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Reforms of the Employment Insurance System of Korea

in Coping with the Covid-19 Crisis

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Introduction of the Employment Insurance System of Korea

Market demand for comprehensive ALMPs

ALMP : Active Labor Market Program

- **As structural change in industries and global competition deepening late '80s & early '90s**

  - Instabilities in the labor market increased

- **Experiencing labor shortage & employment instability in 1990s almost simultaneously**

  - Labor shortage in manufacturing industries, especially small & medium firms and 3D jobs

  *** 3D : Dirty, Difficult, Dangerous jobs**

◆ **Comprehensive employment policies required**

➔ **Need for EIS and ALMPs**

Introducing EIS & incorporating ALMPs into EIS(1995)

- **ALMPs : Employment Security, Vocational Skills Development, Unemployment Benefits and Employment Service**
  - **On the basis of EIS ALMPs are incorporated and connected**

- **Goal : managing/supporting individual workers efficiently within EIS & social safety net**

- **Still functioning as the backbone of Korea's labor market policy system**

Main features of Korea's EIS in 1995

- Comprehensive system for programs & fund of ALMPs

 - ALMPs incorporated in EIS:

 - Employment Security, Vocational Skills Development, Unemployment Benefits and Employment Service together

- Lifelong Skills Development System incorporated :

 human capital as key element of Korea's competitiveness

 - Expanded to all industries, applied to all companies through gradual expansion covering all employees

- Korea: Putting more emphasis on ALMPs and Safety net for the unemployed

Structures of the present EIS

Structure of Korea's EIS(ALMPs)

< Initial stage : 1995>

1) Employment Security & Employment Services
2) Vocational Skills Development
3) Unemployment Benefits

< Expanded after 2001>

4) Maternity and Parental Leave Benefits

< Who is to pay?>

- for 1) & 2), employers' to pay,
  some support from the government
- for 3) & 4), employers & employees' to pay

EI premium rates

- **Initial EI premium, started at lower rates**

  - ALMP premium of firms: 0.3%~0.7% of total wage, depending on firms' size

  - UB premium : 0.3% each

  ***UB : unemployment benefits**

- **Present premium rates(as of 2021) :**

  - ALMP premium of firms : 0.25, 0.45, 0.65, 0.85%

  - UB premium : 0.8% each

  (including maternity & parental leaves)

Adjusting premium rates for ALMPs

- Adjusting premium rates for employment security & skills development flexibly in response to situations

	1995	1999	2003	2006*~
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

* since 2006, premium rates for employment & skills development are merged into one

- Only employers(firms) to pay

Flexible premium system

- Adjusting premium rates according to expenditure trend flexibly

- Premium rates are to be regulated in sub-law, within 3 %, by the government, not by the Parliament,
  - To raise premium when more expenditures required
  - To reduce premium when reserved fund exceed a certain level

- Tripartite governing body to regulate the EI fund within the government

Benefits Period, 2021

Benefit period of Job Seeking Allowance

		Length of the insured period				
		> 1 yr	1-3 ys	3-5 yrs	5-10 yrs	> 10 yrs
Age as of departure date	under 50	120 days	150 days	180 days	210 days	240 days
	50&above, and disabled	120 days	180 days	210 days	240 days	270 days

Employment Security Programs

- **Employment Creation Subsidy:**

  - to support creation of new employment through adoption of working hour selection, support new employment in the local growing industry, additional hiring of youth or aged people, etc.

- **Employee Retention Subsidy:**

  - to support employee retention by the business owners offering temporary shutdown, paid/unpaid leave, instead of severance

- **Employee Stability Subsidy:**

  - to promote stable employment of workers by encouraging conversion of temporary jobs into permanent ones, providing support during maternity & childcare leave, and supporting work-life balance

Legal frame of the EIS

- **Korea's legal frame is structured in 3 steps**:

1) **Employment Insurance Act ('the Act')** : stipulates basic underlying principles and instruments of employment support policies

2) **Enforcement Decree of the Act ('the Decree')** : stipulates detailed programs and conditions for them (eligibility criteria, benefit level, duration and their payment conditions, etc.)

3) **Ordinance of the Act ('the Ordinance')** mainly defines practical procedures.

- **Special Empowerment Clause**

- For prompt response to changing circumstances**, the Minister of MOEL is often empowered** in the Decree to determine and notify practical details (e.g. benefit amount, duration) via the Ministry Notice

- through (& sometimes without through) the deliberation by the Employment Policy Deliberative Council.

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Policy Measures during economic crisis

1) Korean financial crisis: 1997-1999

- EIS played critical role to successfully overcome massive unemployment crisis

➔ Rapidly expanding EIS coverage & programs

- beginning with firms over 30 employees ->all firms within a year 1998

- **Expanded public employment services dramatically**

- in the number of centers & staffs, and budgets

- enlarging scope & quality of services

2) Covid-19 Crisis in 2020

- In dealing with the deteriorating economy and labor market by the Covid-19 crisis, the Korean government actively utilized labor market policies including EIS.

  - significantly expanded employment security programs whereby employee retention subsidies are paid to the business owners to encourage them to retain employees instead of severance.

- Revised the Decree over 8 times during 2020 alone.

- Also, MOEL was empowered to determine different level of benefit, eligibility criteria, etc. within the power limit authorized by the Act and the Decree

Employee Retention Subsidy

<Eligibility conditions>:

- Employment adjustment may be considered unavoidable,
  - if a business owner suffers from 50% increase in inventory, or
  - 15% decrease of sales/output, from the previous year
- He/she may take employment adjustment with a temporary shutdown or individual paid leave over 1 month through reduced working hours in excess of 20%
- He/she pays allowance to his/her insured workers for the reduced hours.

Change of Subsidy Level

- **Subsidy level adjusted frequently to respond to labor market situations**

  - mostly adjusted by the MOEL empowerment

- Subsidy to firms is the proportion of his/her labor costs paid to workers

  => this proportions changed during the year

  - **Firms with priority support : 2/3 ->3/4 ->9/10**
  - Large firms : 1/2 ->2/3

Actual Disbursement in 2020

- **Employee retention subsidies disbursed in 2020:**
  - KRW 2,288 billion ← increased from KRW 67 billion of 2019

  - paid shutdown subsidy: KRW 844 billion
  - paid leave subsidy: KRW 1,381 billion
  - unpaid shutdown/leave subsidy: KRW 53 billion
  - subsidy on employee retention agreed by labor and management: KRW 10 billion

- **Fiscal year 2021 budget** for employee retention subsidy: KRW1,373 billion

- **Fiscal year 2022 budget plan** for employee retention subsidy: KRW 549 billion

Special Support Programs

- Two cases of special support programs are the most comprehensive ones in Korea's employment policy systems.

1) if he/she belongs to an industry designated as **'Special type of business for employment stability'**

2) if he/she belongs to an area designated as **'Employment crisis area'**

- The designation should be done through the deliberation of the Employment Policy Council and collaboration among ministries concerned.

- Support packages include subsidy of employee retention, special extended benefits, intensive employment service and other activation programs.

<Example>: **Designated Special Types of Business ’20-’21**

- The government selected 14 designated types of business based on a comprehensive analysis of the damage the Covid-19 crisis incurred on them.

- 1st designation: travel industry, sightseeing industry, art performance industry (’20.3.16 ~ ‘22.3.31)

- 2nd designation: air industry, duty-free shops, exhibition & international convention business, airport shuttle service (‘20.4.27 ~ ‘22.3.31)

- 3rd designation: route bus service, movie industry, training/education facilities, aircraft parts manufacturing industry, casinos for foreigners (‘21.4.1～’22.3.31)

Extension of Unemployment Benefits

1) Increase of job seeking benefits (Aug. 2019)

- Level of job seeking benefits was increased from 50% of average wage to 60%,
- Benefit period was extended by 30 days from 90~240 days to 120-270 days.
- Daily ceiling of the job seeking benefits was increased from KRW 60,000 to KRW 66,000, while lower limit was adjusted to 80% of the minimum wage from the previous 90%.

2) Extension of UB coverage to formerly uncovered workers

- Road map (Dec. 2020) to gradually expand employment insurance service to all workers step by step, as below:

Artists (Dec. 2020)) → Dependent contractors (Jul. 2021) → Platform workers (Jan. 2022) → Other workers (Jul. 2022) → Self-employer (by 2025 through social dialogue)

Insuring Art workers from Jan. 2021

- **Mandatorily covered artists** are

  1) those who get art activity certificate issued as per Artist Welfare Act,

  2) those who have signed culture/art service contract as per Artist Welfare Act

  - that aims to foster artistic creation activity, art performance and technical assistance.

- **Artists who are not included** in the application scope

  1) those who sign culture/art contract after age 65 (age limit),

  2) those who do not meet income level defined in the Decree (income limit).

➢ Eligible artists are provided with UB & Maternity protection

Insuring Dependent Contractors from July 2021

- **Applied dependent contractors :**

  - signed a contract to provide labor service for someone's business, while not as an employee,

  - get certain payment for his/her labor service ('labor providing contract'), and engage in the business sector as defined by the Decree.

- to be gradually extended to 1) insurance sales person, delivery man, after-school instructor (from July 2021), 2) quick serviceman & others (from Jan 2022).

- **Dependent contractor is eligible for employment insurance**,

  - if he/she earns KRW 800K or more a month from the labor providing contract,

  - or aggregate sum of his/her monthly income from all the contracts amounts to KRW 800K or more, in case he/she signed 2 or more labor providing contracts.

➢ Eligible workers are provided with UB & Maternity protection

Korean-model Unemployment Assistance

- **Implemented in Jan 2021**, as a Korean-model unemployment assistance,

  - to provide support for low-income jobseekers, young people newly entering labor market, etc.

  - to provide employment support service to the jobless people who, despite their ability and will to work, are unemployed and thus not protected by the employment insurance program.

- **Aim of employment support program** for all jobseekers provides employment activation program as well as financial aid for stability of livelihood.

- **Main target** is those who are hardly protected by the employment insurance program,

  - low-income jobseekers, married women, unemployed youths, small scale self-employers whose business is closed, and dependent contractors.

Financial Data of the EI Fund (2020)

(unit: KRW billion)	2020	2019	change
Total Inflow	**24,497**	**15,636**	+57%
Premium	12,920	11,089	
Interest income, refunded benefit, etc.	1,066	635	
Borrowings from the Government	4,700	0	
Program support from the Government	1,150	140	
Withdrawal of Fund deposit	4,661	3,772	
Total Outflow	**24,497**	**15,636**	**+57%**
Expenditure for EIS programs	20,352	13,853	+47%
(Unemployment benefits)	(12,212)	(8,407)	+45%
(Employment security & Skill Development)	(6,163)	(3,667)	+68%
Employment retention subsidy	*2,288*	*67*	*+34 times*
(Maternity protection)	1,977	1,779	+11%
Administration expenses, etc.	114	99	
Savings to Fund deposits	4,031	1,684	+139%