

SUPPORTING EMPLOYMENT IN SMALL FIRMS THROUGH SOCIAL INSURANCE : RECENT POLICY INNOVATIONS IN KOREA



Korea Workers'
Compensation & Welfare Service

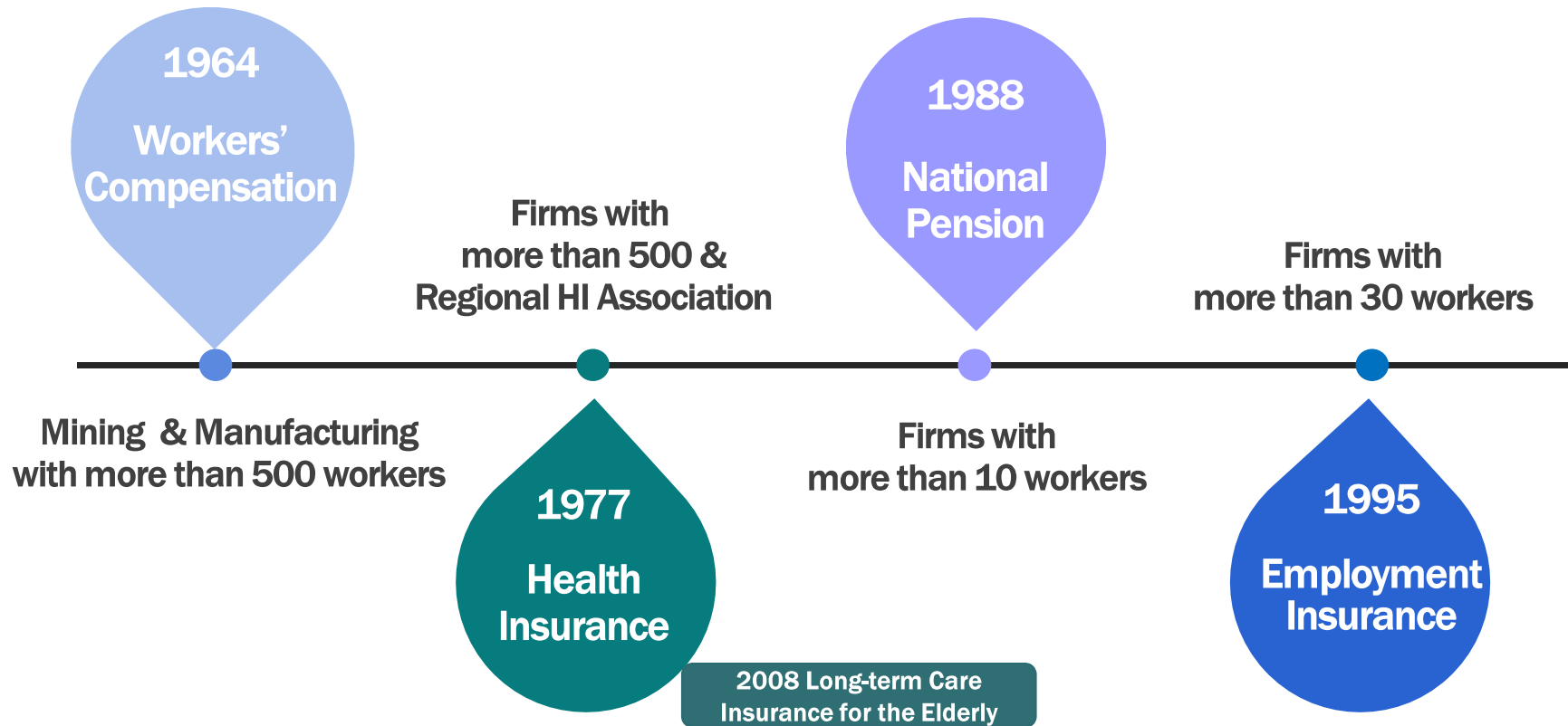
Kyung-woo Shim
President

ILO Geneva, 1 April 2019

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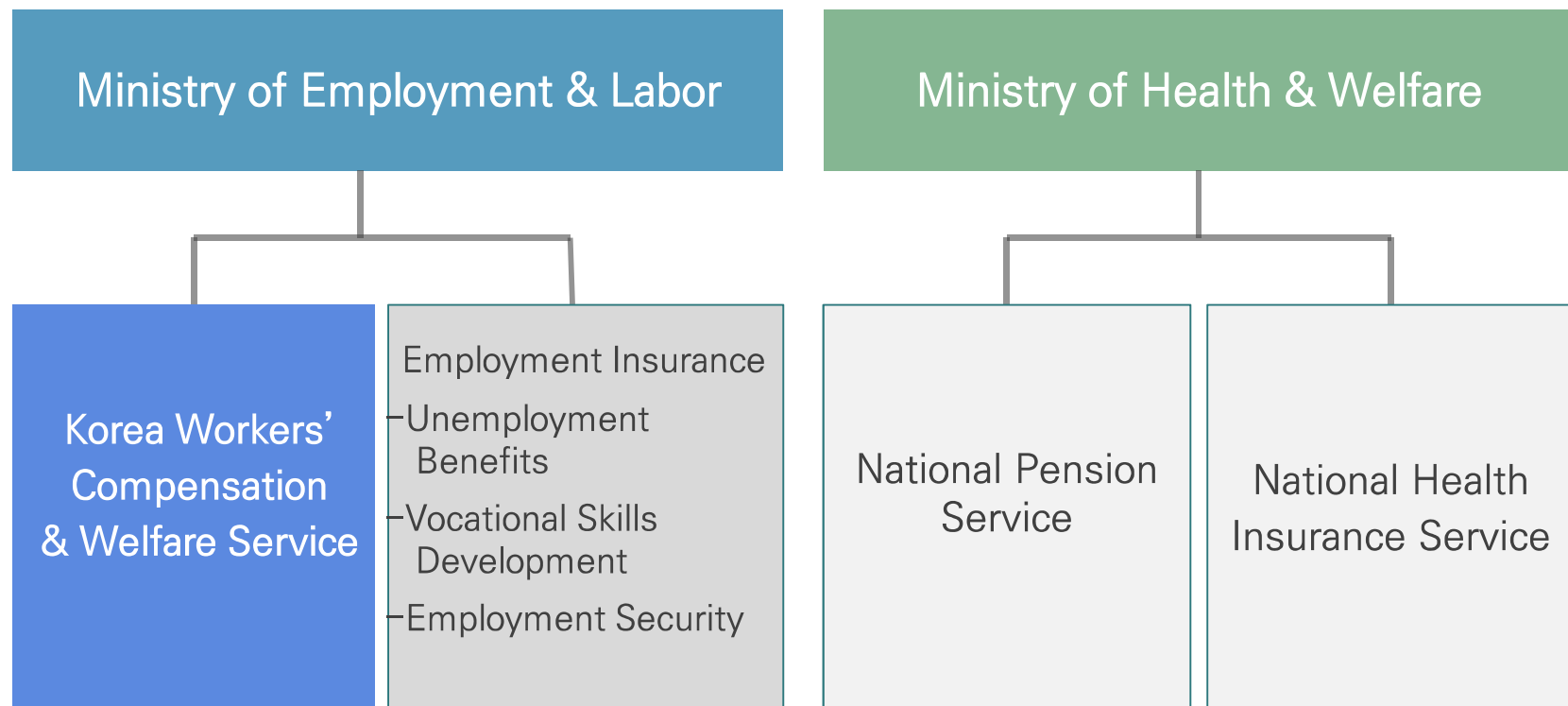
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1. Overview of Social Insurances in Korea



1. Overview of Social Insurances in Korea

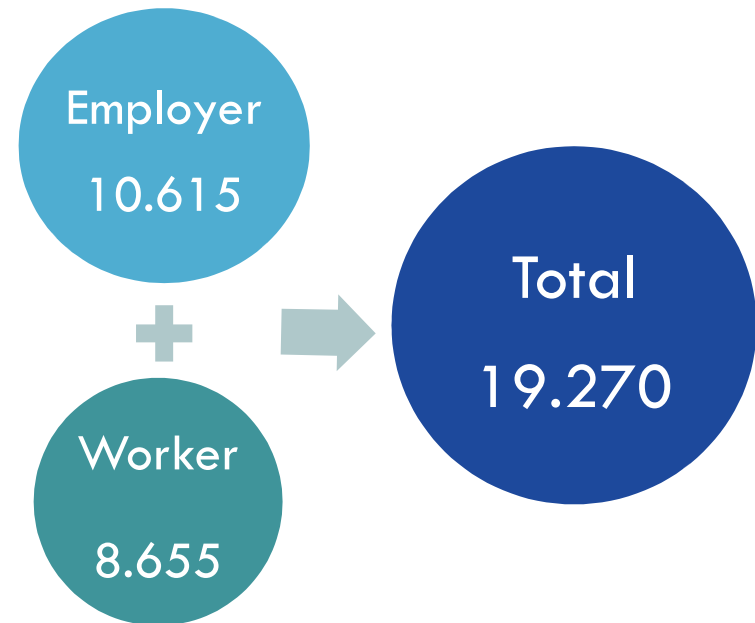
Governance of Social Insurances



1. Overview of Social Insurances in Korea

Social Insurances Premium Rates (2019, %)

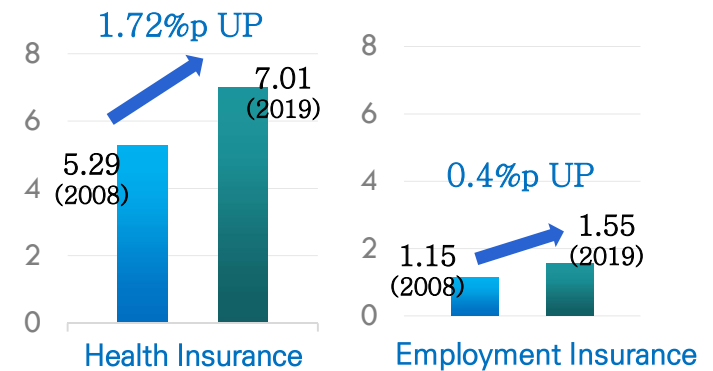
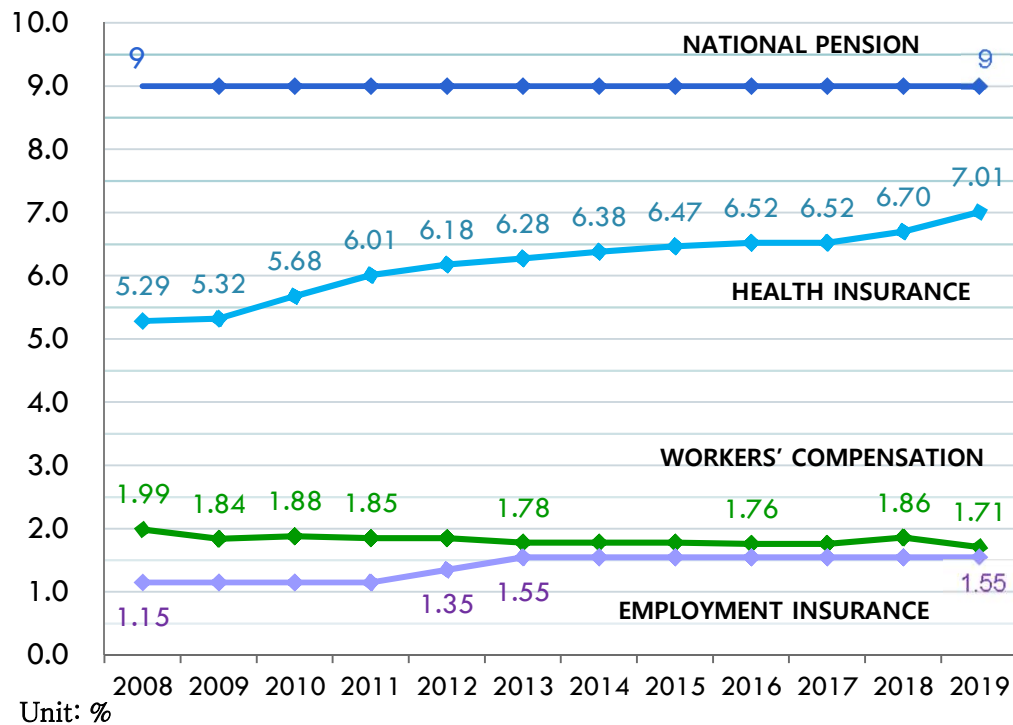
	Total	Employer	Worker
Total	19.270	10.615	8.655
National Pension	9.000	4.500	4.500
Health Insurance	7.010	3.505	3.505
Workers' Compensation	1.710	1.710	-
Employment Insurance	1.550	0.900	0.650



※ EI premium varies according to the firm size
Firms w/ < 10 workers pays lowest level. 0.25%

1. Overview of Social Insurances in Korea

Recent 10 years trends of premium rates



Total rates have risen by 1.84%p (10.6%) for the last 10 years

2. Financial Support for Premium from Central Gov't

Need for Financial Support for Small Firms

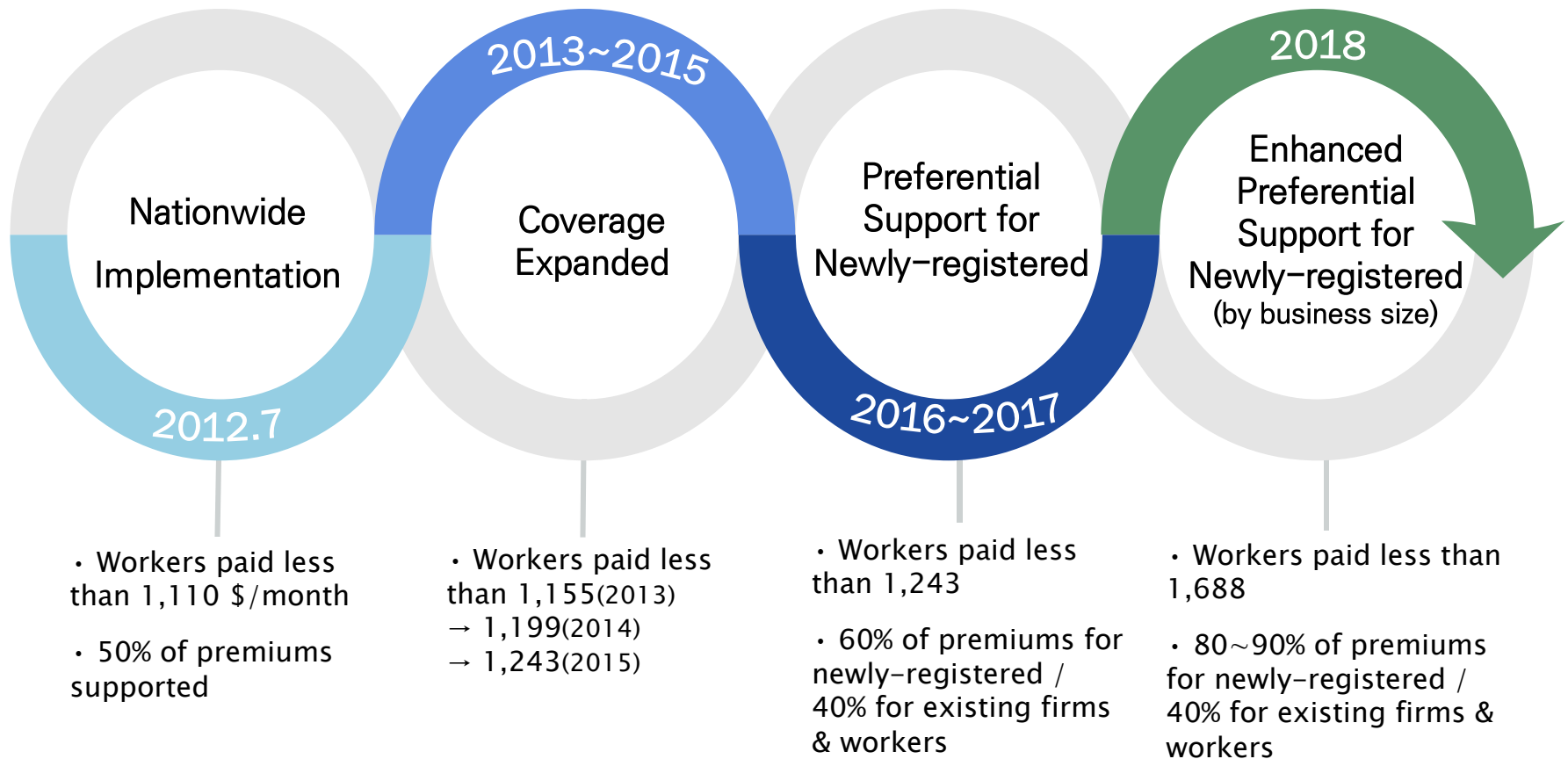
- ✓ Financial burden on employers and workers
- ✓ Widening wage gap between small and large firms
- ✓ Rate of social Insurance-covered workers as of Mar. 2012
(Source: Pilot Program Evaluation Paper, KDI, 2012)
 - Employment Insurance : 41.1%(<10 workers) vs. 72.8%(≥10 workers)
 - National Pension : 39.1%(<10 workers) vs. 82.1%(≥10 workers)



February 2012, pilot program for firms w/ < 10 workers in 16 regions

2. Financial Support for Premium from Central Gov't

Progress of Social Insurance Premium Support



2. Financial Support for Premium from Central Gov't

Status of Financial Support Program as of 2019

01	02	03	04
SUPPORTED INSURANCE	BENEFICIARIES	PROCESS	RATE OF SUBSIDY
Employment Insurance National Pension	Firms with less than 10 workers Workers paid less than 1,900 \$/month	Application by firm/worker Premiums paid fully first, partly deducted afterward	80~90% of premiums for newly-registered 40% for existing firms & workers

2. Financial Support for Premium from Central Gov't

Cases in other countries

(Source: Foreign cases of premium subsidy for low-wage workers , KIPF, 2012
Evaluation on performance of premium subsidy, KDI, 2013)

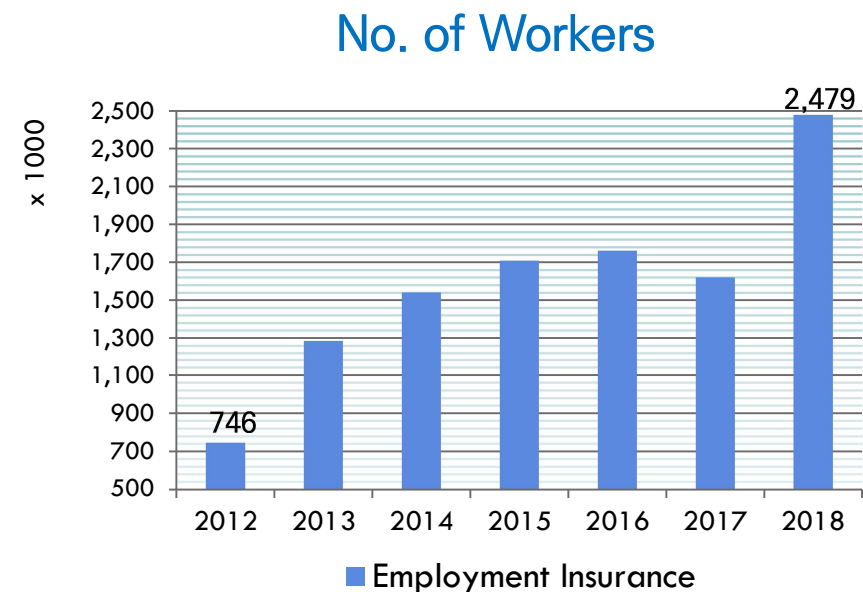
Types		Countries
Method of support	Premium exempted for workers below certain level of low-wage	Australia, Austria, Netherlands, Norway, Spain, U.K.
	Premium reduced for workers below some level of low-wage	Belgium, Germany
Beneficiary	Workers	Germany
	Employers	France
	Workers and Employers	Belgium, Ireland, Spain

2. Financial Support for Premium from Central Gov't

Yearly Statistics of Supported Firms & Workers



(2012) 315 → (2018) 666 thousand firms
; one third of all firms



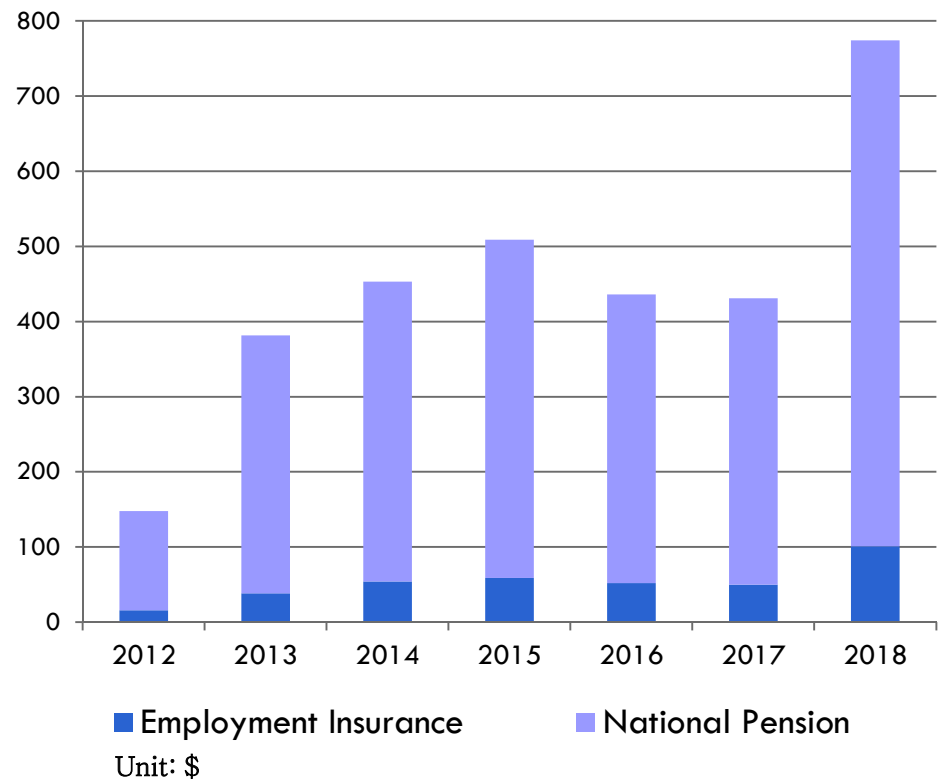
(2012) 746 → (2018) 2,479 thousand workers
; two thirds of all workers

2. Financial Support for Premium from Central Gov't

Yearly Amount of Subsidy

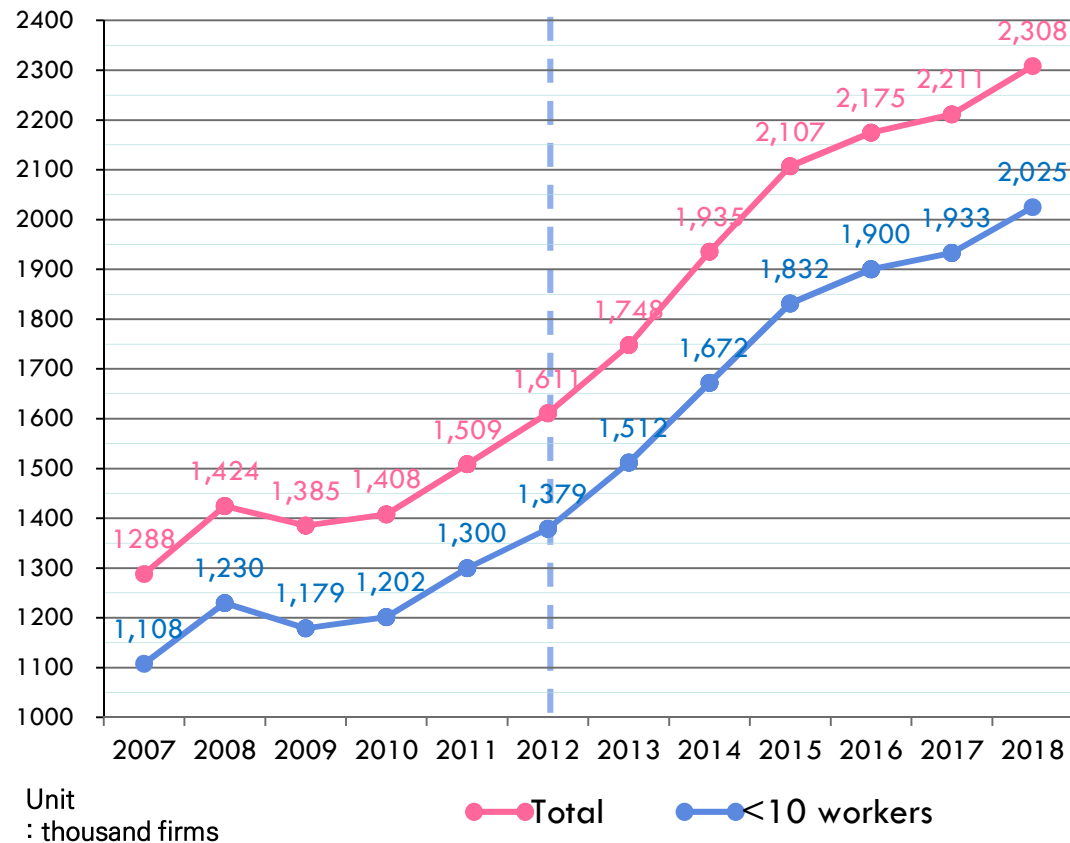
Year	Total	EMPLOYMENT INSURANCE	NATIONAL PENSION
2012	148.26	15.67	132.59
2013	381.80	38.46	343.34
2014	453.66	54.37	399.29
2015	509.74	59.65	450.09
2016	446.07	52.29	384.90
2017	431.54	50.01	381.53
2018	775.13	101.37	673.76

Unit: \$, million



2. Financial Support for Premium from Central Gov't

Subsidy contributed to the increase of firms & workers' registration



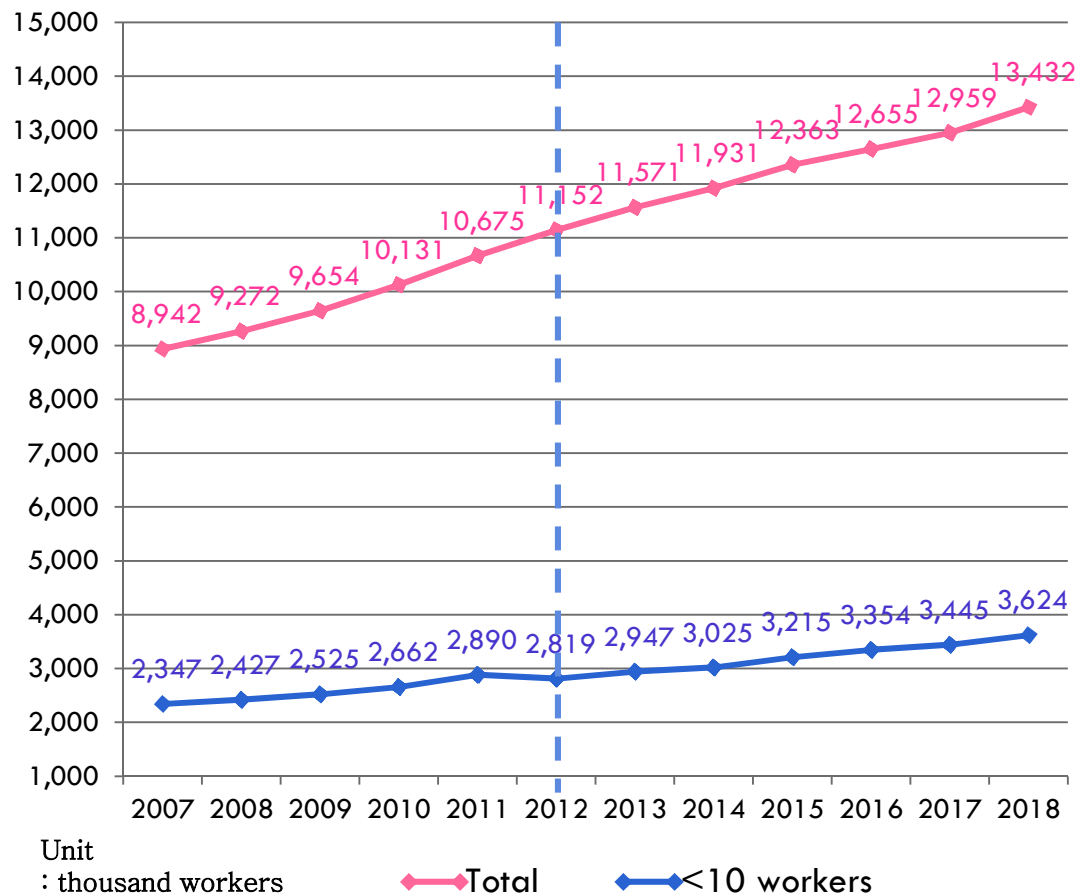
Average increasing rate
of registered firms
5 yrs before and after 2012,

✓ Total : 4.7% → 6.6%

✓ Firms with **less than 10**
workers
: 4.6% → **7.1%**

2. Financial Support for Premium from Central Gov't

Subsidy contributed to the increase of firms & workers' registration



Average increasing rate
of registered workers

5 yrs before and after 2012,

✓ Total : 4.5% → 3.1%

✓ Workers of firms with **less**
than 10 workers

: 3.8% → 4.1%

2. Financial Support for Premium from Central Gov't

Positive evaluation

(Source: Evaluation Paper of Insurance Premium Subsidy, KLI, 2017)

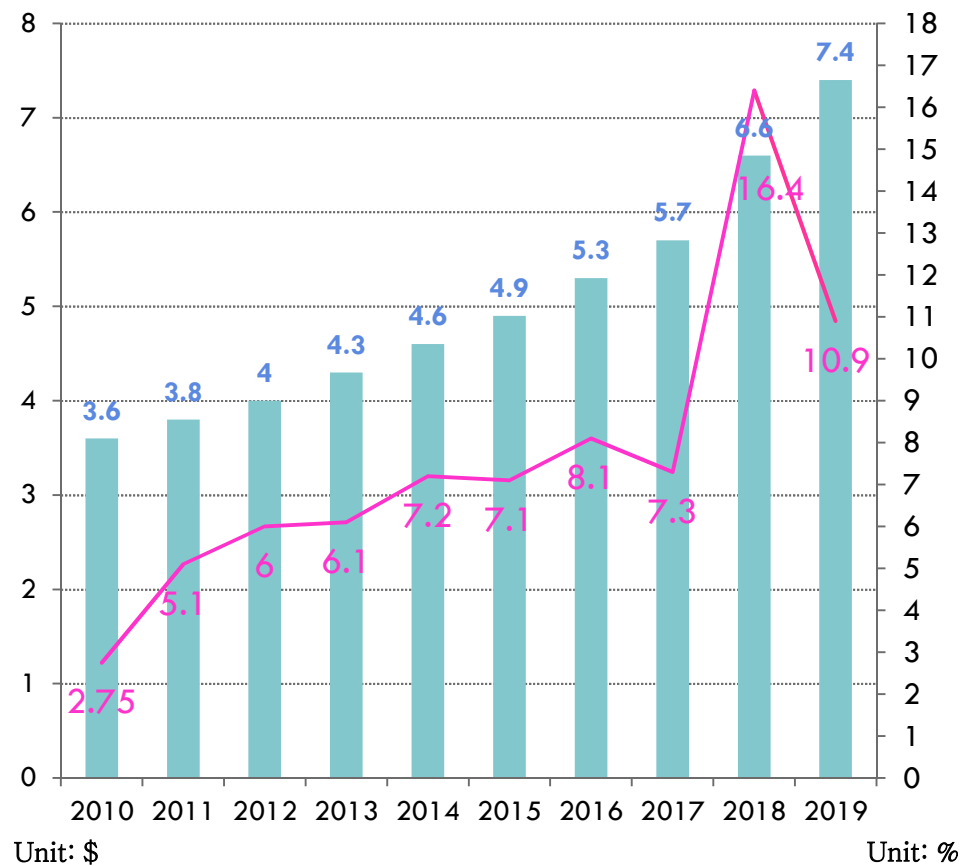
- Compliance rate of employment insurance in firms w/ <10 workers :
41.1%(2012) → 53.8%(2016)
- Reduction of labor cost
- Promoting employment of workers

Critical views

- Deadweight loss
- Sustainability questioned due to financial burden

3. Additional Supports from Local Gov't

Sharp Increase of Minimum Wage in 2018 & 2019



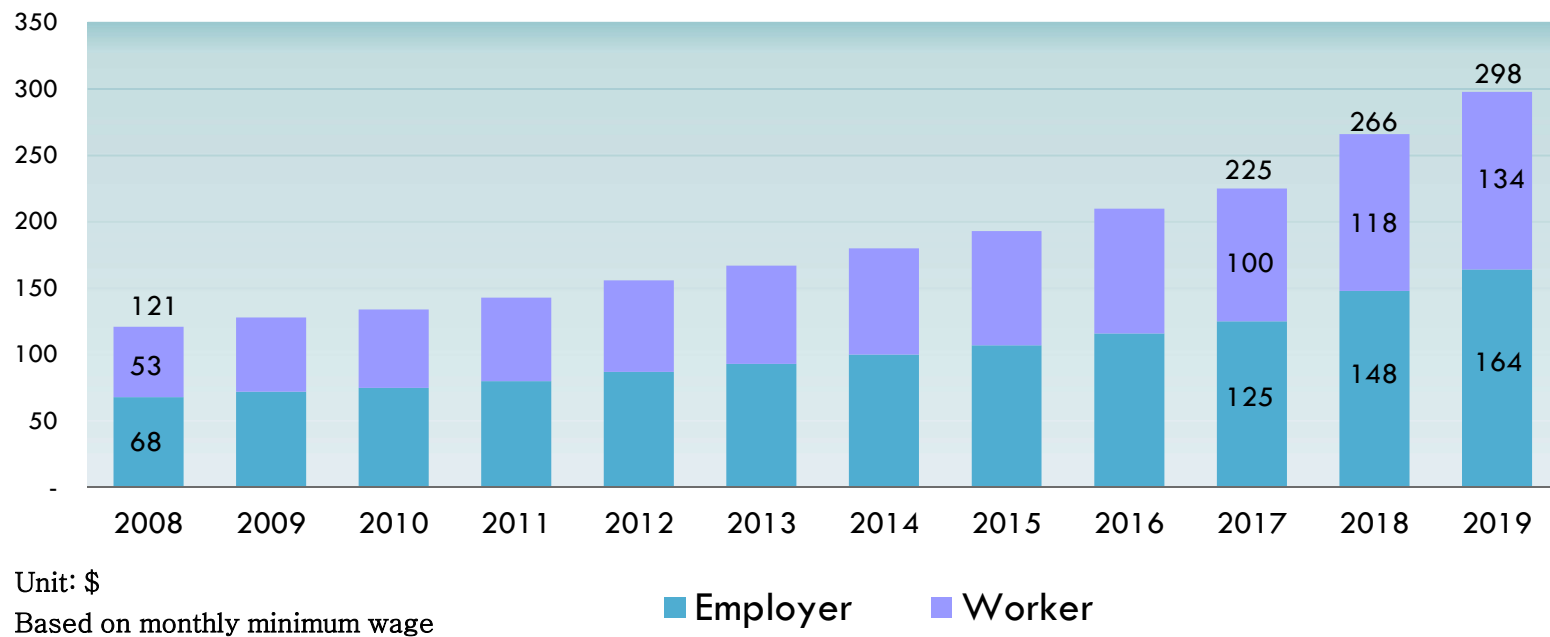
Average rate of annual increase
around 7%
from 2010 to 2017



The recent increase rate is
16.4% (2018), **10.9%** (2019)

3. Additional Supports from Local Gov't

Paid Amount of Premiums by year



Paid amount of premiums has increased by 2.5 times
for the last 10 years

3. Additional Supports from Local Gov't

Gangwon province provided additional subsidy in 2018

In consideration of,

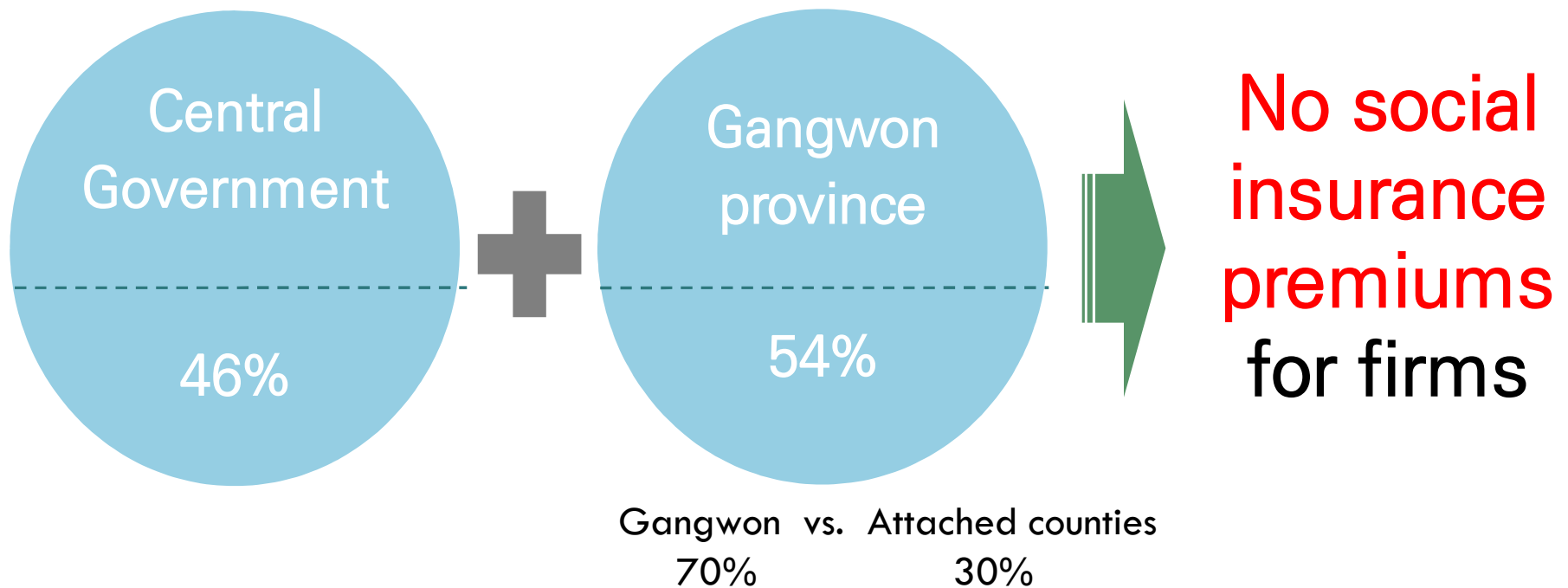
- ✓ Highest ratio of small firms with less than 10 workers (93%)
 - under-developed province
- ✓ Lower level of youth employment than the metropolitan area resulting from lower wage
- ✓ Lower registration rate of social insurances than the national average



(6 Apr. 2018)

3. Additional Supports from Local Gov't

Small firms in Gangwon do not pay any premiums



3. Additional Supports from Local Gov't

Performance in Gangwon province in 2018

Rate of increase of newly-registration in firms with less than 10 workers

Firms

Nationwide
7.5%

vs.

Gangwon
province
7.8%

Workers

Nationwide
7.6%

vs.

Gangwon
province
9.8%

3. Additional Supports from Local Gov't

Positive effects of the Gangwon province case

- **Reduced financial burdens of small firms**
- **Strengthened employment security of low-wage workers**
- **Enhanced awareness of social insurances** among local gov't officials, small firms and residents in local provinces
- **Exemplary model** of insurance subsidy for other local gov'ts

3. Additional Supports from Local Gov't

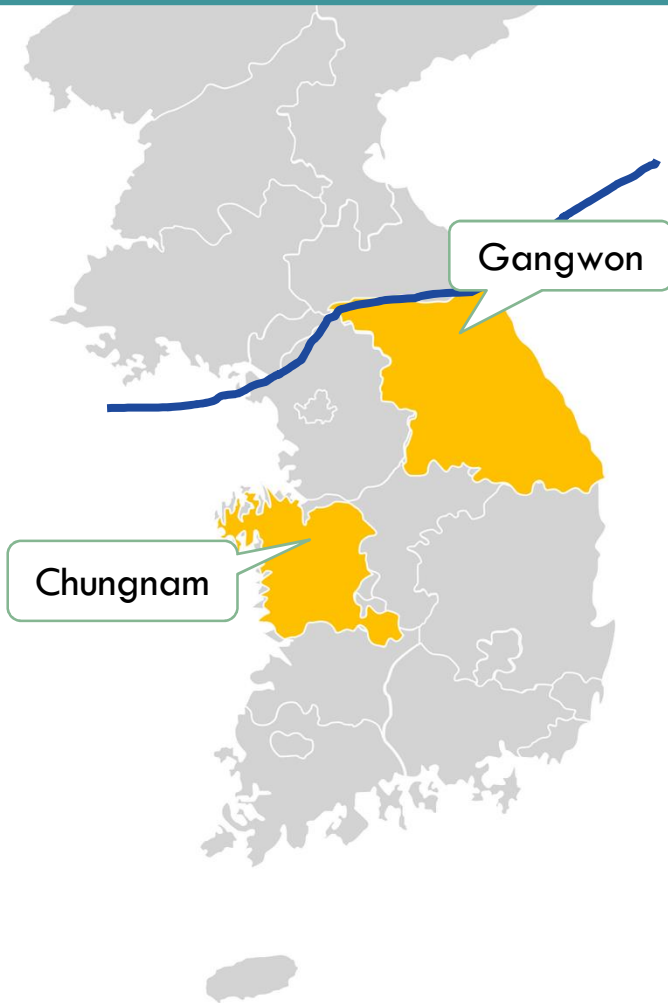
Efforts to spread 'Gangwon Case' to other provinces

- ✓ **May 9, 2018** Proposed "Collaboration on social insurance registration of small firms" to fifteen other local gov'ts
- ✓ **June ~ July 2018** Visited and consulted
 - ※ difficulties : lack of understanding, insufficient budget
- ✓ **Sep. 2018** Consultation in detail on necessary budget, local situations of firms and workers
- ✓ **Jan. 17, 2019** MOU signed between Chungnam and Korea Workers' Compensation
 - ※ difficulties : opposition from three attached counties



3. Additional Supports from Local Gov't

Chungnam province joined in Jan. 2019



Types	Local Gov'ts	Starting time	Budget (\$)
Subsidy for premiums	Gangwon	Jan. 2018	37,122,557 Gangwon vs. Attached counties - 70% : 30%
	Chungnam	Jan. 2019	27,975,133 Chungnam vs. Attached counties - 50% : 50%

3. Additional Supports from Local Gov't

Three more provinces introduced other kinds of subsidies



- In 2006, self-employed were allowed to join voluntarily in Employment Insurance
- Registered employers(unit: persons)
: 468(2006) → 23,596(2012) → 18,573(2018)

Types	Local Gov'ts	Starting time	Budget (\$)	Details
Lump-sum subsidy	Gyeongnam ('economic crisis area')	Jan. 2019	32,504,440	50 thousand KRW(monthly) per worker supported by central gov't
Subsidy for self-employed	Gyeongnam	July 2018	145,648	30~50% of premiums of self-employed who have voluntarily registered in Employment Insurance
	Daejeon	Jan. 2019	53,285	
	Seoul	Jan. 2019	399,644	
To be joined	Busan, Jeju			

3. Additional Supports from Local Gov't

Further strategies to encourage other provinces

- ✓ **Share existing three cases in five provinces so that each province adopts its own model**
- ✓ **Provide detailed consulting about available budget, subsidy procedure, etc.**
- ✓ **Multilateral efforts from managerial level and practical level**
- ✓ **In-depth case study on the result and influence of existing five subsidy programs**

4. Implications of Korean Case : How is it evolved

- ✓ Introduction of social insurances in line with economic development level and in consideration of financial burden of employers and workers
 - WC : 1964, HI : 1977, NP : 1988, EI : 1995
 - Gradual expansion of coverage : 35 yrs in WC, 24 yrs in HI, 18 yrs in NP, 3 yrs in EI
- ✓ In 2012, financial support for premiums from central government started after 17 years all social insurances were adopted to reduce financial burden and wage gap
- ✓ Subsidy developed to give more advantage for newly-registered workers to offset deadweight loss
 - (2012) same level of support for existing/newly-registered
 - (2016) advantage for newly-registered
 - (2021) support for newly-registered only
- ✓ Enhanced awareness and slightly increasing registration
- ✓ In 2018, local gov'ts in under-developed province and 'economic crisis area' joined first to reduce financial burden and to maintain employment of workers

4. Implications of Korean Case

Discussion points

- **Purpose ?** To mitigate financial burden vs. To support income
→ To raise compliance rate
- **Sustainability ?** Temporary vs. Permanent
- **Target Insurances ?** Parts vs. All
- **Differentiated Subsidy ?** Existing vs. Newly-registered
- **Division of Roles?** Central gov't vs. Local gov't

Social Protection is getting more important in a changing world of work.

Social insurances should be based on the principle of 'accountability before taking credits'.

Subsidy program for small companies and low-paid workers should be designed appropriately to the national, regional and sectoral contexts.

THANK YOU