has become a core issue these days, which was in fact predicted several years ago. Although increasing Health Insurance premiums is the most viable option, it is not chosen due to the people's resistance. And so the government announced its policy of increasing a government subsidy to support Health Insurance fund overcome this situation.

Limits of Welfare System

Thanks to the reduction of the eligible employment period requirement and the expansion of qualifying workplaces, marginal workers,¹⁹ who are not covered by social insurance, have decreased for the past two to three years. Despite the concentrated efforts to extend coverage of social insurance, a substantial number of persons still do not have access to income maintenance benefits under social insurance.

Figure 1 shows the coverage scope of Korea's social insurance and the marginalized groups from the insurance system. Health Insurance has a wider coverage scope than the National Pension as it has eased limits in terms of age and eligibility conditions. Employment Insurance and Industrial Injury Insurance are basically targeted for employees, but those who are employed at workplaces with four or less employees in the agricultural and fishery industries have been excluded from the insurance benefits. Considering that agricultural or fishery companies with four or less employees are likely to deal with labor-intensive work which may expose workers to more risk of injuries, such workplaces should be covered by the Industrial Injury Insurance.

¹⁸ Kwon, M-I. (2000); Noh, I. (1999); Noh, I. and Lee, Y. (2000).

¹⁹ Marginal workers in this paper refers to full time workers at workplaces with four or less employees as well as part-time workers including temporary daily workers. They share in common the facts their employment status is incomplete and also their exclusion from national welfare or company welfare benefits.

Furthermore, temporary and daily workers employed for one month or less in all industries and those who work less than 18 hours a week are not covered by Employment Insurance.²⁰ But as seen above, measures to place marginal workers under the social security system have been implemented. Efforts for the reduction of the qualifying employment period; a decrease in weekly work hours; and expansion of coverage to workplaces with four or less employees have already been put into action. Nevertheless, the system is still faced with obstacles in providing coverage for all workers under the social insurance schemes.

The issue of shortfalls in Korea's social insurance scheme has only recently come to surface despite its importance. Korea's social insurance schemes had provided a protective umbrella in favor of salary and wage earners, but it did not do the same for workers at workplaces with four or less employees and the lowest paying temporary contract-based workers. Hence it is essential to figure out the types of uncovered zones existing in the social insurance scheme and their impact on the system. It is also necessary to realize that the government's efforts to expand the coverage of the four social insurance schemes for the past two or three years have not been sufficient to overcome the problem of excluding some from their coverage and to acknowledge that the difficulty should be dealt with on multiple fronts.

The people who are not insured by social security are categorized into two types. The first consists of the cases in which the social security scheme is not applied. The second is when applicants qualifying for benefits are not awarded due payment. In the case of salary and wage earners, they are not covered for the reason that the contract term is too short. Salary and wage earners do not receive their benefits, although they are entitled, when they have intentionally avoided contribution payment²¹ or the lack of administration infrastructure fails to screen for qualifying recipients and provide benefits in a timely manner. In the following part, the measures to those difficulties are addressed.

²⁰ Hwang, D. S. (2000).

²¹ In July 2000, among the total participants (16,585,390 persons), there were 10,879,281 local participants (5,144,000 are free from contribution payment duties). Those who delay their insurance contribution due to unemployment, bankruptcy, and livelihood difficulties and those who were unable to pay contributions due to military service, education, and prison sentence amounted to 4,813,000. Here the problem is the large number of insured persons unable to pay contributions. As of April 2000, 30 percent of insured persons under the National Pension, or 5,141,000, are unable to pay insurance contributions due to low income. 85 percent, or 4,375,000, are either unemployed, have their businesses suspended, or are unaccountable with unclear whereabouts. Among those who delay their pension insurance contributions are the unemployed, economically inactive persons, full-time housewives, and women with no spouses. Under the current system, they are allowed to defer insurance premium payments. However, there is a group of people who should not be allowed to delay their payment, but are classified as permissible delayers. These are the high-income asset owners who are estimated to total about 200,000 to 300,000 persons (Park Ch., Y.-M. Kim and T. Kim 2000).

III. Counter Policies for Improvement

It is now necessary to set up guiding principles to establish counter policies that are comprehensive, complete, and fair. In short, this summarizes how the government has pushed to reduce uncovered groups in social security programs. However, the benefit amounts should also reflect reality. Provision of reasonable welfare benefits under the principle of sufficient income support is essential. For public assistance, an appropriate amount of payments should be guaranteed based on the minimum cost of living. As for the social insurance, the basic rule should be that the insured pay their due contribution and receive corresponding benefits. Even if the uncovered groups are removed and benefit levels are reasonable, the problems in social security programs could remain unresolved if the principle of equality is not applied. Therefore more efforts must be made to apply the rule of equality in selecting beneficiaries and providing fair payments.

Affiliation of Information Systems with Four Social Insurance Management Bodies

The management of workplaces and insured persons by one administrative body instead of four, can create synergy effects on insurance administration. In particular, by affiliating the channels of qualification management, charging and collecting into one, it is much easier to check the eligibility for marginal workers; those in workplaces with four or less employees; and also the self-employed. That is, under this system, insured persons of one social insurance are immediately recognized as insured under other social insurances, making it less likely for them to be left uncovered. The possibility of applying insurance to marginal workers who are featured by frequent workplace closure and bankruptcy, as well as frequent job changes, depends on whether or not their employment status and wage level can be completely figured out.

For these reasons, countries with a long history of social insurance often opted for consolidated charging and collection of social insurance contributions. For instance, in Germany, pension, employment insurance, and health insurance are charged and collected by the health insurance administrative organization in the form of a comprehensive social insurance premium.

Collection of Insurance Premium by National Tax Authority

Another way to reduce uncovered groups in social insurance by preventing intentional contribution avoidance is to make social insurance contribution mandatory. In fact, it is often found in many nations that taxes and social insurance contributions are linked or integrated. National tax agencies collect social insurance contributions by including them in taxes and transferring the amount to related social insurance organizations. One of the problems found in applying social insurance to marginal workers is that both employers and insured persons tend to avoid their contribution

payments. No doubt the national tax authority is in a better position to resolve this problem as it has access to massive data regarding income and assets as well as much stronger authority to charge and collect. Since the National Tax Service of Korea manages all assets, income, and tax payment documents on an individual basis, it is also better poised to transform the social insurance scheme to an individual based management scheme. Also, if employers make false reports regarding wage or employment status, tax authorities are then given the ability to correct the wrong data based on various documents they have secured. The agency involvement would be in an excellent position to check for moral hazards in terms of contribution payment and benefit reception of insured persons and employees (contribution payment avoidance, falsely scaled-down income reports, and redundant reception of benefits). Beyond that, combining collection of taxes and social insurance payments will boost administrative efficiency and reduce collection costs, thereby benefiting employers.

This method is adopted by the U.S. (its national tax agency charges and collects social insurance contributions); the U.K. (its national tax agency has taken the responsibility of charging and collecting social insurance contributions beginning in 1999); Sweden; and Argentina. In particular, the consolidation of social insurance payment collection with tax collection in Argentina is regarded as a model case for improvement in managerial and operational efficiency.^{22 23}

Strengthening the Ability to Survey Income of the Self-Employed²⁴

By strengthening the income assessment level of the self-employed, blind spots in the NBS, the National Pension and the Health Insurance could be scaled down. Undeclared income and the under-reporting of income for the self-employed are so prevalent that this has become one of the major problems in social security. The reason behind the need for concentrating all efforts into the income assessment of the self-employed is that public assistance, especially determining the financial assets of the family supporters in regards to NBS and poverty related monitoring function, may not be able to operate properly in cases where the income of the self-employed is not properly surveyed. Such a low rate of accurate income assessment carried out for the self-employed causes huge concern in social insurance as well. However, in the case of Korea, in spite of not having the complete income assessment data, not only is the National Pension being expanded to include the self-employed in the urban area, but the integration of Health Insurance Funds and furthermore financial integration is underway. Basically a society which has difficulty carrying out the income assessment effectively, is consequently left to face the challenges in achieving the welfare policies of an advanced society. Moreover, the success of social insurance schemes based on integration and social solidarity is jeopardized. As a result, in order to

²² ILO (2000).

²³ Park Ch., Y.-M. Kim and T. Kim (2000).

²⁴ National Committee for Self-employed Income Assessment (1999).

uplift the income assessment level, active participation and co-operation from the Ministry of Finance and Economy and National Tax Service are necessary, otherwise it is unavoidable to convert the existing social insurance scheme into another system that can operate even with the low-income assessment.

In 1999, the *National Committee for Self-employed Income Assessment* recommended various measures designed to resolve the issue of inaccurate declarations of income. In the course of 1999 and 2000, taxation reform executed by the National Taxation Service was put into practice, including several measures to revamp the value added tax system, by accelerating credit card use and restructuring ways to improve relevant income data of the self-employed. This overhaul can be evaluated to set the tone for assessing the accurate income status of the self-employed. It is also expected to play an important role in understanding the employment and wage status of employees at small workplaces, as well as documents on charging contributions for social insurance schemes. A variety of measures to promote credit card use, in particular the credit card lottery scheme, have almost doubled credit card use for the first half of 2000 compared to the same period in 2001. The use of credit cards has been on a steady rise, becoming a significant help in exposing the undeclared income of the self-employed. However, the utilization of these various taxation reforms will take too long to be used as the basis for collecting social insurance contributions. Therefore it would be desirable to carry out tax investigations on a random basis, as observed in many other nations and when a violation is found, stern punishment should be imposed. This measure will boost public awareness that tax evasion is a serious crime. Only then will it be possible to obtain a better grip on the accurate size of income for the self-employed, during a relatively short period of time.²⁵

Optimizing the Level of Social Security Benefits

Even if income maintenance is applied and the minimum insured period is met, these benefits cannot provide full protection against risks if the social security benefit level is too low. The level of NBLS payment was set based on the research on the minimum cost of living by the Korea Institute for Health and Social Affairs (KIHASA). The minimum cost of living measured by KIHASA goes through a thorough review by the *Central Minimum Living Standard Committee* which consists of government officials, scholars, labor unions and NGOs. Therefore, the level of NBLS payment has been estimated to be appropriate for the current situation.

Under Industrial Injury Insurance, the cash benefits have met the international level set by the International Labour Organization, except for rehabilitation and medical services.²⁶ Job seeking benefits under Employment Insurance were pointed out to be less than it should be and therefore recent policies have been introduced to boost the benefits (beginning January 2000, benefit provision period was increased from

²⁵ National Tax Service (2000a); National Tax Service (2000b).

²⁶ Kim, Y.-M. (1997a).

60-210 days to 90-240 days and minimum job seeking benefits have been pulled up from 70 percent to 90 percent). This means that as long as they are entitled for coverage, the marginal workforce will find it more beneficial. In the case of Health Insurance, it has been estimated that it provides relatively low benefits and no disease or injury cash benefits. As for National Pension, it is designed that those insured with shorter contribution periods receive smaller pensions. Therefore the marginal workforce whose insured period is relatively short may appear to face disadvantages. However, given the fact that National Pension is designed for income redistribution, from which the low-income class can benefit the most,²⁷ the marginal workforce and employees belonging to small workplaces and earning less income are not in a disadvantageous situation.

Benefit levels under social insurance proportional to contribution levels and contributory periods are commonly found. It has limited ability to adjust benefit levels and contributory periods as long as the social insurance scheme is being operated within the insurance framework. In a related move, the issue of increasing benefit levels and benefit provision periods should be discussed in line with the mounting burden of contribution payments and government support. In the case of the marginal workforce and employees at small workplaces, they could be entitled to government support in paying contributions.

IV. CONCLUSIVE REMARKS

It was only as recent as three to four years ago, that the general public began to regard the welfare scheme as being substantial to their daily life. This is because the welfare scheme has been applied mainly for the poor not being able to work or for workers employed in big companies, excluding often the self-employed or the poor with working ability. However, the 1997 economic crisis made the Korean government speed up its response to the surging unemployment rate and poverty ratio. It was an incident, which prompted the government to declare Productive Welfare as one of the fundamental governing principles in parallel with Democracy and Market Economy. The efforts to strengthen the social security system allowed it to take another leap forward. However, inherent problems have appeared in the course of trying to develop social welfare systems within a short time frame, which have taken advanced nations several decades. As a result, blind spots in social security coverage and the lack of effective links among systems have become downsides of the process.

This paper presented a comprehensive review of the social security system including major public assistance programs and social insurance schemes. It also discussed the counter measures to scale down blind spots in social security coverage. As discussed in this paper, Korea's social security has developed based on the two pillars of social

²⁷ Kwon, M-I. (2000).

insurance and public assistance. Despite problems arising in the process of evolution, Korea's Health Insurance system is cited as one of the most successful social security systems for developing nations. Therefore, assuming that these issues can be resolved through revision and reform of the existing scheme, this study focuses on exploring ways to create an environment where functions of the existing social security scheme can be improved. Additionally, ways to resolve defects in the system were also reviewed.

As a result, the following conclusion has been made. Measures to scale down blind spots in social security coverage boils down to dealing with the marginal workers. Their exclusion from social insurance coverage is cited as a major shortcoming of Korea's social insurance, along with inaccurate assessment of income for the self-employed.²⁸ The problem also stems from the combination of characteristics of the economic structure (size of the black market); contribution rates of social insurance by employers and employees (rate of contribution avoidance); income level of insured persons; level of taxation administration; managerial capability of social insurance administration; and others. Nonetheless as the National Tax Service adopts the function of both determining recipient eligibility and charging contribution, the managerial capacity of social insurance will be strengthened. This change will serve as a breakthrough in consolidating social insurance funds and making social insurance expansion more effective. In the future, administrative organizations for social security systems need to improve benefit service provision to boost social credibility and ease the burden stemming from standard control of beneficiary criteria, as well as the charging and collecting of contributions. For these matters, related government authorities and social insurance officials are required to take a more creative approach.

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²⁸ Accurate assessment of income for the self-employed will determine success of Korea's social insurance scheme as well as the ability to cover employed persons with social insurance schemes. Although this seemed impossible even two to three years ago, it is now possible not only to figure out the income size of self-employed persons but also to accurately assess the income and employment status of employees at workplaces run by self-employed persons.

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