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The Development of Korean Social Insurance and the Challenges: Inclusiveness and Sustainability

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The Development of Korean Social Insurance and the Challenges: Inclusiveness and Sustainability

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<Abstract>

Social insurance is the backbone of the Korean welfare system, but there are growing concerns over its lack of inclusiveness and sustainability, two objectives generally perceived as separate from or incompatible with each other. This study examines the structure in which inclusiveness and sustainability affect each other in Korea's major social insurance schemes, the National Pension Service and Employment Insurance. In these programs, inclusiveness and sustainability are positively related, as the long-term unsustainability of the current level of benefits is causing individuals to drop out or discourages potential participants from coming onboard, negatively affecting the scheme's inclusiveness. This structural problem warrants a more comprehensive perspective in pursuing inclusiveness and sustainability in social insurance programs.

I. Introduction

Social insurance has been the backbone of Korea's welfare system throughout its inception and development. Its purpose is to protect economically active citizens and their families from risks that may affect the former's ability to work. That social insurance is alternatively referred to as the "primary safety net" indicates that the primary role of a welfare system is to protect the majority of productive citizens from losing their current position on the social ladder because of external threats. Because the policy prioritized economic development during industrialization, it was considered important to provide a decent level of stability to the economically active population. Furthermore, the government's weak finances made social insurance an attractive tool for funding welfare services, as the cost is shared between employers and employees, and is not funded from tax revenue.

Until today, social insurance plays a central role in terms of funding volume and function. In fact, social insurance is directly and indirectly associated with most policy issues. Many government programs are designed to work with social insurance schemes, which various social sectors regard as their mainstay, and to additionally provide more functions. Typical examples are the parental benefit and reduced working hour benefit for childcare. These two benefits are the key elements of the Work-Family Balance Policy, but operate within the general scope of social insurance, because it is financed by the employment insurance fund.

However, in recent years, concerns have been growing over the lack of inclusiveness and sustainability in the social insurance system. Persistent underrepresentation of a large portion of the Korean population in social insurance coverage and questions over financial sustainability are the two key bottlenecks to enhancing the country's social insurance structure.

Inclusiveness and sustainability are generally considered separate or conflicting goals. As long as efforts to promote inclusiveness by expanding social insurance coverage to a wider populace do not seriously deteriorate financial conditions, these two objectives are considered separate. In contrast, if such efforts cause a serious financial burden, they are regarded as conflicting.

However, the inclusiveness and sustainability of a particular scheme are positively related to each other, because, essentially, the sustainability of a social insurance scheme boils down to public trust in the sustainability of its benefits, which affects its coverage. In other words, when the scheme costs significantly more than the "acceptable level society can bear," it undermines most people's trust in its sustainability, creating doubts about continuing the scheme in the future. If many decide that the current level of benefits is not sustainable over the long term, individuals drop out or new participants are discouraged from coming onboard, negatively affecting the scheme's inclusiveness.

These considerations underscore the importance of pursuing inclusiveness and sustainability from a more comprehensive perspective. Within a structure where one goal is significantly affected by the other, overall improvement of the scheme requires the simultaneous consideration of both goals. As discussed later in this paper, since inclusiveness cannot be achieved if sustainability is neglected, both goals must be pursued simultaneously as much as possible.

Furthermore, a historical perspective is equally important. Social insurance in Korea has undergone a unique course of development while aiming to cover all citizens in a very short period. This greatly differs from the experiences of Western European countries, whose social insurance structure formed the foundation of Korea's insurance system. Policymakers transplanted and modified the systems in developed countries to fit the Korean context, prioritizing the expansion of coverage. In a sense, it can be viewed as a desirable example of a localized social model—which started with a similar format to Bismarckian programs, the foundation of modern social insurance—but took a different path over the process of its development and now features distinctive characteristics.

Now, the persistent exclusion from social insurance programs of a large portion of the Korean population, with the expansion of coverage having plateaued, demonstrates the limitations of previous methods in further increasing the inclusiveness of the schemes and highlights the need to find a way to break through this impasse structurally.

In light of these considerations, this study examines the structure in which inclusiveness and sustainability affect each other in Korea's major social insurance programs, the National Pension Service and Employment Insurance, and explores future trajectories to improve the schemes. The implications of social insurance for the welfare system in general are first discussed, followed by its evolutionary process in Korea, beginning with a form similar to the Bismarckian model and followed by its divergence from the original format through interaction with the specific social context. To this end, the history of the introduction, evolution, and expansion of the social insurance system is reviewed. Then, the aspects of inclusiveness and sustainability are examined through concrete details of the current social insurance programs. This study analyzes the main bottleneck in expanding institutional inclusiveness and tries to capture the implications thereof for the sustainability of social insurance.

II. Characteristics and Evolution of Social Insurance Model in the Developed Countries

Social security in the form of social insurance first developed in Germany in the 19th century. It evolved from the practice of small homogenous groups of risk pooling through deduction or a friendly society against possible risks. Germany as a state then first enforced mandatory subscription of the general working population.

The detailed design of the system was largely influenced by the unique context of German society at that time. That is, the basic characteristics of today's "social insurance" are the product of the Central European tradition, Germany's position as a late mover in industrialization, and the personal inclination of Chancellor Bismarck. His motto at the time is summarized as "preemptive, conservative developmentalism." It is known that his motivation for introducing a welfare system was to preempt the spread of socialist ideas and increase workers' productivity to strengthen national competitiveness to match that of Britain without antagonizing the conservatives.

Bismarck declared the introduction of a welfare system based on "practical Christianity" through his Reichstag Speech in November 1881. He proposed health insurance, disaster insurance, disability insurance, and pension insurance. The fact that none of these schemes had ever been operated by any nation before demonstrates the pioneering nature of his plan (Stolleis, 2014).

The characteristics of Bismarck's social insurance become evident when compared to the other representative type of insurance system, namely tax-based social insurance. Britain introduced the tax-based National Health Insurance Act in 1911, a long time after Germany introduced medical insurance as its first social insurance program in 1883 (Table 1).

<Table 1> Introduction of major social insurance programs

Country	Health	Pension	Accident	Unemployment
Germany	1883	1889	1884	1927
France	1928	1885	1898	1905
Sweden	1891	1913	1901	1934
UK	1911	1908	1897	1911
US	N	1935	1908	1935
Japan	1922	1941	1905	N
Korea	1977	1988	1964	1995

source: Kuhnle and Sander (2010), Korean cases was added by author

While significant that Germany was far ahead of Britain, the differences between these two systems are much more important in understanding the development of basic social insurance models. The tax-based system started in Britain and Canada, and is now in use in northern and southern European countries, including Sweden and Italy. This system provides benefits using funds gained through taxation, and is characterized by a high degree of universality based on the country's tax administration. In contrast, Bismarckian-type social insurance provides medical services, pension, and unemployment benefits in return for paid social insurance premiums. Well-known examples of countries that have adopted this model include Germany, France, the Netherlands, and Japan. Compared to the tax-based system, the Bismarck model has a noticeably weak redistribution mechanism, which promotes equality by adjusting the gaps between workers in the labor market through the processes of income redistribution and insurance premium pooling.

The Bismarck model is characterized by its design, which preserves the existing hierarchy and inhibits redistributive factors, as Bismarck aimed to sustain the support of the ruling class while upholding Christian tradition and conservatism. The fundamental purpose of this model was to strengthen the bond between workers and the state, while retaining social and occupational differences and distinctions in the labor market. Unlike the tax-based model, which "integrates a country's entire population into the system," the Bismarckian-type system exhibits low universality, because it allows separate entities to establish an independent fund according to their status in the labor market and "diversify risks on their own in separate groups." In 2009, Germany finally announced a universal insurance program that covers every single citizen since the introduction of its first health insurance scheme in 1883. The fact that the country took 126 years to achieve this also shows that universal insurance had not been its priority.

Along with conservatism, the relationship between the state and social insurance is another underlying feature of the Bismarck model. However, it is notable that this intent changed during the Reichstag discussions, which tried to keep his immense political power in check. Therefore, the Bismarck-type program is the result of various factors that came into play in the German social context and tradition at that time, rather than the original intent of the policymaker. Initially, Bismarck wanted the state to take control of the financing and management of social insurance. This idea ran counter to the popular sentiment that favored the tradition of subsidiarity and the wariness of Reichstag members for an authoritarian government. The fierce debates in the Reichstag compelled changes in Bismarck's original scheme. Ultimately, levies, rather than general taxes, became the basis of the prototype of Bismarckian-type social insurance, and a semi-public agency, joined by labor and management instead of government, was put in charge of the program. All these arrangements contradicted Bismarck's original ideas (Stolleis, 2014, Palier, 2010).

Until now, Continental welfare states such as France and Germany uphold the following key features of social insurance. The first is maintaining individual and occupational differences in the labor market, created by the contribution-based benefit structure, rather than pursuing income redistribution. The second is emphasizing the participation of labor and management in the operation of the system and maintaining distance and tension with the state (Hinrichs, 2010).

The recent reforms in these countries indicate the challenges facing the Bismarck model in the midst of the changing global economic environment. Structural shifts in the global economy and increasing instability in the labor market require a social insurance scheme that can play a more comprehensive role. The existing system, which is dependent on risk pooling within homogenous groups, maintaining economic gaps between groups, and systemic division, is reaching a breaking point (Palier and Thelen, 2010).

This trend is worth monitoring in terms of economic policy and social integration. Today's economic environment is transitioning toward greater mobility and flexibility, and minimizing fragmentation between institutions is becoming increasingly important. In this sense, recent reforms are preemptive measures to protect workers from disadvantages and differential treatment in social insurance programs and to allay their concerns regarding the impact of changing circumstances in the labor market on their livelihoods. From an economic policy perspective, it is no longer viable to limit social mobility by applying different programs reflecting varying economic statuses. Rather, it is now more important to spend tax revenues on assisting workers in a relatively weaker position in the labor market with integration into the social insurance system to enhance the inclusiveness of social insurance and, ultimately, strengthen mobility.

III. The Path of Development of the Korean Social Insurance System

1) Health Insurance

The success of the South Korean government in the first three rounds of its five-year economic development plans in the late 1970s encouraged a shift in focus from economic to social development. Thus, the 4th Five-Year plan commenced in 1977, defined social development goals. These endeavors involved *inter alia* medical benefits for those in abject poverty and a new medical insurance system for workers at companies with 500 or more employees. The Constitution of the Third Republic of Korea, which had been amended after the May 16 coup, stipulated the Medical Insurance Act. However, the financially poor Republic was not able to implement this scheme, and ultimately only a few health insurance programs for companies and self-employed workers' associations were implemented.

The history of Korea's health insurance system clearly demonstrates how the present Korean welfare system was built on the social insurance system, and what was changed and invented in the Korean context at the time of its inception. It appears that policymakers then were strongly influenced by the decentralized, autonomous German model in terms of financing, while benchmarking the German and Japanese systems.

This is well illustrated by the anecdote in which "the minister of Public Health and Society convinced the president, who was concerned about financing. The minister pointed out that there would be no problem, even though the government's budget is not appropriated for it, because the system is run by funds paid by companies and workers themselves" (Kim, 2011). Finally, the management of health insurance in Korea adopted the Bismarckian-style multiple-funds system rather than the National Health Service (NHS) model used by Britain and Sweden. The most likely aim was to create a hedge against potential problems for government finance, while funding the medical insurance scheme through separate sources and not general taxes. Eventually, private nonprofit unions were charged with managing the medical insurance project.

However, unlike the Bismarck model, the planning and management of the system in Korea was a process of realizing the government's policy objectives. The government appointed the head of the private union, and the health insurance system quickly expanded under the government's direction. The government decided to apply medical insurance to companies with more than 500 employees (which included 1,743 companies and 8.8% of the population, namely 3 million people) in the 4th Five-Year plan (1977–81). It rapidly expanded coverage after the establishment of 513 medical unions. Residents living in rural municipalities, locally known as *gun* (an administrative division in

Korea, roughly equivalent to a county), were included in January 1988, and the enrollment of employees at companies with five or more persons became mandatory in April the same year (this covered 70% of the total population). With the integration of self-employed workers in cities into the scheme by July 1989, South Korea could declare the establishment of a nationwide medical insurance system only 12 years after its introduction. Compared to the time taken to accomplish national universal healthcare systems in countries that had adopted Bismarckian-type medical insurances (Germany took 126 years, Austria 79 years, and Belgium 117 years), Korea accomplished it within an incredibly short period, making it a globally unprecedented, record-breaking achievement (Future for Insurance Forum, 2012).

The Korean government's financing strategy in the early stages was to absorb programs at the major companies that had already been running medical stipend programs into the national medical insurance system. Under a medical stipend program, a company has a designated medical center or medical center under its management as part of employees' benefits, and covers a part of its employees' medical costs. In general, private companies pay stipends for up to 30% of medical costs, and government-controlled companies or banks pay 50–80%. In brief, the government established "a gradual medical insurance coverage plan" based on this existing practice (Ministry of Health and Welfare et al., 2017).

One noteworthy point in this process is that, although the Korean government adopted the Bismarck system for financing, it sharply deviated from Bismarckian principles such as "retaining occupational and income differences and maintaining distance from the state." This becomes obvious when examining the process of replacing multiple non-profit private unions with a single national union. As many as 373 medical unions existed in 2000, and these were all combined into a single insurance system. The governing rationale at that time were disparities in insurance costs and income levels between unions, limiting risk diversification, wasting resources, and discrepancy with national health policy (National Health Insurance Service, 2012).

The crucial difference between Korea and its role models was that the Korean public perceived medical insurance as the sole responsibility of the state, and therefore, they could not palate the idea of incorporating differences between various groups into the scheme. This set the Korean social insurance system on a different path than the conservative Bismarckian-type social insurance system. The popular expectation regarding the state's role shaped a unique climate that stimulated the development of the Korean social insurance system. Developed countries that adopted the social insurance system accepted varying insurance premiums between unions depending on economic capacity. In contrast, the Korean government was met with strong complaints about the gaps between unions. The public firmly believed that the state should take responsibility for adjusting the problem, and the entire nation was eventually included in the singular system.

In addition, the medical insurance system partially incorporated the general tax revenue over the course of integration. Regional medical insurance included rural and fishing villages in 1988, and the government decided to cover 50% of self-employed subscribers' premiums with national funds. This strategy integrated the government function of public assistance for the poor into the social insurance system, and the redistributive benefits of health insurance were covered by general tax (Yun, 2014).

In summary, Korea developed the following distinctive features compared to the Bismarckian prototype. First, it established a levy as a new source of revenue where it was difficult to impose and collect taxes. Second, the government strictly led the introduction and expansion of the system, while partially adopting the basic framework of labor-management participation. Third, the insurance system was perceived as and rapidly evolved into a national program.

From today's perspective, considering past changes in the global economic environment, Korea was to a certain extent early on able to prevent the serious problems Bismarckian-type countries had to face such as increasing social gaps, heavy burden of insurance premiums, institutional fragmentation and systemic rigidity. The major trend of Korean social insurance is pursuing inclusiveness as a national program, while not being constrained by the framework summarized as "social security reflecting differences between groups and employment relationships."

2) National Pension System

The Bismarckian-type pension scheme focuses on preserving individuals' income status by providing pensions proportional to the period of contribution and income. This is largely contrasted with the Beveridge model, which was initially characterized by the national minimum security and fixed-rate premium/fixed-rate pension with a focus on poverty relief and income redistribution.

The national pension service of Korea was modeled on the German and Japanese social insurance systems; however, its development took a different course from that of the Bismarck prototype, as in the case of health insurance. Similarities are evident in labor-management participation and high income replacement rate (70%) in Bismarckian-type countries. The low insurance premium for significant benefits is a typical characteristic of developing countries, which "promise great benefits in return for a low burden aiming to lowering the barriers in introducing a program" (World Bank, 1994).

Conversely, a significant difference from the Bismarck model is found in the benefit formula featuring relatively higher redistribution. This is because the system was designed as a two-tier structure during the first legislation (1973), benchmarking the Japanese equivalent. Japan adopted the German earnings-related pension for financing in 1942, but later switched to the new employee's pension in 1954. As a result, Japan ended up with the two-tier system combining the earnings-related pension with basic pension. This was the product of a compromise between two contrasting arguments. One is that benefiting high-income earners goes against the principle of social security, and the fixed-rate model with income redistribution function is suitable for pension. The other is that the earnings-related pensions system has long been used in many Western countries, including Germany, which does not go against the idea of social security. In brief, the Bismarckian-type system first underwent changes when entering Japan, and this modified version found its way into Korea (Committee for National Pension History, 2015).

As with health insurance, tax money was directed into Korea's pension funds from early stages of the scheme to include the entire population of Korea. The program first included companies hiring ten or more employees in 1988, and the scope later widened to include those with five or more employees in 1992. The Kim Young-sam administration expanded pension coverage to rural and fishing villages, along with partially offsetting the insurance premiums payable by these groups through tax revenues. In conclusion, the Korean Pension Service rapidly expanded its coverage. The final touch that completed a truly *nationwide* pension system was including the self-employed population in cities in 1996. Coverage was then further extended to companies with five employees in 2004, and to all companies, including one-employee businesses, in 2006.

3) Employment Insurance (unemployment insurance)

An unemployment insurance program is intended to protect beneficiaries from the risk of "dramatic income reduction caused by job loss." The position a state needs to adopt on unemployment is fundamentally associated with the discourse on the state's role in the labor market. Therefore, unemployment insurance is potentially more prone to conflict and debates when introduced than other types of social insurance. Thus, among the various types of social insurances, many countries introduced unemployment insurance last. Korea underwent a series of heated debates over the basic goals of unemployment insurance, while grappling with funding shortages during the process of its introduction (Ministry of Labor, 2006).

Discussions on unemployment insurance started as early as 1961, when it was mentioned in the Employment Security Act promulgated by the military government. However, concerns that such a program may disincentivize work hindered its introduction, even after the country started stable economic growth. The plan only gained traction again in the seventh round of the Five-Year Plan after the June 29 Declaration for democracy in the late 1980s (Ministry of Employment and Labor, 2016).

The unemployment insurance system adopted by Korea requires the entire population's mandatory membership and is based on joint labor-management participation. The latter is also used in France, Germany, and the Netherlands. Instead of a government-led universal insurance scheme, Korea adopted the German system based on labor-management participation as the key framework, and included labor and management in the decision-making mechanism. This arrangement is probably related to the Korean policy environment at that time, where health insurance and national pension service were operated in a similar manner to European countries, while Korean policymakers highly regarded the European model for the positive effect of labor-management participation. However, Korean employment insurance is distinct from other social insurance schemes, because local employment centers took charge of affairs related to employment insurance as regional administrative agencies of the Ministry of Labor. From the beginning, it was made clear that the insurance was introduced as a state program and was directly managed by the state itself.

When the unemployment benefit program was first launched in July 1995, mandatory enrolment extended to companies with 30 or more employees. The scope was extended at an unprecedented speed with the sudden spike in joblessness in the wake of the 1997 Asian financial crisis, which dealt a fatal blow to the Korean economy. The coverage was further expanded to companies of ten or more employees in January 1998, and again to companies of five or more employees in March. In October that year, companies of all sizes, including one-person businesses, were finally included. Noteworthy is that systemic expansion must be aligned with strong administrative infrastructure to ensure that benefits reach the intended beneficiaries. As such, the dramatic expansion of unemployment insurance coverage in just over one year is recognized as an effort to extend the structural scope of application (even at the expense of internal stability) to assist as many people as possible.

The introduction of unemployment insurance has significant implications for training benefits as well. Rapid technological advances and structural transformation in industries created a surge in demand for ongoing training for incumbent workers, reflecting the need to upgrade their skills toolbox. Since its inception in 1995, unemployment insurance integrated vocational training for employees into programs financed by the Employment Insurance Fund (EIF). The existing obligatory vocational training system was abolished and seamlessly absorbed into the EIF-funded vocational skills development program (Kang and Uh, 2013).

Under the employment insurance system (EIS), all employers are required to pay employment insurance premiums to the Employment Insurance Fund (EIF), which is used for the Employment Security Program, Unemployment Benefits, and Vocational Skills Development Program. This could be considered a comprehensive funding structure that enables for-profit corporations, businesses, and individuals to provide vocational training if their training facilities were recognized.

IV. The Current Inclusiveness and Sustainability Status of Social Insurance

The significant blind spot in the current National Pension Service and Employment Insurance schemes necessitates urgent action to improve their inclusiveness. Inclusiveness is not a serious issue for National Health Insurance, because entitlement to benefits is not linked to whether contributions are paid and most people in Korea are included, regardless of economic status.

The current level of sustainability is mainly affected by conditions surrounding the scheme's design process and its later evolution. Because the National Health Insurance and Employment Insurance were introduced when people were less likely to accept these schemes, the level of benefits covered was set low by design. This was then followed by the continued expansion of benefits, as the low level of benefits later became an issue. In contrast, the National Pension Service was designed to provide benefits far above a sustainable level from the moment it was introduced to increase the level of acceptability. Although it was difficult then to predict rapid population aging, and reforms were at least vaguely planned for the coming years, financial problems from its inception still cause concerns regarding its sustainability, despite two rounds of reforms since its conception. Korea's social insurance system is struggling in terms of inclusiveness and sustainability, the challenges most palpable in the National Pension Service and Employment Insurance schemes.

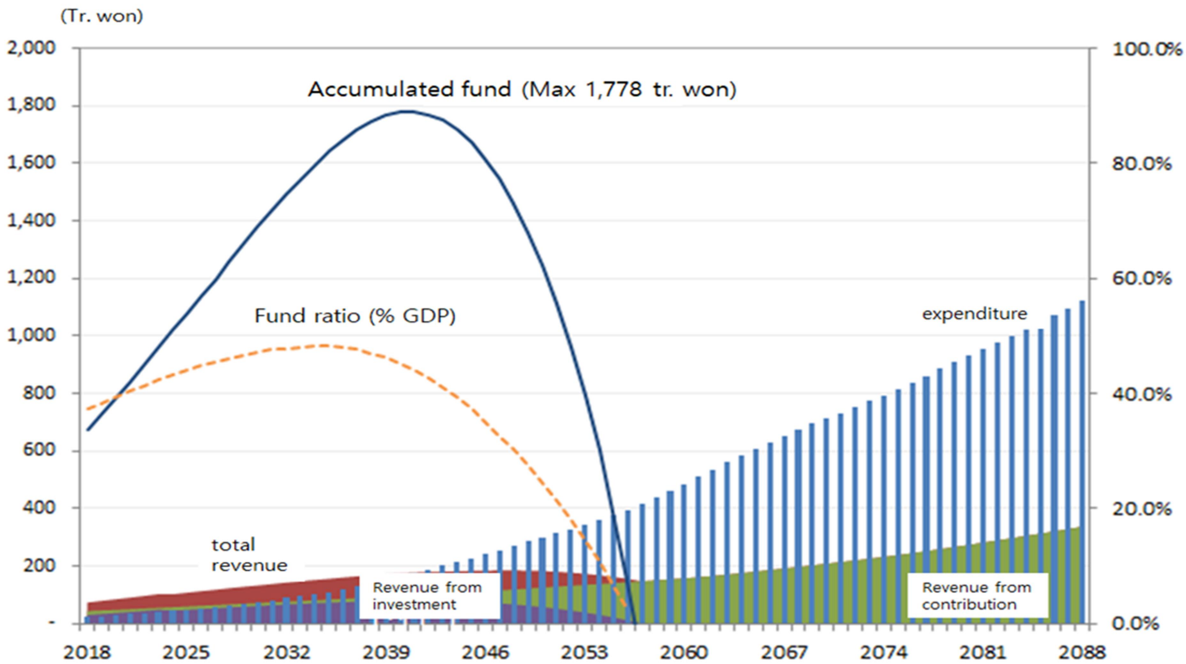
1) National pension system

As of 2014, only 35% of those aged 65 years or older received a public pension. Conversely, only 64.4% of economically active people aged between 18 and 59 years were paying their insurance premiums. Of these, 5.7 million were classified as excluded or long-term defaulters. These include people who formally qualify as subscribers, but did not declare their income, and those who declared their income, but had not paid insurance premiums for more than a year. Although this is partially explained by the current immaturity of the system, a future outlook suggested that the take-up rate would only hover around 40% in 2030, when the baby boomer generation retires and reaches the age of 65 years or older. This indicates the significant role of a structural bottleneck (Lee et al., 2016).

This blind spot also explains the low level of net benefit provided by the national pension program. In Korea, the net standard income replacement rate including basic pension was 50%, well above the OECD average public pension replacement rate (40.6%). However, the net income replacement rate is only 16.5%. This can be attributed to the short contribution period and long absence from the pension system during the working period in the labor market. The average contribution period of national pension recipients lasted only 16 years in 2014, whereas the average of the 27 EU member countries was 36 years. This clearly implies the importance of reducing the ratio of individuals without coverage who do not pay insurance premiums.

This huge blind spot (i.e., people the public system currently does not cover) coexists with the sustainability threat. Currently, the National Pension Service grapples with the urgent need to enhance sustainability. According to the Fourth Financial Recalculation published in 2018, the accumulated pension fund is projected to continue increasing until 2041 (up to KRW 1,778 trillion), start to show deficits from 2042, and run out by 2057. The depletion is expected to increase the pension contribution from the working-age population by up to 27%, a dire forecast that accompanies an even more serious question, namely whether people will accept a "situation where they have to pay a far higher contribution than an actuarially balanced level." More important, since pension fund depletion is a certainty in the near future, the working-age population has a strong incentive to drop out of the scheme or evade new membership before the fund dries up. This implies that the future sustainability of the scheme faces a serious threat, which also threatens its current inclusiveness. Essentially, the future prospect of the pension scheme best showcases how concerns over the sustainability of a social insurance program can directly affect its inclusiveness, emphasizing efforts to improve the fund's finances.

<Figure 1> Prediction of National Pension finance



Source: Ministry of Health and Welfare (2018)

2) Unemployment Insurance

In 2014, a mere 38.7% of the unemployed population, or 362,000 of 936,000 people, received unemployment benefits (Bang and Nam, 2016). According to the OECD (2010), this is significantly lower than in most developed countries, except for Japan and the US. In other words, insurance function against the risk of income loss from unemployment has little effect. The main reason is that the scheme covers a significantly small population, which is evidenced by a contributor rate to employment insurance accounting for only 64% of Korea's total working population. Although the strict qualification standards do have an effect, non-contribution to employment insurance is the principal factor.

Regarding sustainability of Employment Insurance, rather than the short-term financial sustainability of the scheme, concerns have consistently grown over the effect of unemployment benefits on the low-wage labor market and possibility that this might ultimately undermine its financial sustainability. The relative gap between a worker's wage level and unemployment benefit level influences whether the low-wage labor market continues to work. Recently, 20% of recipients of the unemployment benefit now receive more money in unemployment benefits than they did from their wages while employed. This calls for efforts to balance the inclusiveness of Employment Insurance, which benefits as many low-wage workers as possible, and its sustainability.

V. Systematic Bottleneck

1) National Pension's Continued Actuarial Imbalance

One of the main factors undermining trust in the sustainability of the National Pension Service is that the scheme does not achieve actuarial balance. Weakening trust in the scheme increases the incentive to drop out and decreases the incentive for those currently in blind spots to join. A primary contributor to its failure to ensure actuarial balance is the much higher level of pension benefits compared with the level of contributions paid by its members.

The structure of the national pension system favors early subscribers. At its introduction, the initial income replacement rate was 70% for those who contributed for 40 years. However, the rate decreased after the two national pension reforms. Nonetheless, the Korean national pension system has still not managed to meet the actuarial balance, and is characterized by an imbalanced benefit structure with higher levels of pension than cannot be covered by collected insurance premiums. When the pension fund is depleted and the insurance premium rate more than doubles, the benefit ratio (the ratio of net benefits to net insurance premiums paid) for the next generation will significantly decrease compared to that of the current generation.

Assuming a 20-year contribution and 20-year benefit scenario, the benefit ratio exceeds 1 and that of average income earners is 1.9, even though new subscribers in 2015 are subject to a lower benefit ratio than are past subscribers. On the other hand, the benefit ratio for most of the 2060 subscriber generation will be below 1. This is a serious problem, because if the next generation refuses to accept the low benefit ratio, the national pension system will encounter an existential threat. The deterioration of public finance will further accelerate if low-income earners, who enjoy a relatively higher benefit ratio, are included in the system. In such circumstances, where the sustainability of the system is under threat, it is difficult to eagerly include socially vulnerable groups in the system again.

2) Employment Insurance's Sustainability Conflicting with Unemployment Benefit Floor

Important factors for the sustainability of Employment Insurance are the level and structure of unemployment benefits. Even though the current rate of unemployment benefits is 50% of the last wage the individual earned, this rate is nominal and has no substance, as the percentage of the beneficiaries to whom the lower limit applies is too high. The percentage of those who receive the lower limit began with 0.9% in 1996 and increased to 2% in 1999. However, the figure spiked as the lower limit was revised upward from 70% of the minimum wage to 90% in 2000. In 2014, 74.8% of people received the lower limit, while just 5.5% received 50% of their income. While the upper limit is set as a fixed amount, it is not much higher than the lower limit to the extent that the lower limit literally overtook the upper limit in 2016. In 2019, the upper limit is KRW 66,000, and the lower limit is KRW 61,416, for 8 working hours (90% of the minimum wage). Although statistics on unemployment benefits since the rapid minimum wage increase in 2017 have not yet been made public, the percentage of those receiving the lower limit is known to total 80%.

The essential objective of unemployment benefits—to hedge against the risk of income loss when workers lose a job—calls into question whether it is reasonable that a worker receives more money in employment benefits than the income he or she earned during employment. This can significantly dampen the incentive to return to the labor market, because it makes little difference to the beneficiaries whether they make efforts to find a job, as the amount of unemployment benefits is greater than or close to their usual income level. In other words, an incentive structure becomes highly prone to distortion when there is no difference between unemployment benefits and recipients' normal wage.

It is known that approximately 20% of the current recipients of unemployment benefits receive more money in unemployment benefits than their income before they lost their job, and that far more recipients' unemployment benefits are similar to their normal income level. Furthermore, as fewer low-wage workers take sole responsibility for their family's livelihood, because of an increasing number of multiple-earner households, the argument that unemployment benefits should be provided at a level to meet the minimum livelihood is becoming less persuasive.

Most important, the level of unemployment benefits affects not only the sustainability of Employment Insurance but also its inclusiveness, since the duty to maintain the fiscal sustainability of the scheme dis-incentivizes efforts to integrate low-wage workers into the system. In other words, it is easy to expect that a higher benefit floor would benefit low-wage workers more, but it is in reality difficult to implement efforts to incorporate workers who are paid less than or similar to the lower limit into the scheme, because of financial constraint. This leads to various explicit or implicit restraints that keep low-income workers out of the scheme, even as its official coverage expands.

Thus, an excessive rise in the lower limit compared to the market wage level would guarantee a high level of unemployment benefits for those already under the scheme, but is highly likely to exclude those outside the system who desperately need these benefits. Therefore, if a primary goal is to expand the scheme's inclusiveness, it is reasonable to provide adequate payments at a fixed amount to ensure the minimum level of benefits while maintaining benefits at an appropriate level to prevent the scheme from dis-incentivizing participation in the labor market. In contrast, if the scheme is mainly intended for limited, homogenous groups of recipients, a higher income replacement rate and limited redistribution are preferable.

Major advanced countries do not have a benefit floor and allow low-wage workers to receive unemployment benefits at a certain percentage, as shown in Table 2. Even if they have floors, they are much lower than the average wage compared to the situation in Korea.

In Korea, where 5 million workers are excluded from the benefits of Employment Insurance, it is difficult to justify a high lower limit that applies to 80% of recipients. This remains in place primarily because of the statutory requirement that the lower limit be synchronized with the minimum wage. The current structure significantly dampens endeavors to expand the scheme's inclusiveness, as its financial sustainability quickly worsens if those who can only pay small contributions are rapidly incorporated into the system.

<Table 2> Unemployment benefit floor (% of Average wage)

US	Japan	Canada	Germany	Italy	France	UK	Sweden	Korea
14%	14%	None	None	None	27%	Flat	21%	42%

OECD (2018)

VI. Implications

While Korea to some extent modeled its system after the Bismarckian social insurance program, it prioritized including a wider populace in the course of its development, driven by the strong recognition by the government and among the public that social insurance is the "state's scheme," not a risk pooling model for different worker or occupation groups. On one hand, this meant that the social insurance scheme could ensure its sustainability only when it widely included less privileged groups and obtained trust and support as the state's scheme. On the other, as the scheme has continued, it has established a two-way interconnection, where increasing doubts about its sustainability create a stronger incentive to drop out or discourage new participants. This negatively affects the scheme's inclusiveness. It also further highlights the importance of policy discourses in the Korean context, where the trajectory of state policies has a dominant effect on the inclusiveness and sustainability of social insurance. This differs from European countries that have kept the state an arm's length from social insurance.

The interaction and balance between inclusiveness and sustainability indicates that increasing benefits alone cannot be the primary goal of a scheme. Notably, the financial sustainability of the National Pension Service and effect of Employment Insurance on the labor market showcase how sustainability concerns affect individuals' decision-making on whether to participate in or drop out of the scheme as well as the intensity of policy efforts to expand them.

Therefore, it is imperative to restore the actuarial balance of the National Pension program, thereby enhancing the prospect of its sustainability, at least to achieve the goal of inclusiveness. For Employment Insurance, it is important to adjust the lower limit for unemployment benefits on par with labor market conditions to avoid dis-incentivizing low-income workers' participation in the labor market. Concerns that the benefit floor is so high that the low-wage labor market might not function properly dampen efforts to expand social insurance coverage to vulnerable workers. Thus, if the primary goal is to achieve universal coverage, it is necessary to set a realistic lower limit that will not hamper economic participation.

In addition, it is important to have more in-depth discussions and to reach consensus on the key objectives of social insurance to pursue both inclusiveness and sustainability simultaneously. Enhancing trust in the scheme, including its financial sustainability, contribution fairness between generations, and a benefit gap between different groups, is important for inclusiveness. To do this, it is necessary to recognize the different expectations for the scheme across groups and generations, share information about the status thereof, and seek consensus.

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