



Ageing and Employment Policies

Korea

Vieillesse et politiques de l'emploi



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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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FOREWORD

Older people offer tremendous potential value to businesses, the economy and society. Unfortunately, they often represent an untapped and discriminated-against resource, as many public policy measures and private workplace practices pose serious barriers to work, both paid and unpaid. Many of these policies and practices are relics from a bygone era. There is a need to look beyond traditional stereotypes about ageing in order to benefit from the growing numbers of older citizens, many of whom would, in fact, choose to work for longer given appropriate policies and workplace practices.

The OECD has reported extensively on public pension and early retirement systems and the need for reforms of these systems to cope with population ageing. However, these reforms will not be enough to encourage later retirement and to reduce the risk of future labour shortages. Measures are also required to adapt wage-setting practices to greying workforces, to tackle age discrimination and negative attitudes to working at an older age, to improve job skills of older people and their working conditions, and to better “activate” older job seekers. Relatively little is known about what countries have been, or should be doing, in these areas. Therefore, in spring 2001, the OECD Employment, Labour and Social Affairs Committee (ELSAC) decided to carry out a thematic review of policies to improve labour market prospects for older workers covering both supply-side and demand-side aspects.

For the purpose of this thematic review, it was decided to define older workers as all workers aged 50 and over. The age of 50 is not meant to be a watershed in and of itself in terms of defining who is old and who is not. Perceptions about being old are inherently subjective and only loosely connected with chronological age. However, in many countries, the age of 50 marks the beginning of a decline in labour force participation rates by age. Moreover, to facilitate international comparisons, it is preferable to refer to the same age group for all countries. Thus, all references to “older workers” in this report should be taken as shorthand for workers aged 50 and over (or in some

cases, because of data constraints, workers aged 50 to 64), and should not be seen as implying that all workers in this group are “old” *per se*.

This report is one of around 20 OECD country reports that are being published as part of the older worker thematic review, which has been developed by Raymond Torres. It has been prepared by Mark Keese (team leader) and Jaehung Lee. Technical and statistical assistance was provided by Alexandra Geroyannis, Clarisse Legendre and Judy Zinnemann. A draft of the report was discussed at a seminar in Seoul on 21 June 2002 on “Older but Wiser: Achieving Better Employment Prospects for Older Workers in Korea”, which was organised by the Korean Labour Institute. Discussants at the seminar included representatives of the national authorities and the social partners, as well as several academics. The final report, which incorporates the comments received at the seminar, is published in this volume on the responsibility of the Secretary-General of the OECD.

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This report is based on the proceedings of a seminar and is published in English only. However, a French translation of the Executive Summary and Recommendations has been included in this volume (see p. 19).

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EXECUTIVE SUMMARY AND RECOMMENDATIONS

The challenge ahead: preparing Korea for rapid population ageing

Korea's population is ageing rapidly. Currently, it has one of the youngest populations out of all OECD countries but by the middle of this century it will have one of the oldest, just behind Japan. In 2050, more than one-third of the population will be over the age of 65 and around half of all workers will be aged 50 and over. Population ageing will lead to a slowdown in labour force growth and within 20 to 30 years the labour force may even begin to contract. The timing and size of this fall and its impact on economic growth will depend crucially on future trends in the participation rates of older workers. Therefore, it is important that appropriate reforms are taken now to improve labour market prospects of older workers. In particular, consolidation of the pension system should go hand-in-hand with maintaining work incentives and improving job quality for older workers.

The precarious situation of older workers

Older workers in Korea currently face a long but rocky road to retirement. The National Public Pension System (NPS) has not yet reached maturity and so many older people have little alternative but to continue working as a source of income. Consequently, employment rates for older people are high by international standards and the retirement age at which older workers effectively stop working is estimated to be at around 67 years of age in Korea – a much older age than in many other OECD countries.

However, there is a risk that the pension system, once it matures, will reduce work incentives. Korea would then face some of the problems with early retirement which a range of other member countries are currently facing. The continued shift in the population away from rural areas and into urban areas could also depress participation rates for older people.

Moreover, there does not appear to be a strong system of lifetime employment operating in Korea as in Japan. Older workers in Korea face a high risk of job loss. Retention rates, *i.e.* the proportion of workers who remain with a firm over a given period, fall dramatically for workers after the age of 50 and are quite low even at younger ages. Older workers appear to find new jobs quite quickly following job loss but poor job quality is a concern. A disproportionately high number of older workers are employed in low-paid jobs and in non-standard jobs. This may be partly explained by the low level of formal education of most older workers. Participation in training is also very low for older workers, as it is for all adults (aged 25 and over), relative to the situation in other OECD countries. This may be preventing workers from gaining access to better jobs or reduce their chances of remaining longer in their current jobs.

More generally, working conditions need to be improved. Long working hours may be particularly onerous for older workers and remain high in Korea by international standards. The incidence of work accidents and fatalities remains high, despite some improvement over time, and further efforts at improving work safety are required.

Recent reforms

Korea deserves praise for having already begun preparing for an ageing population and giving priority to developing policy measures to improve the labour market situation of older workers. In particular, it introduced the Aged Employment Promotion Act in 1991, which provides a comprehensive framework covering a range of measures to promote better employment opportunities for older workers, and which sets out the respective responsibilities of the government and social partners. The Act has led to the introduction of wage subsidies for older workers, a voluntary quota system for larger firms, specialised employment offices for older jobseekers and a small number of training programmes for older people.

There have also been reforms to Korea's pension system. Despite having only been introduced in 1988, the NPS was partially reformed in 1998 to improve its financial sustainability. The benefit formula was made less progressive by giving equal, instead of lower, weight to employees' own lifetime earnings along with the average earnings of all contributors. Replacement rates were also lowered somewhat.

Areas for further reform

While considerable efforts have been taken so far to improve labour market prospects for older workers, there is still scope for further action in the areas of income support arrangements, changing employment practices and improving the employability of older workers.

Reforming pensions and income support arrangements

Despite the 1998 reforms, replacement rates for pensions, *i.e.* pension benefits relative to former earnings, will still be much higher than in many other OECD countries. Once the system matures this could damage incentives for older people to continue working and will also put upward pressure on contribution rates as expenditures on pensions rise steeply. The effective coverage of the NPS is still far from being universal and so, while some workers can look forward to a comfortable retirement, poverty for elderly people may continue to be a problem. The take-up of individual savings accounts has also been quite low.

There is no portability between the more generous occupational pension schemes for public sector workers and private sector school teachers and the NPS, which limits labour mobility, especially for older workers.

Now that the NPS and the Employment Insurance System (EIS) are in place, the retirement allowance scheme is somewhat outdated. Retirement allowances are paid by employers to any employee who leaves the enterprise – on the condition that the employee has a “regular” contract, *i.e.* is not employed on a temporary or daily basis. It adds considerably to employer labour costs, but no longer usefully serves its original purpose of providing an income after retirement or in case of unemployment. Moreover, retirement allowances may act as a barrier to the creation of regular jobs, thus contributing to explain the relatively low “quality” of jobs of many older workers. The government has announced plans to introduce a corporate pension scheme as an alternative to the retirement allowance scheme and this should be pursued as part of more fundamental pension reform.

Thus, further pension reform is needed in the following areas to:

- *Broaden the effective coverage of the pension system;*
- *Reduce replacement rates under the public pension system in order to maintain work incentives and improve the financial sustainability of the system; and*
- *Convert the retirement allowances system into a corporate pension scheme.*

This requires fundamental reform of the pension system. One possible model would be to establish a three-pillar system. The first pillar would separate the current NPS into two tiers comprising a tax-financed universal pension and an earnings-related defined-benefit pension. A universal pension would help solve the problem of low participation and would guarantee a minimum income in old age. The second pillar would be created by converting the retirement allowance system into a corporate pension system operated as a fully-funded, defined-contribution scheme. Finally, the third pillar would consist of a more effective system of individual pension accounts. Under the reformed public scheme, replacement rates should be set at a lower level than currently, but this would be offset by ensuring that coverage is effectively universal and by improving opportunities to build up substantial private pension entitlements.

Changing employer attitudes

Employers appear to be reluctant to retain older workers beyond a certain age, often as low as 55. Low retention rates for workers as of 50 years of age, and more direct evidence, suggests that it is common practice among firms in Korea to set a mandatory age of retirement well below the age of 60, which is the norm recommended under the Aged Employment Promotion Act. Korea's seniority-wage system, strict employment protection rules and age discrimination may explain this practice.

Steps should be taken to restrict firms from setting a mandatory retirement age below a given age since this is a direct cause of job loss for many older workers. This could also help to reform Korea's seniority-wage system where there is an implicit contract between wages rising with seniority rather than productivity but in exchange for firms being able to set a mandatory retirement age. If firms were restricted in setting a mandatory retirement age, this would encourage them to rethink their pay practices.

More generally, the social partners should continue to be encouraged to pursue discussions about changing Korea's seniority-wage system. The introduction of a "wage-peak" system could be a useful measure, where a cut in wages after a given age is accepted in exchange for some form of employment security. However, wage setting at all ages should be more closely tied to each worker's work duties and performance.

Korea's employment protection rules should be reviewed. Strict employment protection rules mean that much of the burden of labour adjustment is currently borne by older workers since these rules do not apply to workers who have been "retired". These rules have also contributed to a dual labour market with a large gap in pay and employment security between regular and non-regular workers.

Age discrimination may also be having a negative impact on employment opportunities for older Koreans. Employers' hiring and firing decisions appear to be heavily influenced by considerations of a worker's age. There is currently no specific legislation banning age discrimination in Korea. In December 2002, the Aged Employment Promotion Act was revised to include a provision stating that employers should not discriminate against older people in recruitment, hiring or dismissal. However, there are no explicit penalties for employers ignoring this provision and firms are still permitted to set a mandatory age of retirement.

Wage subsidies are one way of encouraging firms to employ older workers. Korea is quite unusual among OECD countries in providing several types of wage subsidies for hiring or retaining older workers. However, the level of these subsidies is quite low and restrictive eligibility conditions apply. The subsidy that is available to firms when the employment share of older workers is above 6% is not very well targeted and so could imply large deadweight losses. However, with a view to minimizing the deadweight losses, the government recently revised the law to vary the 6% rule according to different types of businesses. More generally, there is probably scope to rationalise the range of different subsidies available to employers for employing older workers.

There is probably no single measure that would dramatically increase retention rates of older workers in the short-term in Korea. Instead a range of measures is required as follows:

- *Restrict the use of mandatory retirement.* There are number of possible approaches that could be taken, ranging from the use of voluntary guidelines through to an outright ban of mandatory retirement. The Japanese approach could be adopted which would be to introduce and progressively raise the minimum age below which firms would not be permitted to set their mandatory age of retirement.
- *Reform the seniority-wage system.* The social partners should be given further encouragement to adopt some form of “wage-peak” system. However, the government should also pursue its efforts to encourage them to adopt a more fundamental reform of the wage-setting system based on competence and individual performance rather than age or seniority. An example should be set by introducing performance-based pay into the public sector. By restricting the use of mandatory retirement, as suggested above, this would put more pressure on employers to change the wage system.
- *Loosen strict employment protection rules.* This would give employers less of an incentive to target older workers in the first instance for redundancy. It could also help to reduce the strong degree of duality in the Korean labour market between regular and non-regular employment, which particularly affects older workers.
- *Rationalise further the system of wage subsidies for older workers.* The net employment effects of the general subsidy for firms employing older workers above a given proportion of their total workforce (which varies by business type) should be carefully evaluated. Instead, the subsidy for hiring unemployed older workers appears to be better targeted and should be made more generous to encourage greater uptake. Finally, the subsidy for re-hiring retired employees should be modified to link it more explicitly to a policy of raising the mandatory retirement age.
- *Consider introduction of an in-work benefit.* This would strengthen work incentives for the older unemployed and could be more tightly targeted on workers with low household incomes. Under the UK’s *New Deal 50 plus* programme, an additional employment credit is given to the older unemployed who find a job. This scheme could serve as a model for Korea. Of course, the costs of such an in-work benefit, and whether it would be a substitute for wage subsidies and other social assistance benefits or a complement to them, would have to be carefully assessed.

- *Review the voluntary quota system.* While the government has made some changes recently to the quota system applying to larger firms, it should also carry out a more general review of the purpose of the quota system and its actual impact on firms' employment practices.
- *Introduce measures to combat age discrimination.* The government's plans to introduce further measures to combat age discrimination should be pursued. This would give a clear signal to employers and to society as a whole that age discrimination should not be tolerated. These measures should include specific legislation banning age discrimination in employment which would state more explicitly what constitutes discrimination and which would include employment conditions as well as hiring and dismissals as areas where discrimination would be banned. It would also set out explicit penalties and the procedures for dealing with cases of alleged age discrimination.
- *Provide guidelines to firms to promote age diversity in employment.* Any introduction or strengthening of age discrimination legislation should be accompanied or even preceded by guidelines and campaigns to encourage better employment practices with respect to the hiring and retention of older workers. The government may wish to consider as a possible model the UK's *Age Positive* campaign as well as its guideline for employers, the *Code of Practice on Age Diversity in Employment*.

Improving the employability of older workers

A substantial proportion of older workers have poor quality jobs. This may be explained by the fact their level of formal education is quite low.

The problem is compounded by the fact that participation in training is also very low both for older workers and prime-age workers, relative to the situation in other OECD countries. This may be preventing older workers from acquiring new skills or upgrading their existing skills in order to obtain better jobs or to improve their chances of remaining longer in their current jobs.

Given the high degree of labour mobility of older workers, it is essential that they have access to good employment services for finding new jobs. There has been an impressive expansion of the Public Employment Service (PES) in a

short space of time. This has included the setting up of special offices to deal with older jobseekers, which have largely focused on matching these jobseekers with vacancies in a fairly limited number of occupations. However, the quality and resources of the PES needs to be strengthened together with its links with private employment agencies.

Finally, working conditions need to be improved. Long working hours may be particularly onerous for older workers and remain high in Korea by international standards. The incidence of work accidents and fatalities remains high, despite some improvement over time, and further efforts at improving work safety are required.

To improve the employability of older workers and their working conditions, the following measures should be considered:

- *Strengthen and expand training opportunities for mid-career and older workers.* In view, of low training rates for mid-career and older workers in Korea, there is an urgent need to expand the range of training opportunities available. This will require a range of measures not just to increase the provision of training but to encourage greater take-up of training opportunities. For adult and older workers, it is important that short and modular courses of vocational training are available. This may encourage greater take-up and may generate higher returns to training than in the case of longer courses. The current Credit Bank System for general adult learning in Korea could be taken as a model. However, further efforts will have to be made to improve accreditation of training and recognition of qualifications.
- *Continue to improve the quality of the PES and build links with private employment agencies.* The specialised employment offices for older workers (Aged Service Centres and Manpower Banks for Older Workers) mainly serve a niche market for much older people seeking jobs in a limited range of occupations. Most older jobseekers who require job search assistance continue to rely on mainstream PES offices. Therefore, the quality and resources of the PES need to be strengthened by improving training and job stability of staff. The possibilities for some sub-contracting out to private employment agencies of placement service for older jobseekers with special needs should be considered.

- *Lower long working hours.* The government will need to monitor carefully the implementation of the changes under the Labour Standards Act, which have lowered the standard working week from 44 hours to 40 hours, to ensure that the desired reductions in effective weekly hours of work are occurring. It will also need to evaluate what impact this change has had on labour costs and possibly speed up the progressive implementation of the changes to smaller and medium-sized enterprises if the economic costs do not appear to be very large. The possibilities for part-time work should be strengthened by, notably, expanding coverage of social security schemes to part-time workers.
- *Improve working conditions.* Employers should be encouraged to adapt the work environment more towards older workers by, for example, introducing work rotation, reorganisation of work tasks, ergonomic improvements, short breaks, etc. It is also important that employees themselves have the opportunity to influence their work situation.
- *Improve work safety.* Measures to improve work safety should be pursued and reinforced. While the overall frequency of work accidents has fallen, there has been less of a fall in fatal accidents and in the average severity of accidents.

RÉSUMÉ ET PRINCIPALES RECOMMANDATIONS

Le défi de l'avenir : préparer la Corée au vieillissement rapide de sa population

La population coréenne vieillit rapidement. A l'heure actuelle, c'est l'une des plus jeunes de tous les pays de l'OCDE, mais d'ici le milieu du siècle elle sera devenue l'une des plus âgées, juste derrière la population japonaise. En 2050, plus d'un tiers des Coréens auront plus de 65 ans et la moitié environ de tous les actifs auront au moins 50 ans. Le vieillissement démographique freinera la croissance de la population active, au point que celle-ci pourrait même commencer à se contracter d'ici 20 à 30 ans. Le moment et l'ampleur de ce retournement, ainsi que son impact sur la croissance économique dépendront de façon décisive de l'évolution des taux d'activité des travailleurs âgés. Il est donc important que des réformes soient adoptées dès maintenant pour améliorer les perspectives d'emploi de cette catégorie d'actifs. En particulier, la rationalisation du régime de retraite devrait aller de pair avec le maintien d'incitations au travail et l'amélioration de la qualité des emplois.

La situation précaire des travailleurs âgés

En Corée, le chemin qui sépare les travailleurs âgés de leur retraite est actuellement long et semé d'embûches. Le régime public de retraite n'est pas encore parvenu à maturité et de nombreuses personnes âgées n'ont pas d'autre choix que de continuer à travailler pour se procurer un revenu. Les taux d'emploi des travailleurs âgés sont donc élevés d'un point de vue international, et on estime que l'âge effectif de départ à la retraite se situe aux alentours de 67 ans, c'est-à-dire bien plus tard que dans beaucoup d'autres pays de l'OCDE.

Cependant, l'arrivée à maturité du système de retraite comporte en soi le risque de réduire les incitations à travailler, ce qui placerait alors la Corée face à

certains problèmes de retrait précoce de l'activité que rencontrent aujourd'hui d'autres pays membres. De plus, la poursuite de l'exode rural pourrait aussi peser sur les taux d'activité des salariés âgés.

En outre, il ne semble pas exister en Corée un système d'emploi à vie aussi développé que celui que connaît le Japon, ce qui signifie que les travailleurs coréens âgés risquent fort de perdre un jour ou l'autre leur emploi. Les taux de rétention, c'est-à-dire la proportion de salariés qui restent dans la même entreprise sur une période donnée, tombent en chute libre après l'âge de 50 ans et sont très bas même pour les travailleurs plus jeunes. Apparemment, les travailleurs âgés qui ont perdu leur emploi en retrouvent un autre assez rapidement, mais la qualité de ces emplois pose un problème. Un pourcentage disproportionné de travailleurs âgés occupe des emplois à bas salaires et des emplois atypiques, ce que peut expliquer en partie le fait que la plupart d'entre eux ont un faible niveau d'études. Par comparaison avec les autres pays de l'OCDE, ils sont également très peu nombreux à avoir reçu une formation, à l'instar de tous les autres adultes (25 ans et plus), et il est probable que cela les empêche d'accéder à de meilleurs emplois ou réduit leurs chances de conserver plus longtemps ceux qu'ils occupent.

De manière plus générale, les conditions de travail demandent à être améliorées. Les longs horaires de travail, souvent particulièrement pénibles pour les travailleurs âgés, restent très fréquents en Corée par rapport à ce que l'on peut observer dans les autres pays. Il en va de même des accidents et des décès liés au travail qui, malgré une certaine amélioration au fil du temps, se situent encore à des niveaux très élevés et appellent donc de nouveaux efforts en matière de sécurité.

Réformes récentes

La Corée a déjà commencé à se préparer au vieillissement de sa population et elle s'efforce en priorité pour le moment d'améliorer la situation des salariés âgés sur le marché du travail, ce qui mérite d'être salué. En 1991, elle a adopté une loi qui encadre l'ensemble des mesures destinées à améliorer les perspectives d'emploi des travailleurs âgés et qui définit les responsabilités respectives de l'État et des partenaires sociaux. C'est ce texte qui a permis depuis lors la mise en place de subventions salariales pour les travailleurs âgés, d'un système volontaire de quotas dans les grandes entreprises, d'agences spéciales pour les demandeurs d'emploi âgés et d'un petit nombre de programmes de formation réservés aux travailleurs âgés.

La Corée a également réformé son régime de retraite. Adopté en 1988, le système national de retraite a déjà été partiellement réaménagé en 1998 afin d'en améliorer la viabilité financière. La progressivité du mode de calcul des pensions a été atténuée moyennant un réalignement de la pondération du salaire de carrière individuel par rapport aux gains moyens de tous les cotisants, et les taux de remplacement ont aussi quelque peu diminué.

Domaines dans lesquels les efforts doivent se poursuivre

Des efforts considérables ont été faits jusqu'à présent pour améliorer les perspectives professionnelles des travailleurs âgés, mais il faudrait encore agir sur plusieurs plans pour réformer les dispositifs de garantie de revenu, encourager les entreprises à modifier leurs pratiques et améliorer l'employabilité des travailleurs âgés.

Réformer les retraites et les dispositifs de garantie de revenu

Malgré les réformes de 1998, les taux de remplacement, c'est-à-dire le rapport entre le montant de la pension et celui des gains perçus avant le départ à la retraite, restent beaucoup plus élevés que dans beaucoup d'autres pays de l'OCDE. Lorsque le système sera arrivé à maturité, cela pourrait décourager les salariés âgés de continuer à travailler et accentuer en outre la pression sur les taux de cotisation face à l'augmentation rapide des dépenses au titre des retraites. A l'heure actuelle, la couverture effective du système national de retraite est loin d'être universelle, de sorte que si certains travailleurs peuvent espérer toucher une confortable pension de retraite, la pauvreté risque de demeurer un problème pour les personnes âgées. En outre, jusqu'à présent, l'épargne retraite individuelle ne rencontre guère de succès.

L'absence de possibilités de transfert des droits à pension entre les régimes professionnels assez généreux dont bénéficient les employés du secteur public et les enseignants du secteur privé et le système national de retraite limite la mobilité de la main-d'œuvre, en particulier chez les travailleurs âgés.

Maintenant que le système national de retraite et le système d'assurance chômage sont en place, le régime d'allocation pour cessation d'activité n'a plus vraiment de raison d'être. Il oblige les employeurs à verser des allocations à tous les salariés qui quittent l'entreprise – tout au moins à ceux qui étaient

titulaires d'un contrat « régulier », ce qui exclut les travailleurs temporaires ou journaliers. Ces allocations alourdissent considérablement le coût du travail et ne remplissent plus leur fonction première qui était de fournir un revenu après la retraite ou en cas de chômage. Elles risquent en outre de faire obstacle à la création d'emplois réguliers, ce qui explique en partie pourquoi tant de travailleurs âgés sont cantonnés dans des emplois de « qualité » assez médiocre. Le gouvernement a fait part de son projet d'instituer un système de retraite d'entreprise qui se substituerait au régime actuel des allocations pour cessation d'activité ; il y aurait lieu d'inscrire cette mesure dans le cadre d'une réforme plus profonde des retraites.

S'agissant des retraites, il est donc nécessaire de poursuivre la réforme en menant les actions suivantes :

- Élargir la couverture effective du système de retraite.
- Réduire les taux de remplacement du système public de retraite afin de préserver les incitations au travail et d'améliorer la viabilité financière du dispositif.
- Convertir le système d'allocations pour cessation d'activité en un système de retraite d'entreprise.

Tout cela exige une réforme en profondeur du système de retraite. L'une des options envisageables dans cette optique serait une structure à trois piliers. Pour créer le premier pilier, il faudrait tout d'abord séparer le système national de retraite actuel en deux branches, avec d'un côté un régime universel financé par l'impôt, et de l'autre un régime à prestations définies liées aux gains. La pension universelle aiderait à résoudre le problème posé par la faiblesse du taux d'activité et garantirait en même temps un minimum vieillesse. Le deuxième pilier serait issu de la conversion du système actuel d'allocations pour cessation d'activité en un régime d'entreprise à prestations définies entièrement capitalisé. Enfin, le troisième pilier consisterait en un système renforcé d'épargne retraite individuelle. Dans ce nouveau cadre, les taux de remplacement seraient fixés à un niveau plus bas qu'aujourd'hui, mais le système offrirait la garantie d'une couverture effectivement universelle et davantage de possibilités de recourir à des dispositifs privés pour se constituer un supplément de droits à la retraite.

Changer l'attitude des employeurs

Il semble que les employeurs soient peu enclins à retenir les travailleurs au-delà d'un certain âge, souvent même à partir de 55 ans. Les faibles taux de rétention des travailleurs âgés de 50 ans et plus, et d'autres observations plus directes, qu'il est de pratique courante pour les entreprises coréennes de fixer un âge obligatoire de départ à la retraite largement inférieur à 60 ans, qui est la norme préconisée par la loi pour la promotion de l'emploi des travailleurs âgés. Le système de rémunération lié à l'ancienneté, l'existence de règles strictes en matière de protection de l'emploi et les discriminations liées à l'âge ne sont sans doute pas étrangers à cette pratique.

Il faudrait prendre des mesures pour empêcher les entreprises de fixer l'âge obligatoire de départ à la retraite en dessous d'un certain seuil puisque c'est ce type de disposition qui fait directement perdre leur emploi à de nombreux travailleurs âgés. Cela pourrait en outre aider à réformer le système de rémunération à l'ancienneté qui crée un lien implicite entre la hausse de la rémunération et l'âge, au lieu de tenir compte de la productivité, en échange de la possibilité d'imposer le départ à la retraite à un certain âge. Si on obligeait les entreprises à respecter certains critères restrictifs en matière de départ obligatoire à la retraite, on les encouragerait aussi à remettre en question leurs pratiques salariales.

De façon plus générale, il y aurait lieu d'encourager davantage les partenaires sociaux à poursuivre les négociations sur la réforme du système de rémunération à l'ancienneté. L'adoption d'un système qui permettrait de faire accepter une baisse de salaire après un âge donné en échange d'une certaine sécurité d'emploi serait une bonne mesure. Cela dit, quel que soit l'âge des travailleurs, les salaires devraient être déterminés en tenant davantage compte des performances et des responsabilités.

Par ailleurs, il faudrait revoir les dispositifs en vigueur en matière de protection de l'emploi. Des règles strictes dans ce domaine ont pour effet de faire supporter aux travailleurs âgés une bonne part du poids de l'ajustement du marché du travail, puisque ces règles ne s'appliquent pas à ceux qui ont été « mis à la retraite ». Ces règles ont également contribué à la formation d'un marché du travail à deux vitesses, avec des disparités importantes, en termes de salaire et de sécurité d'emploi, entre les travailleurs réguliers et non réguliers.

Si l'on en juge par les décisions d'embauche et de licenciement des employeurs, qui paraissent largement dépendre de l'âge des intéressés, la discrimination par l'âge a peut-être aussi un effet négatif sur les possibilités d'emploi des Coréens âgés. Il n'existe à l'heure actuelle en Corée aucune interdiction légale de la discrimination en raison de l'âge. En décembre 2002, un amendement a été apporté à la loi pour la promotion de l'emploi des travailleurs âgés précisant que ceux-ci ne peuvent faire l'objet de discrimination en matière d'embauche ou de licenciement, mais aucune sanction n'est prévue à l'encontre des employeurs qui ignoreraient cette disposition, et les entreprises sont encore autorisées à fixer un âge de départ obligatoire à la retraite.

Les subventions salariales sont un moyen d'encourager les entreprises à embaucher des travailleurs âgés ou à les conserver. Chose inhabituelle parmi les pays de l'OCDE, la Corée en propose plusieurs sortes, mais leur montant n'est pas très élevé et elles sont assorties de conditions restrictives. Par ailleurs, la subvention offerte aux entreprises dont l'effectif est composé à plus de 6 % de travailleurs âgés n'est pas très bien ciblée et risque d'entraîner des pertes importantes. De manière générale, il y aurait donc peut-être intérêt à rationaliser ces différents dispositifs.

Aucune mesure ne permettrait sans doute à elle seule de relever rapidement et fortement les taux de rétention des travailleurs âgés en Corée, aussi paraît-il nécessaire de préconiser une action dans plusieurs directions, comme suit :

- *Limiter la pratique de la retraite obligatoire.* Plusieurs approches sont ici possibles, depuis l'adoption de principes de conduite incitatifs jusqu'à l'interdiction pure et simple. La solution choisie par le Japon, qui consiste à imposer un âge minimum en deçà duquel les entreprises ne peuvent pas obliger leurs employés à prendre leur retraite puis à relever progressivement ce seuil, est une piste envisageable.
- *Réformer le système de rémunération à l'ancienneté.* Il conviendrait d'encourager plus amplement les partenaires sociaux à adopter un système de rémunération dégressif en fin de carrière, et le gouvernement devrait aussi poursuivre ses efforts pour les inciter à engager une réforme plus fondamentale du système de détermination des salaires qui privilégierait les compétences et les performances plutôt que l'âge et l'ancienneté. L'introduction d'un régime de rémunération à la performance dans le secteur public permettrait à cet

égard de donner l'exemple. Et si on limitait dans le même temps la pratique de la retraite obligatoire, comme indiqué ci-dessus, cela ferait davantage pression sur les employeurs pour qu'ils modifient leur système salarial.

- *Assouplir les règles relatives à la protection de l'emploi.* Cette mesure permettrait de faire en sorte que les travailleurs âgés soient moins systématiquement les premiers à être licenciés, et elle pourrait aussi aider à atténuer le clivage entre emploi régulier et emploi non régulier qui caractérise le marché du travail coréen et qui pénalise en particulier les travailleurs âgés.
- *Poursuivre la rationalisation du système de subventions salariales pour les travailleurs âgés.* Il faudrait évaluer avec rigueur l'effet net sur l'emploi de la subvention générale accordée aux entreprises dont le nombre de travailleurs âgés représente plus de 6 % de leurs effectifs, augmenter la subvention à l'embauche de chômeurs âgés car elle semble mieux ciblée, et lier plus explicitement la subvention de retour à l'emploi des travailleurs retraités au relèvement de l'âge de la retraite obligatoire.
- *Envisager la création d'une prestation liée à l'exercice d'un emploi* qui renforcerait les incitations au travail pour les chômeurs âgés et pourrait être plus spécifiquement ciblée sur les ménages à faible revenu. Au Royaume-Uni, par exemple, le programme *New Deal 50 plus* a instauré un complément de revenu pour les demandeurs d'emploi âgés qui reprennent un emploi. C'est une mesure dont la Corée pourrait s'inspirer. Bien entendu, il faudrait évaluer avec soin au préalable quel serait le coût d'une telle prestation et si elle aurait vocation à remplacer les subventions salariales et d'autres aides sociales ou à les compléter.
- *Repenser le système volontaire de quotas.* Le gouvernement a récemment apporté des modifications au système de quotas applicables aux grandes entreprises, mais il devrait en fait s'interroger plus généralement sur le bien-fondé d'un tel dispositif et sur ses effets réels en termes d'emploi.
- *Adopter des mesures pour combattre la discrimination liée à l'âge.* Les nouvelles mesures que le gouvernement envisage d'adopter pour lutter contre les discriminations fondées sur l'âge méritent d'être

encouragées car elles permettraient d'envoyer un signal fort aux employeurs et à la société en général et de bien faire comprendre que de telles pratiques ne seront pas tolérées. Elles devraient consister en de nouvelles dispositions légales qui indiqueraient de façon plus explicite ce qui constitue une discrimination et qui interdiraient formellement les différences de traitement liés à l'âge en matière de conditions d'emploi, d'embauche et de licenciement. Elles devraient aussi établir des sanctions et mettre en place des procédures de recours en cas d'acte de discrimination fondé sur l'âge.

- *Élaborer des principes de conduite à l'intention des entreprises pour la promotion de la diversité des âges dans l'emploi.* Toute mesure qui viserait à introduire de nouvelles dispositions légales ou à renforcer celles qui existent déjà pour lutter contre la discrimination liée à l'âge devrait s'accompagner ou même être précédée de la publication de principes de conduite à l'intention des employeurs et de campagnes visant à promouvoir de meilleures pratiques en matière de recrutement et de maintien dans l'emploi des travailleurs âgés. Le gouvernement coréen pourrait s'inspirer pour ces actions de la campagne *Age Positive* menée au Royaume-Uni, et du *Code of Practice on Age Diversity in Employment* également adopté dans ce pays.

Promouvoir l'employabilité des travailleurs âgés

Bon nombre de travailleurs âgés occupent des emplois de piètre qualité car ils ont un niveau d'instruction assez bas.

Le problème est en outre aggravé par le fait que les taux de participation à la formation sont également très bas, aussi bien parmi les travailleurs d'âge très actif (25 à 49 ans) que parmi les plus âgés, par rapport à ce que l'on observe dans les autres pays de l'OCDE. D'où la difficulté pour beaucoup d'acquérir les nouvelles compétences ou d'améliorer leurs compétences existantes qui leur permettraient d'accéder à de meilleurs emplois ou d'augmenter leurs chances de conserver plus longtemps le poste qu'ils occupent.

Les travailleurs âgés constituant une main-d'œuvre très mobile, il est essentiel qu'ils aient accès à des services efficaces en matière de recherche d'emploi. Le service public de l'emploi (SPE) s'est considérablement développé en peu de temps, notamment avec la création d'agences spécialisées qui ont

largement concentré leurs efforts sur le placement de travailleurs âgés dans un petit nombre de professions. Cependant, la qualité et les ressources du SPE demandent encore à être renforcées, de même que ses liens avec les bureaux de placement du secteur privé.

Enfin, il faudrait aussi améliorer les conditions de travail. Les longs horaires de travail, vraisemblablement plus pénibles pour les travailleurs âgés, restent très fréquents en Corée par rapport à ce que l'on peut observer dans les autres pays. Il en va de même des accidents et des décès liés au travail qui, malgré une certaine amélioration avec le temps, se situent encore à des niveaux très élevés et appellent donc de nouveaux efforts en matière de sécurité.

Pour améliorer l'employabilité et les conditions de travail des travailleurs âgés, les mesures suivantes devraient être envisagées :

- *Renforcer et élargir les possibilités de formation pour les travailleurs en milieu et en fin de carrière.* Étant donné les faibles taux de formation des travailleurs coréens en milieu et en fin de carrière, il est urgent d'élargir les possibilités de formation, ce qui signifie non seulement qu'il faut accroître l'offre, mais aussi encourager la participation. Il est important de mettre en place des formations modulables et de courte durée pour les travailleurs d'âge très actif et les plus âgés, car elles sont probablement plus attrayantes et donc mieux à même de donner de meilleurs résultats que les formations plus longues. Le système de points capitalisables qui existe actuellement en Corée pour la formation des adultes en général pourrait servir de modèle. Cependant, de nouvelles mesures devront être prises pour développer les systèmes de validation de la formation et de reconnaissance des qualifications.
- *Continuer à améliorer la qualité du SPE et établir des liens avec les agences de placement privées.* Jusqu'à présent, les structures spécialement destinées aux travailleurs âgés (qu'il s'agisse de centres de services ou de banques de main-d'œuvre) ont principalement concentré leurs efforts sur un petit nombre de métiers et sur les demandeurs d'emploi les plus âgés, de sorte que les autres continuent en fait de s'adresser pour la plupart aux agences ordinaires du SPE. Il faudrait donc renforcer la qualité et les ressources de ce service, afin qu'il puisse notamment disposer d'un personnel plus stable et mieux

formé. La possibilité de sous-traiter certains services de placement au secteur privé pour les demandeurs d'emploi âgés ayant des profils particuliers pourrait également être envisagée.

- *Réduire les horaires de travail les plus longs.* Le gouvernement devra surveiller attentivement la mise en œuvre des nouvelles dispositions de la loi sur les normes du travail, qui a ramené la durée hebdomadaire du travail de 44 heures à 40 heures, afin de s'assurer qu'elles sont effectivement appliquées. Il lui appartiendra aussi d'évaluer l'impact de ce changement sur le coût du travail et, éventuellement, d'en faire accélérer l'adoption dans le secteur des petites et moyennes entreprises s'il n'entraîne pas une charge économique trop lourde. Il conviendrait par ailleurs d'étendre la protection sociale au travail à temps partiel pour que celui-ci puisse se développer.
- *Améliorer les conditions de travail.* Il y aurait lieu d'encourager les employeurs à aménager l'environnement de travail de la main-d'œuvre âgée par des mesures telles que rotation des postes, réorganisation des tâches, améliorations ergonomiques, pauses, etc., et il serait important que les travailleurs aient eux-mêmes leur mot à dire à ce sujet.
- *Améliorer la sécurité au travail.* Le renforcement de la sécurité sur le lieu de travail appelle de nouvelles mesures, car si le niveau des accidents du travail a globalement baissé, il n'y a pas eu d'amélioration aussi notable en ce qui concerne la gravité moyenne de ces accidents et le nombre de décès qui en ont découlé.

INTRODUCTION

Korea is experiencing a rapid ageing of its population. Currently it has one of the youngest populations of all OECD countries but by the middle of this century it will have one of the oldest. This transition will take place just as the public pension system fully matures, thus adding to the rise in public expenditures that will inevitably occur because of an ageing population. More generally, population ageing is likely to result in a sharp contraction of Korea's labour force over the next 50 years, leading to severe labour shortages and a slow-down in economic activity.

While employment rates for older people are high in Korea, older workers are already experiencing a number of difficulties in the labour market despite their relative scarcity. Therefore, it is important that appropriate measures are taken now to encourage older workers to remain active in the labour market and to improve their skills and employability. The main purpose of this report is to reflect on the different avenues for reform that will need to be pursued in order to meet this objective.

In Chapter 1, the demographic challenges facing Korea are laid out and the importance of improving employment prospects of older workers as the key to meeting these challenges is highlighted. The current labour market situation of older workers in Korea is examined in more detail in Chapter 2 and some of the key problems that they are facing are identified. Potential supply-side barriers to employment of older workers are discussed in Chapter 3, including the impact of Korea's pension system and other welfare arrangements on the work and retirement decisions of older people. A number of possible reforms to strengthen work incentives are outlined. But removing supply-side barriers to employment will not be enough; action on the demand side will also be needed. Thus, in Chapter 4, an assessment is made of the main factors influencing employer attitudes towards older workers and the different options for improving the retention of older workers. This is complemented in Chapter 5 by an analysis of the different ways to improve the "employability" of older workers. Finally, the case for a comprehensive and coherent package of policies is laid out in Chapter 6.

*Chapter 1***THE CHALLENGE AHEAD****1. Korea's ageing population**

Korea currently has a relatively young population but over the next five decades it is likely to experience one of the most rapid demographic transitions to an aged society of all OECD countries. According to the projections of the Korean National Statistical Office (KNSO, 2001), Korea's total population will peak just after 2020 before going into decline. The key factors behind this transition have been a sharp decline in fertility rates to a low level and rising life expectancy. Net migration flows have had little impact on the demographic composition of Korea.¹

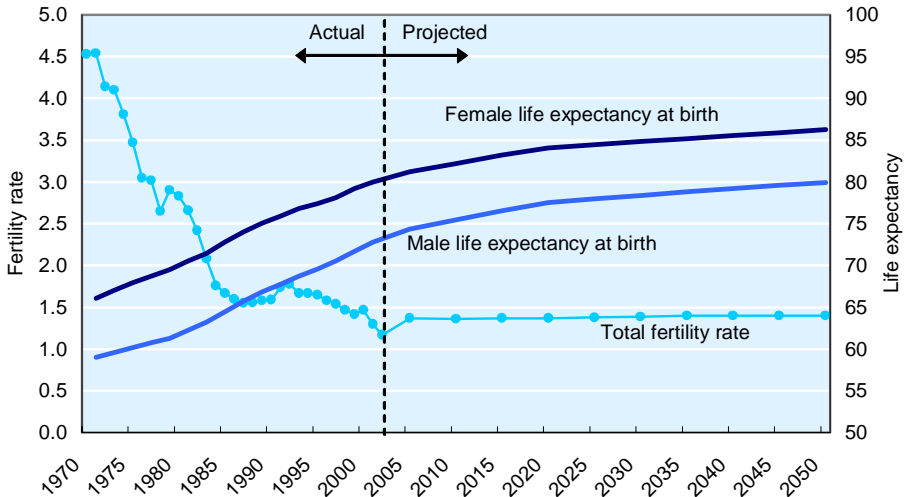
Rapid economic development and an active population policy to reduce birth rates have been associated with a dramatic decline in fertility rates. The total fertility rate has fallen from just over 4.5 in the early 1970s to just under 1.2 in 2002, well below the replacement rate of 2.1 or 2.2 (Figure 1.1). Most other OECD countries have followed a similar pattern; although fertility rates have fallen less steeply as already relatively low. In contrast, fertility rates have been rising gradually in the United States since 1976. The low total fertility rate in Korea is projected by the KNSO to continue over the coming decades.

The decline in fertility was also accompanied by a sharp decline in the mortality rate, resulting in 13-year rise in life expectancy since 1970 for both men and women, one of the largest increases in the OECD area. In 2000, life expectancy at birth was 72.8 for men and 79.5 for women, slightly below the OECD average. Life expectancy at age 60 – the eligibility age for a “full”

1. Among OECD countries, Korea has one of the lowest shares of foreigners in the total population.

public pension – is currently 17½ years for men and 22 years for women. By 2050, it is projected that life expectancy at birth will rise further to around 80 years for men and to just over 86 years for women.

Figure 1.1. **Life expectancy at birth and fertility rates in Korea, 1970-2050**

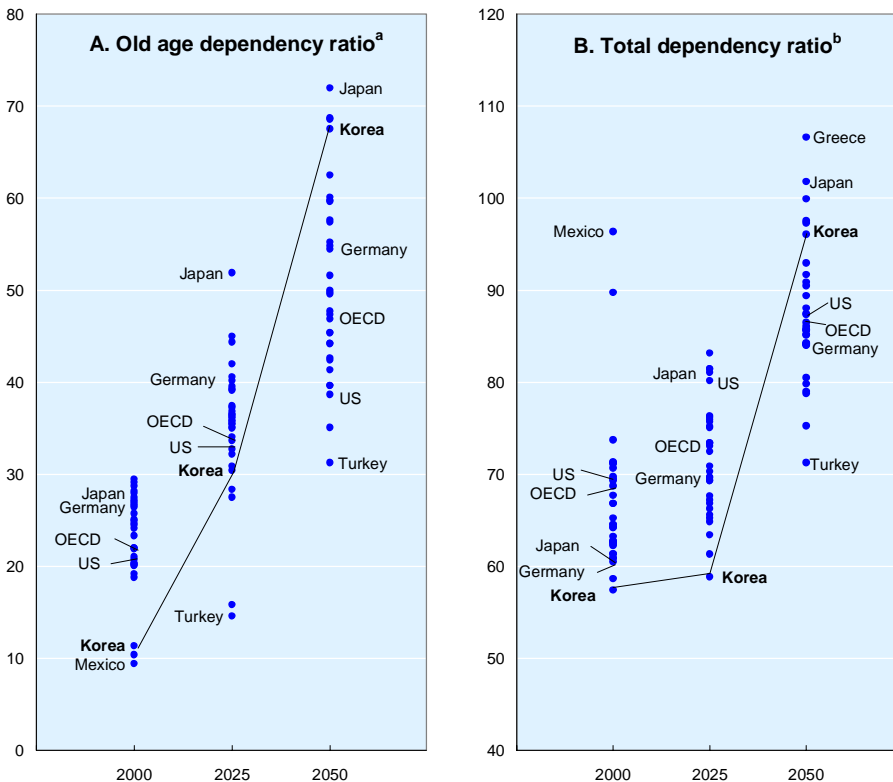


Source: National population projections (medium variant) from KNSO (2001).

Together, these patterns in fertility rates and life expectancy are driving the pace at which Korea's population will age. A broad indicator of the rising economic burden that an older society may place on the working-age population is given by the old-age dependency ratio, *i.e.* the ratio of the population aged 65 and over to the population aged 20 to 64 (Figure 1.2).² At around 11% in 2000, Korea currently has the third lowest old-age dependency ratio among OECD countries after Mexico and Turkey. However, over the coming decades Korea's population is projected to age rapidly, particularly after 2025. By 2050, its old-age dependency ratio is projected to reach 67% – one of the highest ratios after Japan, Italy and Greece. Thus in the space of 50 years Korea will have gone from being one of the youngest OECD countries to being one of the oldest.³

2. The old-age and total dependency ratios are conventionally defined with respect to the population aged 15 to 64. However, in most OECD countries teenagers aged 15 to 19 are more often than not still in school and so it was decided to exclude this group from the definition of the working-age population.
3. Old-age dependency ratios for both the OECD and the EU area will more than double between 2000 and 2050. The US ratio is also expected to nearly double

Figure 1.2. Demographic dependency ratios, 2000-2050
Percentages



a) Ratio of the population aged 65 and over to the population aged 20-64.

b) Ratio of the population aged less than 20 or 65 and more to the population aged 20-64.

Source: National population projections (central variant) except for Ireland, Greece, Hungary, Luxembourg, Mexico and Turkey from UN, *World Population Prospects 1950-2050* (2002 Revision).

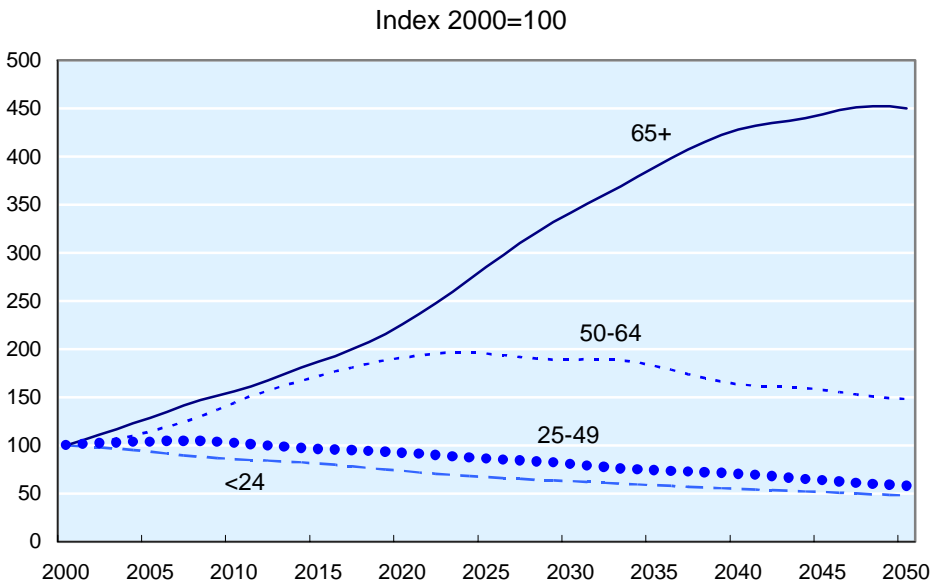
These changes in the old-age dependency ratio tell only part of the story about the additional economic burden that may result from population ageing. There will also be fewer children to support. The total dependency ratio takes this factor into account since it is defined as the ratio of the combined

over the next few decades but will level off at a relatively low level in 2030 at around 38%. However, the ratio for Japan is expected to keep increasing from its already high level during the next five decades to about 72% in 2050, which is nearly three times higher than the current level of 28%.

population of children (aged less than 20) and the elderly (aged 65 and over) to the population of working age (aged 20 to 64). For Korea, it will only rise marginally over the next 25 years since the rise in the older population will be offset by a fall in the younger population, as proportions of the working-age population. In fact, Korea together with Turkey will continue to have the lowest ratio of all OECD countries. However, between 2025 and 2050, the total dependency ratio will rise rapidly in line with the old-age dependency ratio, leaving Korea with one of the highest ratios. Thus, by 2050 the population of non-working age will almost be as large as the population of working age.

The projected pattern of growth in the Korean population by broad age groups over the next half century is shown in Figure 1.3.

Figure 1.3. **Population projections by broad age group for Korea, 2000-2050**



Source: National population projections (medium variant) from KNSO (2001).

Korea's ageing population is reflected in the strong growth projected for the group aged 65 and over. By 2050 this group will be four-and-a-half times larger than in 2000. The population aged 50-64 is also projected to grow strongly initially – reflecting the passage of the baby-boom generation – but then peaks around 2022 before declining to around one-and-a-half times its size in 2000. In contrast to these trends for the older and elderly population, the

population of prime working age (25-49) will stagnate between 2000 and 2010 before declining monotonously to a level in 2050 of just over half of its level in 2000. Similarly, the population under 20 is also expected to fall substantially by around a half between 2000 and 2050.

2. The economic challenges facing Korea

Korea's demographic transition to an aged society is likely to have serious economic and social repercussions. It will create, among other things, a severe strain on public finances. Total public expenditures associated with ageing are expected to rise by 8½ of GDP over the next five decades, one of the largest increases in OECD countries.⁴ The main component of this increase will be the rise in expenditure on old-age pensions, but health care and long-term care expenditures will also increase.

Many countries are struggling already with finding the appropriate balance between home care and institutional care for the sick or infirm elderly and this may be exacerbated as their numbers rise relative to the number of younger people able to care for them. In Korea, the family has traditionally played a key role both in caring for elderly relatives but in providing income support as well. However, there has been an erosion of this pattern over time and the elderly will have to rely increasingly on their own resources as well as social transfers.

The increase in public expenditures as the population ages, and the associated hikes in taxes and social security contributions that will be required to finance them, could give rise to a number of intergenerational inequities and tensions. Much of this extra burden of taxation will fall on the working-age population while at the same time their political power in terms of voting numbers may be in decline relative to the growing number of older people. This could make the necessary adjustments to cope with an ageing society more difficult in the future. Currently, there are around 4.7 workers for every "retiree" (*i.e.* those persons aged 50 and over not in the labour force). By 2050,

4. These projections were made on the basis of similar macroeconomic and demographic assumptions in each OECD country, allowing for meaningful international comparison. For details regarding these projections, see OECD (2001a).

on the basis of current participation rates, this may fall to only 1.2 workers for every “retiree”.

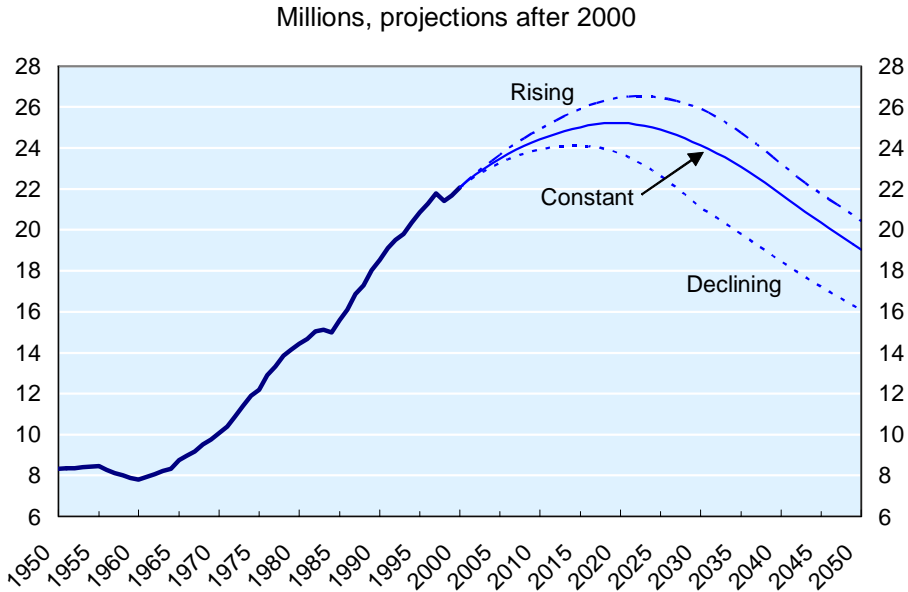
A key factor in meeting these economic and social challenges will be to remove barriers to labour force participation, especially with respect to older people. If older workers could be encouraged to remain in work longer, this would boost labour force growth and help offset the impact of population ageing on economic growth and help stem rising public expenditures.

To trace out the effects of higher or lower participation rates among older people on labour force growth over the next 50 years, three different scenarios are used. In the “constant” scenario, participation rates by age and gender remain constant at their 2000 levels. They are also held constant for the younger age groups in the “declining” and “rising” scenarios, but for the older age-groups (50 and over) they converge by 2030 to a minimum and maximum value, respectively, and remain constant thereafter. The minimum value corresponds to the OECD average of participation rates in each age and gender group in 2000 while the maximum value corresponds to the maximum rate in each group across OECD countries in 2000.

These scenarios show a wide range in the size of the labour force over the next half-century but they all point to a slowdown in labour force growth over the next two to three decades with growth subsequently turning negative (Figure 1.4). According to the “constant” scenario, the labour force is projected to reach a peak of just over 25 million in 2020, up from 22 million in 2000, before declining to around 19 million in 2050. Under the “declining” scenario, the labour force peaks about five years early in 2015 and at a lower level of just over 24 million, and subsequently falls to around 16 million by 2050. Finally, in the case of the “rising” scenario, the labour force peaks at 26.5 million in 2022 before declining to 20.4 million in 2050. The projected labour force would be even larger if participation rates for younger workers and especially those of younger women are also assumed to converge to the highest rates reported across OECD countries in 2000.⁵

5. But even under this “maximum” scenario there would be a decline in the labour force after 2027. The labour force would peak at 30.4 million and then decline to 23.7 million 2050. From 2015 onwards, higher participation rates among older people account for around 30% of the difference in the size of the labour force between this “maximum” scenario and the “constant” scenario.

Figure 1.4. **Labour force growth in Korea under different scenarios, 1950-2050^a**



- a) Under the “constant” scenario, participation rates by age and gender remain constant at their 2000 levels. They are also held constant for the younger age groups in the other two scenarios. Under the “declining” scenario, participation rates for the older age groups (50 and over) are projected to gradually decline over the period 2000-2030 whereas they are projected to increase under the “rising” scenario. See text for further details.

Source: OECD estimates based on data from the Economically Active Population Survey and KNSO (2001) (medium variant).

The large variation in the projected size of the labour force under these different scenarios suggests that there is considerable scope for changes in policy and institutional settings that affect participation rates to influence the rate at which labour force growth slows over the coming decades and to limit the extent of the eventual decline in the labour force. In particular, they point to the importance of ensuring that a high proportion of older people continue to work. For instance, under the “constant” scenario, labour force growth over the next two decades is projected to be only 0.7% per annum following growth of 2% per annum over the past half-century (Table 1.1). If older participation rates for the older population decline in response to, say, public pensions becoming available (see Chapter 3), then, all else constant, annual labour force growth over the next two decades will be even lower at only 0.4%. Under the “rising”

scenario, this increases to 0.9%. In all of these scenarios, the labour force contracts over the period 2020-2050, but again the magnitude of this drop will be larger if participation rates for the older population fall and it will be smaller if there is a general rise in participation rates.

Table 1.1. **Projected labour force growth and its contribution to real GDP growth in Korea, 2000-2050**

Average annual percentage change

	Constant	Scenario: ^a Declining	Rising
Labour force growth			
Actual:			
1950-2000	1.97	1.97	1.97
Projected:			
2000-2020	0.67	0.36	0.91
2020-2050	-0.93	-1.29	-0.86
2000-2050	-0.30	-0.63	-0.15
Contribution to real GDP growth (% points)^b			
Actual: 1950-2000	1.28	1.28	1.28
Projected: 2000-2050	-0.19	-0.41	-0.10
Difference	-1.47	-1.69	-1.38

a) Under the “constant” scenario, participation rates by age and gender remain constant at their 2000 levels. They are also held constant for the younger age groups in the other two scenarios. Under the “declining” scenario, participation rates for the older age groups (50 and over) are projected to gradually decline over the period 2000-2030 whereas they are projected to increase under the “rising” scenario. See text for further details.

b) Assuming that the contribution of labour to output is 65%.

Source: OECD estimates based on data from the Economically Active Population Survey and KNSO (2001) (medium variant).

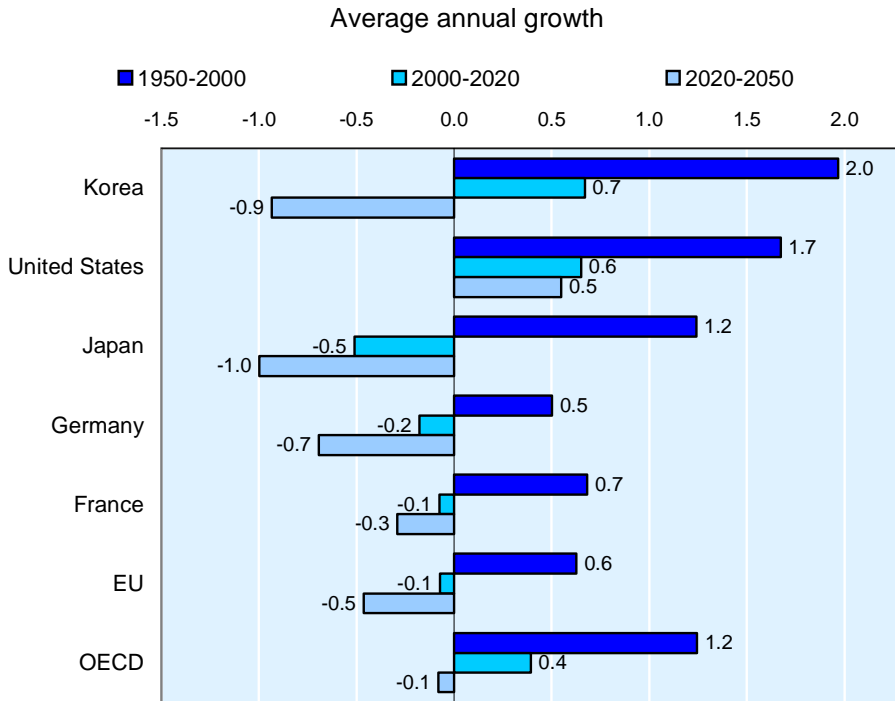
One of the economic consequences of such a slowdown in labour force growth, followed by a contraction after 2020, is likely to be slower growth in output (Table 1.1). Under the “constant” scenario, real GDP growth could decline by about 1.5 percentage points per annum over the next 50 years, relative to the growth rates experienced over the period 1950-2000. The decline under the “declining” and “rising” scenarios would be around 1.7 and 1.4 percentage points, respectively. Of course, the impact of slower or negative labour force growth on economic growth could be offset by either a rise in total factor productivity growth or faster growth in capital inputs.⁶

Assuming participation rates by age and gender remain constant at their 2000 levels, projected changes in labour force growth over the next 50 years can be compared across OECD countries (Figure 1.5). Over the next two decades, labour force growth will still be faster in Korea than in most other OECD countries, especially in comparison with Japan and the EU as a whole where a contraction of their labour forces is projected. However, the slowdown in growth in Korea when compared with the earlier two decades will be more marked than in most OECD countries, with the notable exception of Japan. Over the period 2020-2050, Korea’s labour force growth will switch sharply into reverse and, along with Japan, it is projected to experience one of the steepest falls in the size of the labour force. In contrast, the United States is projected to experience a positive and uniform growth over the whole of the next half-century.

Population ageing will also be reflected in an older workforce (Figure 1.6). Currently, older workers (*i.e.* aged 50 and over) account for just under one-quarter of the labour force. However, assuming participation rates by age and gender remain unchanged, almost 40% of the labour force will be aged 50 and over in 2020 and, by 2050, older workers will account for around half of the labour force. Many of these workers are likely to be quite old, with the proportion of elderly workers aged 65 and over projected to rise from just under 5% today to just over 17% in 2050.

6. In the case of Korea, productivity growth is more likely to be slower not faster in future as productivity levels in Korea converge with those in other advanced industrialised OECD economies.

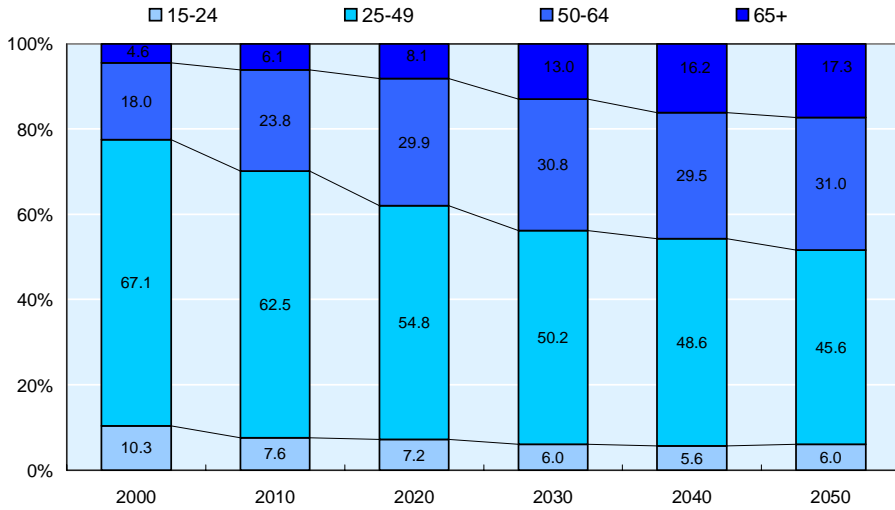
Figure 1.5. **Labour force growth in OECD countries, 1950-2050^a**



a) The projections of labour force growth over the period 2000-2050 assume that participation rates by five-year age groups and gender remain constant at their 2000 levels.

Source: OECD estimates.

Figure 1.6. **Korea's ageing labour force over the next 50 years**
Percentage of the total labour force



Source: OECD projections obtained by applying participation rates by gender and five-year age groups for 2000 from the Economically Active Population Survey to the population projections from KNSO (2001) (medium variant).

Chapter 2

THE CURRENT LABOUR MARKET SITUATION

Abstract

As pointed out in the previous chapter, maintaining high labour force participation rates among older people will be of crucial importance if Korea is to cope with the future challenges of a declining and rapidly ageing population. However, older people in Korea are already facing a number of difficulties in the labour market and this situation could worsen in the future as their numbers rise relative to the number of younger workers. This could, in turn, have a negative impact on their desire to remain in the labour force. The purpose of this chapter, therefore, is to identify those areas where action may be required to improve the labour market situation of older people.

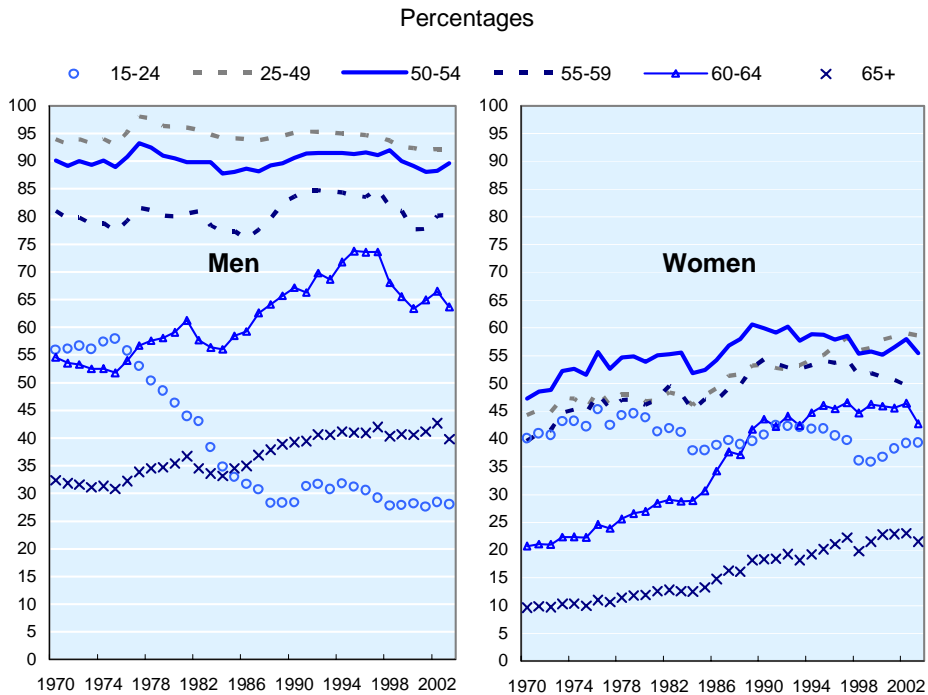
The first section of the chapter looks at whether there is much scope to increase labour force participation among older people, given that it is already very high by international standards. The second section describes the employment situation of older Korean workers in terms of where they work and in what type of jobs. The third and fourth sections look more closely at their employment prospects in terms of job stability and employment security and the consequences of job loss. The final section examines the situation of older Koreans with respect to unemployment and inactivity.

1. Labour force participation

Unlike in most other OECD countries, there has been no long-term decline in labour force participation rates for older people in Korea (Figure 2.1). Over the past three decades, participation rates for prime-age men and men in their 50s have been broadly stable and have even risen for men in their 60s or older. Participation rates for prime-age and older women have risen strongly over time

but still remain well below those of men. In contrast to these trends, participation rates for younger people have declined substantially since 1970 as a result of greater participation in education.

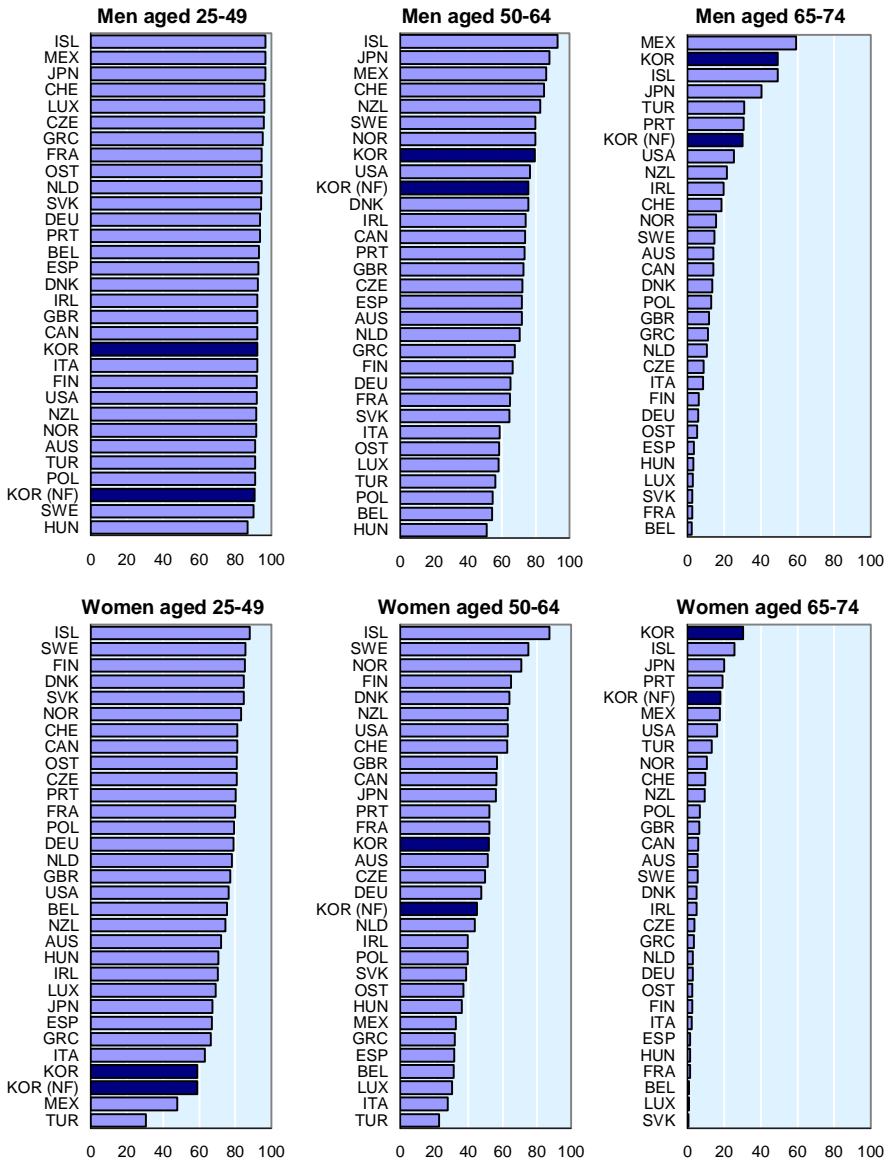
Figure 2.1. Labour force participation rates by age and gender in Korea, 1970-2003



Source: Economically Active Population Survey.

Among OECD countries, labour force participation rates for older men are close to the highest in Korea, especially for men in the older age group 65-74 (Figure 2.2). This might suggest that there is little room in Korea to increase these rates further. However, for the age group 50-64, these rates are still below those in several countries, notably Japan and Switzerland. Moreover, the financial crisis in Korea in 1997 appeared to hit older workers relatively hard. There was a drop in participation rates for Korean men in their 50s and early 60s following the crisis and they were still below their pre-crisis levels in 2003 (Figure 2.1). Except for men in their early 50s, these declines were also greater than the corresponding decline for prime-age men.

Figure 2.2. Labour force participation rates by age and gender in OECD countries, 2002^a
Percentages



a) For Korea, the data are shown for all households (KOR) and for non-farm households only (KOR NF).

Source: European Labour Force Survey and national labour force surveys.

In the case of older women in Korea, there appears to be even greater scope to increase participation rates. There is still a large gender gap in participation in Korea (Figure 2.1) and, in terms of the participation of women aged 50-64, Korea achieves only a middle ranking among OECD countries (Figure 2.2). Korea ranks even lower with respect to the participation of prime-age women. Following the 1997 financial crisis, participation rates also declined for women in their 50s and there was a halt in the long-term upward trend for women in their early 60s. This was in contrast to a continued rise in the participation rate of prime-age women.

But whether or not it is possible to raise participation rates for older people further, it is equally important to take steps to maintain these rates at their current level. It is also important to take account of the fact that participation rates of older people are lower in the urban areas (as proxied by non-farm households) than in the rural areas (as proxied by farm households) (Figure 2.2). Given the rapid and ongoing shift of the population from rural to urban areas, this could result in a fall in participation rates for older Koreans.⁷

2. Employment

Future participation rates for older people will also be influenced by the type of jobs they can get and their workplace environment. If older workers are employed predominantly in a narrow range of jobs, they may be particularly vulnerable to sectoral shocks. They may also face weak incentives to postpone retirement if their only choice is between retiring on a modest pension and continuing to work in poorly paid, precarious jobs that involve heavy manual work.

A. *Workplace characteristics*

In terms of their current workplace characteristics, older workers in Korea are more likely than younger workers to be employed in mining and agriculture and in real estate and business services (Table 2.1). They are much less likely to be working in manufacturing, public utilities and finance and insurance. They are also more likely to be employed in small- to medium-sized enterprises. Overall, just over two-thirds of all older workers in private sector workplaces with five employees or more are employed in workplace with less than 100 employees and only just 10% are employed in workplaces with 300 or more employees.

7. The different trends in participation rates among older people in the rural and urban areas are discussed in more depth in Lee (2002).

Table 2.1. **Korean older workers by selected workplace characteristics, 2002**

Percentages

	Older workers (aged 50 and over) in each category:					
	As a share of all employed persons in each category			As a share of all older workers		
	Total	Men	Women	Total	Men	Women
Industry						
Total	23.9	23.9	24.0	100.0	100.0	100.0
Agriculture, forestry & fishing	72.6	70.7	74.6	28.3	24.8	33.2
Mining	38.9	43.8	0.0	0.1	0.2	0.0
Manufacturing	15.1	13.5	18.1	12.1	11.9	12.4
Electricity, gas & water	9.6	12.2	0.0	0.1	0.2	0.0
Construction	21.9	22.3	18.7	7.2	11.5	1.3
Wholesale & retail trade	19.5	19.2	19.7	14.7	13.2	16.6
Restaurants & hotels	19.5	15.4	21.6	7.4	3.2	13.3
Transport & communication	21.2	23.0	7.7	5.5	9.0	0.5
Finance & insurance	9.4	10.4	8.6	1.3	1.1	1.5
Real estate & business services	27.3	28.9	23.6	8.6	10.6	5.7
Other services	18.3	21.6	15.3	14.7	14.2	15.5
Workplace size						
(Private sector workplaces only with 5 employees and over)						
Total	13.0	14.3	10.3	100.0	100.0	100.0
5-9	12.4	14.9	8.3	14.0	13.7	14.6
10-29	14.5	16.0	11.2	26.1	26.0	26.4
30-99	15.5	16.7	12.7	27.0	26.7	27.9
100-299	13.7	14.7	10.9	17.7	18.2	16.1
300-499	11.0	11.8	9.1	4.8	4.8	4.8
500+	8.3	8.7	7.3	10.5	10.6	10.2

Source: Economically Active Population Survey (industry data); Wage Structure Survey (workplace size data).

Table 2.2. **Korean older workers by selected job characteristics, 2002**

Percentages

	Older workers (aged 50 and over) in each category:					
	As a share of all employed persons in each category			As a share of all older workers		
	Total	Men	Women	Total	Men	Women
All employed	23.9	23.9	24.0	100.0	100.0	100.0
Employment status						
Employer	22.7	22.6	23.4	6.9	9.6	3.2
Own-account worker	43.7	44.1	43.0	37.7	44.1	28.8
Unpaid family worker	37.6	25.1	39.3	12.7	1.7	28.1
Employee	15.9	16.5	15.0	42.5	44.5	39.9
- Regular employee	11.6	13.9	6.1	15.0	21.9	5.4
- Temporary employee	16.0	16.7	15.4	14.7	11.9	18.6
- Daily employee	27.8	26.8	28.9	12.8	10.6	15.8
Occupation						
Legislators, senior officials & managers	39.3	38.8	46.9	4.2	6.8	0.7
Professionals	10.5	15.1	4.3	3.1	4.4	1.3
Technicians & associate professionals	9.5	12.4	3.1	3.8	5.8	1.0
Clerks	5.6	8.7	2.9	3.0	3.8	1.9
Service workers	21.1	16.2	23.3	11.3	4.6	20.7
Sales worker	21.8	22.0	21.7	12.1	9.5	15.8
Skilled agricultural & fishery workers	73.0	71.3	75.1	27.0	24.4	30.8
Craft & related trades workers	18.8	17.2	25.4	9.6	12.0	6.2
Plant/machine operators & assemblers	18.2	18.9	13.6	8.1	12.7	1.9
Elementary occupations	41.4	41.6	41.2	17.6	16.2	19.6

Source: Economically Active Population Survey.

B. Job characteristics

In terms of their current job characteristics, older workers in Korea are more likely than younger workers to be working in non-standard forms of employment (Table 2.2). First, they are more likely to be own-account workers (*i.e.* self-employed without employees) or unpaid family workers.⁸ Whereas less than one-quarter of all employed individuals in 2003 were aged 50 and over, this proportion was over 40% for own-account workers. Second, if older workers are working for an employer, they are much more likely than younger employees to be working as a temporary or daily worker. For instance, while they accounted for fewer than 12% of all regular employees in 2003, they accounted for 16% of all temporary workers and almost 28% of daily workers. Overall, only some 15% of all older workers were employed as regular employees.

The higher incidence of temporary and daily work among older employees may reflect the fact that they are more heavily concentrated in smaller workplaces (see Table 2.1) and thus tend to be classified as temporary or daily workers in the standard Korean labour force survey irrespective of their actual employment situation. The labour force survey now includes regular supplements which identify “contingent” workers who do not expect to be working beyond a fixed time limit with their current employer. According to the August supplement for 2001, the incidence of contingent work is significantly higher for older workers than prime-age workers (Figure 2.3). In 2001, over one-fifth of all employees aged 55 to 59 were contingent workers compared to an incidence of around 14% for all employees. This rises to almost 30% for employees aged 60 to 64.

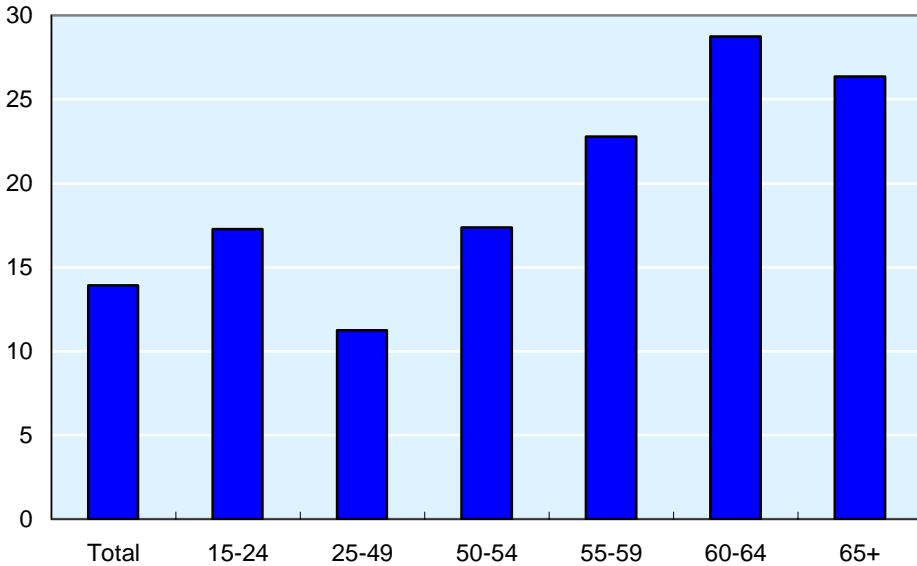
By occupation, older workers are much more likely than younger workers to be employed in both high-skilled occupations (*e.g.* legislators, senior officials and managers and officials) and low-skilled occupations (*e.g.* elementary occupations) (Table 2.2). They tend to be under-represented as professional,

8. This is partly explained by the fact that a much higher proportion of older workers than younger workers are employed in agriculture (see Table 2.1).

technical and clerical workers. Overall, almost two-thirds of older workers are working in potentially physically-demanding jobs as manual workers.⁹

Figure 2.3. **Contingent employees by age in Korea, 2001**

As a per cent of all employees in each age group



Source: Korean National Statistical Office, August 2001 Supplement to Economically Active Population Survey.

In terms of how much their jobs pay, many older workers in Korea are working in low-paid jobs (Table 2.3).¹⁰ Whereas just under one-quarter of all employees had low-paid jobs in 2002, this proportion rises to two-fifths for men aged 55 to 59 and to three-fifths for men aged 60 and over. The incidence of low pay is much higher still for women in general, and over two-thirds of all older female employees had low-paid jobs in 2002.

9. Manual occupations refer to: “skilled agricultural and fishery workers”; “craft and related trade workers”; “Plant and machine operators and assemblers”; and “elementary occupations”.

10. Low-paid jobs are defined as those jobs that are paid at less than two-thirds of median earnings for all full-time workers.

Table 2.3. **Incidence of low pay in Korea for older workers, 2002^a**

Percentages

	Total	Men	Women
All ages	24.5	15.1	45.9
<25	54.8	55.5	54.5
25-49	17.4	9.9	39.4
50+	37.6	29.1	64.6
50-54	24.3	13.2	55.7
55-59	40.9	31.3	71.3
60+	59.8	55.4	78.6

a) Proportion of regular workers earning less than two-thirds of median earnings for all regular workers.

Source: Wage Structure Survey, 2002.

3. Job stability and security

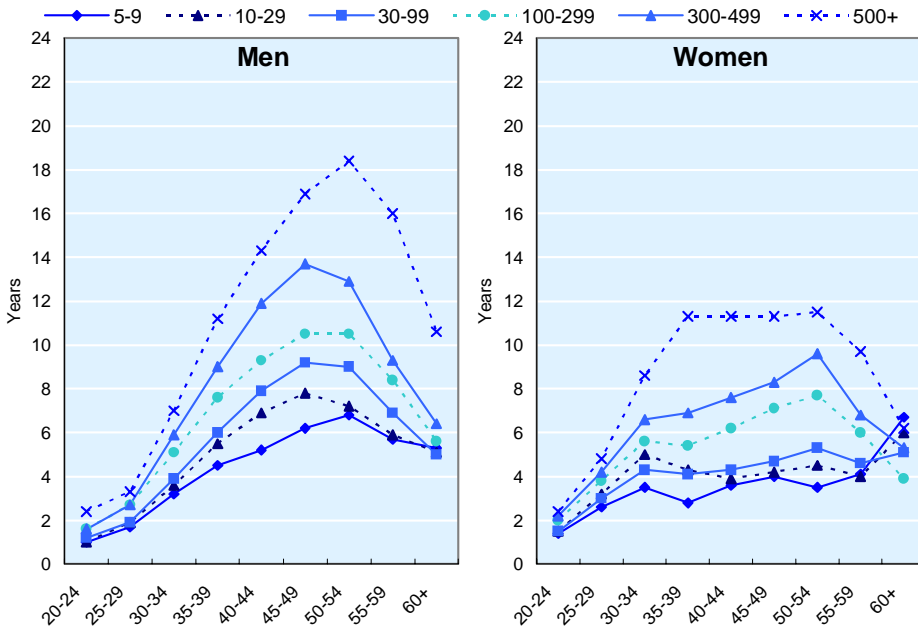
As already discussed, many older Koreans are working in non-standard forms of employment. This suggests that they may be facing a precarious labour market situation. In this section, the situation of older wage and salary earners with respect to employment stability is analysed in more detail using indicators of average job tenure and retention rates (*i.e.* the proportion of workers remaining with their current employer over a given period of time).

A. Job tenure

Average job tenure provides one indication of whether older Korean workers are in stable jobs or not. For example, if all workers in the age group 50-54 have spent their entire career with the same employer, they would have average job tenure of between 25 to 40 years of tenure, depending on when they left school. In large Korean firms, there is some evidence of job stability for men prior to the age of 55. Average tenure is almost 17½ years for men aged 50-54 in firms with 500 or more workers (Figure 2.4). However, in smaller firms, especially those with less than 300 workers, average job tenure is much lower. This suggests that there is little stability of jobs in these firms. For women, average job tenure is much lower than for men in all age groups and firm sizes. While this may be partly explained by their

childcare responsibilities it also points to very poor career prospects for Korean women. Relatively few older women acquire much seniority and so there is a high risk for older working women of remaining stuck in relatively low-paid jobs.

Figure 2.4. **Job tenure by age, gender and firm size in Korea, 2002^a**



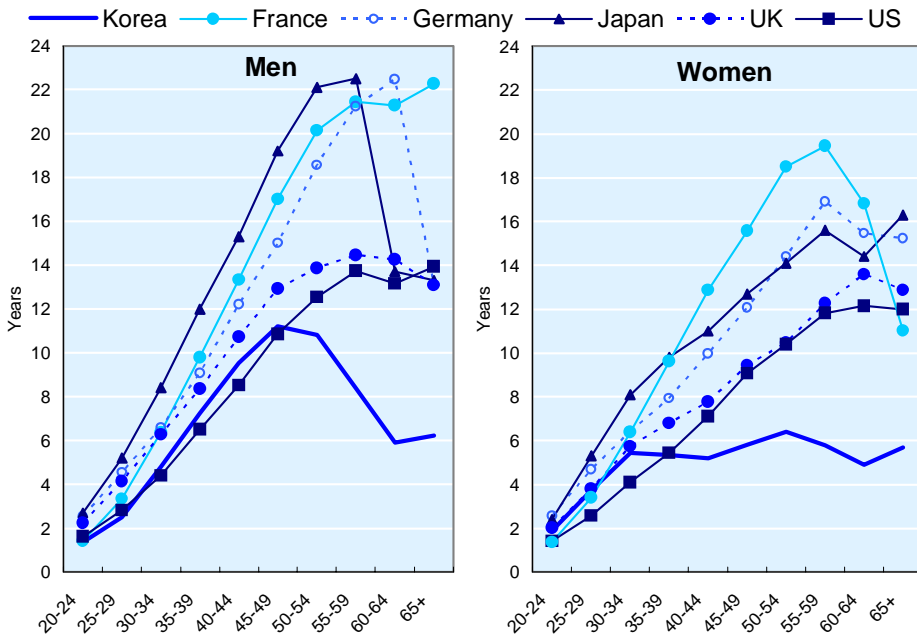
a) Firm size refers to the number of workers in each workplace.
Source: Wage Structure Survey, 2002.

The pronounced inverted U-shape in average job tenure for men in Korea, with tenure peaking between 45 to 54 years of age, can be contrasted with the situation in other OECD countries where tenure peaks at an older age in either the 55-59 or 60-64 age groups (Figure 2.5).¹¹ Altogether, these tenure profiles by age suggest that, unlike in Japan and, to a certain extent, France and Germany, there is

11. The Korean and Japanese data may understate average job tenure relative to other countries to the extent that transfers to another establishment within the same enterprise are counted as new jobs in terms of job tenure. However, this may be offset by the fact that very small establishments are not included in these data. Average job tenure tends to be lower on average in smaller establishments than in larger ones (see Figure 2.4).

no widespread system of lifetime employment in Korea. By age 50-54, men in Japan, France and Germany have been working for their current employer for, on average, between 18 to 22 years. The comparable figure for Korea is only 11 years. Korea resembles more closely instead the American and UK cases of a highly fluid labour market. However, Korean workers would appear to have even less stable careers paths than even in these two countries. For men, their average job tenure drops increasingly below the corresponding levels in the United Kingdom and the United States after the age of 45-49. Women, especially have very low tenure at all ages in comparison with other countries.

Figure 2.5. **Average job tenure by age and gender in selected OECD countries, 2000^a**



- a) The data for Japan and Korea refer to regular workers in enterprises with ten or more regular workers, excluding the agricultural, hunting forestry, fishing and general government sectors. The data for the other countries are based on labour force surveys covering all workers.

Source: Korea: Wage Structure Survey; Japan: Basic Survey on Wage Structure; US: Job Tenure supplement to the Current Population Survey; other countries: European Labour Force Survey.

These changes in average job tenure by age do not provide a direct measure of the extent of job loss among workers. They will also be affected by

compositional changes. For instance, average job tenure will decline by more if it is workers with the longest job tenure who retire first than in the opposite case. Moreover, some workers who are retired from their jobs may not subsequently find a new job or may move outside of the scope of the survey, *e.g.* in the case of an establishment survey of regular workers, they switch to a daily job or become self-employed. Thus, the drop in average job tenure may be understated as the shorter or zero years of tenure of these (former) workers is not taken into account. Instead, retention rates can be calculated which measure the proportion of all workers who remain in their jobs over a given period.¹²

B. Job retention rates

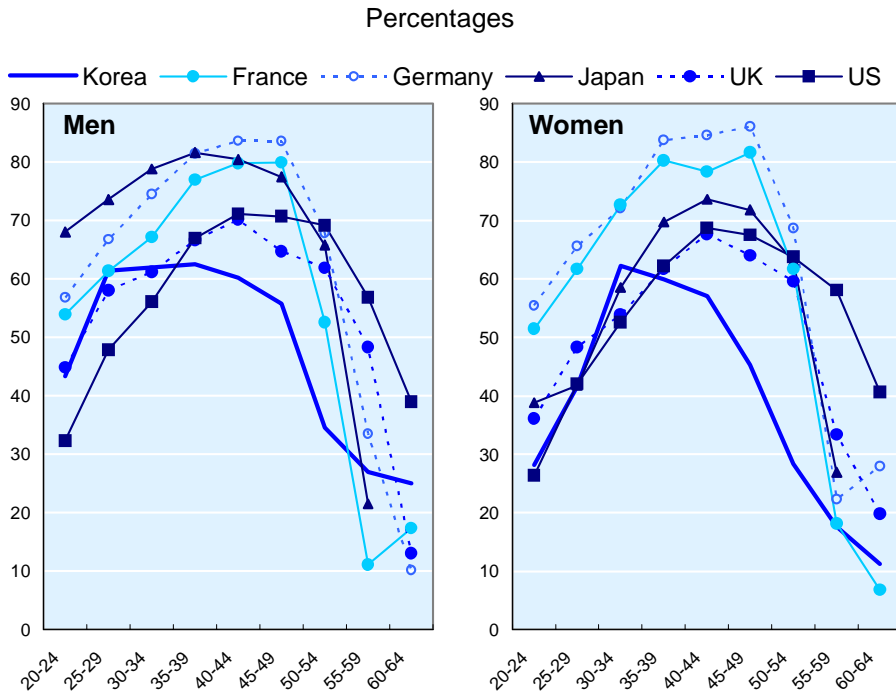
In general, retention rates tend to be humped shape with age (Figure 2.6). Typically, they are low for younger workers, since they change jobs relatively frequently or “job shop” while making the transition from school to work, and then rise with age as workers become more settled in their careers. They subsequently decline at the older ages as workers either reach the official retirement age or, where this possibility exists, take advantage of an early retirement scheme. Of course, these retention rates will be affected by both voluntary quits and lay-offs. And so, for older workers, the decline in their retention rates may also reflect involuntary job loss rather than just voluntary retirement.

The comparison of retention rates in Figure 2.6 confirms that there is generally much less job stability for Korean workers than in other countries.¹³ While in other countries retention rates continue to rise with age until workers are in their mid to late 40s, they peak earlier in Korea and at a relatively low level. For male workers aged between 40-44 in 1995, only around 60% of them

-
12. These retention rates have been estimated using cross-sectional data on job tenure rather than from directly observing job retention. They are calculated by taking the ratio of the number of workers in any given five-year age group, with at least five years of job tenure, to the total number of workers in the preceding age group five years earlier. These calculations can also be done separately by level of tenure, *e.g.* by comparing the number of workers age 55-59 with 15 to 19 years of tenure with the number, five years earlier, of workers aged 50-54 with 10-14 years of tenure.
 13. These retention rates are calculated over the period 1995-2000, and so, for Korea, will be affected by the severe economic downturn it experienced in 1998 when substantial job losses took place.

were still working in the same establishment in 2000 in Korea compared with around 80% in France and Japan. In these latter two countries, retention rates drop for workers between the ages 50-54 and 55-59, as in Korea. But the largest drop occurs between the ages 55-59 and 60-64, *i.e.* suggesting that the predominant age of voluntary or involuntary retirement is at least 60 years or more in these countries.

Figure 2.6. Retention rates by age and gender in selected OECD countries, 1995-2000^a



- a) The retention rate refers to the proportion of workers in 1995 (1996 for the US, 1994 for Germany) who were still in the same job five years later (four years later for the US). The data for Japan and Korea refer to regular workers in enterprises with ten or more regular workers, excluding the agricultural, hunting forestry, fishing and general government sectors. The data for the other countries are based on labour force surveys covering all workers.

Source: Korea: Wage Structure Survey; Japan: Basic Survey on Wage Structure; US: Job Tenure supplement to the Current Population Survey; other countries: European Labour Force Survey.

The situation of older workers is very different again in the United Kingdom and the United States. In these countries, retention rates only show a substantial decline for workers after the age of 55 and, for the age group 55-59, are substantially higher than in Japan, Korea and France. Thus while the United Kingdom and the United States are generally noted for having a highly flexible labour market, there is greater job security for older workers in these two countries than in some other countries.

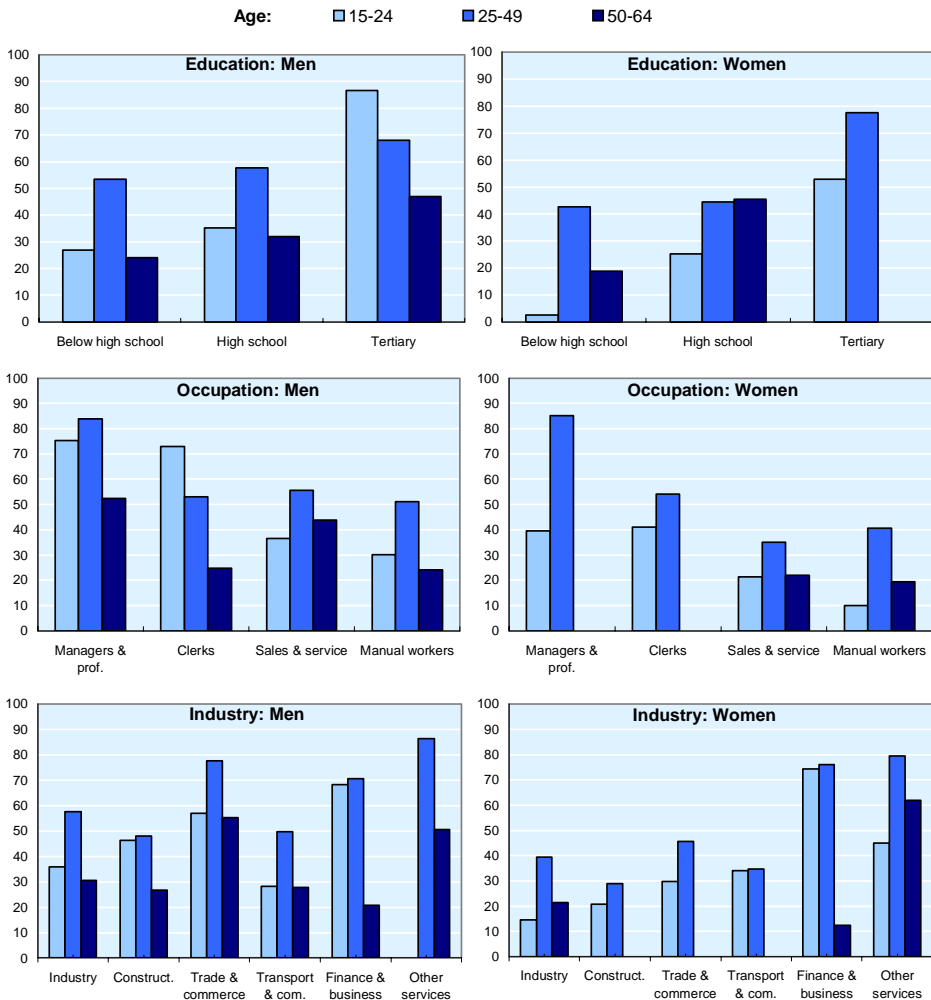
The low average number of years of job tenure for working women in Korea is the result of much lower retention rates relative to men in both the younger and older brackets. For the younger age-groups, this can be explained by women leaving their jobs to have children. However, the gap between men and women is much larger than in other countries, except Japan. The gap at the older age groups is also much larger, and even larger than in Japan.¹⁴ However, for workers between the ages of 30-44, retention rates in Korea for women are similar to those of men. Thus, it would appear that Korean women, and especially older Korean women, are in a particularly unfavourable position with respect to job security.

The large drop in retention rates for older workers in Korea is not just confined to certain groups of workers but occurs for all workers whether classed by education, occupation or industry (Figure 2.7). However, it does appear that older workers with few educational qualifications suffer the largest drop in retention rates. Barely one in five workers aged 50-64 in 1995, with only upper middle school education, were still working in the same establishment in 2000. Given that more educated workers have higher retention rates than less educated workers, it is possible that average retention rates for older workers will rise in the future in line with the considerable increase in educational attainment of the Korean population (see Figure 5.1, p. 118). But by how much is not clear given that retention rates are quite low even for the relatively small cohort of older workers that currently have tertiary qualifications.

14. The gap is also quite large in the United Kingdom for women initially aged 55-59, which can probably be explained by the fact that the “official” or pensionable age of retirement for women is currently 60 compared with 65 for men (although there will be a phased in rise to the same age as men).

Figure 2.7. Retention rates in Korea by selected characteristics of workers, 1995-2000^a

Percentages



a) The retention rate refers to the percentage of workers in 1995 who were still with their current employer five years later. For some worker characteristics and age groups, no data are shown because of the small number of observations underlying the data.

Source: Wage Structure Survey, 1995 and 2000.

4. The consequence of job loss

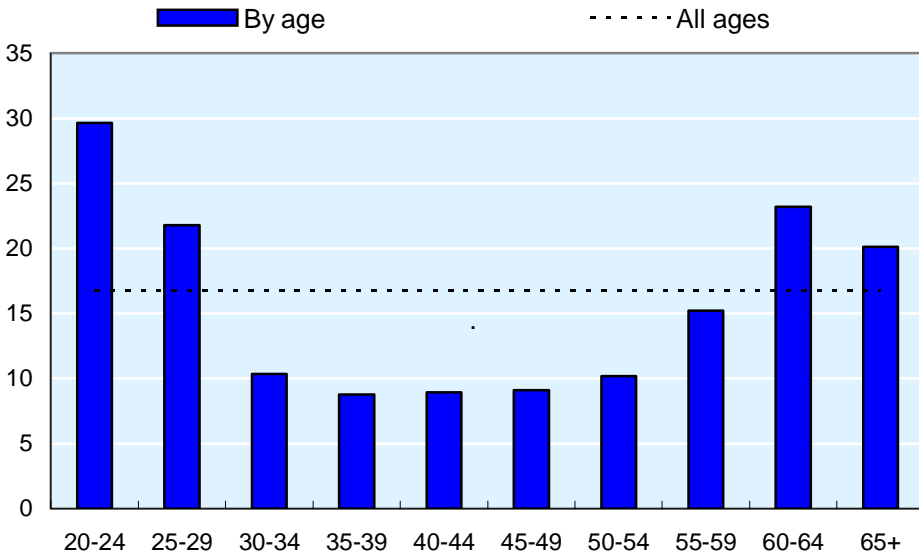
Very low retention rates for Korean workers from the age of 50 onwards suggests that a high proportion of older workers of all ages in Korea are experiencing job loss and not just as a result of retiring permanently from the labour force. Therefore, it is important to look at the consequences of job loss for these workers. For example, do they find new jobs quickly and do they experience a wage cut in their new job relative to their former job?

A. Are older workers re-hired following job loss?

Potentially offsetting low rates of retention for older workers in Korea are relatively high rates of hiring. While not quite as high as for youth, hiring rates, as measured by job tenure of less than one year, are higher for older workers than for prime-age workers (Figure 2.8). Thus, it would appear that while older workers may face a greater risk of losing their job (whether voluntarily or involuntarily) than prime-age workers, they also have a higher probability of being hired into a new job.

Figure 2.8. Hiring rate by age in Korea, 2000

Percentage of workers in each age group with job tenure of less than one year

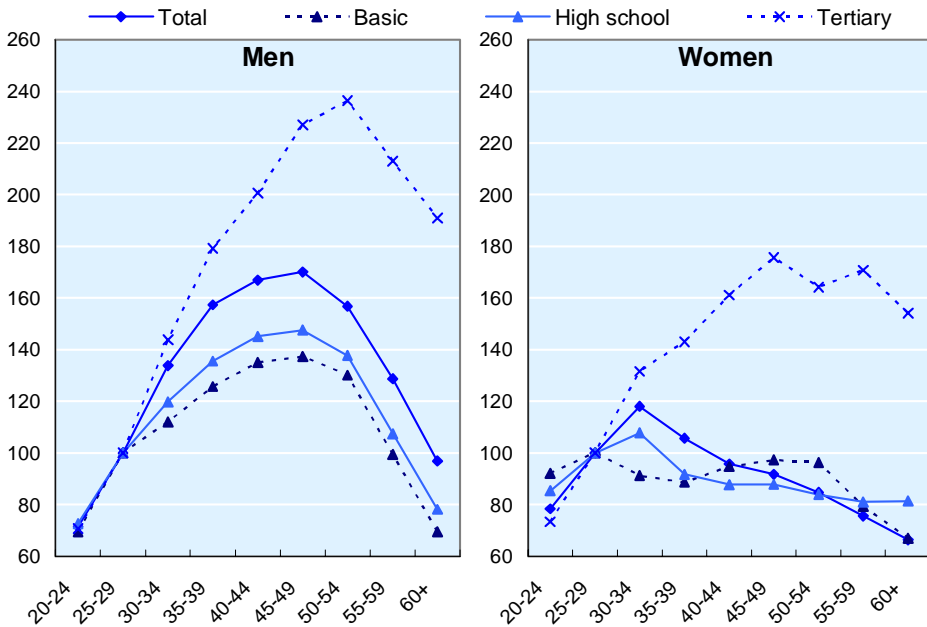


Source: Wage Structure Survey, 2000.

B. Does job loss for older workers result in lower wages?

One indication of whether older Korean workers are experiencing a cut in wages when they change jobs is the age-profile of their earnings. Normally, one would expect to see a rise in earnings with age either in line with increased productivity or as a result of seniority pay (see Chapter 4). However, as shown in Figure 2.9, wages of male workers in Korea decline quite steeply after the age of 50 (55 for workers with tertiary education) relative to the age group aged 25-29. Wages also decline for female workers in the older age groups but not as steeply as for men, nor do they rise as steeply in the younger age groups.

Figure 2.9. **Age-earnings profiles in Korea by level of education, 2002^a**
Earnings of 25-29 year olds = 100

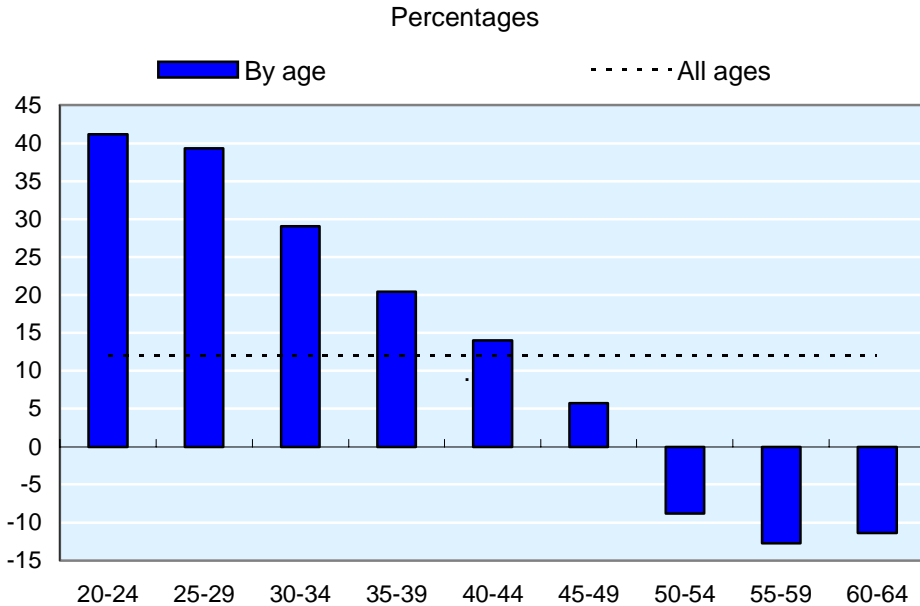


a) The level of education refers to the following: Basic = Not having a high school diploma; High school = Having a high school diploma but no further diploma; Tertiary = Having a higher education diploma (e.g. either college or university).
Source: Wage Structure Survey, 2002.

The age-profiles of earnings presented in Figure 2.9 are cross-sectional data and refer to different cohorts of workers and so do not give a direct indication of whether the wages of workers in a given cohort fall or not after a

certain age. Instead, the wage growth over time of pseudo-cohorts of workers can be calculated.¹⁵ Figure 2.10 shows the results for men over the period 1995 to 2000.¹⁶ They indicate that over the period real wage growth tends to decline with age, and that, on average, real wages fell for male workers older than 50 over the period 1995 to 2000.

Figure 2.10. **Real earnings growth for Korean men by age cohort, 1995-2000^a**



a) Based on pseudo-cohorts, *i.e.* wages for each five-year age group in 1995 relative to wages for the corresponding age group that was five years older in 2000.

Source: Wage Structure Survey, 1995 and 2000.

15. This can be done by comparing the wages of workers in any given five-year age group in year t with wages for the corresponding group of workers aged five years older in year $t+5$.

16. The corresponding calculation was not done for women given that entry and exit from the labour market are much more common for women than for men, and so it would be less likely that the results would be representative of the results that would be obtained using longitudinal data. In Table 2.4, these calculations are carried out for women as well, since by controlling for the education level of workers this may partly dampen the impact of compositional changes on the observed growth in wages.

These results may be affected by compositional changes, *e.g.* if more highly-educated (*i.e.* high-paid) workers retire earlier than less-educated (*i.e.* low-paid) workers then this would reinforce the decline in real wage growth that is observed for all workers in a given cohort. Hence, in Table 2.4, real wage growth is also estimated by education level. At all education levels, real wage growth still declines with age but the decline is much larger for workers with less than tertiary qualifications, with real wages falling by as much as 25%. Even for men with tertiary qualifications, real wages fall after 55 and the fall is particularly large for men who continue to work after 60 years old. Thus, for older workers in Korea, there is some evidence to suggest that, on average, losing a job and finding a new one may involve a substantial cut in wages.

Table 2.4. **Real earnings growth by age cohort, gender and education, 1995-2000^a**

Percentages

Education level ^b	Men				Women			
	25-49	50-54	55-59	60-64	25-49	50-54	55-59	60-64
Basic	8.2	-14.3	-22.3	-5.8	8.0	-4.0	-7.0	5.6
High school	15.7	-20.2	-25.1	1.0	2.2	-12.2	-24.8	..
Tertiary	28.6	4.3	-7.0	-22.8	35.3	14.9	1.9	..
Total	21.5	-8.8	-12.7	-11.4	17.8	6.5	9.4	48.9

.. = Not calculated as too few observations.

a) Based on pseudo-cohorts, *i.e.* wages for each five-year age group in 1995 relative to wages for the corresponding age group that is five years older in 2000.

b) The level of education refers to the following: Basic = Not having a high school diploma; High school = Having a high school diploma but no further diploma; Tertiary = Having a higher education diploma (*e.g.* either college or university).

Source: Wage Structure Survey, 1995 and 2000.

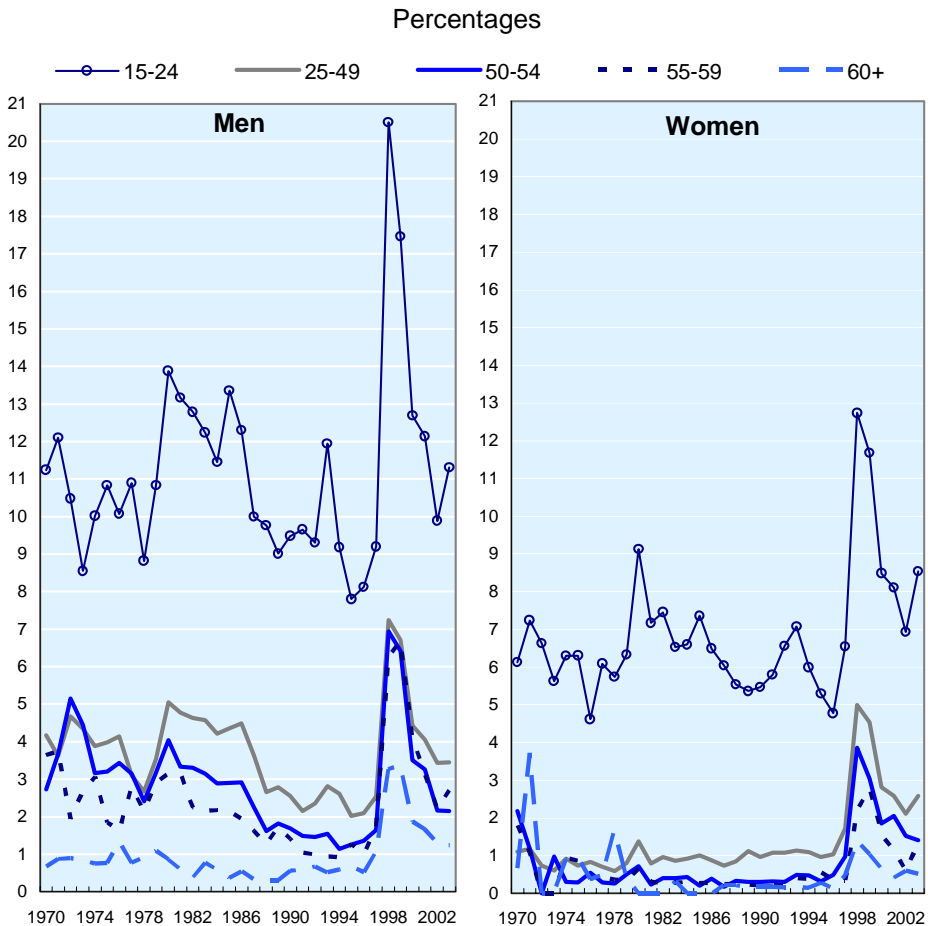
5. Unemployment and inactivity

A. Unemployment

Low rates of unemployment for the older segment of the labour force also suggest that older workers in Korea who have experienced job loss have generally been able to find new jobs quite quickly. They have generally experienced a lower unemployment rate than the prime-age labour force and certainly much lower rates than youth (Figure 2.11). They also do not appear to

have suffered disproportionately in terms of unemployment after the 1997 financial crisis and subsequent waves of corporate restructuring. The unemployment rate initially rose slightly more for men in their 50s than for prime-age men, but it has since declined more steeply for the older age group. The rise was much less pronounced for men aged 60 and over and for older women more generally. The fact that unemployment rates for youth are much higher, and rose more steeply after the 1997 financial crisis, may explain why several active labour market programmes have been targeted at this group in particular.

Figure 2.11. **Unemployment rates by age and gender in Korea, 1970-2003**



Source: Economically Active Population Survey.

Despite relatively low unemployment rates for older workers in Korea, there is some evidence that a higher proportion of the older unemployed have lost their jobs “involuntarily” in comparison with younger people. For example, of the unemployed in 2002 who had left their jobs less than a year prior to being surveyed, 66% of those aged 50 and over had lost their jobs for “involuntary” reasons while the corresponding proportion for the age group 25-49 was 51% (Table 2.5).¹⁷ Job loss because a temporary or seasonal job ended was a more common reason among the unemployed aged 60 and over relative to those aged in their 50s, and for older women more generally relative to older men.

While the older unemployed in Korea report losing their jobs for “involuntary” reasons more frequently than the younger unemployed, they do not appear to face a much higher risk of becoming long-term unemployed. In 2003, both in the case of the older (50-64) unemployed and prime-aged (25-49) unemployed, around 10-12% had been unemployed for six months or more – down from a peak of around 20-22% in 1999 – and very few had been unemployed for a year or more.¹⁸ Overall, the average duration of unemployment is only slightly higher for both men and women aged 50-59 than for the unemployed in either the younger or older age groups. This is quite different from the situation most other OECD countries where the older unemployed face a significantly higher risk of long-term unemployment than younger unemployed individuals.

-
17. “Involuntary” job loss in this study is defined to include “dismissals and voluntary retirement”. “Voluntary retirement” refers to workers becoming unemployed after reaching their firm’s mandatory age of retirement and so may not be strictly voluntary.
 18. By gender, these numbers are higher for men than for women. For example, in 2003, around 13% of unemployed men aged 50-64 had been unemployed for six months or more and the corresponding figure for older women was only 4%.

Table 2.5. **Unemployed by age, gender and reason in Korea, 2002**

Percentages

	Total	<25	25-49	50+	of which	
					50-59	60+
Total						
Total	100.0	100.0	100.0	100.0	100.0	100.0
Entering labour market	6.2	12.6	0.7	0.0	0.0	0.0
Quitted more than 1 year ago	15.4	16.4	13.8	17.7	17.9	17.4
Quitted less than 1 year ago	78.4	71.1	85.5	82.3	82.1	82.6
of which:	(100)	(100)	(100)	(100)	(100)	(100)
Voluntarily ^a	60.1	77.8	49.0	33.8	34.0	33.3
Involuntarily	39.9	22.2	51.0	66.2	66.0	66.7
Dismissed or voluntary retired	4.0	1.6	4.5	10.8	10.6	11.1
Temporary or seasonal job ended	9.4	8.2	9.7	13.8	12.8	16.7
Other ^b	26.6	12.3	36.8	41.5	42.6	38.9
Men						
Total	100.0	100.0	100.0	100.0	100.0	100.0
Entering labour market	6.0	13.0	1.0	0.0	0.0	0.0
Quitted more than 1 year ago	15.8	17.9	12.3	19.0	19.0	18.8
Quitted less than 1 year ago	78.2	69.1	86.7	81.0	81.0	81.3
of which:	(100)	(100)	(100)	(100)	(100)	(100)
Voluntarily ^a	55.2	74.8	44.6	34.8	32.4	41.7
Involuntarily	44.8	25.2	55.4	65.2	67.6	58.3
Dismissed or voluntary retired	4.6	2.1	5.1	10.9	11.8	8.3
Temporary or seasonal job ended	9.6	8.4	9.7	13.0	11.8	16.7
Other ^b	30.6	14.7	40.6	41.3	44.1	33.3
Women						
Total	100.0	100.0	100.0	100.0	100.0	100.0
Entering labour market	6.6	11.9	0.0	0.0	0.0	0.0
Quitted more than 1 year ago	14.9	14.1	16.3	10.0	14.3	0.0
Quitted less than 1 year ago	78.4	74.1	83.7	90.0	85.7	100.0
of which:	(100)	(100)	(100)	(100)	(100)	(100)
Voluntarily ^a	69.5	82.8	60.3	33.3	41.7	16.7
Involuntarily	30.5	17.2	39.7	66.7	58.3	83.3
Dismissed or voluntary retired	2.6	1.0	2.7	11.1	8.3	16.7
Temporary or seasonal job ended	8.9	7.1	9.6	16.7	16.7	16.7
Other ^b	18.9	9.1	27.4	38.9	33.3	50.0

a) Quitted job "voluntarily" refers to the following reasons: "Personal obligations / own illness / unsatisfactory work arrangements" and "Other".

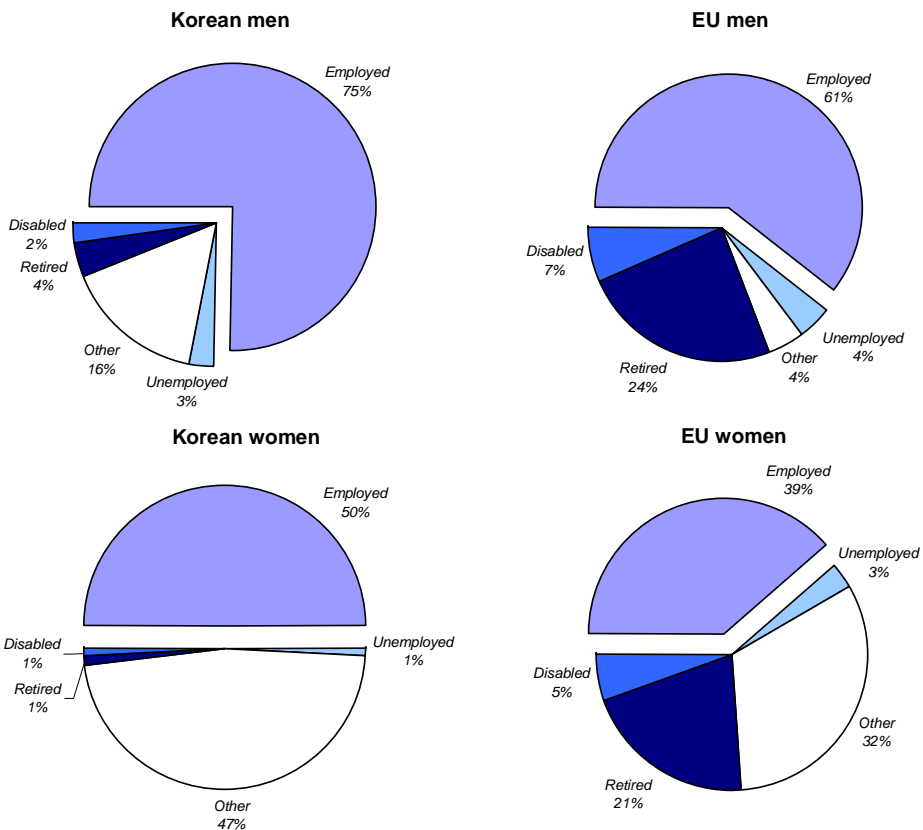
b) "Other" refers to the following reasons: "Firm closure or dissolution" and "Slack work / business condition".

Source: Economically Active Population Survey.

B. Inactivity

Unlike in some other OECD countries, low unemployment rates among older people is not the result of older people leaving the labour force altogether. Overall, inactivity among older people is much lower in Korea than in most other OECD countries. For instance, whereas only 25% of men and 50% of women aged 50-64 were inactive in Korea in 2000, the comparable figures in the EU were 39% and 61%, respectively (Figure 2.12).

Figure 2.12. **Principal activity status of individuals aged 50-64 in Korea and the EU, 2000**



Source: Korea: Economically Active Population Survey, 2000; EU: European Labour Force Survey, 2000.

In many European Union countries, retirement is already an option for a substantial proportion of people before the age of 65. On average across the EU, some 24% of men and 21% of women aged 50 to 64 declared themselves to be retired as their principal activity status. In Korea, the corresponding figure was a mere 4% and 1%, respectively. As discussed in Chapter 3, this reflects the immaturity of the National Pension Scheme and that there are currently few alternatives to work as a source of income for older people in Korea. Moreover, far fewer older people in Korea than in EU countries declare themselves as being outside of the labour market because of disability. As also discussed in Chapter 3, this probably reflects less generous disability benefits in Korea rather than better health status.

Chapter 3

STRIKING THE RIGHT BALANCE: INCOME SUPPORT FOR OLDER PEOPLE AND WORK INCENTIVES

High labour force participation rates for older people in Korea, especially for men, are probably largely explained by the fact that income support for the elderly is still provided overwhelmingly through own earned income, private savings and transfers from other family members. Employers are required to pay retirement allowances but many workers are either not covered by this system or fail to remain long enough with firms to build up substantial entitlements. The National Pension Scheme (NPS) was introduced in 1988 but will only start paying out full pensions in 2008. More generous occupational schemes have been in place for longer but only cover the public sector and private school teachers. Therefore, older workers in Korea currently face few options but to continue to work much longer than in most other OECD countries. However, as the NPS matures there is a risk that it may lead to lower participation rates for older people.

Striking the right balance between guaranteeing an adequate income for the elderly while not undermining work incentives is a challenge facing all OECD countries. Therefore, the purpose of this chapter is to examine the adequacy of the current income support arrangements for the elderly population in Korea and to assess the likely impact of these arrangements on the future retirement decisions of older workers. The impact of other welfare benefits, more generally, on work incentives is also briefly examined. Many of the pillars of Korea's current welfare system have only been put in place relatively recently and so it is difficult to detect empirically what their impact has been or will be on participation rates of older people. However, the experience of other OECD countries can provide a guide as to what that impact may be.

1. Mandatory retirement allowances

Under the Labour Standards Act, firms in Korea are required to pay workers leaving the firm one month of wages for every year of service.¹⁹ These severance payments are called retirement allowances and in the past had served a limited role of providing income support after retirement or in case job loss prior to retirement.²⁰

A. *An international perspective on the Korean system*

Korea is quite unusual among OECD countries in that private firms are required by law to make these severance payments to workers leaving the firm whether voluntarily or involuntarily. In several countries, severance pay is required in the case of dismissal but not in the case of a voluntary quit.²¹ A similar system exists in Italy and Japan (Box 3.1) but with some notable differences. Italy probably comes closest to the Korean system in that severance pay is compulsory for all workers leaving the firm and there is a standard formula for calculating the minimum amount of the lump-sum payment. The Japanese system is on a voluntary basis but in practice almost all firms have some form of retirement allowance system but with no standard formula for calculating these allowances. Reforms are planned to convert the Italian system into a corporate pension fund.

19. The actual amount of the retirement allowance is based on the average of the worker's wages (including overtime and bonuses) over the last three calendar months prior to leaving the firm.

20. The development of the retirement allowance scheme and a discussion of its current purpose and usefulness is given in KOILAF (1999a).

21. See OECD (2004a) for a list of these countries as well as the conditions for receipt and amounts of these payments.

Box 3.1. Severance-pay systems in Italy and Japan

Italian system

Severance pay in Italy is called the “end of contract payment” (Trattamento di fine rapporto) (TFR) and is regulated by the law of 29 March, 1982, No. 297, “Disciplina del trattamento di fine rapporto e norme in materia pensionistica”. All workers are covered, whether permanent or temporary.

The Italian system can be classified as a defined contributions system. Firms are legally obliged to make monthly deductions from wages of 2/27^{ths} (*i.e.* around 7.4%). Of the total deduction of 7.4%, firms retain 6.9 percentage points while 0.5 percentage points must be placed in a “warranty” or “wage guarantee” fund. When worker leave a firm they receive the totality of these deductions together with interest calculated as 1.5% per year plus 75% of price inflation for each year that deductions were made. The effective real rate of interest per annum on these severance payments is thus a maximum of 1.5% in the case of no inflation, falling to zero if inflation is constant at 6% and negative if inflation rises above 6%.

A number of reforms have been introduced with the idea of converting the Italian system into an occupational pension. A new law was introduced 17 March 1999, No. 144, “Misure in materia di investimenti, delega al Governo per il riordino degli incentivi all'occupazione e della normativa che disciplina l' INAIL, nonche' disposizioni per il riordino degli enti previdenziali”. This law provides for a firm's TFR fund to be transferred to a pension fund subject to a collective agreement for establishing this fund and the employee's agreement to do so. However, this new option has so far not been taken up by Italian companies. Therefore, a new law has been proposed which would give the government the power to make the transfer of TFR funds to a pension fund compulsory and to grant employees the freedom of choice of pension fund. The proposed new law (No. 2145, “Delega al Governo in materia previdenziale, misure di sostegno alla previdenza complementare e all'occupazione stabile e riordino degli enti di previdenza e assistenza obbligatoria”) was submitted to the Parliament for discussion on 28 December 2001.

Japanese system

Severance pay is not legally required but almost all firms have a system of retirement allowances that workers receive when they leave the firm. There is no standard formula but these allowances tend to be higher for workers with longer tenure and in the case of lay-offs.

According to enterprise surveys, the average value of severance pay in the case of voluntary quits varies from 1.7 months after five years of service to 14.8 months after 20 years of service. The corresponding values in the case of lay-offs are 3.4 and 18.8 months, respectively. By way of comparison, the Korean value would be five months after five years of service and 20 months after 20 years of service (*i.e.* the equivalent of a one-month average of wages over the last three months of service paid for every year of service).

The Korean system appears to be more generous than either the Italian or Japanese systems. The average number of months of severance payments in Japan for different years of service appears to be lower than what an equivalent worker would receive in theory under the Korean system.²² The difference expected benefits between the Korean and Italian systems can be illustrated using a hypothetical scenario where average real wage growth and inflation are both equal to a constant 5% for each year of service. In this case, retirement allowances for a worker with 20 years of service would amount to 2½ times a worker's final annual salary in Korea but just over 1.2 times in Italy. After 40 years of service, this would rise to just over 3.3 times in Korea and to just under 1.4 times in Italy.

B. *Limitations and weaknesses*

A number of factors have undermined the original purpose of the retirement allowance system. First, a public pension system is now in place and once mature it will displace retirement allowances as the principal source of income based on previous earnings for workers after retirement. Since 1997, interim or mid-career payments are permitted, which further weakens the system as a form of income support after retirement. Thus, for many workers, these retirement allowances are considered to be payment of deferred wages rather than as a true retirement scheme (see KOILAF, 1999a, p. 135). Second, coverage under the system is still limited. While coverage has been expanded since its inception as a statutory system in 1961, these allowances are not compulsory for firms with less than five workers. Temporary workers with a contract of less than one year and all employees with less than one year of service are also not covered. Third, there is a risk of firms defaulting on payment of retirement allowances that fall due. Many workers who lost their job in the wake of the financial crisis did not receive the retirement allowances they were due, possibly up to one-quarter of them according to Phang (2002a). A Wages Claim Guarantee System was introduced in July 1998, funded by a payroll tax of 0.05% of wages, but it only guarantees that workers will receive

22. However, in Japan, these payments refer to the amount of payments that were effectively made. Effective payments in Korea if averaged across all firms would be somewhat lower than what should be theoretically paid out because of firms defaulting on their legal obligations. On the other hand, some firms in Korea offer more generous retirement allowances than the minimum required by law.

retirement allowance for a maximum of three years of service as well as their last three months of wages. Finally, the retirement allowance system may aggravate the economic situation of companies during a downturn. These allowances are largely unfunded, and could add substantially to the costs of firms needing to shed labour.

2. Public old-age pensions

There are currently two main types of social insurance-based old-age pension schemes operating in Korea. The first is the National Pension Scheme (NPS) which was introduced in 1988 for private-sector employees. Then there are the occupational pension schemes which were established for civil servants in 1960, for the military personnel in 1963 and for private school teachers in 1975. These schemes operate independently and provide very different levels of final benefits. Pension portability is permitted between these three occupational pension schemes but not between these schemes and the NPS.

A. *The National Pension Scheme*

Since its introduction in 1988, the coverage of the NPS has been extended progressively to cover, in theory, all private-sector employees, employers and the self-employed on either a compulsory or voluntary basis. Since April 1999, it covers all employees and self-employed persons across the country. The number of the insured persons has increased from 4.4 million in 1988, representing one-quarter of the labour force, to 17.2 million in 2004, representing three-quarters of the labour force. However, the effective coverage is around 50% of the labour force.

The method of calculating pension benefits under the NPS is given in Table 3.1. Workers become eligible for the “full” old-age pension once they reach 60 years of age and have a contributions record of at least 20 years. Additional pension rights accrue for each additional year of contributions. For workers with average earnings, the accrual rate is 1.5% of earnings per year. Workers aged 60 and over with less than 20 years of contributions are still eligible for a pension (the “reduced” or “special” old-age pension) but at a lower rate. Between the ages of 60 to 64, earnings from work can be combined with an “active” pension, which corresponds to the full or reduced pension less 10 percentage points for each year that a worker is younger than 65. After the age of 65, there is no reduction in the pension if a person continues to work.

Finally, there is the “early” old-age pension for workers retiring between the ages of 55 and 59, inclusive. It is calculated by reducing the full or reduced pension by 5 percentage points for every year that a worker is younger than 60 when he or she retires.

Table 3.1. **The National Pension Scheme**

Type of benefit		Eligibility conditions	Calculation of annual pension benefits ^a	Level of benefits ^b
Old-age pension	Full old-age pension	- Insured term of more than 20 years - At least 60 years old	$P1 = 1.8(A+B)(1+0.05n)$ n: the number of years of insured term in excess of 20	100% of P1 + additional pension
	Active old-age pension	- Insured term of more than ten years - Economically-active persons between 60 and 64	$P2 = P1$ (or $P3$) \times $(0.5+0.1n)$ n: the number of years above age 60	50% to 90% of P1 or P3 (no additional pension)
	Reduced old-age pension	- Insured term of between ten and 20 years - At least 60 years old	$P3 = 1.8(A+B)(0.475+0.05n)$ n: the number of years of insured term in excess of ten	47.5% to 92.5% of $1.8(A+B)$ + additional pension
	Early old-age pension	- Insured term of more than ten years - Non-active persons aged at least 55	$P4 = P1$ (or $P3$) \times $(0.75+0.05n)$ n: the number of years above age 55	75% to 95% of P1 + additional pension
	Special old-age pension	- Insured term of more than five years - More than 45 or 50 years old when NPS applied - At least 60 years old	$P5 = 1.8(A+B)(0.25+0.05n)$ n: the number of years of insured term in excess of five	25% upwards of P1 + additional pension
Disability pension		- Disability due to sickness or injury during period of coverage	$P6 =$ between 60% and 100% of P1, depending on severity	$P6$ + additional pension

Table 3.1. **National Pension Scheme** (*cont.*)

Type of benefit	Eligibility conditions	Calculation of annual pension benefits ^a	Level of benefits ^b
Survivors pension	- Death of the insured - Death of the recipients of old-age or disability pension	- Insured term of less than ten years: $P1 \times 0.4$ - Insured term of between ten and 19 years: $P1 \times 0.5$ - Insured term of more than 20 years: $P1 \times 0.6$	Between 40% and 60% of $P1$ + additional pension
Lump-sum refund	- Insured term of less than ten years - At least 60 years old	- Contributions + statutory interest	

- a) In the equation, “A” denotes the average monthly income of all insured persons while “B” is the average monthly income of the individual.
- b) In 2004, the additional pension amount was set at KRW 184 140 for a spouse and KRW 122 760 for children and parents. The amount is adjusted each year by the change in the consumer price index.

Source: OECD (2001b).

In all cases, an individual’s pension rights depend on the average wage of all insured persons over the three years prior to the calculation of the pension benefit as well as the individual’s own wages averaged over the entire period for which contributions were made to the NPS. Thus, there is a redistributive element since workers with lower than average earnings receive a benefit that is higher relative to their former earnings than workers with higher than average earnings. In other words, the system can be thought of as providing a guaranteed minimum pension to all workers with the same number of years of contributions plus an additional amount that depends on each workers own earnings.

B. Old-age pension replacement rates

Given that the NPS is essentially a defined-benefit pension scheme, hypothetical replacement rates, *i.e.* the ratio of pension benefits to former earnings, can be easily calculated for a range of workers at different earnings

levels and with different contribution records (Table 3.2).²³ With 20 years of contribution, workers whose average wages are equal to the economy-wide average could retire with a pension equivalent to 30% of their former wages. Workers with 40 years of contributions would receive 60% of their former wages.²⁴ These replacement rates are higher still for workers earning less than average wages.

Table 3.2. **Gross replacement rates for NPS pensions**

	Percentages			
	Ratio of a worker's average wage to average wage for all contributors:			
	50%	60%	100%	150%
A. Full old-age pension				
Years of contributions:				
20	45,0	37,5	30,0	25,0
30	67,5	56,3	45,0	37,5
33	74,3	61,9	49,5	41,3
40	90,0	75,0	60,0	50,0
B. Early old-age pension ^a				
Aged:				
55	59,1	49,2	39,4	32,8
56	64,8	54,0	43,2	36,0
57	70,8	59,0	47,2	39,3
58	77,0	64,1	51,3	42,8
59	83,4	69,5	55,6	46,3

a) Assuming 35 years of contributions at age 55, rising to 39 by the age of 59, and ignoring the rise in the eligibility age for a full pension as of 2013.

Source: OECD estimates.

Under the current system, workers are also entitled to retirement allowances and so the effective replacement rate will be higher than indicated in Table 3.2. Assuming a real interest rate of 5%, the annuitised equivalent of

23. Replacement rates are often expressed as the ratio of pension benefits to final wages. The estimated replacement rates in Table 3.2 can be interpreted in this way as well but only on the assumption that the final wages of a worker are equal to the average of his or her own wages over the entire period while insured.
24. But not before the age of 64 since they would have begun to make contributions in 1988 at the earliest and by 1928 the minimum age for a full pension would be 64.

these lump-sum retirement allowances would be around 11% of an individual's former wages after 20 years of service and around 25% after 40 years of service. Thus, for example, a worker on average wages with both 40 years of continuous service and NPS contributions would have an overall gross replacement rate of around 85%. The equivalent replacement rate for the same worker but with both 20 years of job tenure and NPS contributions would be just over 40%.

The occupation pension schemes are more generous than the NPS as the accrual rate is 2.5% per year for the first 20 years of service and 2% per year thereafter instead of 1.5% under the NPS. Benefits depend on the individual's final wages only, averaged over the three years prior to retirement. The replacement rate for persons covered by these schemes, and with the maximum of 33 years of contributions, is 76% – well above the replacement rate under the NPS of just under 50% for a person with average earnings and the same number of years of contributions. Public employees are also entitled to a lump-sum retirement allowance equivalent to 60% of final monthly earnings multiplied by the number of years of contributions. Pension portability is permitted between these three occupational pension schemes but not with the NPS.

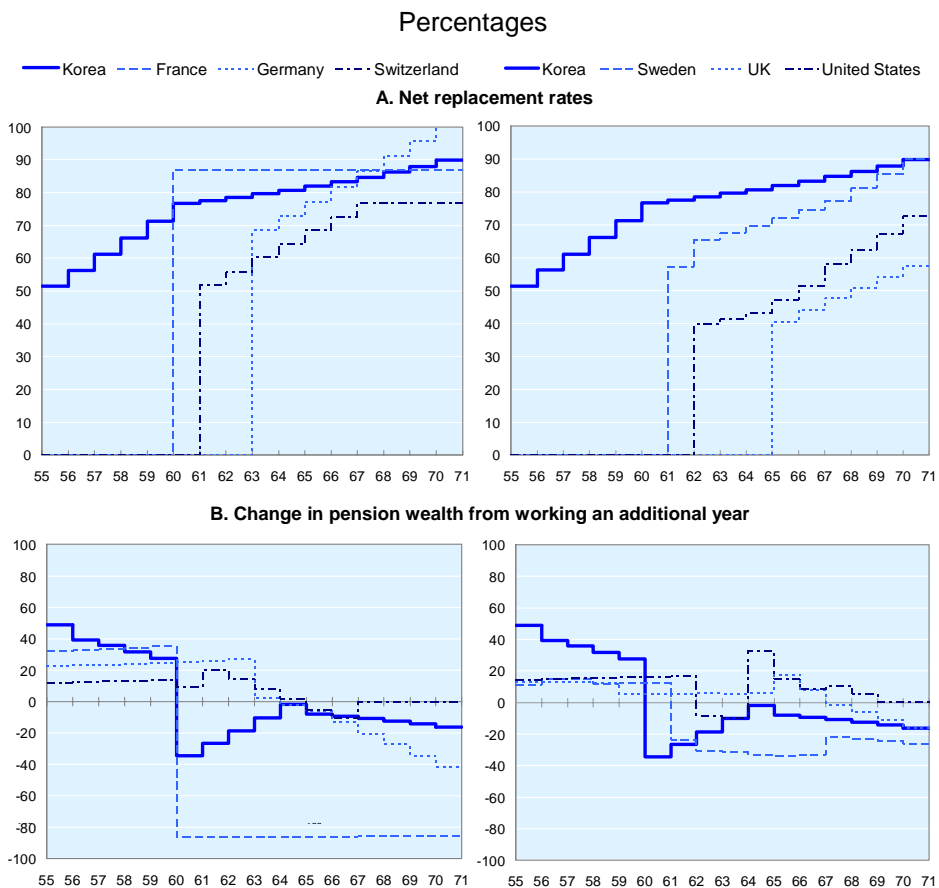
C. International comparisons of pension generosity and work incentives

Pensions available under the NPS can be benchmarked against those available in other countries as a way of assessing their relative generosity and likely impact on retirement decisions. In Figure 3.1, two indicators are shown for a range of countries, including Korea.²⁵ The first is the net replacement rate. Pension benefits are usually taxed more lightly than earned income and so, typically, these after-tax replacement rates will be higher than on a gross, or before-tax, basis. Clearly, the incentive to retire is greater the higher the replacement rate, all else equal. But

25. In all cases, it is assumed that workers in each country have contributed continuously to the pension system since the age of 20. In the case of Korea, both the net replacement rate and the change in net pension wealth refer to benefits under the NPS and include retirement allowances. It was assumed that workers were hired in their last job prior to retirement at the age of 40. The lump-sum value of retirement allowances was converted to an annuity using a real rate of interest of 2%, which is the common rate assumed for all countries. This results in an annuity of around 9% of wages for a worker with 20 years of service.

retirement decisions will also depend on the present value of future pension benefits, *i.e.* pension wealth, that would be lost if retirement is postponed. Thus, even if replacement rates were only modest, workers may still choose to retire rather than work an additional year if continuing to work would effectively result in a large drop in their pension wealth. Thus, in Figure 3.1, the change in net pension wealth at each age associated with working an additional year, relative to former earnings, is also shown. If positive, it implies that workers face an incentive to continue working whereas if negative there is a disincentive.

Figure 3.1. Retirement incentives by age in Korea and other OECD countries^a



a) For workers earning the equivalent of Average Production Worker (APW) earnings in each country.

Source: OECD estimates.

In comparison with other OECD countries, net replacement rates in Korea are high. Of course, these replacement rates refer to public pensions only, including in some cases, publicly-mandated occupational pensions. Therefore, actual replacement rates would be somewhat higher in those countries, such as the United Kingdom and the United States, where the coverage of private pension plans is quite important. Nevertheless, even including these private pension plans would probably not lead to the gap being eliminated completely between these countries and Korea. The gap in net replacement rates between Korean and other OECD countries is particularly large prior to the age of 65, which is the official age of retirement in many OECD countries, although in many instance some form of pension benefit at a reduced rate is available. Of the countries shown in Figure 3.1, only France has higher rates. Moreover, in most countries except Korea (and Australia and Italy, not shown), a public pension or publicly-mandated occupational pension is not available prior to age 60.²⁶

In terms of net changes in pension wealth, most countries show a pronounced drop at the official age of retirement or somewhat earlier, with an extra year of work resulting in a loss in net pension wealth. At these ages, there is a strong disincentive to continuing working. Depending on the country concerned, this is because if a person continues to work after the official retirement age, pension benefits are either completely withdrawn or substantially reduced and/or no additional pension entitlements accrue for these extra years of work. In Korea, there is a sharp drop in net pension wealth for a worker choosing to work an extra year at the age of 60 and a more modest drop after the age of 65.

D. Overall assessment of work incentives embedded in old-age pension system

There are a number of positive features about the NPS that emerges from these comparisons in terms of the incentives it provides for older persons to remain in employment. As shown by the continuous rise in replacement rates, every additional year of contributions results in a higher pension benefit, including after the age of 60. In theory, this not only encourages older workers to continue working longer but should also encourage younger people, especially women, to build up longer overall work careers. In addition, the

26. Although, as discussed below, other forms of early retirement benefits may be available.

amount of the pension is determined according to a worker's own lifetime wages (for which contributions have been made), as well as on the average wage of all insured workers. Thus, workers may be less reluctant to switch to a lower-paid job near the end of their careers – since this will have only a relatively small impact on their pension – than in a system where the amount of the pension depends heavily on a worker's final wage prior to retiring. This could help to promote mobility among older workers and may allow older workers to switch to less demanding jobs and hence permit them to continue working longer.

On the negative side, the minimum eligibility age for a full pension is quite low by OECD standards with most countries opting for a “normal or official” retirement age of 65. And indeed there is a sharp drop in net pension wealth at the age of 60 if a worker continues working an extra year. As part of the reforms to the NPS introduced in 1998, the pension eligibility age will be gradually raised from 60 to 65 over the period 2013 to 2033 (*i.e.* by one year every five years). However, this transition phase is quite long and participation rates may fall, especially in the age group 60-64, both prior to and during this period. For example, workers will become eligible for the full old-age pension from 2008, some five years prior to the start of the phase-in period. Once the system reaches full maturity, replacement rates will be very high by international standards and participation rates for older people could decline as a result. In addition, the early retirement pension may encourage workers younger than 60 to retire (or between the ages of 60 to 64 once the shift to the higher eligibility age of 65 for the full pension has been phased in). While replacement rates are lower than in the case of a full pension, they are still relatively high (Table 3.2 and Figure 3.1). Moreover, the relatively low age of mandatory retirement in firms has meant that many older workers at, or soon after the age of 55, must find a new job, often involving less job security and substantially lower pay (see Chapter 2). If this pattern persists in the future it could reinforce the attractiveness for older workers of retiring completely from work and taking up an old-age pension.

E. Effective age of retirement – now and in the future

But at what age do workers currently retire from the labour force in Korea, and how is this likely to be affected once access to old-age pensions becomes more widely available? In terms of international comparisons, the average

effective age of retirement is currently very high in Korea (Figure 3.2).²⁷ For the period 1997-2002, it was 68.2 for men – higher than in all other OECD countries except Mexico, Japan and Iceland – and 66.9 for women – just below Iceland and Mexico. In the majority of OECD countries, both men and women retire on average before the common official retirement age of 65, reflecting in part either provisions in their pension schemes for early retirement or public and private early retirement schemes (including in some cases social welfare benefits).

However, while it would appear that Koreans are currently retiring on average at a fairly advanced age, this partly reflects the fact that older people in the rural areas stop working much later than their counterparts in the urban areas. For non-farm households, the average age of retirement for men is 65.3 and 64.3 for women. These figures are much closer to – albeit still above – the average for all OECD countries and suggest that, even abstracting from the impact of the pensions system of retirement decisions, there is a risk that the average effective age of retirement may decline in Korea as a result of the ongoing urbanisation of its population. At the same time, the range of effective retirement ages across OECD countries, even across those with similar levels of wealth and social protection, is very large. This suggests that there is some scope to limit any future decline in the effective age of retirement in Korea.

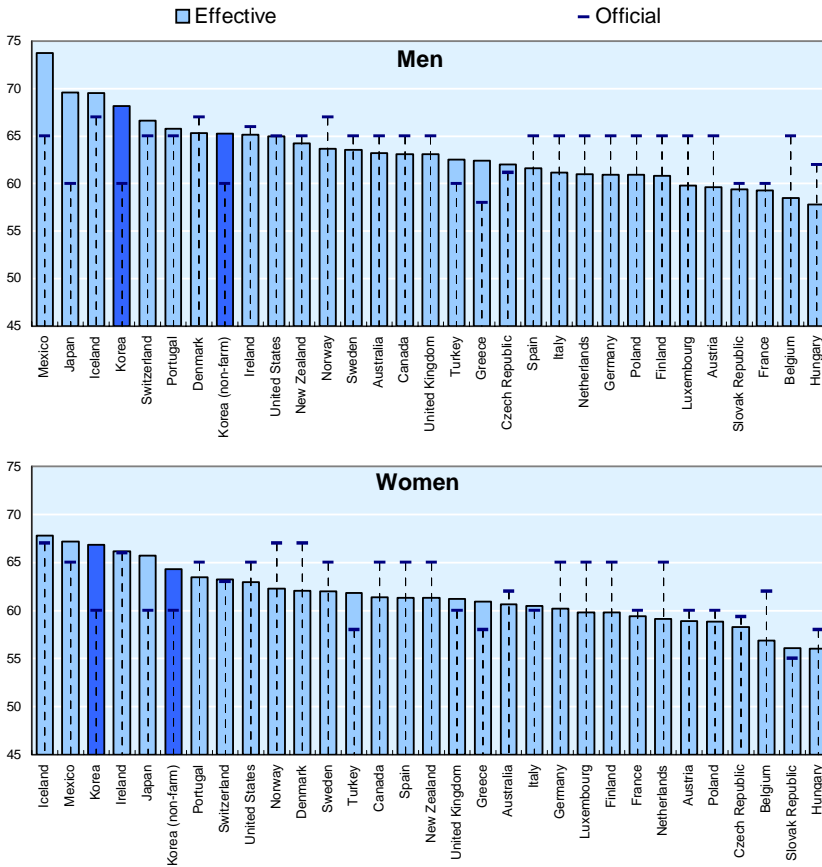
F. The impact of public pensions schemes on retirement decisions in other OECD countries

The experience of Japan is of particular interest given that it also has a high effective age of retirement. Replacement rates for pensions are relatively modest in Japan and certainly much lower than what they will be in Korea once the NPS matures. Nevertheless, Seike (2001) suggests that the strong rise in the

27. The effective age of retirement in Figure 3.2 corresponds to the average age at which workers initially aged over 40 withdrew from the labour force over a given five-year period. It is calculated by comparing participation rates by five-year age groups with the corresponding rates five years later for individuals aged five years older. The use of participation rates, rather than the actual number of people in the labour force, facilitates comparisons both over time and across countries since it abstracts from withdrawals from the labour force because of death and differences in population structure. There are a number of alternative ways of calculating effective retirement ages. However, while a different method may change the actual values for each country it does change greatly the rankings of countries.

real value of old-age pensions over time in Japan, even though starting from a low base, may have contributed to the decline in the participation rate of men aged 60-64 from around 82% in the early 1960s to about 71% in the late 1980s.²⁸ Using microdata, he also shows that eligibility for a public old-age pension is negatively related to labour force participation.

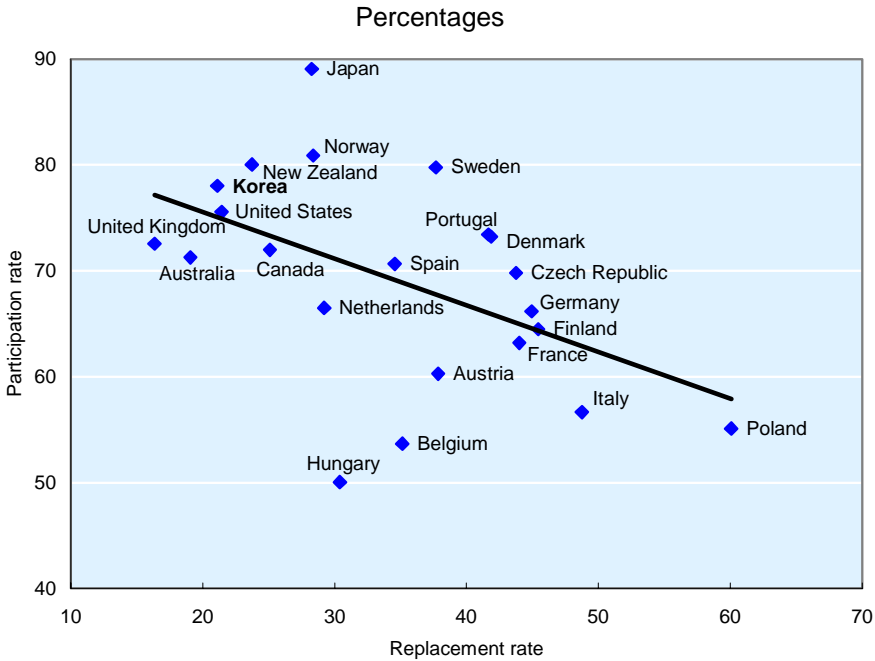
Figure 3.2. **Effective and official age of retirement in OECD countries, 1997-2007**



Source: OECD estimates of average age of leaving the labour force for individuals older than 40.

28. There was a subsequent recovery in these participation rates but they have since fallen back to around 71% in 2003

Figure 3.3. **Average effective replacement rates and participation rates for older men, 2000^a**



- a) The average effective replacement rate refers to the GDP share of total public expenditures on old-age pensions and other early retirement benefits divided by the old-age dependency ratio. The participation rate is calculated for men aged 50-64. The correlation coefficient is -0.5 and is significant at the 5% level.

Source: OECD (2001a); OECD *Labour Force Statistics*; and OECD estimates.

Across OECD countries, there is also a negative relationship between participation rates of older men and average replacement rates (Figure 3.3). The replacement rates in Figure 3.3 are calculated by dividing the GDP share of total public expenditures on old-age pensions and other early retirement benefits by the old age-dependency ratio. Thus, they represent actual, average, replacement rates rather than the hypothetical replacement rates shown in Figure 3.1. Across OECD countries, the correlation coefficient between participation rates of older men and these average replacement rates is -0.5 and statistically significant at the 5% level.²⁹ Korea currently has a low average replacement rate since NPS

29. The correlation in Figure 3.3 is robust to a number of minor variations in the way the replacement rate is calculated. For example, the old-age dependency ratio used to calculate the replacement rate is defined as the population aged 65 and over to

expenditures are still relatively minor and because the publicly-mandated occupational pension schemes cover only a small part of the labour force. However, once the NPS matures, these average replacement rates will rise considerably and there is a risk that participation rates of older people will decline in response.

The determinants of variations in the participation rate of older men across OECD countries have been investigated by Blöndal and Scarpetta (1999). Based on their econometric analysis using panel data across countries and over time, they find that there is some evidence that more generous pension replacement rates have a negative impact on participation rates. However, other aspects of the pension system appear to be more important such as the minimum age for eligibility and pension wealth accrual rates. They also find that macroeconomic conditions — as captured by the unemployment rate for prime-age men — and the generosity of other welfare benefits are important determinants. Finally, they report the results of micro-econometric analysis for five OECD countries (Germany, Italy, Netherlands, the United Kingdom and the United States), which confirm the importance of pension incentives, including pension replacement rates, on the retirement decision but which also highlight the role of health status and other socio-economic factors.

Thus, while there are many factors that may influence the retirement decisions of older workers, the low eligibility age for an old-age pension in Korea, combined with relatively high replacement rates, could lead to a decline in participation rates for older people as the NPS matures. The ongoing urbanisation of Korea's population is also likely to reinforce this trend. At the same time, the number of people reaching retirement age will be growing rapidly, which will magnify the impact of any decline in participation rates for older people on the overall growth in labour supply. As shown in Figure 1.4, this could result in a much more pronounced drop in the labour force than in the case where participation rates remain at their current levels.

the population aged 20-64. If the total population instead is used as the denominator, replacement rates will be substantially higher for all countries but with almost no effect on either the size or significance of the correlation coefficient. Similarly, if old-age expenditures are subtracted from GDP, replacement rates will be slightly higher but again with almost no change in the correlation coefficient. Finally, the negative relationship is also preserved, although slightly weaker, when participation rates refer to the rate for all persons aged 50-64 instead of men only aged 50-64.

There are a number of factors which could partially offset the negative impact of the NPS as it matures on future labour force growth, including:

- Its effective coverage is still limited and so not all workers will be eligible for a relatively generous pension. But this also means that many workers will face retirement with either no or very few entitlements to a public old-age pension.
- Not all workers will have a long contributions record and in that case they will face correspondingly lower replacement rates.
- As discussed in the previous chapter, average job tenure also tends to be quite low in Korea, and so relatively few workers build up rights to substantial retirement allowances. Thus, in practice, overall replacement rates, *i.e.* including both the old-age pension and retirement allowances, may not be as high as indicated in Figure 3.1.
- Many older workers face high expenditures for their children's education – enrolment rates in tertiary-level education are very high in Korea – and when their children get married and so this would also discourage early retirement even if the total loss of income would be relatively small.

Nevertheless, replacement rates appear to be very high under the current system, especially in combination with retirement allowances and, there is a risk that as the NPS matures this could lead to a decline in participation rates for older workers.

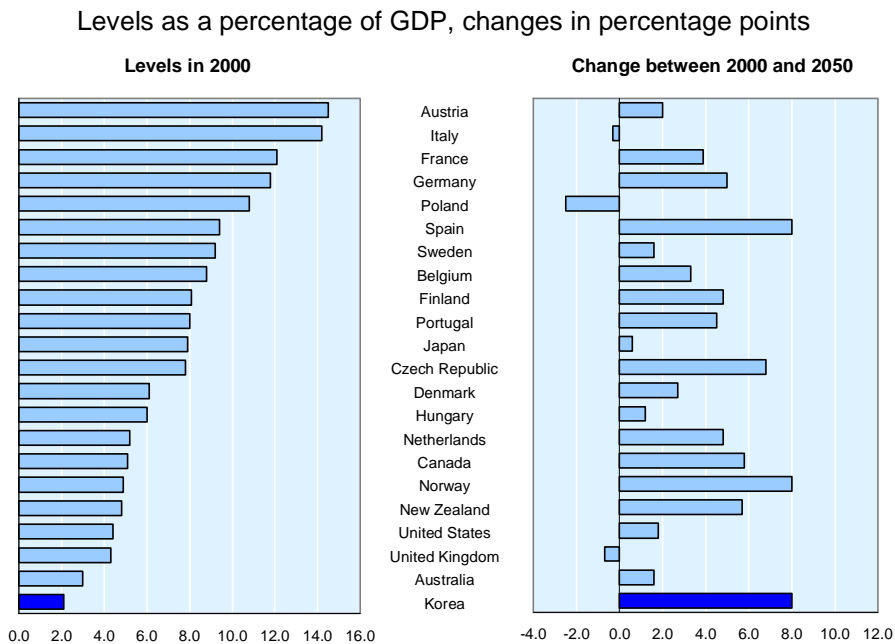
G. *The impact of rising public expenditures on old age pensions*

Apart from any direct impact on retirement decisions, the NPS may also have a negative impact on labour supply and demand because of the hikes in contribution rates that will be required to finance the expected rapid rise in expenditures on old-age pensions. Other OECD countries too are likely to experience rising public expenditures associated with population ageing but not generally to the same extent. Compared with those OECD countries for which data are available, Korea currently has the lowest levels of expenditure on old-age pensions relative to GDP (Figure 3.4). Altogether, public expenditures on old-age pensions under the NPS and the occupational pension schemes currently amount to only about 2% of GDP. However, as the NPS matures, Korea is projected to experience one of the biggest

increases in expenditures on public old-age pensions (as a percentage of GDP) along with Spain and Norway.³⁰

To ensure the long-run sustainability of the NPS, it has been estimated that the contribution rate would have to double to 17.2% over the next three decades (OECD, 2001b). On top of this, there is the notional amount of 8.3% corresponding to retirement allowances. This adds up to a high overall payroll tax rate of 25.5%.

Figure 3.4. **Public old-age pension expenditures in OECD countries, 2000-2050^a**



a) For France, the estimates refer to the period 2000-2040.

Source: National data for Austria and OECD (2001a) for all other countries.

30. The data underlying Figure 3.4 were prepared on the basis of projections carried out in each country, including Korea, using a common set of macroeconomic and demographic assumptions. See OECD (2001a) for a description of these assumptions as well as for a more detailed discussion of the results of these projections.

H. *Low coverage and under-reporting*

Despite high implicit replacement rates for pensions, the NPS may have only a limited role in guaranteeing an adequate income support for the elderly even after it matures. Coverage is low and considerable under-reporting of income occurs (OECD, 2001b). The coverage of the NPS needs to be extended if it is to provide an effective form of income support for the elderly. Another problem with the current system concerns its redistributive aspect, which may partly explain under-reporting of income, especially among the self-employed. The level of pension entitlements depends both on the overall average level of reported income plus one's own reported lifetime income and so, by under-reporting income, some self-employed can lower their contributions payments while reducing less than proportionately their eventual pension entitlements. Nevertheless, the consequence of under-reporting of income will be a lower pension benefit than otherwise.

I. *Individual pension accounts*

Individual pension accounts provide an additional way for workers to save for their retirement. These accounts have been encouraged by generous tax concessions since 1994. However, these accounts play only a limited role in providing for retirement income and may have been used principally as a savings vehicle offering tax advantages rather than as a retirement pension (OECD, 2001b). Thus, there is still a potential to develop these accounts further subject to adequate financial supervision.

J. *Challenges to the pension system and recent reforms*

A number of challenges facing Korea's old-age pension system have been identified in terms of the negative impact it may have on labour supply and demand and its effectiveness in guaranteeing an adequate income for older workers after retirement. These can be summarised as follows:

- First, replacement rates for old-age pensions under the NPS, once it reaches maturity, will be higher than in many other OECD countries, especially when the value of retirement allowances are added to pension benefits. Replacement rates under the occupational schemes are even higher. There is a risk that these high replacement rates could

lead to a decline in participation rates for older workers just as their numbers are likely to swell because of population ageing.

- Second, these high replacement rates, together with a rapidly growing number of old-age pensioners, are likely to lead to a large increase in public expenditures on old-age pensions. In the absence of further reform, contribution rates would have to rise substantially in response, which could further dampen both labour supply and demand as well as discourage participation in the NPS.
- Third, the effective coverage of the NPS is still far from universal, although it may rise once “full” pensions begin to be paid out as from 2008 and the credibility of the system improves. Nevertheless, many workers are likely to remain outside of the NPS or will fail to build up a long contributions record and thus, after retirement, risk facing poverty or considerable economic dependence on other family members, if present.
- Fourth, there is no portability between the occupational pension schemes and the NPS, which limits labour mobility, especially for older workers.
- Fifth, individual pension accounts remain underdeveloped and require better financial supervision.
- Finally, the retirement allowance system is now outdated. It does not provide a strong guarantee of an adequate retirement income given: *i*) the non-portability of these allowances and the increasing mobility of workers; *ii*) the increased risk of non-payment because of bankruptcy or insolvency; and *iii*) the relatively small amount of these allowances in face of increasing life expectancy of retirees. Moreover, the retirement allowance system itself may discourage firms from retaining older workers. The longer a firm keeps a worker the bigger the lump-sum payment it will have to make, both because of the extra years of service and the higher final salary on which the amount of the allowance is based.

In response to some of these challenges there have been a number of recent reforms. The National Pension Reform Board was established in 1997. While its recommendations were not fully implemented, a number of changes to the NPS

were made in 1998.³¹ This included: *i*) lowering the pension benefit accrual rate from 1.75 to 1.5%, effectively lowering the replacement rate from 70 to 60% for a worker on average earnings with 40 years of contributions; *ii*) making the benefit formula less progressive by giving equal weight to both an individual's own earnings and the average for all insured persons; and *iii*) announcing a phased in rise in the eligibility age for the full pension from 60 to 65 over the period 2013-2033. There have also been a number of tax reforms introduced in 2000 to make contributions tax deductible while taxing pension benefits. A minimum pension age of 50 was established for civil servants with less than 20 years of contributions as of January 2001 and will be gradually increased to 60 by the year 2020.

In 2003, following its mandatory review of the sustainability of the NPS every five years, the government proposed to cut replacement rates and raise the contribution rate as follows:

- The standard replacement rate would be cut from 60 to 50% in 2008, while ensuring the vested rights earned prior to the reform; and
- The contribution rate would be raised by 1.38 percentage points every five years beginning in 2010, boosting it to 15.9% by 2030.

These reforms were designed to ensure the financial sustainability – defined as a reserve fund large enough to pay two years' of benefits – through 2070. However, there has been substantial criticism of the proposed reforms from both employers and the trade unions and the reforms were not subsequently approved by the National Assembly before its new session opened in May 2004.

Following two years of discussion in the Tripartite Commission, the government also introduced a bill in 2003 to introduce a corporate pension system as an alternative to lump-sum benefits available under the retirement allowances scheme. The new scheme would be introduced on a voluntary basis and would provide equivalent benefits as those currently provided by retirement allowances (see Box 3.2 for more details). However, a lack of consensus between the social partners has delayed the introduction of the new system.

31. For example, it had recommended a target replacement rate of 40% but this was subsequently raised to 60%.

Box 3.2. Korea's proposed new corporate pension scheme

The key elements are:

It will provide benefits equivalent to those paid by the current retirement allowance system. Workers who have contributed above a certain minimum amount for at least ten years will be eligible for the pension after reaching the age of 55.

The decision to switch from the retirement allowance scheme to the corporate pension system will be subject to the agreement of the workers and management at each firm, although tax incentives will encourage the adoption of the corporate pension system.

It can be either introduced as a defined benefit or a defined contribution scheme, but the decision of which type of scheme will be left to individual work places.

The pension will be based on individual accounts, thus allowing portability for workers who change firms.

Employers and retirement pension providers will be required to take responsibility for the sound operation of pension reserve funds, with supervision entrusted to a special organisation such as the Financial Supervisory Service.

Source: KOILAF (2004a); OECD (2004b).

K. *More fundamental reform is needed*

While these reforms are steps in the right direction they will not be sufficient either to fully remove disincentives to continue working at older ages or improve coverage. More fundamental reform had been proposed by the Pension Reform Task Force, which was established in 1998 to undertake a comprehensive review of Korea's different pension schemes. A range of other studies have also put forward various proposals to reform the NPS (World Bank, 2000; Chung, 2001; Moon, 2001; Phang, 2002b; Phang *et al.*, 2003).

While there are some differences between these proposals for pension reform, there appears to be much agreement about the need for a modern multi-pillar system of public and private pension schemes. One comprehensive proposal for reform that embraces many of these other proposals has been put forward in OECD (2001b) (see Box 3.3). Essentially, it proposes establishing a three-pillar system. The first pillar would separate the current NPS into two tiers comprising a tax-financed universal pension and an earnings-related defined-benefit pension. A universal pension would help solve the problem of low participation and would guarantee a minimum income in old age. The second pillar would be created by converting the retirement allowance system into a

corporate pension system operated as a fully-funded defined contribution scheme. Finally, the third pillar would consist of a more effective system of individual pension accounts.

Box 3.3. The OECD's proposal for fundamental reform of Korea's pension system

In the 2001 *OECD Economic Survey of Korea* (OECD, 2001b) a proposal was put forward for systemic reform of Korea's pension system by the establishment of a three-pillar system along the following lines:

The first pillar would consist of a mandatory public pension composed of two tiers. The first tier would be a tax-financed universal welfare pension. This could replace the income support currently provided to the elderly by the Livelihood Protection Programme. The pension should provide a basic level of income support at around the minimum cost of living, which is around 20% of average wages. This would help achieve redistributive goals and overcome the problem of low participation in the current system. The second tier would consist of an earnings-related defined-benefit pension that is actuarially fair and with a target replacement rate of around 20%. It would absorb the current occupational pension schemes to provide equal treatment for public and private sector workers.

The second pillar would consist of a mandatory corporate pension. It would be created out of the retirement allowance system but with a wider coverage. The corporate pension scheme would be operated as a fully funded, defined-contribution scheme managed in the private sector. Firms would be required to contribute a set amount for each worker to an individual account that is fully portable. While the companies would be allowed to choose the organisation that manages the fund, it would be strictly separated from the firms' balance sheets so that the benefits would be secure. In the case of public-sector workers, the government would make the same contributions and be subject to the same rules as an employer in the private sector. Financial supervision of those institutions managing these pension funds would need to be upgraded, and part of employers' contributions should go to an insurance scheme, analogous to the Wage Claims Guarantee System for retirement allowances, to ensure that pension rights are adequately protected.

A third pillar would consist of a more effective system of individual pension accounts accompanied by better financial supervision.

According to this proposal, replacement rates under the public system would be lower.³² This would help to reduce incentives in the NPS to retire

32. This would certainly be the case for dual-earner couples where both spouses had been contributing to the NPS. Moreover, the universal pension under the first pillar would possibly be reduced for couples.

early (at least for workers with higher incomes) and would improve the financial sustainability of the system. At the same time, lower public pension replacement rates would be offset by an improvement in effective coverage through the introduction of a universal pension and by a corporate pension system that would provide a better guarantee of a stream of income payments after retirement. By strengthening the provision of individual pension accounts, workers would also have more possibilities to make their own choices about the amount of savings they wish to invest for their retirement. Clearly, however, the full fiscal implications of this proposed reform would need to be carefully evaluated.

3. Alternative pathways into early retirement

As the experience of several OECD countries has shown, the social security system may provide a number of alternative pathways into early retirement, apart from any formal arrangements that may exist as part of the public old-age pension system. The older unemployed may not be required to undertake active job search in order to qualify for unemployment benefits. Older workers without a severe disability may be able to obtain disability benefits for labour market reasons, *i.e.* when it is considered that they have only a low chance of finding a new job, or because medical controls are not very strict. Partial benefits may also be available for relatively minor disabilities. In many countries, workers on either an unemployment benefit or a disability benefit can subsequently transfer to the old-age pension, which is usually more generous, once they reach the official retirement age. Moreover, in some countries, the period on these benefits is counted as adding to an individual's insurance contribution record for the purpose of calculating the amount of the old-age pension. In a number of countries these alternative pathways have accounted for a considerable proportion of early exits from the labour force (SZW, 1997; European Commission, 1998; Casey *et al.*, 2003). For example, in Sweden, of all workers aged 60 to 64 who withdrew from the labour force, around 40% received either a disability benefit or long-term sickness benefit and only 5% received an old-age benefit (OECD, 2003a).

A. Disability benefits

In the case of Korea, the possibility of using disability benefits as a pathway to early retirement appears to be quite restricted at present. Benefits for (non-work related) disability are administered under the NPS. Eligibility for these benefits is determined on strictly medical grounds. The amount of the

benefit corresponds to 60 to 100% of the full old-age pension depending on the degree of disability (three degrees, plus a lump-sum payment for the 4th degree of disability). Unlike in some other countries (OECD, 2003b), no imputation is made for the “missing” insurance contributions above 20 years that a disability benefit claimant would have accumulated if they had not become disabled.

In 2002, around 33 000 individuals received disability benefits of which 11 000 were aged 50 and over. This means that fewer than 0.1% of the working-age population received a disability pension in 2002. In contrast, the rate of disability-benefit receipt is concentrated in the range of between 5 to 7% in other OECD countries (OECD, 2003b). Non-contributory disability benefits, *i.e.* social assistance benefits, are also available and more individuals are receiving these benefits currently than NPS disability pensions. However, the level of these benefits is quite low. Thus, to a large extent at present, neither NPS disability benefits nor social assistance serve as important pathways to early retirement for older workers.

Disability benefits (either as an annuity or a lump-sum) are also available under the Industrial Accident Compensation Insurance (IACI) scheme if the worker’s disability is the result of a work injury. In fact, many more workers are receiving disability benefits under this scheme than under the NPS. In 2001, for example, around 120 000 workers received IACI disability benefits. The higher number of recipients of IACI disability benefits than NPS disability benefits reflects a relatively high occurrence of serious workplace injuries in Korea in comparison with some other major developed countries rather than the IACI scheme acting as a *de facto* pathway into early retirement (see Chapter 5 for a discussion of Korea’s record in occupational health and safety).

B. Unemployment benefits

In its review of Korea’s labour market and social safety-net policies, the OECD concluded that unemployment benefits provided by the Employment Insurance System (EIS) are less generous than in most other OECD countries (OECD, 2000). The level of benefits is low and the duration of benefits is relatively short. There is also an active search requirement, which unlike in some countries, is not waived in the case of older unemployed persons. Moreover, only a small proportion of the unemployed satisfy the eligibility rules for receiving benefits. Finally, periods of unemployment benefit receipt do not count as contributory periods for the old-age pension. Thus, unlike in some

countries such as Finland (see OECD, 2004c), the EIS provides little incentive to early retirement.

C. Overall assessment

Social security systems must have wide coverage and provide sufficiently generous benefits if they are to serve their purpose of alleviating economic hardship and poverty. But they should also discourage welfare dependency for people who are able to work. It is important that Korea does not follow the path of some other OECD countries, where certain social welfare schemes such as disability or unemployment benefit schemes also became *de facto* early retirement schemes. Given that the existing eligibility rules for these benefits are reasonably tight in Korea, that replacement rates are not excessively high and that there are few linkages between these benefits and old-age pensions, it would appear that the risk of this happening in Korea is quite low. On the other hand, there is a risk of substantial economic hardship for older workers in Korea who become disabled or suffer a prolonged spell of unemployment, unless they can count on the support of other family members.

Chapter 4

ENCOURAGING EMPLOYERS TO RETAIN OLDER WORKERS

Currently, neither the old age-pension system nor other aspects of the social security system such as unemployment and disability benefits provide strong incentives for Korean workers to retire early. But, as shown in Chapter 2, while participation rates for older workers in Korea are quite high, their career paths are far from stable. Either because of mandatory firm retirement practices, restructuring or bankruptcy, many older workers are faced with the prospect of leaving a full-time, regular job well before the age when they finally decide to retire.

The purpose of this chapter is to identify employer practices that may be having a negative impact on employment opportunities for older workers in Korea and possible strategies for changing these practices. The chapter begins by describing the current employment practices of firms with respect to older workers. It then looks at the reasons why many employers appear to be reluctant to retain or hire workers beyond a certain age and, in the final section, suggests a range of measures to address this issue.

1. Employment practices of firms

There is currently no large-scale, representative survey of employer attitudes towards older workers in Korea. However, these attitudes can be inferred from a range of information on mandatory retirement practices amongst firms and employer responses concerning the various factors driving their hiring and firing decisions.

A. *Mandatory retirement*

The available evidence points to mandatory retirement being a common practice among Korean firms and that it is often set at a low age,³³ well below both the official and effective retirement ages. The most common age in medium-to-large firms is 55 (Table 4.1). Only around 13% of them (accounting for only around 9% of all workers in these firms) have a mandatory retirement age that is set at or above 60. The average age is only somewhat higher at 56.7 years. Thus, most workers in these firms face mandatory retirement some 3-5 years prior to reaching the official retirement age and some 10-12 years prior to the average age at which they finally do stop working. The practice of firms setting a mandatory retirement age is also very common in Japan. But in the overwhelming majority of Japanese firms the age of mandatory retirement is currently set at 60 or above.³⁴

Table 4.1. **Mandatory age of retirement in medium-to-large firms in Korea, 2001**

	Retirement age:								Average retirement age (years)	
	<55	55	56	57	58	59	60	>60	Mean	Median
	Percentage of all firms/workers									
Firms	0.9	46.4	5.8	11.4	21.2	1.1	10.0	3.2	56.7	56.0
Workers	0.4	45.5	5.0	14.8	24.6	0.8	7.1	1.8	56.6	56.0

Source: Korean Ministry of Labor survey of firms with 300 workers or more.

33. The mandatory retirement age is the age at which workers are expected to resign from their current post or at which their employment contract automatically ends, although they may subsequently be transferred elsewhere within the same firm or to a supplier firm. It is either set by firms unilaterally or specified in a collective agreement.
34. In 2003, 92% of Japanese enterprises with 30 or more employees had a mandatory retirement system in place, of which 98% had a uniform fixed age of retirement. Of these latter firms, almost all set the retirement age at 60 or over, with 89% setting it at age 60. This represents a considerable change from 1980 when roughly equal numbers of firms with a fixed age of mandatory retirement set it at either 55 or 60. These data come from the Japanese Survey of Employment Management, as reported in the 1980 and 2003 editions of the Japanese Ministry of Health, Labour and Welfare, *Yearbook of Labour Statistics*.

A survey by the Korea Labor Institute (KLI) also confirms that mandatory retirement is a common practice both in smaller-sized firms as well as larger ones (Table 4.2). However, whereas mandatory retirement was practised in 70% of all firms that were surveyed with 300 or more employees, this proportion falls to around half in smaller firms with less than 30 employees. It also confirms that the average age of mandatory retirement is quite low at between 55 and 59, in general, depending on the type of worker and sector.³⁵

Table 4.2. Incidence and average age of mandatory retirement in Korean firms by firm size and sector, 2002

	Firm size (number of employees):				Industry:					Total
	< 30	30-99	100-299	300+	Manu- facturing	Construct -ion/Trade	Trans- port ^a	Public service	Other	
% of all firms with mandatory retirement ^b	50.3	56.5	71.0	69.6	65.5	53.7	70.5	73.6	65.4	64.4
Mandatory retirement age by occupation (years):										
All workers	56.6	56.7	56.6	56.4	56.0	56.6	57.4	57.1	57.4	56.5
Management	56.2	58.3	57.8	58.1	56.2	57.3	58.6	59.6	58.8	57.9
R&D, Engineers	58.0	56.6	56.8	57.8	55.7	57.0	56.8	60.4	58.6	57.4
Administrative/Clerical	55.8	56.6	56.3	56.9	55.5	56.9	57.2	57.4	56.9	56.6
Service and Sales	52.5	56.5	54.8	56.9	54.9	56.0	57.4	56.3	58.2	55.9
Manual workers	60.0	57.0	56.1	56.4	56.4	55.0	57.1	57.2	50.0	56.4

a) Transport and communications.

b) Excluding firms for which no response was given.

Source: Korea Labour Institute Workplace Panel Survey, see Chang (2003).

B. Hiring decisions

The available evidence suggests that age is often an important factor in Korean employers' hiring decisions. Job vacancies in Korea are often advertised in newspapers or in offices of the public employment service with age criteria, implying that older workers cannot apply to certain positions. In fact, almost half of all Korean firms surveyed by the KLI in 2002 indicated that they apply age restrictions for entry level hiring and almost one-quarter applied age restrictions when recruiting experienced workers (Table 4.3). Possibly reflecting the difficulties they face recruiting graduates relative to larger firms, smaller firms were somewhat less likely than large firms to impose age restrictions on entry-level hirings.

35. As shown in Figure 2.4, in all firms, except for the largest and the smallest, average job tenure for men rises much less steeply or even declines between the age groups 45-49 and 50-54. This suggests that the *de facto* age of retirement from Korean firms may be even lower than 55 in some cases.

Table 4.3. **Age restrictions in hiring in Korean firms, 2002**

Percentage of all firms in each category

Hiring at:	Firm size (number of employees)					Industry		Total
	Unknown	< 51	51-150	151-300	Over 300	Manu- facturing	Other	
Entry level	50.5	43.9	49.9	51.4	53.8	49.6	50.2	49.9
Experienced level	21.4	26.0	27.4	25.6	19.2	22.5	26.0	24.3

Source: Korea Labour Institute Workplace Panel Survey, see Chang (2003).

C. *Firing decisions*

On the side of decisions concerning early retirement and lay-offs, considerations based on the age of workers also appear to be deeply entrenched. Over half of all Korean firms surveyed by the KLI in 2002 indicated that age was a factor in selecting workers for either early retirement or when laying-off workers (Table 4.4).

Table 4.4. **Criteria used by Korean firms when selecting workers for early retirement or layoffs, 2002**

Percentage of all firms in each category

	Firm size (number of employees)					Industry		Total
	Unknown	< 50	51-150	151-300	Over 300	Manu- facturing	Other	
Early retirement:								
Years of service	76.5	72.0	74.5	65.9	65.9	73.2	62.1	68.4
Age	70.6	61.5	56.9	50.0	53.9	53.6	58.1	55.5
Gender	37.5	26.1	30.0	21.4	16.9	22.4	21.1	21.9
Layoffs:								
Years of service	69.2	29.5	39.5	58.0	50.8	45.0	46.7	45.9
Age	69.2	43.2	43.4	62.0	56.5	48.6	54.4	51.8
Gender	46.2	18.2	32.0	30.0	32.8	31.5	28.9	30.0
No. of dependents	61.5	27.3	30.3	42.0	40.3	37.6	35.3	36.3
Performance appraisal	75.0	58.1	48.0	80.0	71.0	66.7	61.2	63.6
Disciplinary record	83.3	59.1	59.2	80.0	67.7	72.2	62.5	66.8

Source: Korea Labour Institute Workplace Panel Survey, see Chang (2003).

Of course, as the results in Table 4.4 show, age is not the only factor that are influencing these decisions by firms, and the results of performance appraisal and the disciplinary record of workers are also important criteria as

well as gender³⁶ and the number of dependents each worker has. Clearly, if strict legislation banning discrimination based on age were in place, it would be unlawful to use age explicitly as a criterion when selecting workers for either early retirement or lay-off.

2. Factors driving age-based employment practices

There are a number of possible reasons to explain the apparent reluctance of firms in Korea to hold on to older workers or to impose age restrictions when hiring workers. First, the wages of older workers may be too high relative to their productivity. Second, strict employment protection legislation may encourage firms to use a mandatory retirement system as a way of adjusting their workforce. Third, firms may consider that older workers are less motivated or more often sick than younger workers. Finally, there may also be some form of age discrimination operating. Each of these reasons is discussed below. There may also be a problem of skill obsolescence. This issue is discussed in the next chapter, which looks at ways to increase the employability of older workers.

A. Seniority wages

In most countries, wages tend to rise with age. This may reflect the increasing productivity of workers as they gain more experience. However, the age-profile of earnings may also be the result of an implicit contract between the employer and the employee such that wages depend on age or length of service, *i.e.* seniority, rather than an individual worker's performance. This can serve to encourage greater work effort and commitment from workers, especially when it is difficult for firms to monitor work effort (Lazear, 1979). But typically in such a seniority-wage system wages will eventually rise above a worker's productivity after initially being below it.³⁷ Consequently, firms are obliged to set a mandatory retirement age as part of the implicit contract. Thus, to the extent that seniority wages are an entrenched feature of the Korean economy this would help to explain why most Korean employers do not retain older workers beyond a certain age.

36. It is interesting to note that a significant minority of firms still report using gender as a criterion for selecting workers for early retirement or lay-off despite Korea's Equal Employment Act, which states that "employers shall not discriminate against men or women with respect to retirement age limit, retirement and dismissal" (Ministry of Labor, 2004, p. 204).

37. In this report, any reference to a worker's wages being above or below productivity should be taken as shorthand for the wage rate being above or below the value of the worker's marginal productivity.

In fact, the wage system in Korea can still be characterised as being predominantly a seniority-wage-based system.³⁸ According to a KLI survey carried out in 1997, seniority based pay was the basic pay system in 34% of Korean companies but was also a major component, along with either competency or performance based pay, in the pay system of a further 51% of companies (Yoo, 1998). Between 1994 and 1997, only a small rise took place, from 11 to 15%, in the proportion of firms relying solely on, or a mixture of, competency and/or performance-based pay.

An international comparison of wage profiles by age also suggests that wages in Korea are still strongly linked to seniority (Figure 4.1). Wages for men up to the age of 45-49 rise more steeply in Korea than elsewhere – even more so than in Japan where the seniority system is seen as being deeply entrenched. Wages for women also rise relatively steeply in Korea up until the age of 30-34 but decline much more steeply than elsewhere thereafter.

In all countries there is generally a drop in wages of men after the age of 50-54. In Korea, however, this drop occurs from the age of 45-49 onwards. As discussed in Chapter 2, the steep drop in wages for the older age group may indicate that many of the new jobs that Korean men find after mandatory retirement offer substantially lower wages on average than their former jobs.

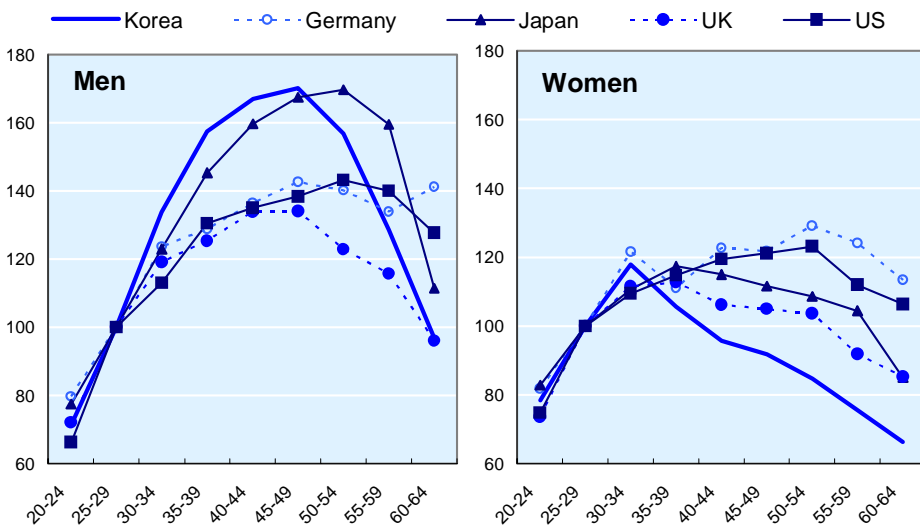
Of course, these wage profiles refer to a point in time and so they are comparing the wages of different cohorts of workers with different levels of education and so may not necessarily give a good indication of how wages vary over the careers of workers in any given generation. For example, the decline in wages for older workers in Korea could reflect the fact that these older generations of workers have less education and fewer qualifications than younger workers. However, even when workers with similar levels of education are compared, there is still a large drop in wages for men from the age of 50-54 onwards, although this is more pronounced for men with fewer educational qualifications (Figure 4.2). Interestingly enough, wages for working women with tertiary education rise continuously until they reach their 50s. These comparisons by level of education also confirm that the age-wage profile for men prior to reaching their late 40s is steeper in Korea than elsewhere, although this is particularly noticeable in the case of more educated workers.

38. This does not mean that other factors such as individual qualifications do not influence the level of a worker's wages but that increases in wages over time will be strongly influenced by the length of service with a firm.

Thus, the available evidence suggests that the seniority-wage system in Korea leads to wages rising initially much more steeply with age than in other countries. But, as a consequence, the mandatory age of retirement is low and wages fall steeply thereafter. This drop in wages is considerable and occurs when workers may still face considerable expenditures with respect to the education or marriage of their children.³⁹

Figure 4.1. **Age-earnings profiles in selected OECD countries, 2002^a**

Earnings of 25-29 year olds = 100

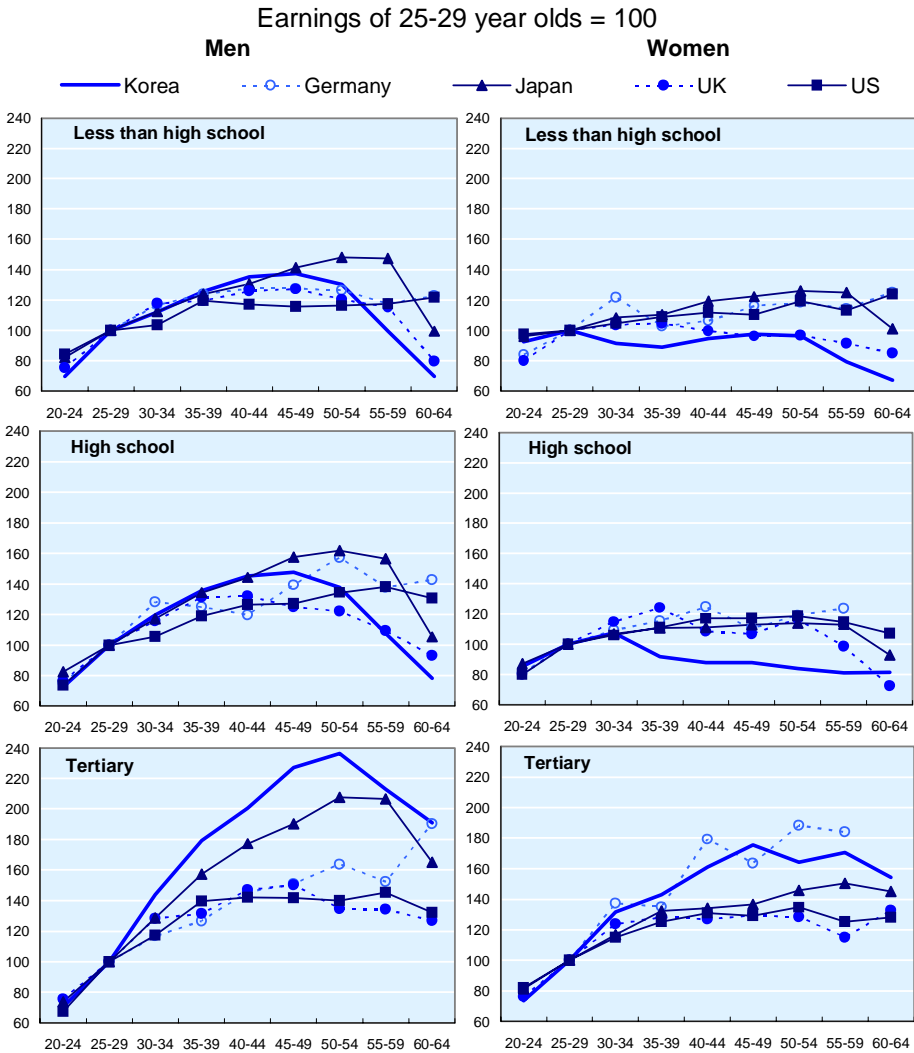


- a) The data for Japan and Korea are based on enterprise surveys and exclude certain sectors, some types of non-regular workers and small enterprises. The data for the other countries are based on labour force or household surveys covering all workers. The data for Germany and the United States refer to 1998 and 2000, respectively. For Korea, the age-group 60-64 refers to all workers aged 60 and over.

Source: Korean Wage Structure Survey; Japanese Basic Survey on Wage Structure; German Socio-Economic Panel; UK Labour Force Survey; US Current Population Survey.

39. The high enrolment rates in tertiary education coupled with substantial education fees can result in substantial expenditures on education for most Korean families. Traditionally, Korean parents are also expected to make a substantial financial contribution at the time of their children's marriage.

Figure 4.2. Age-earnings profiles by education in selected OECD countries, 2002^a



a) The data for Japan and Korea are based on enterprise surveys and exclude certain sectors, some types of non-regular workers and small enterprises. The data for the other countries are based on labour force or household surveys covering all workers. The data for Germany and the United States refer to 1998 and 2000, respectively. For Korea, the age-group 60-64 refers to all workers aged 60 and over.

Source: Korean Wage Structure Survey; Japanese Basic Survey on Wage Structure; German Socio-Economic Panel; UK Labour Force Survey; US Current Population Survey.

B. *Employment protection*

The relationship between employment protection legislation and employment of older workers is complex. In general, stricter legislation tends to reduce labour turnover but its impact on employment levels is less certain (OECD, 1999; OECD, 2004a).

The OECD has ranked countries according to the strictness of employment protection rules governing individual and collective dismissals and temporary employment. The rules governing individual and collective dismissals in Korea are set out in the Labour Standards Act (see Box 4.1). On the basis of these rules, Korea is ranked twelfth out of 28 OECD countries in terms of having the strictest employment protection with respect to individual dismissals of regular workers and for temporary employment, 26th with respect to collective dismissals and 17th overall (Table 4.5).

Thus, Korea would not appear to have excessively strict employment protection legislation by the standards of other OECD countries. However, in practice, the rights of Korean employers to dismiss workers are more restricted than what is suggested by the relevant legislation. Under the Labour Standards Act, individual dismissals of workers are only permitted for just cause, but there is no definition of what constitutes just cause. And, in fact, a fairly narrow or restrictive interpretation has been taken in judicial rulings (KOILAF, 1999a, 1999b, 2001), which has meant that, in practice, firms may only dismiss worker for serious misconduct.⁴⁰

These restrictions on the ability of employers to lay-off workers do not apply once workers have reached the mandatory retirement age set by the firm.⁴¹ Thus, firms have a strong incentive to set a relatively low mandatory age of retirement so that the necessary reductions or changes in the skill composition of the firm's workforce can be achieved through "retiring" older workers. This would be consistent with the evidence that few workers in Korea remain for a further five years with their current employer once they reach their early 50s.

40. While no information is available on the number of cases brought before the ordinary courts in relation to unfair dismissals, around 5 300 cases relating to dismissals were brought before the Labour Relations Commission in 2002.

41. These restrictions may also have less "bite" in smaller firms where workers are not very well-represented by unions and so may be less inclined to take their employer to court in the case of a dismissal.

Box 4.1. Employment protection against dismissals in Korea

The rules and procedures governing individual and collective dismissals are set out in the Labour Standards Act, which applies to all businesses and workplaces in which more than five workers are usually employed.

Grounds for dismissals

Individual dismissals of workers are only permitted for just cause. The Act does not define what constitutes just cause but a fairly narrow or restrictive interpretation has been taken in judicial rulings (KOILAF, 1999a, 1999b, 2001), which have meant that, in practice, firms may only dismiss worker for serious misconduct. Collective dismissals (mass layoffs) are permitted for urgent “managerial” reasons, *i.e.* where there has been a prolonged downturn in a firm’s performance, although firms are required to make every effort to avoid layoffs. A transfer, merger or acquisition of a business to avoid further financial difficulties is deemed to constitute an urgent managerial reason for carrying out layoffs.

Advance notice and other procedural requirements

The employer is required to give 30 days of advance notice (or at least 30 days of normal wages in lieu of) to the workers to be dismissed both in the case of individual and collective dismissals. Advance notice is not required for the following categories of workers with short job tenure: daily workers (less than three months); fixed-term workers (less than two months); and permanent and seasonal workers (less than six months).

In the case of In the case of lay-offs for managerial reasons, firms must set out “rational and fair” criteria for selecting those workers to be dismissed and there shall be no discrimination on the grounds of gender. These procedures, together with the scale of the lay-offs, are to be established following consultations in good faith with the appropriate trade union or worker representative, who must be given advance notice of 60 days. If more than 10% of the workforce is to be dismissed, firms must report this to the Ministry of Labor at least 30 days in advance.

Severance pay (called “retirement allowances” under the Act)

All firms are required to have a retirement allowance system, which consists of one month’s final wages (averaged over the last three months) for every year of service. While these allowances must be paid whether workers quit the firm voluntarily or are dismissed, they tend to be higher in the case of dismissals.

Moreover, the severance pay requirement effectively makes it more expensive to dismiss workers with longer tenure. On the one hand, this may afford some protection to older workers already in jobs with a long continuous record of service. On the other hand, in the context of greater competition and pressure to restructure than in the past, it could also discourage firms from hiring workers on permanent contracts or from retaining workers over many

years. Thus, on balance, strict employment protection in Korea may provide more of an obstacle to promoting better employment prospects for older workers than a form of job security.

Table 4.5. **Summary indicators of the strictness of employment protection legislation (EPL) in OECD countries, 2003^a**

	Individual dismissals ^b		Temporary employment		Collective dismissals		Overall EPL	
	Index	Rank	Index	Rank	Index	Rank	Index	Rank
Australia	1,5	6	0,9	22	2,9	14	1,5	23
Austria	2,4	12	1,5	14	3,3	10	2,2	13
Belgium	1,7	20	2,6	8	4,1	3	2,5	9
Canada	1,3	25	0,3	27	2,9	14	1,1	26
Czech Republic	3,3	3	0,5	24	2,1	24	1,9	18
Denmark	1,5	24	1,4	15	3,9	5	1,8	19
Finland	2,2	17	1,9	10	2,6	19	2,1	15
France	2,5	9	3,6	3	2,1	24	2,9	6
Germany	2,7	6	1,8	11	3,8	7	2,5	10
Greece	2,4	11	3,3	5	3,3	10	2,9	5
Hungary	1,9	18	1,1	20	2,9	14	1,7	21
Ireland	1,6	22	0,6	23	2,4	22	1,3	24
Italy	1,8	19	2,1	9	4,9	1	2,4	11
Japan	2,4	10	1,3	16	1,5	27	1,8	20
Korea	2,4	12	1,7	12	1,9	26	2,0	17
Mexico	2,3	14	4,0	2	3,8	7	3,2	3
Netherlands	3,1	4	1,2	19	3,0	13	2,3	12
New Zealand	1,7	21	1,3	16	0,4	28	1,3	25
Norway	2,3	15	2,9	6	2,9	14	2,6	8
Poland	2,2	16	1,3	16	4,1	3	2,1	14
Portugal	4,3	1	2,8	7	3,6	9	3,5	1
Slovak Republic	3,5	2	0,4	25	2,5	20	2,0	16
Spain	2,6	7	3,5	4	3,1	12	3,1	4
Sweden	2,9	5	1,6	13	4,5	2	2,6	7
Switzerland	1,2	26	1,1	20	3,9	5	1,6	22
Turkey	2,6	8	4,9	1	2,4	22	3,5	2
United Kingdom	1,1	27	0,4	25	2,5	20	1,0	27
United States	0,2	28	0,3	27	2,9	14	0,7	28

a) Countries are ranked from most strict to least strict.

b) Individual dismissals of regular workers.

Source: OECD (2004a).

C. *The presence of age discrimination*

The apparent unwillingness of employers to retain older workers may also reflect a certain degree of age discrimination. This can be defined as a situation where employers in their hiring and firing decisions make a distinction based on the age of a worker irrespective of the worker's actual ability. In terms of hiring, the fact that many firms apply age restrictions when hiring (see Table 4.3) would be treated in some countries as *prima facie* evidence of age discrimination. On the side of decisions concerning early retirement and lay-offs, considerations based on the age of workers also appear to be deeply entrenched (see Table 4.4). Clearly, if strict legislation banning discrimination based on age were in place, it would be unlawful to use age explicitly as a criterion when selecting workers for either early retirement or lay-off.

Traditional Confucian values of showing respect for older people may play a role in driving these age-based hiring and firing decisions. Staff at one Aged Manpower Bank, which provides a publicly-subsidised job placement service for older people, suggested that potential employers sometimes imposed age limits on job applicants as they would be embarrassed giving orders to an older person. Thus, jobs for maids and child-carers were available to women in their 50s but not after that age, and it was seen as almost impossible to find jobs for people over the age of 70.

A reverse form of age discrimination may also be operating on the side of workers. Again, Confucian values of honour and respect for older people may make it more difficult for older workers to accept a transfer within a company to a different position that involves a lower level of seniority or being supervised by a younger worker. In this case the worker may choose to resign. Pressure may also be placed on older workers to make way for younger workers in a system, such as in public administration, where promotion is based heavily on seniority rather than strictly on competence.

3. Measures to enhance job security for older workers

A. *Raising the mandatory retirement age*

The first task of the government and the social partners should be to raise the age of mandatory retirement in Korea. There are number of possible approaches that could be taken, ranging from the use of voluntary guidelines

through to an outright ban of mandatory retirement. Currently, Korea has adopted a voluntary approach. Under the Aged Employment Promotion Act (Article 19), it is simply recommended that the mandatory retirement age should be above 60 years of age when set by the employer (Ministry of Labor, 2004). Initially, Japan also relied on voluntary guidelines, but it subsequently amended the Law Concerning Stabilisation of Employment of Older Persons to make it obligatory as of April 1998 for the mandatory retirement age to be at least 60 years of age. It has also introduced guidelines to encourage firms to re-employ workers after they reach the retirement age.

As mentioned earlier, only around 13% of firms with 300 or more employees in Korea in 2001 had set a mandatory retirement age of 60 or older (Table 4.1). Given that firms in Korea appear to be reluctant to follow the government's guidelines, it may be necessary to introduce some form of legal obligation. For example, the Aged Employment Promotion Act could be amended to state explicitly that the provisions of the Labour Standards Act governing dismissals apply to all workers under the age of 60 (or possibly 65) whether or not they are above the firm's mandatory age of retirement. A possible exception could be made where the age of retirement has been set in a collective agreement. This would effectively ban firms from unilaterally setting a mandatory age of retirement under a given age limit. In the United States, mandatory retirement has been effectively banned under the Age Discrimination in Employment Act, but this was done in a series of progressive steps.⁴² Recently, the Korean government announced that it would make efforts to prevent the mandatory retirement age from dropping further in order to stabilize employment of older workers. In the long run, it will review possibilities to either extend or abolish the mandatory retirement age by linking it to policies to tackle age discrimination.

B. Reforming the seniority-wage system

Raising the mandatory age of retirement or even banning mandatory retirement could also help to change Korea's wage system. While the seniority

42. The Act was first introduced in 1967 and banned discrimination against persons aged 40-65. The upper age limit was raised to 70 in 1978 and eliminated altogether in 1986, effectively banning the practice of mandatory retirement, except in certain occupations.

system may have served a useful purpose in the past, it is now one of the principal causes of low retention rates for older workers and should be reformed, with more weight given to individual competence and performance rather than to age and seniority. A change in the wage system may become inevitable in any event, as new types of knowledge-intensive industries grow in importance and with the general rise in educational attainment.

However, reforming the wage system is not an easy task. The government does not have any direct policy levers to change the system. It cannot ban seniority clauses in collective agreements, as this would be seen as a violation of the right of the social partners to make collective agreements. Instead it can encourage the social partners to reach a general agreement about the direction and type of change required to Korea's wage system. In fact, the Korean government is planning to establish a Wage-Work Innovation Centre to study, develop and disseminate a "wage-work" innovation model in which labour and management agree on wage cuts subject to the condition of extending the mandatory retirement age. But, judging by past efforts, a policy of voluntary persuasion may have only a limited success.

By restricting the use of mandatory retirement, this would put more pressure on employers to reform the wage system. It would be harder for them to dismiss older workers and so they would be faced with the prospect of paying out wages in excess of productivity for a longer period of time. Consequently, there would be a stronger incentive for employers to revise wage-setting practices that simply align increases in wages with an increase in seniority.

C. Loosening employment protection rules

On the side of employees, some further loosening of Korea's strict employment protection legislation could have an impact on attitudes towards the wage system and could also, somewhat paradoxically, improve employment prospects for older workers. If the guarantee of working with the same employer becomes less certain then a seniority system becomes less attractive. Workers would face a higher risk of being forced to leave the firm before recouping their "deferred" wages, *i.e.* of receiving wages above their productivity after being paid below their productivity at the beginning of their careers.

At the same time, if employment protection provisions were loosened, less of the burden of labour adjustment would fall on older workers. Currently,

retention rates for workers aged 50-54 are lower than for workers aged 20-24 and drop even further for workers aged 55 and over (Figure 2.6). As discussed in Chapter 3, converting the current system of severance pay (retirement allowances) into a corporate pension system would also eventually help to improve job security for older workers. Once the new scheme was fully in place, employers would no longer be faced with an accumulating and large liability for every year that a worker remains in the firm. Moreover, as discussed in the next chapter, many older workers are only able to find non-regular work after mandatory retirement, and relaxing strict employment protection rules could help reduce the strong degree of duality in the Korean labour market between regular and non-regular employment.

If these measures to restrict mandatory retirement and to loosen employment protection were announced well in advance, this could serve to stimulate the social partners to reach agreement about the need to change their wage practices. The government should continue to actively encourage the social partners to discuss this issue under the auspices of the Tripartite Commission.

D. *Subsidising wages of older workers*

Another way of making it more attractive to employers to hire and retain older workers is to subsidise the cost of employing them. In Korea, four types of wage subsidies are available (Box 4.2). There is a subsidy available to employers who already employ older workers above a certain threshold relative to their total workforce. And three different wage subsidies are available for new hires. The last of these subsidies, the Subsidy for Employment of Middle- and Old-Aged Workers Completing Training, was only introduced in 2003. The level or amount of each subsidy is set each year by the Ministry of Labor. In addition, while not targeted at older workers, there are also a range of other wage subsidies available to firms for either promoting job retention or the hiring of other disadvantaged groups such as women and the long-term unemployed.⁴³

43. In particular there is the Subsidy for Job Retention, the Subsidy for Re-employment, the Subsidy for Employment Promotion of Long-term Jobseekers and the Subsidy for Employment Promotion of Women (Ministry of Labor, 2003). See OECD (2000) for a description of these programmes and an assessment of their effectiveness.

Box 4.2. Wage subsidies in Korea for hiring and employing older workers

Subsidy to promote employment for many aged workers

Eligibility conditions: Number of older workers (aged 55 and over) exceeds given proportion of a firm's workforce (formerly 6%) by type of business as determined by the Ministry of Labor. The subsidy is paid for every old worker in excess of the given share who has worked for more than one year in the firm. Part-time workers working less than 13 days per month or less than 15 hours per week are excluded from both the denominator and numerator when calculating the employment share of older workers.

Amount of subsidy (2004): KRW 150 000 per quarter (2.4% of average wages/month^a).

Duration: Five years.

Subsidy to promote new employment of aged workers^b

Eligibility conditions: All new hires of an older unemployed person (aged 50 and over) who has been registered as looking for work with the Public Employment Service for at least three months. The employer must not lay-off any worker for economic reasons during the period of three months prior to, or six months after, applying for the subsidy.

Amount of subsidy (2004): KRW 300 000 per month (14.1% of average wages^a).

Duration: Six months (one year for small- and medium-sized manufacturing firms).

Subsidy to maintain retired workers^b

Eligibility conditions: Firms who continue to employ or re-hire retired workers. The retirement age must be set above 57 and the workers in question must have worked longer than 18 months before retirement.

Amount of subsidy (2004): KRW 300 000 per month (14.1% of average wages^a).

Duration: Six months (one year for small- and medium-sized manufacturing firms).

Subsidy for employment of middle- and old-aged workers completing training^b

Eligibility conditions: All new hires of unemployed persons aged 40 and over who have completed either re-employment training for the unemployed or another training course designated by the Ministry of Labor. The employer must not lay-off any worker for economic reasons either during the period of three months prior to and six months after applying for the subsidy. The subsidy is restricted to firms with 500 workers or less.

Amount of subsidy (2004): KRW 600 000 per month during the first three months, KRW 400 000 during the next three months and KRW 200 000 during the last six months (28.2%, 18.8% and 9.4%, respectively, of average wages^a).

Duration: 12 months.

a) Wages refer to average total monthly wages (including bonuses) in 2003, according to the Monthly Labor Survey.

b) The employer must provide Employment Insurance for all workers hired with the subsidy.

Taking into account all of the schemes targeted at older workers, employers received wage subsidies for around 309 000 older workers in 2003 (Table 4.6). Out of this total, the lion's share was comprised of the subsidy for employing older workers above the 6% requirement. The most generous subsidy available, *i.e.* the subsidy for re-hiring retired workers, was paid in relation to only 140 workers in 2003. Altogether, these schemes account for a sizeable proportion of all wage-subsidy schemes in Korea both in terms of participants and expenditure. In 2003, they accounted for around 54% of all participants and for just over 41% of total expenditure.

Firms wishing to receive the subsidy for hiring either former retired workers or unemployed older workers are obliged not to lay-off older workers over a nine-month period irrespective of changed economic circumstances or if there is misconduct or incompetence on the part of an older worker. These conditions for receiving a wage subsidy appear to be quite restrictive. The level of each subsidy is also quite low, ranging from between 2.4% and 28% of average wages. Together with the restrictions on laying-off older workers, this may also discourage some firms from applying for the subsidy.

Table 4.6. **Employment subsidies for older workers in Korea^a**

	1998	1999	2000	2001	2002	2003
Number of participants						
Total	113,520 (14.5)	189,146 (28.2)	225,711 (50.2)	251,870 (44.3)	270,902 (57.1)	308,874 (54.2)
Above 6%	103,817	150,553	177,521	222,648	268,424	308,046
Unemployed	9,578	37,840	48,105	29,106	2,319	688
Retired	125	753	85	116	159	140
Expenditure (millions of KRW)						
Total	12,173 (12.6)	25,450 (13.8)	36,758 (32.3)	41,620 (32.3)	39,980 (44.1)	46,236 (41.0)
Above 6%	9,254	13,497	15,915	28,007	38,769	45,782
Unemployed	2,862	11,246	20,722	13,508	1,108	361
Retired	57	707	121	104	104	94

a) The figures in parentheses refer to the share in either the total number of participants in all employment subsidy programmes or total expenditures on all of these programmes.

Source: Korean Ministry of Labor.

A number of other OECD countries also have wage subsidies for hiring older workers. In those countries for which the relevant information could be obtained (see Box 4.3), it would appear that the level of the subsidy is more generous than in Korea but with tighter targeting of the subsidy in several countries on the long-term older unemployed.

Box 4.3. Wage subsidy schemes for older workers in selected OECD countries

Austria: Employers' unemployment insurance contributions are halved for hiring workers between 50 and 55 years of age and eliminated for those hired over the age of 55. This subsidy is one part of Austria's Bonus-Malus system, where the "malus" is a penalty payment for dismissing a worker over the age of 50. It is staggered according to the age of the dismissed worker.

Belgium: Employers hiring long-term unemployed people aged 45 and over are partially exempted from paying their social security contributions during five years. In addition, as these newly hired workers are entitled to an employment subsidy under the programme "Activa", employers may reduce their wages by up to EUR 500 per month.

Denmark: Under the Service Jobs Scheme, municipalities hiring individuals who are more than 48 years old and have been unemployed for at least 18 months are paid an indefinite wage subsidy of DKR 100 000 per year.

France: Companies hiring an unemployed person aged 50 or above can take advantage of the "Contract to promote employment" (*Contrat Initiative Emploi*). The subsidy consists of a total reduction in employer's social security contributions at the level of the minimum wage, *i.e.* amounting to around 40% of gross minimum wages. The subsidy is normally paid for 24 months in the case where a permanent employment contract is offered and indefinitely in the case of a person aged 50-64 who is disabled or has been either unemployed or on social assistance for more than one year.

Germany: An "integration" subsidy (*Eingliederungszuschüsse*) is available to employers for hiring individuals aged 50 and over who have been unemployed for six months or more. The subsidy corresponds to a maximum of 50% of wages.

Sweden: The Special Employment Subsidies programme encourages employers to recruit persons above 57 years who have been unemployed for at least two years. The subsidy is paid to employers during a maximum period of 24 months and up to 75% of the wage costs to a maximum of SEK 525 per day, *i.e.* SEK 10 500 per month (roughly half of the average salary of a full-time worker).

There are a number of ways in which Korea's system of wage subsidies targeted at older workers could be rationalised to make it more effective. First, the results of evaluations in other OECD countries indicate that wage subsidies are likely to be more effective when better targeted (Martin and Grubb, 2001). This suggests that the subsidy for employing older workers above a given

proportion is likely to involve a considerable amount of deadweight loss and should be carefully reviewed for its effectiveness or possibly discontinued.

Second, while the subsidy available to firms for hiring unemployed older workers who have been unemployed for at least three months is better targeted, a review of its net effectiveness in promoting employment of older workers should also be undertaken. In a survey of 487 companies that were receiving this subsidy, 92.3% of them reported that would not have hired fewer workers in the absence of the subsidy (Chang, 2004). This suggests that deadweight loss is considerable and the net employment effect of the subsidy is less than 8%.

Third, there may be some scope to rationalise the number of different subsidies for hiring older unemployed workers. For instance, Martin and Grubb (2001) report that training programmes tend to be more effective in promoting employment when carried out in the context of the workplace. Thus, instead of having a separate subsidy for hiring workers who have undertaken re-employment training while unemployed, a training supplement could be provided to employers who subsequently provide training to older workers who have been unemployed for three months or more.

Finally, the subsidy for re-hiring employees after they have retired from firms is little used and should either be abolished or linked more explicitly to a policy of raising the mandatory retirement age. For example, a wage subsidy for employing older workers could be made conditional on firms raising their mandatory retirement age to 60 or above. To encourage greater take-up, the level of the subsidy should be raised.

Wage subsidies may help older workers to remain in jobs or to find new jobs if unemployed but they do not directly address the problem of low wages for many older workers. As shown in Chapter 2, the incidence of low pay is high among older workers. For some, this may be the result of taking up a low-paid job after retiring from a job in which their former wage was much higher. Another approach that should be explored, therefore, is to provide older workers with some form of in-work benefit.⁴⁴ This would strengthen work

44. At a theoretical level, Orszag and Snower (2003) suggest that an in-work benefit for low-wage workers will be more effective than a wage subsidy paid to the employer in promoting employment if the targeted group is likely to be trapped in dead-end jobs with flat wage profiles. This would appear to characterise the current situation of a significant proportion of older workers in Korea.

incentives for the older unemployed and could be more tightly targeted on workers with low household incomes. Prominent examples of such schemes in other OECD countries are the Earned Income Tax Credit (EITC) in the United States and the Working Family Tax Credit (WFTC) in the United Kingdom. In particular, under the UK's *New Deal 50 plus* programme, an additional employment credit is given to the older unemployed who find a job. This latter scheme could serve as a model for an older worker in-work benefit in Korea. Of course, the costs of such an in-work benefit, and whether it would be a substitute for wage subsidies and other social assistance benefits or a complement to them, would have to be carefully assessed.

E. Korea's quota system and preferential treatment in employment

Korea is quite unusual among OECD countries in that it has adopted a quota system for older workers (defined as 55 and over). It currently applies to large firms only. Previously, it was set at a uniform rate of 3%, *i.e.* the share of older workers in total (regular) employment in these firms should be at least 3%. Since July 2003, the rate has been differentiated by industry, and it is 2% for manufacturing, 6% for real estate and business services and 3% for all other sectors. The system operates on a voluntary basis since there are no penalties for not respecting the quota. However, the Korean Ministry of Labor can, and has, publicly cited examples of prominent companies that employ very few older workers.

In addition, a number of specific occupations have been identified by the Ministry of Labor for older people to receive preferential treatment in employment. Public-sector employers are required to give preferential treatment in 70 specific occupations. And, while not mandatory, private-sector employers are encouraged to give preferential treatment in 90 designated occupations. Prior to June 2003, only 70 occupations were designated for preferential treatment compared with the current list of 160.

Both the quota system and policy of preferential treatment in designated occupations may serve a useful purpose in highlighting the need to improve employment prospects for older workers, but it is not clear how effective they have been in practice in changing employer's attitudes towards hiring and retaining older workers. In several countries, including Korea, there is a quota system for disabled workers, but there tends to be substantial non-compliance even though there may be potentially large penalties involved (OECD, 2003b).

Both preferential treatment and the quota system may also run the risk of stereotyping all older workers as being disadvantaged workers or less productive.

Finally, both policies may be overtaken by demographic trends over the coming decades. As mentioned in Chapter 1, the workforce will age rapidly over the coming decades and by 2020 almost 40% of all workers are projected to be aged 50 and over and this may rise to 50% by 2050. Consequently, firms may soon be obliged to hire a relatively high proportion of older workers, irrespective of the quota or any requirements to give preferential treatment to older workers. While acknowledging that there have been a number of recent changes, the government should carry out a more general review of the purpose of quotas and preferential treatment in employment and their actual impact on firms' employment practices.

F. Age discrimination legislation

It may also be important to combat age discrimination more explicitly. This could be done through legislation prohibiting age discrimination or through voluntary guidelines. Both approaches can be found among OECD countries (Hornstein, 2001). However, while most, if not all, OECD countries have introduced measures to prevent discrimination on the grounds of gender, less action has been taken to prevent age discrimination. In Europe, this is changing, since all EU countries are required to comply with the EU Directive to introduce legislation prohibiting discrimination at work on a number of grounds, including age.⁴⁵ The EU directive seeks to ban age discrimination at all ages. In the United States, the Age Discrimination in Employment Act (ADEA) is less inclusive since it only forbids discrimination against individuals aged 40 and over (see Box 4.4). However, it has been in operation since 1967).

The effectiveness of legislation prohibiting age discrimination in improving employment prospects for older people is not entirely unambiguous, however. In the United States, there is some evidence that, with respect to older

45. In 2000, the European Union Council Directive 2000/78/EC established a general framework for equal treatment in employment and occupation. The directive required all EU countries to introduce legislation by December 2003 prohibiting both direct and indirect discrimination on the grounds of religion or belief, disability, age and sexual orientation. However, some EU countries have made use of the possibility to request an additional period of up to three years to implement the provisions concerning discrimination on the grounds of age and disability.

workers, it may have increased retention, but it is less clear whether it has had a positive or negative impact on hiring (Neumark, 2001; Adams, 2004). Clearly, legislation on its own cannot be expected to completely overturn employer attitudes and practices, but it sends out a clear message that age discrimination should not be tolerated. Actions to support all aspects of the recruitment and retention of older workers should be developed, for example, by prohibiting job advertisements from specifying any age limits, apart from in certain well-defined types of job.

Box 4.4. The US Age Discrimination in Employment Act

The Act protects individuals who are 40 years of age or older from employment discrimination based on age. Under the Act, it is unlawful to discriminate against a person because of his/her age with respect to any term, condition, or privilege of employment, including hiring, firing, promotion, layoff, compensation, benefits, job assignments, and training.

The Act applies to employers with 20 or more employees, including state and local governments. It also applies to employment agencies and labour organizations, as well as to the federal government.

In particular, the Act generally makes it unlawful to include age preferences, limitations, or specifications in job notices or advertisements. A job notice or advertisement may specify an age limit only in the rare circumstances where age is shown to be a “bona fide occupational qualification” that is reasonably necessary to the normal operation of the business.

Source: The US Equal Employment Opportunity Commission.

There is currently no specific legislation banning age discrimination in employment in Korea. Neither the Constitution, the Labour Standards Act nor the Equal Opportunity Act contain any specific provisions that deal explicitly with age discrimination. The Constitution, for example, states that “there shall be no discrimination in political, economic, social or cultural life on account of sex, religion or social status” (Article 10) but does not include age (Ministry of Labor, 2004).

In December 2002, the Aged Employment Promotion Act was revised to include a provision stating that employers should not discriminate against older people in recruitment, hiring or dismissal. However, there are no explicit penalties for employers ignoring this provision.⁴⁶ Moreover, mandatory

46. In theory, taking account of the relevant provisions of the Labour Standards Act concerning dismissals, firms could face a penalty or lawsuit for an unjustified

retirement is still permitted, although as mentioned already firms are encouraged to set it at 60 years of age or higher. With regard to this, a discussion is on-going between the government and the social partners to establish a law to promote equality in employment which prohibits setting the age of mandatory retirement lower than a certain age.

Thus, there would appear to be scope for the government to introduce further measures to combat age discrimination. This should include specific legislation banning age discrimination in employment which would state more explicitly what constitutes discrimination and which would include employment conditions as well as hiring and dismissals as areas where discrimination would be banned. It would also set out explicit penalties and the procedures for dealing with cases of alleged age discrimination. At the same time, any strengthening of age discrimination legislation should be accompanied or even preceded by guidelines and campaigns to encourage better employment practices with respect to the hiring and retention of older workers. The government may wish to consider as a possible model the UK's *Age Positive* campaign as well as its guideline for employers, the *Code of Practice on Age Diversity in Employment*.⁴⁷

G. *Range of measures required*

There is probably no single measure that would dramatically increase retention rates of older workers in the short-term in Korea. However, if a range of measures is taken, as suggested above, this could improve the situation over the longer term. Moreover, as discussed in the next chapter, employment security for older workers will also be improved by strengthening their employability.

dismissal based on age discrimination. However, there are no such avenues for legal redress in the case of age discrimination in hiring.

47. The UK campaign and guidelines are discussed in OECD (2004d) and more details can be found on the Age Positive website www.agepositive.gov.uk.

Chapter 5

BETTER ACCESS TO BETTER JOBS

Chapter 5 is devoted to the topic of better access to better jobs. It is divided into three sections: (1) Improving skills, (2) Better public employment services, and (3) Improving working conditions.

In a dynamic labour market, the ability to remain employed is not an easy task. The picture that emerges from the review in Chapter 2 of the current labour market status of older workers in Korea is one of considerable labour churning or mobility. Older workers face a high risk of job loss but also find new jobs relatively quickly. However, many of these jobs are in non-standard forms of employment and involve a substantial cut in wages. Therefore, it is important to improve the “employability” of older workers. The purpose of this chapter is to suggest ways that Korea can achieve better access to better jobs for older workers by strengthening opportunities for training (Section 1), providing better public employment services (Section 2) and improving working conditions (Section 3).

1. Improving skills

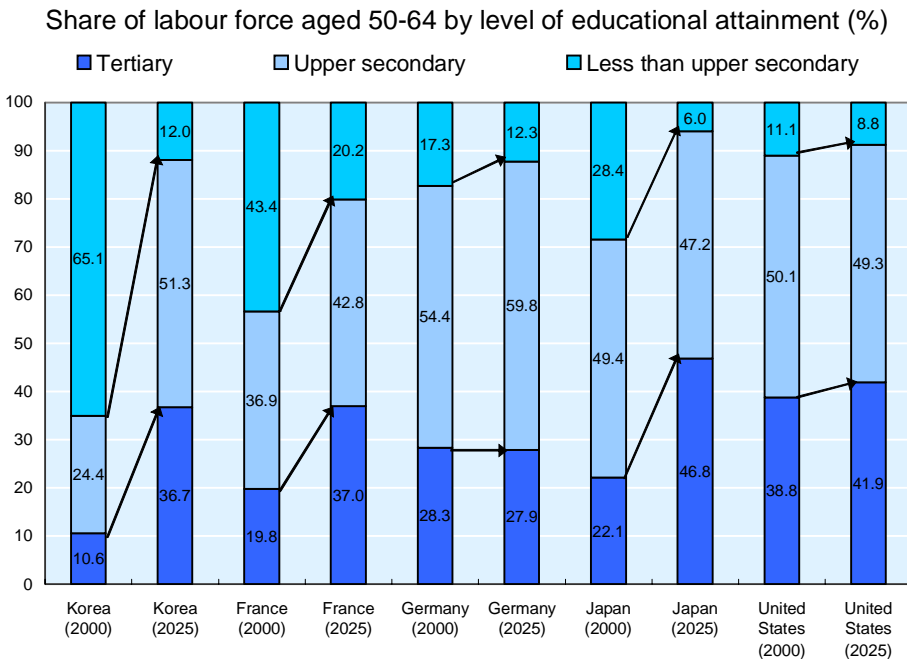
The ongoing shift away from the production of goods to the production of services, together with technological change, has increased the need for more skilled and flexible workers. This has put pressure on the education and training system in Korea to adapt to these changes, on employers to provide more training and on individual themselves to engage actively in lifelong learning.

A. Educational attainment

Currently, the educational attainment level of older workers is quite low in Korea, which may partly explain the difficulties that many of them face in finding or keeping good jobs. In 2000, around 65% of Korean workers aged 50-64 had not completed high school. This is a much higher proportion than in other major OECD economies (Figure 5.1). However, the level of educational attainment has been

rising rapidly among the younger generations of the population in Korea. Thus, by 2025, the results of simple extrapolations suggest that only 12% of older workers will not have completed high school.⁴⁸ Moreover, over 35% will have some form of tertiary qualification, which would place Korea just below or even above some of its major competitors in terms of the proportion of older workers who are highly educated. This rapid rise in educational attainment could be an important source of future gains in productivity and should improve employment prospects for older workers in Korea.

Figure 5.1. **Education level of older workers in selected OECD countries, 2000 and 2025**



Source: OECD estimates.

48. These extrapolations were based on data for 2000 and obtained by applying participation rates by educational attainment, gender and five-year age group between the ages 50-64 to the corresponding population aged 25-39. For Japan, the estimates are based on data grouped in ten-year age brackets.

B. Training opportunities

Vocational training and lifelong learning activities, more generally, can play an important role in addressing the lack of formal education among certain groups in the adult working population. Moreover, job requirements are continually changing in response to technical progress and changes in work organisation, which means that workers regularly have to upgrade their existing skills or acquire new ones. Thus, adult learning and training can significantly enhance worker employability and productivity not to mention wages and firm profits.⁴⁹

The Korean system of vocational training was originally established to support economic development by increasing the supply of skilled workers. A training levy system was established in 1976, under which firms were required to provide in-plant training or pay a levy. In order to adapt to the rapid diffusion of information technology (IT) and the changing economic environment, the levy system was abolished in 1999 as part of the new system of training established under the Employment Insurance System (EIS) and the Vocational Training Promotion Act of 1997.⁵⁰ Under the new system, there is a range of training subsidies available, which vary according to whether they are directed at employers, employees or the unemployed.⁵¹

In terms of publicly-funded training programmes for the unemployed, the total number of participants has declined considerably since the financial crisis in 1998 from over 300 000 to around 110 000 in 2003 (Table 5.1). The main programme is re-employment training of the unemployed financed under the EIS. In general, the older (insured) unemployed are also eligible to participate in these programmes. In addition, each local labour office provides special courses for the older unemployed (in their 40s and 50s) in specific occupations such as investment counsellor, financial asset manager, auto-repair worker, confectionery worker, etc. However, the number participating in these special courses is small. Overall, very few participants in publicly-funded training for

49. Continuous education and training is also associated with various non-economic benefits such as better health and personal satisfaction.

50. Despite the initial success of the levy system in promoting training, the proportion of firms opting to pay the levy rather than train their workers, rose steadily from under one-third of firms covered by the system during 1977-80 to more than 80% during 1991-93 (OECD, 2000).

51. These are described in more detail in OECD (2000).

the unemployed are in the older age categories, with the bulk of the participants being less than 30 years old.

Table 5.1. **Participation in vocational training for the unemployed by age in Korea, 1998-2003^a**

	1998	1999	2000	2001	2002	2003
Total ('000s)	362.9	358.4	216.3	180.4	152.3	108.2
By age (%):						
All ages	100.0	100.0	100.0	100.0	100.0	100.0
< 30	45.1	53.9	60.2	60.4	57.7	55.8
30-39	30.9	28.4	25.9	26.1	27.6	28.3
40-49	16.1	11.9	9.3	9.4	9.7	10.3
50+	7.8	5.8	4.6	4.2	5.0	5.7

a) The data refer to the main training programmes for the unemployed. Prior to 2000, the data by age refer only to the programme of Re-employment Training for the Unemployed.

Source: Korean Ministry of Labor.

In terms of all forms of publicly-funded or subsidised training, a much larger number of participants are incumbent employees. In 2003, their number was around 1.7 million compared with around 110 000 participants in vocational training for the unemployed. Despite the much larger numbers of incumbent workers participating in subsidised training, public expenditure on this group in 2002 was less than one third of the total budget for vocational training, but well up from a share of less than 10% in 1998. Again, in general, older workers are eligible for these subsidies. In fact, for one of the programmes called “Training Benefits”, workers aged 50 and over are automatically eligible whereas younger workers are only eligible if they are at risk of losing their job or have lost their job during or soon after training. Nevertheless, as for training programmes targeted at the unemployed, very few older workers participate in subsidised training and the incidence of training declines steeply for workers after the age of 40 (Table 5.2). Thus, in 2002, while 9.4% of all employees aged 30-39 participated in subsidised training (16.8% of all eligible insured employees), the corresponding figure for the age group 40-49 was 5.4% (11.2%) and it was only 1.4% (3.9%) in the age group 50 and over. More generally, the incidence of subsidised training is relatively low for female workers, low-skilled workers and workers in smaller enterprises (Lee and Kim, 2004).

Table 5.2. **Participation in subsidised training by employees in Korea, 2002^a**

	Training spells ^b	% of total ^b	Participants ^b	% of total ^b	Participants as a % of:	
					All insured employees	All employees
Total	1876	100.0	960	100.0	13.4	6.8
Gender						
Men	1516	80.8	747	77.8	15.5	9.0
Women	355	18.9	213	22.2	8.9	3.6
Age						
15-19	24	1.3	19	2.0	19.4	6.7
20-29	590	31.4	325	33.8	14.4	8.1
30-39	851	45.4	407	42.4	16.8	9.4
40-49	354	18.9	179	18.6	11.2	5.4
50+	52	2.8	31	3.2	3.9	1.4
Level of education						
Elementary/middle school	41	2.2	28	2.9	4.0	..
High school	735	39.2	370	38.5	9.7	..
Junior college	228	12.2	132	13.8	13.8	..
University	828	44.1	400	41.7	23.4	..
Job tenure						
Under 1	257	13.7	154	16.0	7.8	..
1-4	496	26.4	277	28.9	9.6	..
5-9	427	22.8	213	22.2	23.4	..
10-14	323	17.2	136	14.2	34.0	..
15-19	159	8.5	73	7.6	38.4	..
20+	154	8.2	63	6.6	45.0	..

.. No estimates available.

- a) The number of participants in the table refers to persons who participated in one or more spells of subsidised training during 2002 (*i.e.* excluding double-counting).
b) The sub-categories will not always add up to the total of all training spells or participants because of missing data concerning some participants' characteristics.

Source: Lee and Kim (2004) and OECD estimates based on the total number of employees as derived from the Economically Active Population Survey.

A much broader picture of the participation of individuals in vocational training and other lifelong learning activities can be obtained from the Korean Social Statistics Survey (KSSS), and a comparison can be made with the situation in other OECD countries using the International Adult Literacy Survey (IALS) (see Box 5.1). Both surveys provide similar information on whether individuals undertook some form of training activity in the past 12 months. Clearly because of possible differences in definitions and methodologies these results should be treated as giving only a broad picture rather than a precise indication of differences across countries.

These comparisons suggest that participation in job-related training in Korea is low by international standards, both for older workers and prime-age workers (Figure 5.2). Just under 10% of older workers undertook some form of job-related training in Korea in 2000 compared with almost 45% in Denmark. For prime-age

workers in Korea the rate was somewhat higher at just under 16% but still well below the levels recorded in other OECD countries. The gap between men and women in the incidence of job-related training is also much larger in Korea than in other countries (Table 5.3).

Box 5.1. The International Adult Literacy Survey (IALS) and the Korean Social Statistics Survey (KSSS)

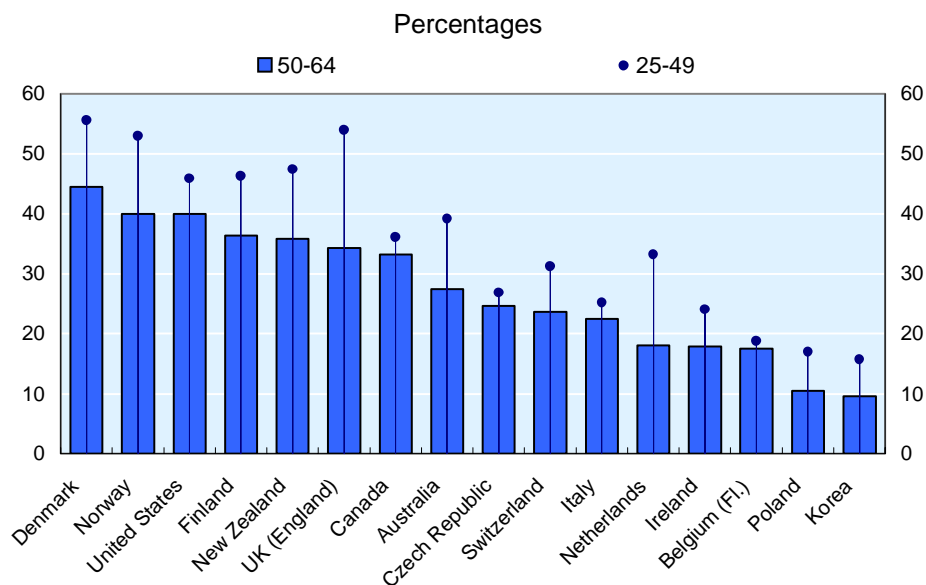
The IALS is a large-scale household survey assessing adult literacy skills where twenty-one countries participated in three rounds over the period 1994 to 1998. The survey is composed of two main parts, *i.e.* questions on background information and a booklet for testing literacy level. The information on lifelong learning used here for comparison is extracted from the background information of questionnaire, which contains information on demographic and labour force status.

The KSSS is a regular survey done every year by the Korean National Statistics Office. The social indicators covered by this survey deals with 12 areas such as family, income, health, education, and so on. Since the survey covers only three areas each, each area is surveyed once every four years. The information on lifelong learning activities in this paper comes from the most recent 2000 survey dealing with education.

Both the IALS and the KSSS have a similar structure, including: the same reference period (*e.g.* respondents are queried about training over the year preceding the survey); the same target population (aged 15 and over); similar broad questions on lifelong learning activities; and similar questions on labour force status. Nevertheless, some caution is required in using these survey data for international comparisons. For example, despite identical methodology and instruments in the IALS among countries, the training questions are very broad. Thus, there could be some differences across countries in how respondents interpreted these questions. In terms of comparisons between the IALS and KSSS data, there are slight differences in the coverage of lifelong learning. While the IALS excludes people who participated in lifelong learning activities for less than six hours, there is no such restriction in the KSSS. Both surveys exclude full-time students, but with a very slight difference. The KSSS excludes not only full-time students but also all those who graduated from school but still continue to study, whereas the IALS excludes only full-time students aged 16-24.

In terms of lifelong learning more generally, Korea also compares unfavourably with most other OECD countries. Whereas just over 10% of Koreans aged 50-64 participated in some form of lifelong learning activity during 2000, the corresponding proportion during a given year over the period 1994-1998 was around 36% in the United States and around 46% in Sweden (Table 5.3). This gap between Korea and other OECD countries is equally large for the younger age group 25-49. Again, there is a considerable gap between men's and women's participation in lifelong learning in Korea, which is much larger than in the other OECD countries shown in Table 5.3 with the exception of the Czech Republic and Italy.

Figure 5.2. Incidence of job-related training for employees by age in OECD countries



Source: International Adult Literacy Survey; Korean Social Statistics Survey.

Table 5.3. Participation in lifelong learning activities in OECD countries

Percentages

	All lifelong learning activities (all persons)					Job-related training (employees)				
	Gender			Age		Gender			Age	
	Total	Men	Women	25-49	50-64	Total	Men	Women	25-49	50-64
Australia	35.6	36.8	34.4	39.9	23.9	36.7	37.6	35.5	39.2	27.4
Belgium (Flanders)	22.2	24.5	20	24.2	17.2	18.6	19.7	16.7	18.8	17.6
Canada	36.5	37	36	40.4	25	35.5	36.1	34.7	36.1	33.2
Czech Republic	27.3	33.2	21.8	31.5	19.6	26.3	29.8	22.1	26.8	24.7
Denmark	56.2	53.7	58.8	63.6	41.4	52.5	50.5	55.1	55.6	44.5
Finland	58.2	54.4	62	66.4	40.6	44.1	44.6	43.4	46.3	36.4
Ireland	22.1	20.3	23.8	25.5	12.9	22.8	20.4	27.1	24.1	17.9
Italy	22.1	26.5	17.9	27.1	12.6	24.6	25	24	25.2	22.5
Korea	18.8	21.2	16.3	21.6	10.8	14.3	17.1	9.7	15.7	9.6
Netherlands	36.3	38.2	34.4	42	21.1	30.6	33.1	26.3	33.2	18
New Zealand	37.9	37.3	38.4	41.4	27.9	44.8	44.8	44.9	47.4	35.8
Norway	48.4	49.1	47.7	53.8	34.3	49.8	47.5	52.7	53	40
Poland	14	15	13.1	17.6	4.9	16.1	16.1	16	17	10.5
Sweden	54.2	52.5	55.8	58.1	45.9
Switzerland	43.6	45.7	41.6	49.2	30.8	29.2	31.2	26.5	31.2	23.6
UK (England)	44.9	45.7	44.1	52.4	27.4	49.5	48.7	50.4	54	34.3
United States	43.6	43.6	43.7	47.2	35.7	44.3	43.9	44.7	45.9	39.9

Source: International Adult Literacy Survey; Korean Social Statistics Survey.

C. *Building better opportunities for training*

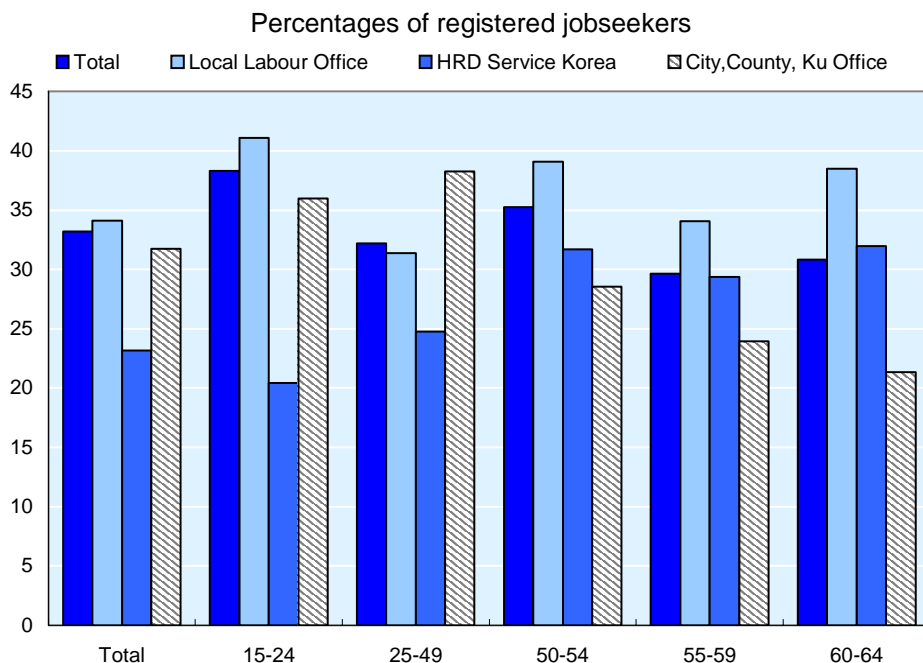
In view, of low training rates for mid-career and older workers in Korea, there is an urgent need to increase the provision of training as well as to encourage greater take-up of training opportunities through expanding the types of training available. This is not an easy task. First, in terms of the unemployed, it is important that public programmes of training are carefully evaluated to ensure that they lead to cost-effective improvements in employment outcomes. Second, for adult and older workers, it is important that short and modular courses of vocational training are available. This may encourage greater take-up and may generate higher returns to training than in the case of longer courses. The current Credit Bank System for general adult learning in Korea could be taken as a model. However, further efforts will have to be made to improve accreditation of training and recognition of qualifications. Finally, it is also important to strengthen training opportunities for people who wish to (re)enter the labour force after a long period of absence, *e.g.* women who have stayed at home to look after children. Again, this may mean expanding training facilities outside of the workplace that offer training on a flexible basis.

2. *Strengthening the Public Employment Service*

Given the high degree of labour mobility of older workers in Korea it is essential that they have access to good employment services for finding new jobs. There has been an impressive expansion of the Public Employment Service (PES) over the space of just a few years.⁵² This has included the setting up of special offices to deal with older jobseekers (Aged Service Centres and Manpower Banks for Older Workers). However, these offices mainly serve a niche market for much older people who are seeking jobs in a limited range of occupations.

The percentage of registered job seekers that are placed in jobs, *i.e.* the placement rate, tends to be somewhat higher for youth than for the older age groups (Figure 5.3). The placement rate declines slightly for older job seekers aged 55-64, especially in PES offices run by the municipal authorities (city, county and Ku offices). In general, placement rates tend to be higher for most age groups in the PES offices run by the Korean Ministry of Labor (local labour offices). These placement rates are also less impressive and decline more markedly for older job seekers when applicants for daily work are excluded from the figures.

52. The expansion of the Korean PES and its effectiveness is reviewed in OECD (2000).

Figure 5.3. Placement rate by age and type of PES office, 2003^a

a) The placement rate is defined as the ratio of placements to registered job seekers.
 Source: Korean Ministry of Labor.

Given that most older jobseekers who require job search assistance continue to rely on the mainstream PES offices, it is important that the quality and resources of the PES be strengthened by improving training and job stability of staff. The possibilities for some sub-contracting out to private employment agencies of placement service for older jobseekers with special needs should also be considered. As is the case for other OECD countries, there is also scope to improve Korea's career guidance system for both school leavers and adult workers through a range of measures (OECD, 2002, 2004e). With respect to Korea's PES, a number of measures have been suggested for improving its career guidance function (OECD, 2002). These include: *i*) allowing PES staff trained as vocational counsellors to spend more time on counselling and less time on administrative tasks; and *ii*) reviewing the possibility of extending the PES to cater more broadly for all persons seeking a job or to change jobs, rather than just focusing primarily on the unemployed.

3. Job quality needs to be improved

As discussed in Chapters 2 and 3, there is a risk that labour force participation rates for older people may decline in the future as fewer of them live in rural areas, where labour force participation is generally higher than in urban areas, and in response to better potential retirement incomes once the national pension system is fully mature. This tendency may be reinforced if older workers face the choice of either retiring or continuing to work in jobs that are not very attractive in terms of pay, job security, hours of work and working conditions. Thus, it is important to improve the quality of jobs for older workers. It is also important to take a life-cycle perspective. A good working environment for workers of all ages will help to prevent work accidents, improve workers' health and attenuate the decline in work capacity as workers age.

A. Working conditions

While there is no conclusive evidence about whether mental ability declines with age (except at more advanced ages where senile dementia and other mental illnesses become more prevalent), there is little doubt that physical strength does decline after a certain age. Older workers may be able to partly compensate for this through their greater work experience, *e.g.* they may find easier ways to lift heavy objects. Nevertheless, working conditions and work organisation may have to change to better accommodate the future needs of larger cohorts of older workers.⁵³

As in other countries, Korea has experienced a shift away from the production of goods to the production of services. This should have contributed to a decline in the proportion of jobs that involve physically demanding or dangerous work.⁵⁴ Nevertheless, 48% of Korean older workers in 2002 were working in the goods-producing sector compared with only around 33% on average in the European Union (EU). To some extent, this gap is likely to decrease in the future

53. See Ilmarinen (1999) for a more extensive discussion of how work ability changes with age and how working conditions should be adapted to meet the needs of older workers.

54. In European countries, on average, jobs that involve heavy lifting and dirty, hazardous and uncomfortable conditions are more prevalent in the goods-producing sector (agriculture, mining, manufacturing, public utilities and construction) than in the service sector (OECD, 2001c, Chapter 4).

since just over 34% of the younger generation of Korean workers (aged 25-49) were employed in the goods-producing sector compared with 32% in the EU.

Manual jobs are also likely to involve more difficult working conditions for older workers than non-manual ones and yet 62% of Korean older workers were employed in manual jobs in 2002 compared with only around 38% of older workers in the European Union. But, again, for younger workers (25-49), the gap between Korea and other OECD countries is much smaller with 37% of them working in manual occupations in Korea compared with 34% on average for the EU. Thus, while it is likely that many older workers in Korea currently have poor working conditions, this situation should improve for future generations of older workers.

Nevertheless, while some improvement in working conditions may be expected in the future, it is important that employers take action as soon as possible to adapt the work environment more towards older workers by, for example, introducing work rotation, reorganisation of work tasks, ergonomic improvements, short breaks, etc. (Ilmarinen, 1999). It is also important that employees have the opportunity to influence their own work situation.

B. Working time

Long working hours may be particularly onerous for older workers and could have an adverse impact on their health and willingness to continue working. In 2002, the majority of all Korean older workers worked more than the standard hours of 44 per week and over a third worked more than 54 hours a week (Table 5.4). Average hours of work do decline with age after 50 but Korean men in their late 50s who were at work still worked on average almost 51 hours per week. Korean women also face long hours of work albeit somewhat shorter on average than Korean men.

These long hours of work for older workers in Korea may partly reflect the fact that a higher proportion of them relative to younger workers are self-employed (see Table 2.2) and, for whom, in most OECD countries working hours tend to be higher than for employees. However, when working hours in Korea are compared by age for employees only, older workers appear to work more and not fewer hours per month relative to prime-age and younger workers (Figure 5.4). It also appears to be the case that, irrespective of age, the longest hours of work are associated with the manual (*i.e.* blue-collar) and service occupations and not the non-manual (*i.e.* white-collar) occupations.

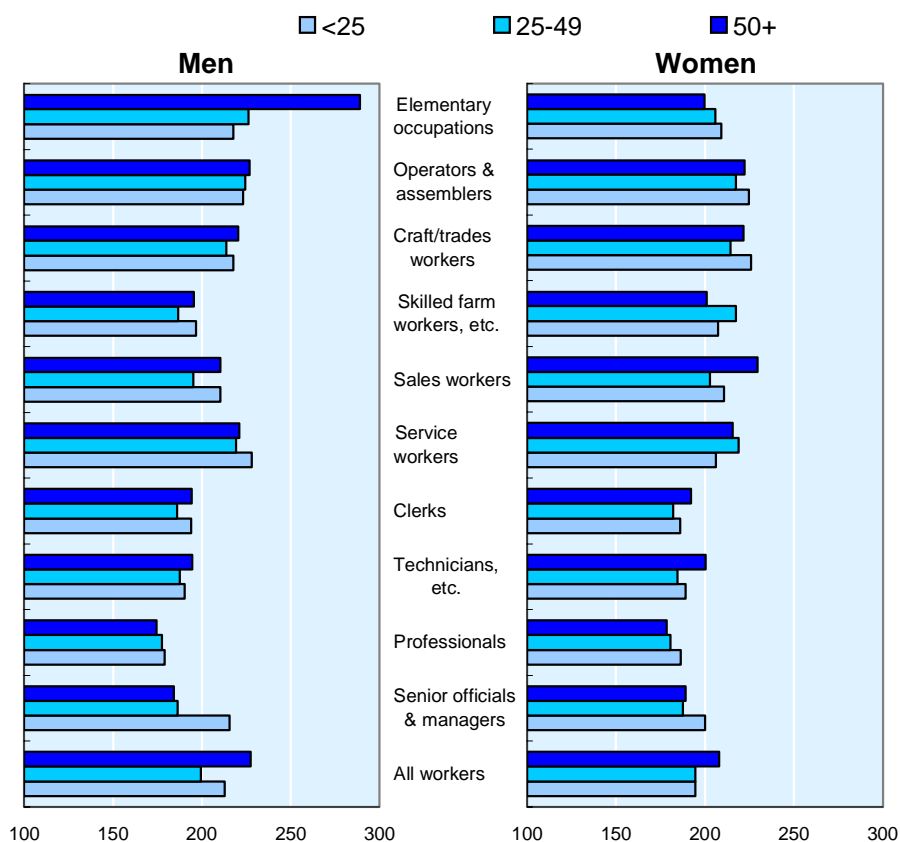
Table 5.4. **Hours worked per week in Korea by age and gender, 2002**
 Percentages of all workers in each age and gender group

	Distribution of workers by number of weekly hours worked (%):						Average weekly hours ^a
	Total	0	1-34	35-44	45-53	54+	
Total							
Total	100	1.1	10.1	22.0	26.8	40.1	50.3
15-24	100	0.6	12.3	22.3	32.2	32.6	47.4
25-49	100	1.2	7.5	20.9	27.7	42.8	51.6
50+	100	1.1	16.2	24.9	22.3	35.5	48.0
50-54	100	1.1	9.8	21.8	24.9	42.3	51.2
55-59	100	1.2	12.5	23.2	24.0	39.0	49.9
60-64	100	1.1	17.4	27.0	21.2	33.3	47.4
65+	100	0.9	29.3	29.5	17.5	22.8	41.3
Men							
Total	100	1.0	7.3	19.5	27.8	44.4	52.1
15-24	100	0.4	12.6	16.3	28.3	42.4	49.7
25-49	100	0.9	4.6	18.2	29.2	47.1	53.3
50+	100	1.2	14.0	24.0	23.5	37.2	49.1
50-54	100	1.2	7.7	22.0	26.5	42.5	51.7
55-59	100	1.4	10.4	22.6	25.5	40.1	50.9
60-64	100	1.4	15.9	25.4	21.3	36.0	48.7
65+	100	1.0	27.6	28.0	17.8	25.6	42.5
Women							
Total	100	1.3	13.9	25.4	25.5	33.9	47.9
15-24	100	0.6	12.1	26.0	34.6	26.7	46.1
25-49	100	1.5	12.2	25.1	25.3	35.9	48.9
50+	100	0.9	19.3	26.0	20.7	33.0	46.4
50-54	100	1.1	13.0	21.5	22.4	42.0	50.4
55-59	100	1.0	15.8	24.2	21.7	37.3	48.3
60-64	100	0.7	19.2	29.1	21.1	30.0	45.7
65+	100	0.7	31.4	31.2	17.1	19.5	39.9

a) For workers who worked at least one hour.

Source: Economically Active Population Survey.

Figure 5.4. Monthly hours worked by employees by age, gender and occupation in Korea, June 2002^a



a) The data refer to private establishments with five or more employees.

Source: Wage Structure Survey, 2002.

Korea's working hours are also much higher than in other countries. For instance, average annual hours actually worked by all workers in 2002 were around 2 450 in Korea, which was more than 600 hours higher than in Japan and the United States, the two countries which are often noted as having particularly long working hours (OECD, 2004a).⁵⁵ In terms of weekly hours of

55. International comparisons of average annual hours worked need to be interpreted with caution given the differences in methodology for calculating them. They will also be affected by the incidence of part-time work.

work, older workers in 2002 worked on average 48 hours per week in Korea, 40.3 hours per week in Japan and 39.1 hours per week in the United States (Table 5.5). Longer hours for older workers in Korea than in Japan or the United States partly reflect a lower incidence of part-time work (*i.e.* less than 35 hours per week). However, they also reflect the fact that the incidence of very long hours of work (*i.e.* more than 54 or 55 hours per week) is much higher in Korea than in either Japan or the United States.

Altogether, these results suggest that both younger and older workers in Korea face long hours of work and these hours of work are longest in those occupations that are likely to involve difficult, dangerous and dirty working conditions. This situation may not be conducive to long and healthy working lives.

Table 5.5. **Hours worked per week by older workers (50 and over) in selected OECD countries, 2002**

	Distribution of workers by number of weekly hours worked (%):						Average weekly hours ^a
	Total	0	1-34	35-44	45-53	54+	
Total							
Korea	100.0	1.1	16.2	24.9	22.3	35.5	48.0
Japan ^b	100.0	1.7	27.0	31.9	24.0	15.4	40.3
United States	100.0	5.0	23.5	46.6	14.0	10.9	39.1
Men							
Korea	100.0	1.2	14.0	24.1	23.6	37.2	49.1
Japan ^b	100.0	2.2	16.6	33.8	28.8	18.7	44.2
United States	100.0	4.4	17.9	45.3	17.4	14.9	41.7
Women							
Korea	100.0	0.9	19.3	26.1	20.7	33.0	46.4
Japan ^b	100.0	1.1	43.1	29.0	16.5	10.3	34.7
United States	100.0	5.6	29.9	48.1	10.1	6.3	36.1

a) For workers who worked at least one hour.

b) For Japan, the data on the distribution of workers by hours worked refer to 2000 and the following hours bands: 0, 1-34, 35-44, 45-54 and 55 and over.

Source: *Korea*: Economically Active Population Survey; *Japan*: Census for the distribution of workers by hours worked and the Labour Force Survey for average weekly hours of work; and *United States*: Current Population Survey.

Box 5.2. Recent changes in statutory working hours in Korea

As a result of the revision of the Labour Standards Act on 15 September 2003, changes in Korea's working hours, holidays and leave system will be enforced progressively as of 1 July 2004 as follows:

Previous system**Statutory working hours**

Eight hours/day; 44 hours/week
Seven hours/day; 42 hours/week
(for minors)

Flexible working hour system

Two-week unit period: up to 48 hours/week if stipulated in employment rules.

One-month unit period: up to 12 hours/day and 56 hours/week if agreed in writing by both the employer and workers concerned.

Monthly and annual leave

Monthly leave: one day/month

Annual leave: ten days for first year of service and one extra day for every additional year thereafter up to 20 days (additional days of leave can be replaced by monetary compensation).

Menstruation leave: one day/month with pay.

Maximum overtime hours and remuneration

Maximum of 12 hours/week and 50% extra pay for overtime work.

New System

40 hours/week (same for minors)

Unit period extended up to three months: up to 12 hours/day and 52 hours/week if agreed in writing by both the employer and workers concerned.

Monthly leave abolished.

Annual leave: 15 days for first year of service and one extra day for every two additional years thereafter up to 25 days.

Employers are not obliged to compensate in cash for any unused leave that workers have been actively recommended to take. Menstruation leave: one day/month without pay.

Maximum will be increased temporarily for three years to 16 hours/week and 25% extra pay for first four hours of overtime.

Employers may replace extra payments for working overtime, at night or on a holiday with equivalent amount of leave subject to written agreement with their employees.

Implementation

- From July 2004: workplaces with 1 000 or more workers including state enterprises, financial and insurance industries.
- From July 2005: workplaces with 300 or more workers.
- From July 2006: workplaces with 100 or more workers.
- From July 2007: workplaces with 50 or more workers.
- From July 2008: workplaces with 20 or more workers.
- From 2011 or earlier by presidential decree: workplaces with less than 20 workers.

The five-day work week system can be implemented earlier than the scheduled dates if there is mutual agreement between employers and their employees.

Concerns about long working hours had led to lengthy discussions within the Tripartite Commission among the social partners over measures to lower work hours. However, while there was agreement on the broad elements of a reduction in work hours there were a number of more detailed issues that were not resolved. Consequently, the government unilaterally announced measures in 2003 to cut the standard working week from 44 to 40 hours and encourage greater use of leave entitlements. These changes will be implemented progressively over the period 2004-2011 according to industry and company size (see Box 5.2 and KOILAF, 2004b, for further details).

The government will need to monitor carefully the implementation of these changes to ensure that the desired reductions in effective weekly hours of work are occurring. It will also need to evaluate what impact this change has had on labour costs and possibly speed up the progressive implementation of the changes to smaller and medium-sized enterprises if the economic costs do not appear to be very large. The possibilities for part-time work should be strengthened by, notably, expanding coverage of social security schemes to part-time workers.

C. *Occupational health and safety*

High standards of occupational health and safety can help workers remain productive for longer and so are an integral part of any strategy for ensuring good working conditions and promoting a high rate of labour force participation among older people. Thus, it is important to assess how Korea's performance in this area has improved over time and how it compares with the situation in other countries. This is not an easy task.

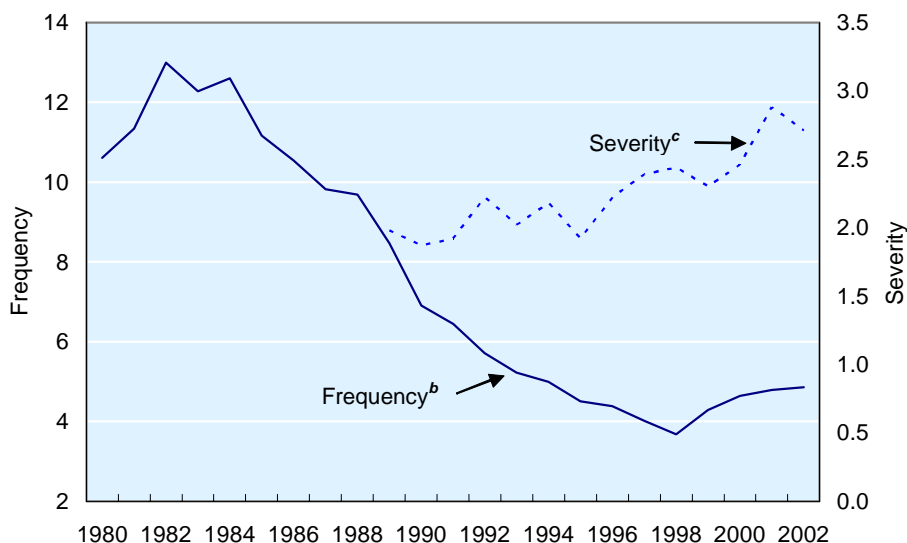
The available statistics on industrial accidents and fatalities in Korea are based on administrative data from its Industrial Accident Compensation Insurance system. This system has expanded considerably over time.⁵⁶ Thus, changes in accident rates or fatality rates at the aggregate level may not be reliable indicators of underlying changes in Korea's occupational health and safety record. In terms of international

56. Initially, when the Industrial Accident Compensation Insurance system was introduced in 1964, it covered only larger firms in mining and manufacturing, but it has since been progressively expanded both in terms of firm size and sectors covered. In 2000, it was expanded to cover firms of all sizes (previously, only firms with five or more workers were covered) and it now covers most private-sector activities of the economy.

comparisons, there are considerable differences across countries and over time in the way occupational health and safety statistics are collected and in their coverage. Moreover, Korea may appear in a less favourable light in any such comparisons because, as discussed already, a relatively high proportion of all Korean workers are employed in the goods-producing sector and in manual occupations. Therefore, in this section, the focus is on the manufacturing sector where there are fewer problems of large differences in coverage over time and across countries.

Over the past two decades, the frequency of work accidents in Korea in the manufacturing sector has declined substantially (Figure 5.5). However, their severity rose over the 1990s, reflecting a rise in the incidence of fatal injury. This is in stark contrast to the experience of several of Korea's major competitors, where the incidence of fatal injury in manufacturing continued to decline over the 1990s (Figure 5.6). While some caution needs to be exercised in making international comparisons of occupational injuries, the rate of fatal injuries in manufacturing appears to be substantially higher in Korea than in a number of other countries.

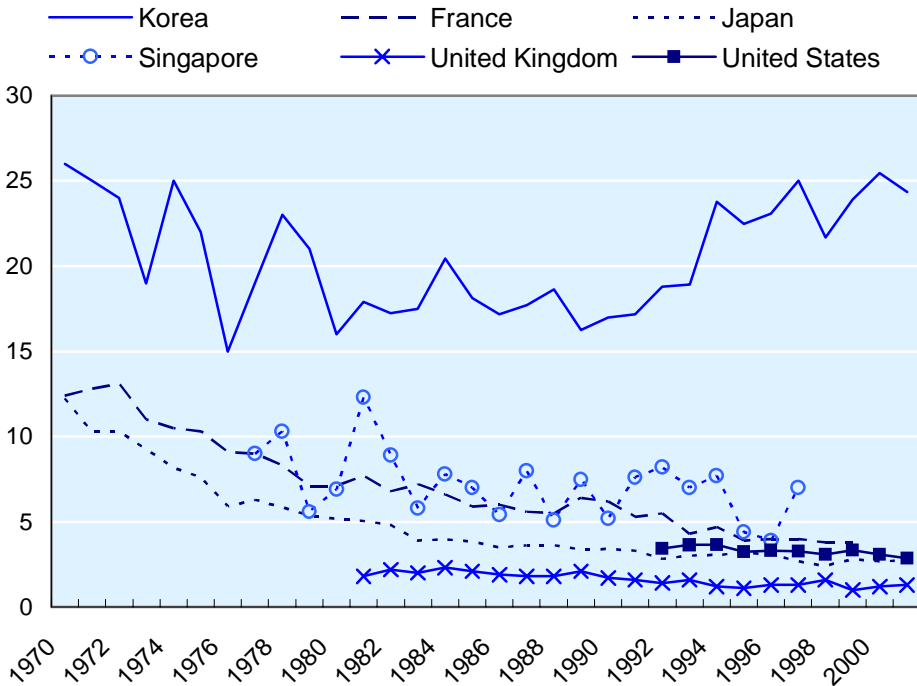
Figure 5.5. Occupational injuries in Korean manufacturing, 1980-2002^a



- a) The data are not strictly comparable over time because of changes in coverage.
 b) Number of injuries per million hours worked.
 c) Working days lost per thousand hours worked.
 Source: Ministry of Labor, *Industrial Accident Analysis*, 2002.

Figure 5.6. **Fatal injuries in manufacturing in selected OECD countries, 1970-2001^a**

Number of fatalities per 100 000 workers



a) The data are derived from different sources and so are not strictly comparable.
 Source: Korea: Ministry of Labor, *Industrial Accident Analysis*, various editions; Japan: Ministry of Health, Labour and Welfare; United Kingdom, Health and Safety Executive, *Statistics of Fatal Injuries*, 2003; United States: Bureau of Labour Statistics website (www.bls.gov/iif/home.htm); Other countries: ILO, *Yearbook of Labour Statistics*, 2003.

These results on occupational injuries and fatalities suggest that many Korean workers still face physically demanding and hazardous working conditions. This may discourage or prevent some older Koreans from continuing to work. If workers are injured earlier on in their careers, they may not be able to work at an older age because of poor health or disability. Thus, it is important that further efforts are made to improve Korea's occupational health and safety record for workers of all ages. For instance, it has been suggested that insurance premiums should be more fully experienced rated than is currently the case (Kim, 2003). More frequent work inspections and a more pro-active and less self-regulated approach to safety standards may also need to be pursued.

Chapter 6

ENSURING POLICIES ARE COMPREHENSIVE AND COHERENT

As discussed in the previous chapters, action is required on a number of fronts to ensure that older Koreans continue to participate extensively in the labour market. Thus, any reforms to improve the labour market situation of older workers will need to be comprehensive. But it is also important that they are coherent with more general measures being taken to cope with population ageing as well as to improve the functioning of the labour market. Therefore, the purpose of this chapter is to raise a number of considerations for ensuring policy comprehensiveness and coherence.

The chapter begins with a discussion of how employment policies directed at older workers should be integrated with a more general strategy to cope with population ageing. As argued in Section 2, these policies should also be backed up by systematic evaluation as well as additional statistical data on older workers. The importance of structural reform more generally is emphasised in Section 3 and the need to mobilise better the labour resources of women is discussed in Section 4. The chapter ends with a summary of the key directions for policy to enhance labour market outcomes for older Koreans.

1. A general strategy to cope with population ageing

Korea deserves praise for giving priority at a very early stage to developing a range of labour market policy measures to cope with its ageing population. In particular, the Law for the Stabilisation of Employment of Older Workers (originally introduced under another name in 1971) provides a general framework to promote better employment opportunities for older workers. It

also sets out the respective responsibilities of the government and social partners.

However, these labour market measures need to be placed within a broader strategy to cope with population ageing. For example, population ageing is likely to lead to a rise in public expenditure on health, but measures to contain this rise by taking preventative measures to improve health status could also serve to raise participation rates among older workers. This in turn would make it easier to finance rising age-related expenditures. Thus, policies to cope with population ageing cut across many areas other than just pension and labour market issues and yet are closely entwined.

The Korean Government has begun to develop a broader-based strategy to cope with ageing and has set up a Presidential Committee on Ageing and Future Society (see Box 6.1). These efforts should be continued. As part of this process, targets or milestones should be set up to measure progress in implementing the strategy and for monitoring performance.

Box 6.1. Korea's Presidential Committee on Ageing and Future Society

In October of 2003, for an Ageing Society was established under the responsibility of the President's Office. A report was subsequently released by the Task Force in January 2004 on "Policies to cope with low birth rates and ageing", with policy recommendations in the following areas:

- *Population and family*: increase Korea's low fertility rate through strengthening child care, maternity and paternity leave, etc.
- *Employment and human resources*: reform various labour market practices and laws (e.g. by enacting legislation to prohibit age discrimination, establishing a "special centre" in Korea Labor Institute to examine ways of changing the seniority-wage system into a performance based system, etc.); improve older worker's safety and health; allow exceptions for older workers in the rules governing temporary work; and support training.
- *Health and welfare*: guarantee the income of the elderly (a more detailed report on this issue is expected to be released at the end of 2004); and establish an insurance-based long-term care system.
- *Other economic and financial issues*: develop the silver industry (i.e. industries that provide services for older people); and improve management of the pension fund.

The Task Force has since been enlarged and transformed into the Presidential Committee on Ageing and Future Society, comprising eight relevant ministers and a number of representatives of various academic and research institutes.

2. The need for more evaluation and monitoring

Korea also deserves praise for the rapidity with which new policy measures have been formulated and delivered to tackle the labour market problems facing older workers. The implementation of these measures needs, however, to be combined with a rigorous and systematic programme of evaluation in order to learn what works and what does not and to incorporate these lessons into policy design and implementation. It is important that proper procedures are put in place to allow for such a systematic evaluation. The KLI already plays an important role in carrying out evaluations of labour market measures and this role should be expanded. Where possible and appropriate, any new measures should first be implemented on a pilot basis in a limited number of areas. The net impact of these measures on labour outcomes could then be more easily identified by comparing outcomes for participants in the measures with outcomes for non-participants with similar characteristics.

It is also important that adequate statistics are available to determine the most important issues for policy and in order to evaluate policy outcomes. Korean labour market statistics are of high quality and quite comprehensive. Nevertheless, there are a few areas where additional statistical information would be useful. In particular, consideration should be given to: *i*) creating a longitudinal survey, which would follow older workers over time so that the factors influencing work and retirement decisions and their consequences in terms of income and well-being could be better understood; *ii*) conducting regular household- and enterprise-based surveys of adult training; and *iii*) carrying out a special survey of working conditions along the lines of the European Survey of Working Conditions, which would cover the work environment, job content, working-time arrangements and perceived health status.

3. The importance of structural reform

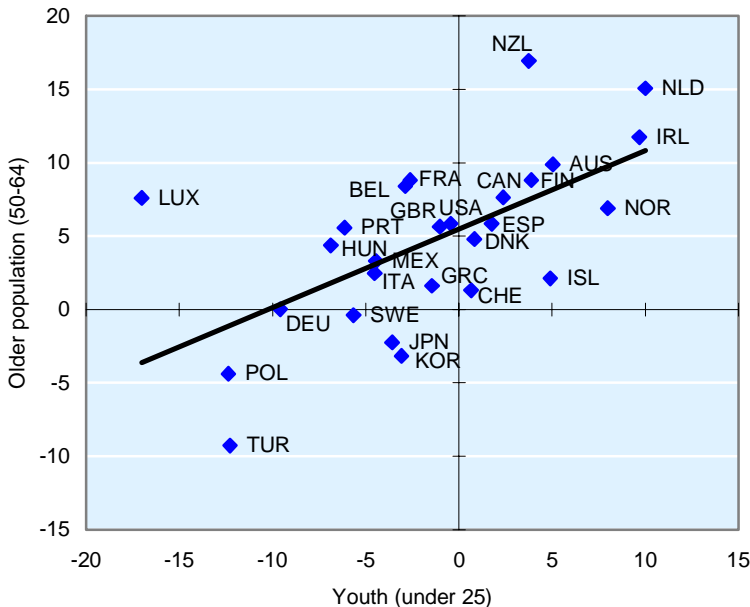
One important part of any strategy to cope with population ageing is the role of macroeconomic policies and structural reform. Clearly, older workers will face better employment prospects if economic growth and overall employment growth are strong. Higher productivity growth would also help offset the negative impact on economic growth of declines in overall labour force growth as Korea's population ages. Therefore, it is important that Korea continues to push forward with wide-ranging structural reform, encompassing

reforms of its product and labour markets. The OECD *Jobs Strategy* provides a blueprint for reform in this area (OECD, 1994) and more specific recommendations for reform that Korea should pursue are presented in OECD (2004b, Box 3.3, pp. 101-102).

In addition, attention needs to be paid to the interactions and complementarities between policies. For example, active labour market policies are likely to be more effective when demand-side barriers to employment (e.g. hiring and firing costs) are addressed and when product markets are dynamic and responsive to new business opportunities. From this perspective, the government and the social partners should pursue discussions of how to deepen the reform of employment regulations, while also ensuring adequate income support for job losers.

Figure 6.1. **More jobs for older workers do not mean fewer jobs for younger workers**

Percentage point change in employment-population ratios, 1992-2002



Source: OECD estimates based on data from OECD *Labour Force Statistics*, Part III.

In the context of high and rising youth unemployment, these reforms may also help to allay concerns that measures which encourage older people to remain in work longer may be at the expense of worse labour market outcomes for youth. In fact, as shown in Figure 6.1, across OECD countries, there is a positive correlation between employment outcomes of older and younger people, *i.e.* an increase in employment rates for older people tends to be associated with an increase rather than a decrease in employment rates for younger people. Nevertheless, by generating more jobs at all ages through structural reform, this may help ensure that there is continued widespread support in Korea for the necessary measures to be taken to encourage older people to remain active.

4. Improving employment prospects for women

Labour force participation rates for both prime-age and older women are significantly lower than for men in Korea, and the rate for prime-age women is also quite low by international standards. Thus, in terms of mobilising labour supply more generally, there is scope to raise labour force participation rates for prime-age women which may, in turn, lead to higher participation rates for these women at older ages than experienced by the current cohorts of older women.

While the labour participation rates of women have been increasing over time both for younger age groups and older age groups, there is a need to implement family-friendly employment policies to strengthen the ability and willingness of Korean women to build up longer working careers. Providing better and fair arrangements for part-time work, and creating quality child-care facilities, should be emphasised as part of the strategy. A family-care leave system could also play a role but any additional burden on labour costs for firms would have to be carefully considered. Better social protection for irregular forms of work would be of special help to women. More generally, further efforts are required to promote gender equality in the labour market.

5. Directions for policy

To improve the employment prospects of older Koreans, it is important to ensure that supply-side reforms go hand-in-hand with demand-side ones. For example, public pension entitlements may have to be made less generous in order to improve the financial sustainability of the public pensions system. However, if this reform is not accompanied by sufficient action on the

demand-side, it may be less effective in encouraging later retirement and could lead to increased economic hardship for older people once they retire.

Thus, changes in employment regulations and age-based firm practices such as seniority wages and mandatory retirement are needed, as are stronger measures to tackle age discrimination. It is equally important to enhance the effectiveness of active labour market programmes that are directed towards older workers. In particular, the range of wage subsidies available to employers for employing older workers should be rationalised along the lines put forward in Chapter 4. This should be accompanied by a strengthening of the opportunities for job-related training and the take-up of these opportunities by older people. Public employment services to help older people find jobs should be strengthened further and broadened. Finally, changes in working conditions will be required such as reducing long hours of work and improving occupational health and safety.

Korea has already taken many important measures in most of these areas but it is vital that the momentum for reform be maintained if it is to cope with the looming challenge of an older and shrinking workforce. In particular, closer co-operation between the social partners and government will be fundamental in adopting and implementing the required reforms to encourage and assist older workers to remain longer in employment.

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PRINTED IN FRANCE
(81 2004 15 1 P) ISBN 92-64-01737-2 - No. 53755 2004