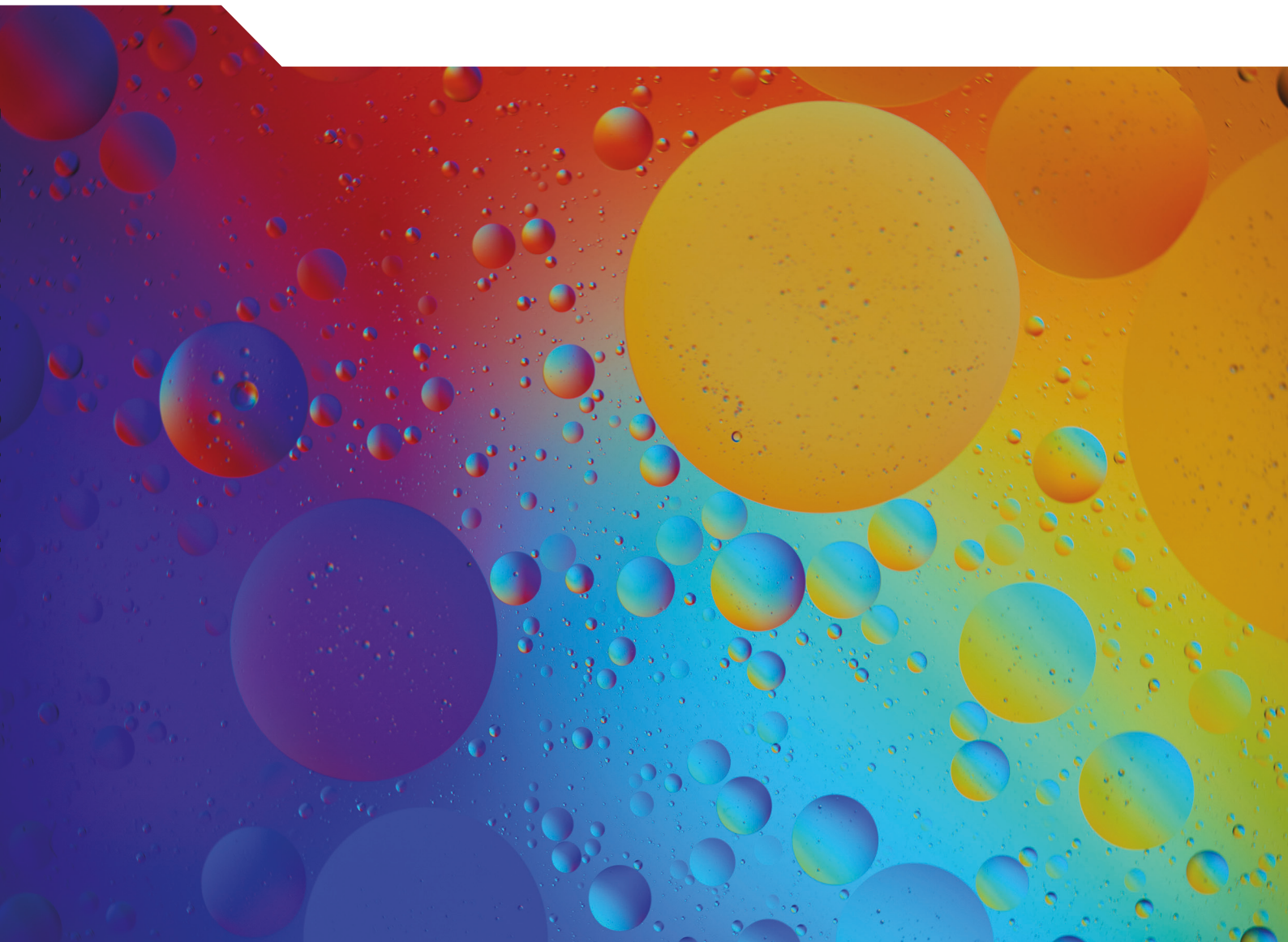




Benefit Reforms for Inclusive Societies in Korea

INCOME SECURITY DURING JOBLESSNESS



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Foreword

Multiple recent crises, including the COVID-19 pandemic and rising living costs, have highlighted the crucial role of income transfers and associated employment support for jobseekers. Benefit systems help individuals and families to manage labour-market risks, and they play a key stabilising role for both households and the overall economy. Effective income support is particularly relevant in the current context of heightened economic uncertainties, and the acceleration of hires and layoffs that is likely to accompany the green transition and the adoption of new production technologies.

Building on recent experience during and before the pandemic, the Korean Government has initiated consultations and a reform process to make income support for jobseekers more effective and accessible. A large share of Korea's population stand to gain from the income security and employment services afforded by more accessible unemployment support. In the context of Korea's dual labour market, unstable or intermittent jobs and earnings are very common and associated with poor job quality and low productivity. In addition, more than one in four working-age Koreans were not in employment, education or training prior to the pandemic. Keeping displaced workers and other out-of-work individuals in the labour force, and mobilising the inactive, are central functions of unemployment benefits – especially in the context of Korea's rapidly ageing population, and risks of worker and skills shortages.

This OECD report supports the Korean Government in its reform efforts by making a case for accessible and effective jobseeker support in the context of Korea's specific labour market and policy setting. The report summarises the evolution of support policies since the introduction of the Employment Insurance programme in the mid-1990s. It provides an in-depth examination of the design and performance of existing unemployment support measures, drawing on new empirical analysis. Comparing Korea to other OECD countries, it highlights the low reach and average levels of income support for jobseekers prior to recent and ongoing reforms, setting out policy lessons and priorities to ensure meaningful and employment-oriented support for all jobseekers.

The report welcomes the recent reform momentum towards improving income security for standard and non-standard workers. It concludes that policy initiatives should continue to focus on extending effective coverage, by widening the scope of entitlement rules, by improving support for long-term unemployed, and through the decisive enforcement of existing contribution mandates in all sectors of the economy. It also proposes to strengthen the budgetary basis for reforms by rebalancing spending on legacy programmes towards more targeted and cost-effective measures.

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The project was co-funded by the Ministry of Employment and Labour of the Republic of Korea, with a grant covering social protection in two circumstances: sickness and unemployment. The topic of sickness pay is covered in a separate report (*Disability, Work and Inclusion in Korea: Towards Equitable and Adequate Social Protection for Sick Workers*), which is published concurrently.

The OECD team would like to thank experts from the Ministry of Employment and Labour of the Republic of Korea for their continuous support, the provision of relevant data and policy information, and for detailed comments on earlier versions of the report. A number of researchers kindly participated in an expert meeting during the early phase of the project and provided valuable advice. In particular, we would like to thank Byunghee Lee (Korea Labor Institute), Heungjun Jung (Seoul National University of Science and Technology), Sophia Seung-yoon Lee (Chung-Ang University), and Geunyou Lee (Korea Workers' Compensation and Welfare Service). We also thank St phane Carcillo (Head of the Jobs and Income Division), Stefano Scarpetta and Mark Pearson (Director and Deputy Director of ELS) for their guidance.

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Executive summary

At less than 4%, open unemployment is low in Korea, but joblessness is common nonetheless. Three out of ten working-age Koreans are labour-market inactive, and half of all workers stay in their job for less than 6 years. Accessible unemployment support can serve to reduce inflows into inactivity, helps to bring people back into the labour force, and improves their chances of finding suitable and good-quality employment. With the fastest-ageing society of any OECD country, mobilising people into productive employment is vital for Korea in particular.

Protecting people, rather than specific jobs, plays a key role in promoting inclusive, resilient and adaptive labour markets. This is especially true in Korea, where unstable or precarious jobs in very small enterprises co-exist with better-protected employment in large and highly productive firms.

In the context of government initiatives and ongoing consultations to make unemployment benefits more accessible and more supportive of re-employment in good-quality jobs, this report first traces key policy developments in Korea since the introduction of the Employment Insurance (EI) programme in the mid-1990s. The report then examines the design and performance of existing unemployment support measures relative to other OECD countries and discusses policy lessons and priorities.

International comparisons highlight the low effective reach of unemployment benefits in Korea, and the very limited income support that is available for longer-term jobseekers. Following the complete erosion of the EI programme's original link between benefits and past earnings, current benefit provisions can nevertheless result in benefit entitlements that are close to – and sometimes above – the in-work incomes of low-wage workers. Weak work incentives resulting from EI provisions counteract Korea's significant policy initiatives to make work pay, e.g. through successive expansions of the earned income tax credit. Financial disincentives also translate into challenges for activation policies, notably in the context of Korea's efforts to expand income support to non-standard workers.

Initiatives to promote income security for non-standard workers are timely, and the scope and ambition of reforms in Korea compare favourably with initiatives in other OECD countries. Establishing reliable income protection for non-standard workers is indeed particularly urgent in Korea, given the high prevalence of non-standard work. At the same time, promoting an inclusive labour market and harnessing human resources and skills also calls for tackling long-standing challenges that have hindered access to support for standard workers, including weak compliance with EI mandates and the exclusion of “voluntary” jobseekers from the EI programme.

The report welcomes recent efforts to strengthen support provisions for jobseekers in Korea, calls for maintaining the recent reform momentum, and identifies a number of priorities for future policy changes in this area:

- *Continue with successive steps to extend coverage to non-standard workers, while strengthening the enforcement of existing EI mandates.* The recent extension of EI entitlement to some groups of independent workers adds to the urgency of broadening effective coverage across the entire workforce in order to avert unintended loopholes.

- *Consider ways to soften the very steep income drop for those with longer unemployment spells.* One option would be to continue boosting the generosity and reach of means-tested safety nets, notably of the existing unemployment assistance and associated employment-support measures.
- *Re-establish the earnings link in the EI programme.* The earnings link has all but disappeared due to the evolution of key entitlement parameters, notably benefit floors and ceilings. Current entitlement rules simultaneously erode incentives to work for low-wage earners, and incentives to be part of the EI system for those higher up the earnings distribution.
- *Accessible employment support, allied to job-search requirements* and other activation measures, should become a central part of reform programmes. With an expanding scope of income insurance and safety nets for jobseekers, it becomes all the more important to address existing structural challenges, and to ensure that support promotes good-quality employment. In the context of Korea's heterogeneous labour market and jobseeker needs, aligning with good international practice requires strengthening the capacity and staffing of employment services.

The **financial balance of the EI system has been tested following the pandemic**, and because of additional spending commitments resulting from recent policy changes. In a challenging overall fiscal context, considering opportunities for curbing spending increases and raising revenues will remain a central part of necessary efforts to adapt and strengthen income protection in Korea. A number of options can help to improve the budgetary outlook of unemployment support programmes:

- *Continue to redesign, or abolish, the sizeable Social Insurance Subsidy Programme*, which seeks to encourage participation of low-paid workers in small firms. Past evaluations have pointed to very high deadweight costs and underlined that premium subsidies do not solve the problem of low EI coverage. In spite of recent reforms, the subsidy remains generous. Other OECD countries also operate contribution subsidies, but the objective is typically to lower labour costs or boost work incentives, rather than “encourage” enrolment in a programme that is mandatory in any case.
- *Review whether the Early Re-employment Allowance provides good value for money.* The allowance pays a large share of remaining unemployment benefit entitlements to individuals who find a steady job early on during their jobless spell. Earlier assessments have pointed to very high deadweight costs. Even after successive tightening of entitlement criteria, it is unlikely that the allowance makes a substantial difference for those with weaker employment prospects. If a form of re-employment allowance is maintained, it should be targeted more narrowly, with savings channelled towards more cost-effective employment-support measures.
- *Widening the tax and contributions base could boost revenues*, e.g. by aligning the tax and contribution treatment of different forms of work, removing unintended fiscal incentives for short contract durations and self-employment, and by combating so-called “false” self-employment. An essential element of such a strategy is limiting opportunities for selective opt-outs that are present in all systems where membership remains, in part, voluntary. Key characteristics of non-standard workers in Korea suggest that the fiscal effects of opt-out opportunities may be sizeable.

1 Introduction and overview

Registered unemployment is low in Korea. But with high rates of labour market inactivity, overall rates of joblessness are substantial nonetheless. A sizeable share of working-age Koreans is also in unstable jobs in a large number of small and very small enterprises. This coincides with better-protected jobs in larger or very large businesses. Korea's "dual" labour market is associated with sizeable productivity gaps between large firms and SMEs. In this context, protecting people, rather than specific jobs, plays a key role in promoting an inclusive and dynamic labour market (OECD, 2018^[1]). Effective unemployment benefits help to reduce inequality, and they strengthen productivity by facilitating an efficient re-allocation of jobs and a good match between workers' skills and job requirements. As such, they are a crucial policy lever for adapting to the major societal, technological and environmental transitions of our time.

The design and accessibility of unemployment benefits is not only relevant for the comparatively small number of openly unemployed people, i.e. those without work, who are actively looking for a job, and are available to take up employment. Benefit design also matters for the large number of jobless who are currently outside the labour force. Indeed, a stated "inactive" status as provided in labour force surveys does not necessarily imply that those concerned cannot or do not want to work. Accessible unemployment support can serve to reduce inflows into inactivity, bring inactive people back into the labour force and increase their chances of finding suitable employment. With the fastest-ageing society of any OECD country, mobilising inactive people into productive employment is vital for Korea in particular.

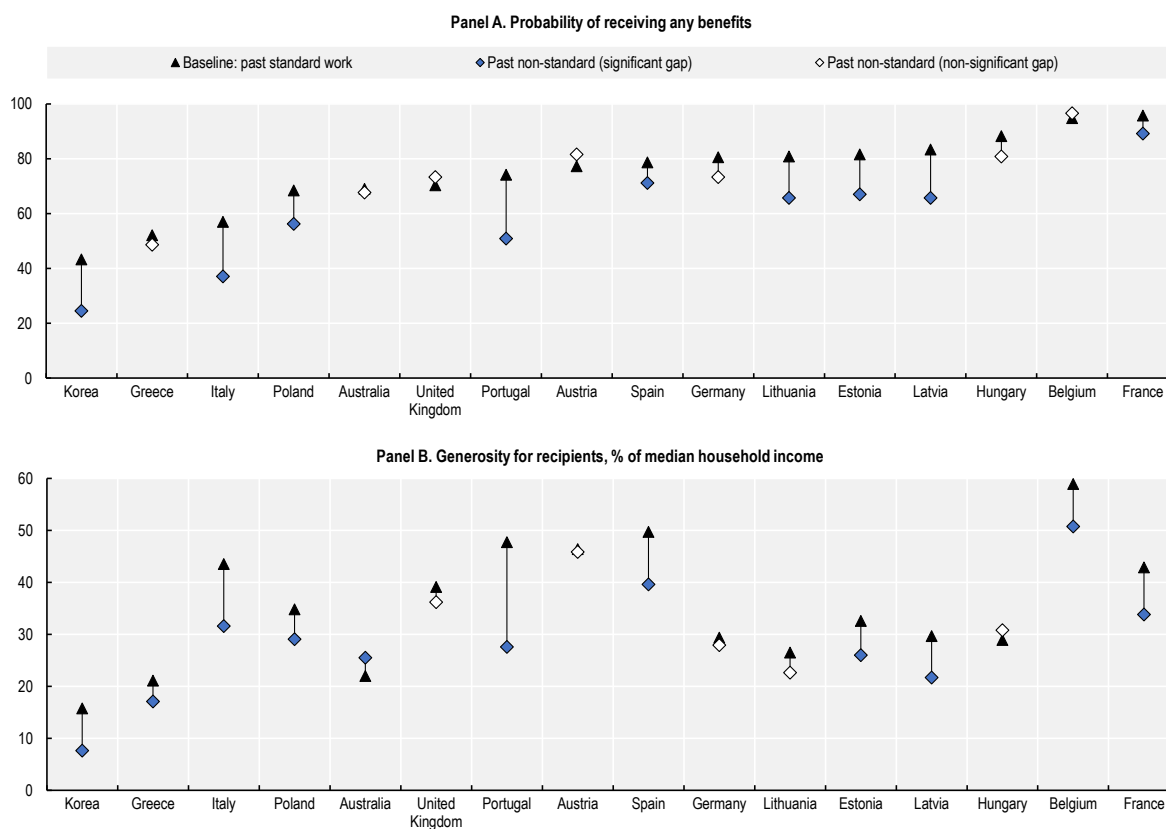
The OECD has recommended on different occasions that Korea consider reforms to make unemployment support more accessible and more supportive of re-employment in good-quality jobs (OECD, 2018^[2]; OECD, 2020^[3]; OECD, 2013^[4]). Indeed, the policy debate on the need to expand the coverage of income safety nets goes back to the Asian foreign currency crisis of 1998 (Park et al., 2001^[5]). New results show that income support in the event of job loss remained markedly more difficult to access in Korea than in other OECD countries. For those receiving benefits, support levels prior to the COVID-19 pandemic were modest, offering comparatively weak income insurance and protection from poverty (Figure 1.1). Although benefit amounts are low overall, the evolution of unemployment benefits in Korea during past decades has nevertheless eroded work incentives for some groups, especially for minimum wage earners and others with limited earnings potential. To confront these challenges, the Korean Government has initiated an ambitious reform programme, including the introduction of a new unemployment assistance, and consultations with stakeholders to broaden the coverage of Korea's Employment Insurance (EI) system.

The current reform momentum presents a unique path towards reduced inequality and stronger labour market performance. This report aims to provide Korea with input into the design and implementation of ongoing reforms, and it discusses options and priorities for additional policy changes. Section 1 summarises the case for protecting people (rather than specific jobs) in the Korean context and highlights the key role of unemployment benefits in furthering inclusiveness and economic dynamism in a changing world of work. Section 2 summarises the origins and key parameters of unemployment benefits in Korea. Section 3 situates Korea's unemployment support relative to policies in other OECD countries. Section 4 considers a range of policy options for addressing key challenges and relates them to recent or ongoing reform initiatives in Korea.

Two additional reports accompany and complement the present analysis. An empirical analysis quantifies “blind spots” in income support across OECD countries, providing a comparative perspective on the challenges in Korea prior to the recently enacted reform steps (Immervoll et al., 2022^[6]). A related policy report discusses priorities and pathways for introducing equitable and adequate paid sick leave in Korea (OECD, 2023^[7]).

Figure 1.1. Sizeable “blind spots” of income support in Korea

Overall support package for working-age individuals, at or before 2018/2019



Note: Data refer to 2019 (Australia and Korea), 2018 (Germany), and 2016-18 (pooled waves, other European countries). Statistical significance refers to the gaps between baseline and comparator cases (90% confidence interval). (Early) retirees and those who were in education or military service during the year before the reference period are excluded from the sample. **Standard worker**: Able-bodied working-age adult who was out of work for at least six months during the reference period, and worked mostly in full-time dependent employment before that, with earnings at or above the 40th percentile of the national earnings distribution. Household income before any benefit payments is in the bottom 20% of the distribution during the reference period. No children under six years live in the household. **Non-standard worker**: Otherwise similar individual except that past work history is “non-standard” (self-employment, unstable work or part-time). Similar results for the United States are forthcoming in (OECD, 2023^[8]).

Source: (Immervoll et al., 2022^[6]) using EU-SILC, GSOEP, HILDA and KLIPS panel data.

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2 Prevention, protection, promotion: Unemployment support in a changing world of work

Unemployment benefits and associated employment support measures help individuals and families to manage labour market risks. Income support plays a key stabilising role, especially so in the current context of heightened economic uncertainties, and the acceleration of hires and layoffs that is likely to accompany the green transition and the adoption of new production technologies. By pooling earnings and employment risks across different groups, social protection lowers the costs associated with job reallocation. It also makes economic or social disadvantage less concentrated on specific regions or groups, and less damaging for people's longer-term prospects. From an economy-wide perspective, risk pooling, income smoothing, redistribution and enabling support foster resilience against systemic uncertainties, including those related to the speed and magnitude of future labour market transformations.¹

A strong focus on labour market flexibility has contributed to Korea's remarkable economic development, benefiting larger companies and export-oriented industries in particular. However, income inequality among working-age Koreans remains higher than in most countries included in the OECD Income Distribution Database (<http://oe.cd/idd>). Indeed, the economic gains of decades of strong economic growth have been uneven. Low earnings and precarious employment remain widespread among the large number of workers in small and micro-businesses, and for some groups of self-employed. Indeed, labour regulations and agreements in Korea have been geared towards protecting permanent jobs but often fail to provide for those in less regular employment situations. Social benefits have been less effective at reducing income disparities in Korea than in other OECD countries (OECD, 2015_[9]). Korea spends far less on cash benefits for working-age individuals and children than the average OECD country (1.3% versus 3.7% of GDP in 2019, see <http://oe.cd/SOCX>). In addition, a relatively low share of total transfers reach those with the greatest need for support – in fact, past studies have shown that high-income households receive similar or slightly bigger government transfers on average than low-income households (OECD, 2017_[10]; OECD, 2022_[11]).

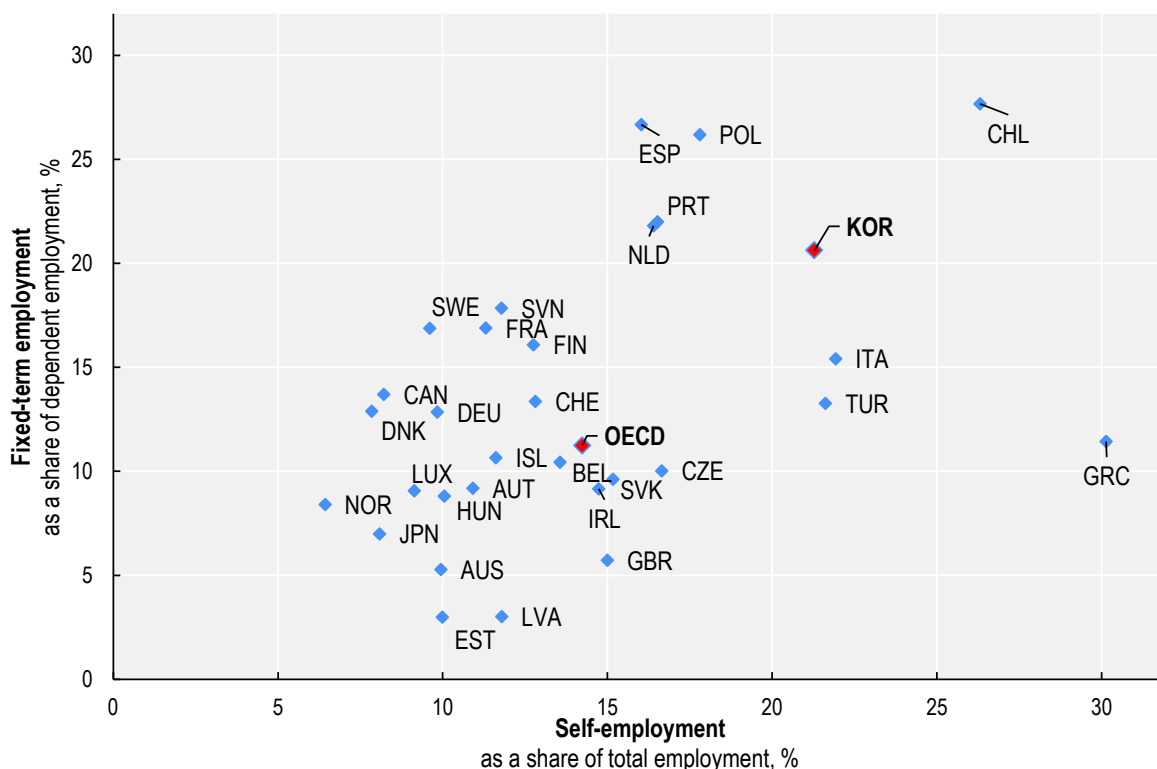
A large share of Korea's population stand to gain from the income security and employment services afforded by more accessible unemployment support. First, in the context of Korea's dual labour market, unstable or intermittent jobs and earnings are very common (Figure 2.1, Table 2.1). Non-regular employment, which includes temporary, part-time and atypical jobs (e.g. daily workers, contractors, temporary agency), accounts for about a third of salaried employment, with substantially higher shares among youth, older workers and women. Historically, the growing incidence of short contract durations can be linked to economic downturns, employers seeking to keep labour costs flexible and to reduce them quickly when needed. Currently, non-salaried workers (self-employed and unpaid family workers) make up about a quarter of the employed population in Korea, well above the OECD average of about 15%. The high prevalence of non-regular employment, self-employment and micro-businesses is associated with poor job quality, including low pay and short job durations. Indeed, poor-quality jobs in lower-productivity

sectors are commonly outsourced to SMEs, and the life span of small businesses themselves is often very short too, for instance in 2018 and 2019, around 70% of small businesses in operation were less than five years old (OECD, 2022^[12]). Overall employment stability is low, with median job tenure (time in current job) at just over 5 years. This is markedly lower than the OECD average, which stood at just over 8 years (Figure 2.2).

Second, prior to the pandemic, more than one in four working-age Koreans (28%) were not in employment, education or training. This is among the biggest shares of jobless people across OECD countries, with particularly high inactivity rates among youth and women (Fernandez et al., 2020^[13]). Keeping displaced workers and other out-of-work individuals in the labour force, mobilising the inactive, and increasing their chances of finding suitable employment, are central functions of unemployment benefits – especially in the context of Korea’s rapidly ageing population, and risks of significant worker and skills shortages in some sectors.

Both equity and efficiency arguments therefore point to accessible unemployment benefits as a policy priority in Korea. As in other countries, the design of unemployment benefits needs to account for the specific labour-market and social context in order to be effective. This requires drawing a careful balance between incentivising employment, providing a degree of income security, and promoting the efficient allocation of labour and skills. Although Korea has among the lowest rates of long-term unemployment in the OECD, overly generous out-of-work benefits may entrench long-term unemployment. At the same time, inaccessible or very modest income support risks cementing existing labour-market inequalities and lowering productivity through skills mismatch. Without adequate support, jobseekers may be unable to afford a careful search for suitable work. To make ends meet, they can then be compelled to accept employment that may provide a poor match for their skills and aspirations. The same holds for those looking to transition from one job to another. In fact, a prevalent business culture of very long working hours and presenteeism arguably makes successful job search particularly difficult for working Koreans.² Skills mismatch in Korea is indeed substantial. “Over-skilling” has been especially prevalent among those in non-regular employment (Adalet McGowan and Andrews, 2015^[14]), who are also less likely to qualify for unemployment support. Such an association can be a result of insufficient job search among jobseekers who are not entitled to unemployment support. As in several other OECD countries, non-standard workers in Korea were indeed less likely to receive income support following job loss (Figure 1.1).

Figure 2.1. Non-standard employment is common in Korea



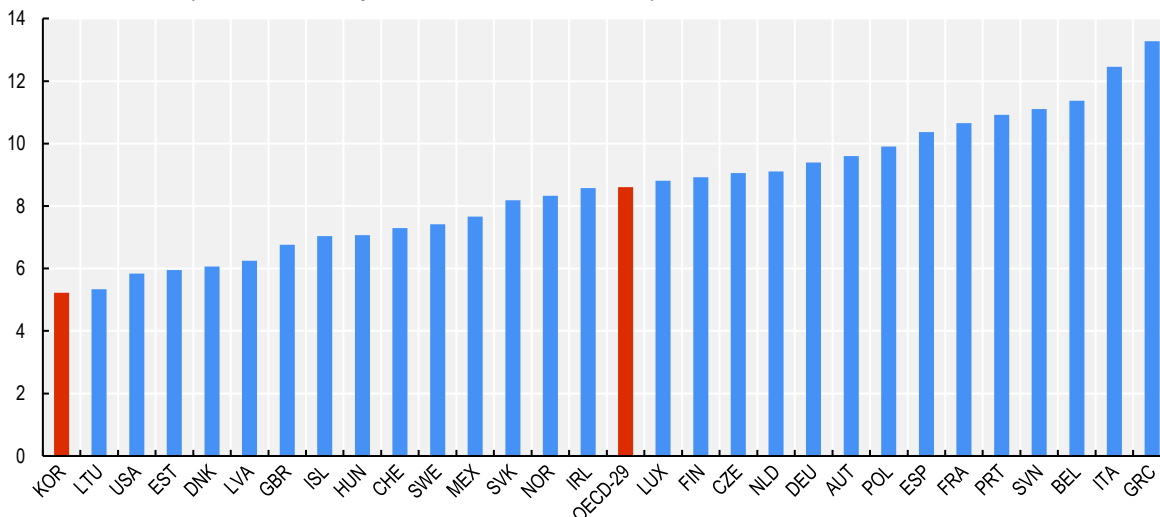
Note: All age groups.

Source: OECD Employment database, www.oecd.org/employment/database.

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Figure 2.2. Job tenure is short among Korean workers

Median number of years in current job, all individuals in employment



Note: Averaged across data years 2014 to 2019.

Source: Tabulations using Labour Force Surveys (KLIPS for Korea).

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Table 2.1. Economically active population in Korea

Share of employment by group, 2021 (%)

	Regular employees (full-time permanent contract)	Non-regular employees ^a	Total (all salaried workers)	Self-employed (with or without employees)
Age				
15-29 years	16.6	19.4	17.7	3.4
30-59 years	76.8	50.9	66.8	61.8
60+ years	6.6	29.8	15.5	34.8
Gender				
Men	61.4	44.3	54.9	72.1
Women	38.6	55.7	45.1	27.9
Education attainment				
Completed middle school or less	4.8	21.6	11.3	20.7
Completed high school	31.6	43.2	36.0	42.2
Completed tertiary or higher	63.6	35.2	52.7	37.2
Occupation^b				
Administrators, managers and engineers	29.4	16.3	24.4	15.1
Assembly and elementary workers	28.9	48.2	36.3	30.4
Clerks	28.2	10.7	21.5	2.7
Others	13.5	24.8	17.8	51.7
Economic activity				
Manufacturing	25.0	7.8	18.4	6.4
Wholesale and retail	10.4	9.3	10.0	19.0
Construction	6.6	11.0	8.3	6.9
Other sectors	58.0	71.8	63.3	67.8
By size of establishment				
1-4 employees	12.8	26.6	18.1	...
5-299 employees	69.3	67.5	68.7	...
300+ employees	17.9	5.9	13.3	...
Tenure				
Average tenure	8 years	2 years, 5 months	5 years, 10 months	10 years, 6 months (with employees) 15 years, 3 months (own-account workers)
Coverage by social insurance				
Employees' Pension Scheme	88.8	38.4	69.4	77.7 ^c
Employees' Health Insurance	93.6	50.3	77.0	-
Employment Insurance	90.9	52.6	75.2	-

a: Includes employees on a temporary contract, part-time employees and non-typical workers (daily workers, contractors, temporary agency workers and domestic workers, other non-permanent workers).

b: Top three occupations for regular workers.

c: includes workplace-based insured, individually insured and pensioners.

"...": no information available.

Self-employed includes those with employees (employers) and without (own-account workers).

Note: The sum of the columns may not be 100% due to rounding.

Source: Statistics Korea (2021), Supplementary Results of the Economically Active Population Survey by Employment Type and Additional Economically Active Population Survey for Non-wage Workers in August 2021.

3

Unemployment benefits in Korea

Korea operates an unemployment insurance benefit (Employment Insurance), an unemployment assistance programme (National Employment Support Programme) for low-income families who do not receive insurance benefits, as well as a minimum-income benefit (Basic Livelihood Security System) targeted to income-poor households. Korean firms provide severance pay in the form of “retirement benefits” to workers leaving a job (voluntarily or involuntarily) that lasted at least 12 months.³ Some employers, especially larger firms, also provide additional redundancy payments as part of collective or workplace agreements.

3.1. Origins, key characteristics and past reforms

3.1.1. Employment Insurance

Prior to the mid-1990s, Korea did not operate an unemployment benefit (UB). The introduction of the Employment Insurance System (EIS), in 1995, came later than in most OECD countries. It also came later than other social protection initiatives in Korea, such as the Industrial Accidents Compensation Insurance (IACI), which was introduced 30 years earlier, and successive measures to establish or extend coverage of old-age pensions and health insurance (OECD, 2018^[2]; Yoo, 2011^[15]). Prior to the EIS initiative, high growth rates of GDP and employment meant that unemployment was not widely seen as a pressing issue. But policy priorities changed during the 1990s, as job security declined, time-limited (“fixed-term”) employment contracts became more common, and wage inequality deteriorated. Efforts to establish unemployment benefits nevertheless faced considerable headwinds, with negative public opinion linked to concerns about work disincentives, and about the impact of insurance premia on labour costs and take-home pay. Consequently, EIS launched with low replacement rates and strict entitlement conditions. For instance, UBs were restricted to firms with at least 30 employees, and active labour market programmes (ALMPs) to firms with at least 70 employees, resulting in low coverage overall.

The EIS consists of two main parts: (i) the Unemployment Benefit and Maternity Protection Programme, and (ii) the Employment Security and Vocational Skills Development Programme (ALMPs, such as employment services, training, wage subsidies and job retention schemes). The funding system reflects this structure (see Table 3.1). Overall contribution rates for the benefits account were 0.6% in 1995, rising successively to 1.3% in July 2013 and to 1.8% as of July 2022. Contributions to the benefits account are shared equally between employer and employee, i.e. 0.9% each as of July 2022. By contrast, contributions to the Employment Security and Vocational Training account are fully covered by employers and rates were broadly stable over time: 0.3~0.7% (depending on firm size) in 1995, and 0.25~0.85% in 2022. The maternity protection programme, introduced in 2001 and not discussed further in this report, is managed under the same account as UB. This funding arrangement, along with the comparatively low contribution burdens, has constrained the financial space for expanding UB coverage and generosity.


Moreover, contributions were heavily subsidised and much lower than the standard rate for a large number of low-paid workers in smaller firms. The *Duru-Nuri* Social Insurance Subsidy Programme was launched in early 2012 to encourage participation of low-paid workers in small firms in the (mandatory) EI and

National Pension schemes. The programme initially subsidised up to 50% of employer and employee contributions. Subsidies subsequently distinguished between new and existing subscribers, with higher support rates for new subscribers. From January 2021, the subsidies stopped for existing members, but it continues for new subscribers, with support covering 80% of contribution burdens for up to 36 months (<http://www.insurancesupport.or.kr/durunuri/history.php>). *Duru-Nuri* subsidies are now also available for artists, dependent contractors and for platform workers engaged by small businesses. Past evaluations have pointed to very high deadweight costs, with very high expenditures per additional enrolment (around 3 times the average annual wage, (Kim, 2016^[16]; OECD, 2018^[21]), and to the contradictory nature of incentivising participation in mandated schemes, as if it was a choice.

Table 3.1. Employment Insurance: Evolution of expenditures

	Total		Employment Security	Skills Development	Unemployment Benefit	Maternity Protection
	% of GDP	% of social expenditure				
1996	0.01	0.2	34.3	27.2	38.5	-
2000	0.17	3.4	11.6	44.3	44.1	-
2005	0.31	4.8	9.4	25.7		65.0
2010	0.45	5.4	12.6	18.2	62.1	7.2
2018	0.61	5.2	19.3	12.0	58.3	9.4
2019	0.72	-	19.8	9.2	60.7	9.5
2020	1.06	-	27.2	4.9	60.2	7.6

Source: (MOEL, 2021^[17]), 2020 *Employment Insurance Fund Settlement Report*; OECD Social Expenditure Database (<http://oe.cd/socx>).

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Earlier adopters of unemployment insurance in the OECD area tended to strongly emphasise the income protection element. Unlike in other countries, the Korean EIS was specifically conceived as a response to displacement following business closures or mass layoffs. As such, it featured an explicit focus on ALMPs and promoting re-entry into the labour market from the beginning, and these roles were seen equally important as the provision of relief measures (ILO, 2021^[18]; Korean Economy Compilation Committee, 2011^[19]). This partly reflected low re-employment rates of displaced workers in Korea. Re-employment rates remained, however, comparatively low despite the EIS early focus on labour-market re-entry.⁴ One notable consequence of the early policy debate's focus on re-employment was that expanding coverage and benefit generosity initially proceeded cautiously and both remained modest at first. An early set of extensions was enacted following the 1997 financial crisis, when unemployment in Korea nearly tripled between 1997 and 1998. Restrictions on coverage (such as the firm-size requirement) were eased and benefit durations extended, resulting in a more universal application of the EI membership mandate and increasing benefit coverage. Other access conditions, such as contribution requirements were also reformed but they remained comparatively strict, effectively excluding those with more volatile employment histories.

At the height of the labour market crisis in 1998, UB reached only 10% of the unemployed. In spite of the early reforms, coverage remained below 20% of the unemployed until the mid-2000s.⁵ From 2000, the required contribution period was cut in half (to 180 days), and the maximum benefit duration was gradually extended from 210 to 270 days. The programme also began to embrace some groups of non-standard employees, including part-time, daily and self-employed workers. For instance, from 2012 onwards, the self-employed and employers with up to 50 employees could voluntarily contribute to EI, contributing a total of 2.25% of a self-chosen remuneration level, and qualifying for unemployment benefits if their business closed involuntarily due to a reason beyond their control (MOEL, 2021^[20]).⁶ The government also introduced measures to counter incentives for avoiding EIS membership, or for opting out legally. This

included lowering contribution rates for low-income earners and for employees who become EIS members for the first time (both from 2012, see description of the *Duru-Nuri* subsidy programme above). There were also initiatives to simplify EI registration and applications and make them less costly and time-consuming. For instance, the collection of contributions across the four major branches of social insurance was integrated into a single process (from 2009) and employers have received additional administrative support when registering employees. Regulations concerning employers' registration obligations were strengthened (e.g. through the imposition of fines), though effective enforcement has remained a major challenge (see section 4 and (OECD, 2018^[2]; Lee, 2017^[21])).

For a good understanding of the reach of income support in practice, and the effects of policy changes, it is important to consider different concepts of benefit coverage.

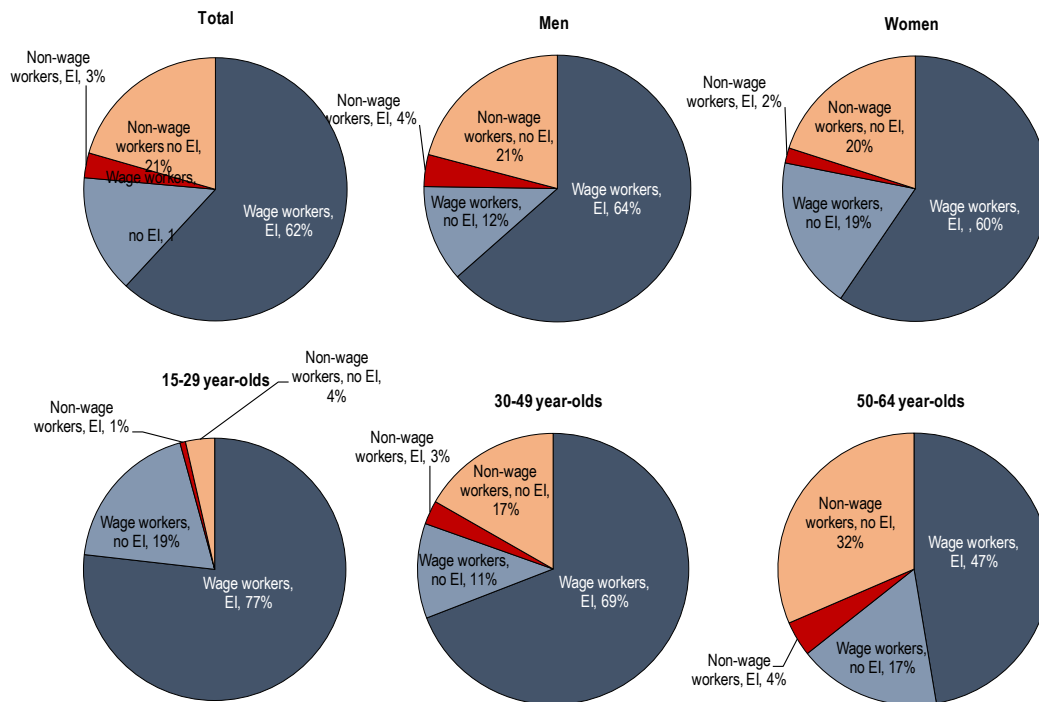
- By 2020, *EIS membership* among *dependent employees* stood at around 70% (Statistics Korea, 2020^[22]). Compliance therefore remains incomplete. For instance in 2018, half of dependent employees who were not members of EI did not join despite being required to do so (Kim, 2020^[23]). EIS membership (the “application rate”) among *all workers*, including the self-employed and dependent contractors, remained below 50%.
- Administrative statistics point to a notable increase in recent years in the share of *benefit recipients among registered unemployed*, from around 37% in 2018 to 71% in 2022.
- However, as in other countries, not all jobseekers register as unemployed, and registration is less likely among those not entitled to benefits. In addition, a significant share of benefit payments can – intentionally or not – go to individuals who do not meet the common definition of unemployment. The share of benefit recipients among *all unemployed individuals* (whether registered or not) was therefore much lower: in 2019, it ranked among the lowest in the OECD when comparing benefit receipt among the unemployed using available survey data (see section 4.1.1). These patterns are consistent with significant unemployment risks among those who do not qualify for UB, or who avoid EI membership altogether.

For non-standard workers, there has been some progress in expanding statutory coverage during the years prior to the COVID-19 crisis. Nevertheless, “blind spots” remained sizeable in 2020 and most of the large number of non-standard workers were not EIS members (Figure 3.1). The application rate among non-standard dependent employees (part-time, temporary and atypical workers, such as dependent contractors and freelancers) was only half that of full-time standard employees (46% versus 90%, (Statistics Korea, 2020^[22])). A similar picture emerges from a breakdown of survey data, shown in Figure 3.1. As in other countries with voluntary insurance membership, non-standard workers, and their employers or clients, remained reluctant to cover the cost of insurance premiums. Unresolved administrative issues, such as the accurate assessment of employment status and incomes further hindered efforts to make out-of-work support broadly accessible to those who need it. Recent and ongoing reforms have sought to tackle blind spots by addressing several of these aspects (see section 3.2 and Box 3.1).

Figure 3.1. Large blind spots in Korea's Employment Insurance membership

Employed population by employment status and EI membership (percentages), prior to COVID-19 pandemic

A. Share of workers with and without employment safety net by gender and age as a percentage of employed people, 2020



B. Distribution of workers with and without employment safety net by gender and age as a percentage of employed people, 2014 and 2020

		<i>with</i> EI		<i>without</i> EI				
		Wage workers	Non-wage workers	Wage workers	Non-wage workers			Unpaid family workers
					Employer	Self-employed		
				Firms with 5 or more employees	Firms with less than 5 employees			
Total	2014	54.7	2.4	19.2	0.9	4.3	13.9	4.7
	2020	61.9	3.1	14.5	0.5	3.3	13.2	3.6
Men	2014	56.5	2.9	16.7	1.2	5.1	16.1	1.5
	2020	63.5	3.9	11.8	0.6	4.2	15.2	1.0
Women	2014	51.8	1.7	23.1	0.3	3.2	10.6	9.4
	2020	59.5	1.9	18.6	0.4	1.9	10.3	7.5
15-29 year-olds	2014	70.5	0.2	24.4	0.6	2.1	2.1	2.2
	2020	76.8	0.7	18.9	0.0	1.1	1.5	1.0
30-49 year-olds	2014	61.7	2.4	16.1	0.7	4.5	11.7	2.9
	2020	69.1	2.8	11.3	0.6	3.4	10.5	2.3
50-64 year-olds	2014	36.9	3.4	22.0	1.5	5.5	22.3	8.4
	2020	47.4	4.2	17.0	0.5	3.9	20.8	6.3

Note: Adapts and updates a similar figure published in (OECD, 2018^[2]) and (Yoo, 2013^[24]).

Wage workers: Employed by other people or companies and work with remuneration (wage) (company, part-time job etc.).

Non-wage workers: Self-employed/employer (private business, freelancer, running a shop, a chief workman of construction site, agriculture, forestry and fishery industry, peddler and street vendor etc.).

Family worker: Helping family members (relatives) for more than 18 hours a week without pay.

Source: OECD calculations using the Korea Labour and Income Panel Study (KLIPS).

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When EIS was first introduced, benefit payments replaced 50% of jobseekers' previous wages, with minimum and maximum payment levels set at around 20% and 80% of the average wage, respectively. Over time, this margin has narrowed dramatically, as the floor was linked to the minimum wage, while the ceiling was raised much less quickly, on a discretionary basis. As a result, EI turned virtually into a flat-rate payment, significantly altering the nature of the benefit programme, and effectively removing the earning link (Box 3.1). Partly in response, reforms in 2019 raised the benefit cap, while the floor was set at 80% of the minimum wage, down from the 90% before. Nonetheless, the structural reasons for the convergence of benefit floor and cap remained, and on 1 January 2022, they stood, respectively, at KRW 60 120 and KRW 66 000 (for somebody working 8 hours or more). In addition, the 2019 reform also raised the formula replacement rate from 50% to 60% of usual earnings and extended the benefit duration to 120-270 days (before: 90-240 days), depending on the previous employment period and age. The extremely close proximity of benefit floor and benefit cap means that, for most benefit claimants, changes in the formula replacement rate have no notable effect on entitlements.

3.1.2. Unemployment assistance

In 2009, in the context of the global financial crisis, Korea introduced the tax-financed “Employment Success Package Programme” for low-income jobseekers with working ability, who are not covered by either EI or BLSS. ESPP was a form of employability support with a non-contributory benefit component. Unemployment assistance programmes in other OECD countries have a strong focus on income support, which tends to vary with income. ESPP differs in two respects. First, it was strongly geared towards promoting employability and employment retention, offering customised job-search assistance and, if necessary, training.⁷ Second, the income support component for eligible individuals is flat rate, rather than varying with income. Income transfers aimed to provide livelihood support and strengthen employment incentives. They included a small lump-sum benefit, a monthly training participation incentive, and an employment success allowance for those who are employed for 3 months after the end of programme, with additional payments for those who are employed after 6 months or 12 months (Kim and Lee, 2018^[25]).

ESPP sought to occupy and address the large gap between EI and BLSP and included a large group of potential beneficiaries from the start. Eligibility was subject to a means test, except for young people under the age of 34 and a broad range of “vulnerable” groups, who had access regardless of income since 2011.⁸ The income limit was raised in 2012, and eligibility was extended to the elderly (ages 65-69) in 2017. Recipient numbers increased from 64 000 in 2011 to 295 000 in 2015, and 360 000 in 2020. As an employment-support measure, ESPP worked well and efficiently (i.e. at relatively low fiscal cost), raising employment among participants and strengthening job retention (Kim and Lee, 2018^[25]; OECD, 2018^[21]). ESPP also filled some blind spots left by EIS and BLSS in terms of income security. But it was insufficient as an income safety net for jobseekers, as income support levels were low (about 10-15% of the median wage, less than half the BLSS payment rate) and the small cash benefits expenses linked to the job search process provided no stable income.

In 2019, the government initiated a reform process towards the “National Employment Support System” (NESP), which extended to previous ESPP and started being rolled out in January 2021 (see below and Box 3.1).

3.1.3. Supplementary income assistance programmes

As last-resort benefits, the roles of minimum-income programmes in OECD countries depend on the reach and structure of “upstream” income transfers, including unemployment benefits. In Korea, means-tested support programmes targeted at the poor were, in part, introduced and expanded in the context of persistent accessibility gaps in the EI programme. From the early 2000s, and in response to the Asian foreign currency crisis in 1998 and the associated rapid increase in poverty, the “Basic Livelihood Security System” (BLSS) sought to guarantee a minimum standard of living and promote self-sufficiency. As labour

market dualism in Korea intensified, with an increasing number of low-paid precarious jobs, demand for social assistance stretched well beyond the core aims of tackling poverty among children and the elderly and became increasingly relevant as income support for the unemployed and “working poor” (Kim, 2020_[26]).

Prior to the COVID-19 pandemic, the number of individuals benefiting from the BLSS livelihood programme was in the same order of magnitude as the number of EI payments.⁹ The combined recipient numbers of livelihood, housing, health, and education benefits provided under the BLSS programme, is 1.9 million, 3.6% the total population (MOHW, 2020_[27]). The government has taken initiatives to reduce “blind spots” in the BLSS, e.g. by simplifying entitlement criteria related to income and wealth, and by reforming/co-ordinating related safety net benefits, such as for housing, education, and medical care. In the past, and consistent with Asian cultural norms regarding family support, the BLSS means-test included a support obligation for parents and children of claimants even if they did not live in the same household, resulting in low recipient numbers (Shon, 2019_[28]). This familial support obligation was abolished in October 2021 (Joint Ministries, 2020_[29]).¹⁰ However, benefit recipient numbers have changed little since 2015 and blind spots continue to exist due to relatively demanding eligibility conditions (OECD, 2022_[12]). BLSS support levels tend to be modest, with a payment rate of about 30% of a median wage. Empirical estimates of actual minimum-income support payments received by low-income households point to benefit levels that are below those of other OECD countries, and much lower than commonly used relative poverty thresholds (Hyee et al., 2020_[30]).

Box 3.1. Unemployment benefits in Korea: Main entitlement rules, 2022

Unemployment insurance

There are two categories of unemployment benefits in the Employment Insurance (EI) programme. The Job Seeking Allowance provides cash payments to maintain workers’ standards of living and to facilitate their re-employment. In addition, Employment Promotion Allowances supports a quick re-employment of beneficiaries through various support measures. This includes an Early Re-employment Allowance, which is available to recipients of the Job Seeking Allowance, who are re-employed in a steady job and retain the employment for more than 12 months, and who would have more than 1/2 of their Job Seeking Allowance entitlements left. The Early Re-employment Allowance is paid as a lump sum and, after a series of reforms, now amounts to 50% of the otherwise remaining Job Seeking Allowance.

EI covers employees working at least 60 hours per month (15 hours per week) on a mandatory basis. To be eligible, workers must have been insured for at least 180 days over 18 months prior to becoming unemployed (9 months during the past 24 months for artists and 12 months during the past 24 months for dependent contractors). Claimants must be unemployed involuntarily and through no fault of their own. However, like other countries requiring involuntary unemployment as an entitlement condition criterion, Korea has provisions that effectively extend EI access to several categories of voluntary quits that are acknowledged as inevitable or otherwise legitimate, such as job separations related to workplace bullying or discrimination, health limitations, unreasonable commuting times, and certain care responsibilities. Quits regarded as voluntary quits do not entitle to any EI benefits and neither does dismissal for reasons such as gross worker misconduct or lack of competence. Claimants must be willing and able to work and engage in active job-search during benefit receipt.

Those aged 65 or older are not covered, unless they are continuing in a job they have held before turning 65. Family workers are also not covered. Unincorporated small workplaces (no more than four employees, including seasonal workers) in the agriculture/forest/fishery sectors are not subject to mandatory EI. They can enrol if a majority of workers agree, though de facto EI membership rates are low.

Benefit payments can start following a waiting period of 7 days after job loss. The daily basic allowance is 60% of the daily wage and is calculated based on the average wage paid during the three months prior unemployment (12 months for artists and for dependent contractors, referred to “special employment type worker” in Korea). Payment is usually made on a monthly basis. The benefit floor amounts to 80% of the minimum wage (KRW 60 120 per day, for at least 8 hours of work), and is reduced proportionally for part-time workers. The minimum for artists and dependent contractors is KRW 16 000 and KRW 26 000 per day, respectively. The benefit is capped at KRW 66 000 per day for all beneficiary categories.

Table 3.2. Maximum benefit durations increase with age and contributions, and ranges from 4 to 9 months

Age (years)	Maximum duration of Job Seeking Allowance (days)				
	Period of contribution to the EIS (years)				
	Under 1	1 to 3	3 to 5	5 to 10	10 or more
Under 50	120	150	180	210	240
Over 50 or disabled	120	180	210	240	270

The Job Seeking Allowance also comprises the following additional transfers:

- *Individual Extended Benefits* are offered to jobseekers who were unsuccessfully referred to job vacancies three or more times by a Job Centre. Extended benefits are available following expiry of the regular Job Seeking allowance and provide 70% of previous benefits for an additional 60 days. Special Extended Benefits have the same value and duration and can be paid if the authorities declare that the labour market situation is particularly bad (this mechanism has not been used since the 1998 financial crisis);
- *Benefits for extended training* are offered to jobseekers who cannot find work due to a lack of skills and who undertake training. They provide 100% of previous benefits for up to two years.

Unemployment assistance

- In January 2021, the “National Employment Support Programme” was introduced, as a modified extension of the earlier “Employment Support Package Programme” (ESPP). Like ESPP, this Korean-style unemployment assistance provides employment services and livelihood support to vulnerable groups in employment, including low-income job seekers, unemployed youth, and those looking to return to work following career breaks, particularly women;
- Type-I support consists of a job-search promotion cash benefit, employment support services, including an employment success allowance;
- Type-II provides employment support services, including the employment success allowance.

Eligibility:

Type-I support:

- Active jobseeker aged between 15 and 69 years old, with household income at or below 60% of the median. Requires work experience of at least 100 days in the last 2 years;
- Or: Job-seeking youth aged between 18 and 34 years old, with income at or below 120% of the median. Work experience is not a requirement for youth;
- Type-I support is not available for recipients of EI, Basic Livelihood Security (BLSS) benefits, local government youth benefits, and for participants in direct job creation programmes in the previous six months;

- Household assets must be below KRW 400 million (KRW 500 million for young jobseekers aged 18-34).

Type-II support:

- Individuals aged 15-69, with household income below 100% of the median;
- Young people (18-34), who do not qualify for Type-I support (regardless of their income);
- There is no asset test for Type-II support.

Benefit amounts and duration:

Type-I support: The aim of the subsidy is to support the livelihood of active jobseekers. A “job-search promotion subsidy” of 500 000 KRW per month for up to 6 months. From 2023, an additional amount of 100 000 KRW per month is paid for young or elderly dependants (for up to 4 dependents).

Type-II support: Support to cover expenses incurred in job-search activities and participating in vocational training.

Both Type-I and Type-II: An “Employment Success Allowances” of up to KRW 1.5 million to programme participants with household income below 60% of the median, and who successfully take up employment. The amount depends on the duration of the employment contract (a lump-sum payment of KRW 500 000 for continuous employment of 6 months, plus a lump-sum of KRW 1 million for continuous employment of 12 months).

Source: OECD tax-benefit models and policy database, <http://oe.cd/TaxBEN>

3.2. Recent and ongoing reforms

Recent and ongoing reform efforts take place in the context of the recent COVID-19 pandemic, and its social and economic fallout, including in the labour market. Although the employment impacts from the pandemic were muted by swift and comparatively strict quarantine measures, the number of unemployed and economically inactive people increased by 500 000, lowering Korea’s employment rate by 0.9 percentage points. Despite a solid recovery in 2021, the employment situation differs by sector and group. In particular, the employment recovery has lagged behind for temporary workers, daily workers and the self-employed especially in the wholesale/retail and catering and lodging industries (Lee, 2021^[31]). Informal workers who were not covered in the EI programme, such as atypical workers, freelancers, platform workers, and small-scale self-employed, were disproportionately affected by unemployment and income decline during this period (Lee, 2020^[32]). At a cost of KRW 32.5 trillion over a two-year period, the government implemented the Emergency Employment Security Subsidy temporary income support programme for them, e.g. providing 500 000 KRW per month for 3 months to dependent contractors and freelancers whose income fell by more than 25% during the pandemic period. As in some other OECD countries, the exceptional income support that Korea provided during the pandemic may also have altered worker expectations about income protection following a job or earnings loss. But the measures were temporary and did not address the structural gaps in Korea’s unemployment support system (Park and Youn, 2021^[33]).

A first step to strengthen the income safety net more permanently was the expansion of the existing Korean-style unemployment assistance system (ESPP). The new NESP programme rolled out from January 2021, building on the experience of 12 years of ESPP operation. Relative to the previous programme, a key difference is the entitlement condition (active job search, as opposed to participation in vocational training under the previous ESPP), and the higher subsidy level (KRW 500 000 per month, as

opposed to KRW 400 000 under ESPP, from 2023 an additional amount of KRW 100 000 per month is available for each young and elderly dependent, for a maximum of four dependents). Furthermore, unlike ESPP, NESP is backed by a firm legal framework that stipulates entitlements by law, making the programme more predictable and less dependent on specific budget allocations (Lee, 2021^[31]). Currently, future reform plans for NESP include enhancing the job-search promotion benefit and linking entitlements more closely to job-search efforts (Lee, 2021^[31]).

Another major reform initiative is the plan to gradually expand EI coverage to all workers, notably including those in non-standard dependent or independent employment. Announcing a roadmap for EI reform in 2020, the government committed to gradually expanding coverage from the current employee-centred one, into a system for “all workers”. The 2020 reform roadmap consists of three pillars (MOEL, 2020^[34]):

- Promotion of EI membership for low-wage, non-standard workers;
- Tackling of *de jure* “blind spots” of employment insurance, including for dependent contractors, platform workers, freelancers, and artists;
- Gradually expanding EI coverage for the self-employed through social consensus, with scope, pace and reform parameters yet to be agreed.

An initial step in resolving statutory blind spots was the extension of mandatory EI coverage to artists and 12 occupations of “own account workers” with relatively strong dependence on specific employers (henceforth “dependent contractors”).¹¹ EIS application and UB payment for these groups are now operated in a framework similar to the one that applies to wage employees. In particular, employers or clients of artists and independent contractors bear half the contribution burden (and may benefit from the *Duru-Nuri* premium subsidy). However, rules differ from wage employees in some ways reflecting the specific circumstances of these workers. Firstly, EI is applied to those who receive monthly remuneration of KRW 800 000 or more (for independent contractors) or KRW 500 000 (for artists). For wage employees, by contrast, the relevant requirement is to have worked 15 hours or more a week. Second, entitlement requires contributions for at least 12 (independent contractors) or 9 (artists) out of 24 months prior to joblessness. For wage employees, the requirement is 7 out of 18 months. At the end of 2021, six months after the extension of statutory membership, more than 100 000 artists and 560 000 dependent contractors had signed up for EIS.

From 2022, Korea expanded mandatory employment insurance to selected groups of platform workers, starting with delivery riders and surrogate drivers who provide labour mediated by platforms, and commit to actively looking for suitable work (Lee, 2020^[35]). Depending on whether the worker’s contract is directly with the client, or with the platform provider, either the client or the platform company is required to bear the (equivalent of the) employer’s share of EI contributions.

Other groups of self-employed and freelancers work and generate income more independently. Extending coverage for them is therefore more challenging or requires a different and tailored approach (see section 4. For instance, all relevant insurance premia would need to be covered by the independent worker, and it is also far more difficult than for employees to reliably establish their labour market status and exact income. In view of these challenges, the Korean EI has been open to the self-employed on a voluntary basis, rather than by mandate. The government has indicated that more comprehensive income protection for the self-employed is desirable but that reforms will be gradual and distinguish between the needs and circumstances of different self-employed groups. The process is to be informed by careful stakeholder discussions that have begun in 2022 and are presently continuing.

As a key technical/institutional precondition for making coverage less dependent on employment type, and in parallel with the expansion of coverage for non-standard workers, the government has been promoting a policy to convert the workplace-oriented EIS into an individual income-based one. Partly similar to a 2017 reform in Denmark, EI entitlement criteria for non-standard workers were de-linked from working hours and, instead, formulated in relation to individual income, which is more easily aggregated across jobs with

different employer/clients and/or in different periods.¹² Linkages were also established/strengthened between the National Tax Service and social insurance assessments in order to facilitate the periodic and consistent determination of incomes/earnings, including through a shortened income declaration cycle for applicable income tax filings. Furthermore, for an accurate assessment of incomes of dependent contractors and platform workers, reporting obligations were strengthened for businesses who contracted with them, as well as for labour matching platforms (Lee, 2020^[35]).

4 Policy designs and outcomes in the OECD: How does Korea compare?

As in other OECD countries, Korea's system of unemployment support has developed in the context of specific economic and political circumstances and trends. Yet, a number of key challenges and policy trade-offs are shared across countries. To inform the reform agenda in Korea, this section compares policy designs and outcomes in Korea with other OECD members.

4.1. Reach of unemployment benefits

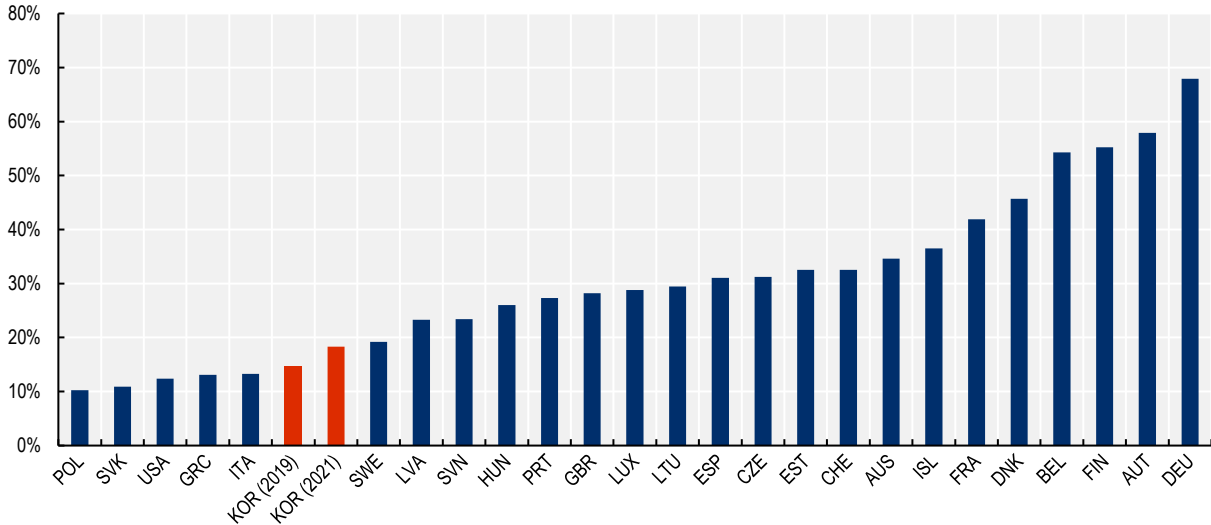
4.1.1. Benefit coverage among jobseekers: International comparison and recent trends

As the Korean unemployment benefit system matured, EI membership of *workers* has seen an upwards trend, but significant gaps have remained and were among the principal drivers of the 2020 roadmap for EI reform (see section 3 and Figure 3.1). Not all workers have the same unemployment risk, and EI membership does not automatically translate into benefit entitlement upon unemployment. Both in a national and in a comparative perspective, the share of jobseekers who receive income support in practice is therefore a particularly informative indicator of income security during unemployment. In Korea, only around 15% of *unemployed jobseekers* reported receiving unemployment benefits in 2019 in available survey data (Figure 4.1). Effective coverage rates were also low in several other countries, remaining below 30% in half of the countries shown. Korea's rate increased notably between 2019 and 2021, in line with the reforms introduced (section 3.2). But the share of jobseekers reporting benefits nevertheless remained markedly lower than 2019 values in most comparator countries, and recipient numbers after the onset of COVID-19 have increased in other countries as well (see below). Sources and definitions differ across countries and, in the case of Korea, data-related factors can push the estimates up or down relative to other countries (see figure notes). In particular, benefit receipt is measured over a longer time period than in other countries (which makes measured coverage comparatively higher in Korea), but it does not include receipt of unemployment assistance (which makes measured coverage comparatively lower in Korea).¹³

Benefit payment data from administrative sources point to higher recipient shares across OECD countries, including in Korea (Figure 4.2, Panel A). Korea's position relative to comparator countries is, however, broadly similar for the two different measures. In most countries, the ratio of benefit payments from administrative sources and the number of unemployed is typically at least twice the survey-based coverage rates shown in Figure 4.1. This is because some underreporting in surveys is common, and also because a significant share of benefit payments can – intentionally or not – go to individuals who do not meet the standard definition of unemployment (OECD, 2018^[36]). For instance, some benefit recipients may report that they are not actively looking for work, are unable to swiftly take up work when it is offered, or are already engaged in some work activities, such as part-time work. Figure 4.2 also shows that, as in several other countries, recipient rates in Korea have risen markedly since the onset of the COVID-19 pandemic and the introduction of the new unemployment assistance in 2021 (Panel B). The most recently available data indicate that coverage gains in Korea have persisted well into the post-COVID recovery phase.

Figure 4.1. Only a minority of jobseekers receive unemployment benefits

Coverage rates based on self-reported benefit receipt, share of unemployed in 2019

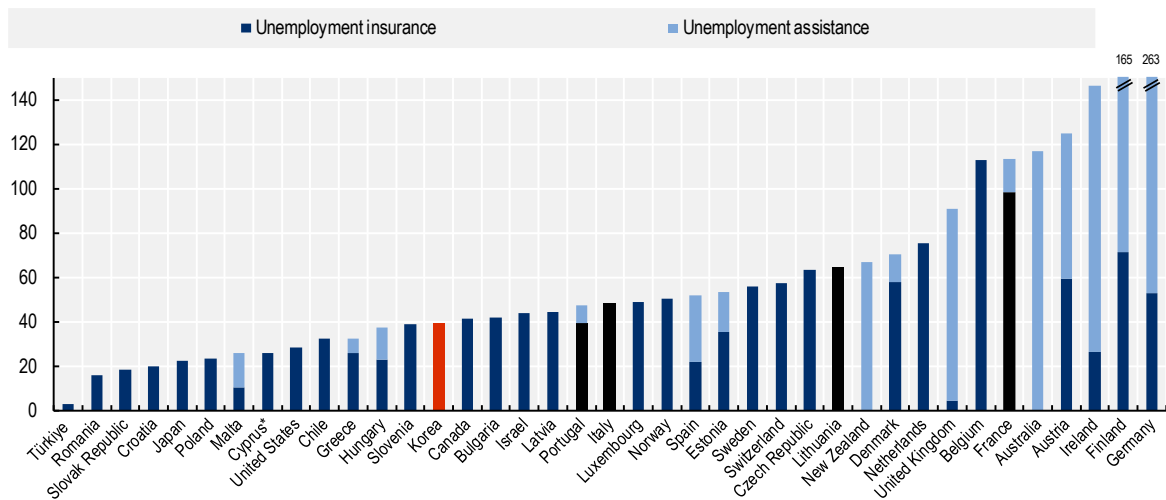


Notes: "Unemployed" refers to the standard ILO definition, i.e. out of work, actively looking for work, and available to start work. In the Korean survey data source (KLIPS), the relevant information is taken from variable "undertook job-seeking activities and able to work if suitable job was available". In Korea, the relevant variable is "receipt of Job Seeking Allowance of Employment Insurance at any moment between previous and current interview" (which results in a higher number of recipients than the measure in other countries, which looks benefit receipt at the time of interview only). Recipients of unemployment assistance are not included as the information is not reported in KLIPS (ESPP, replaced by NESP in January 2021, see Box 3.1). The total number of recipients during 2018 was 1 062 933 for EI (KEIS, 2019^[37]), and 308 290 for ESPP, including both Type-I and Type-II (MOEL, 2019^[38]). Some European countries are excluded due to missing information in EU-LFS data. 2016 figures for United-States, 2015 for Australia. LFS data for Sweden do not include a series of benefits that are accessible to jobless individuals who: i) are not in receipt of core unemployment benefits, and who ii) satisfy other conditions such as active participation in employment-support measures. Source: KLIPS for Korea; Household, Income and Labour Dynamics in Australia (HILDA) for Australia; European Union Labour Force Survey (EU-LFS) for European countries; Current Population Survey (CPS) for the United States.

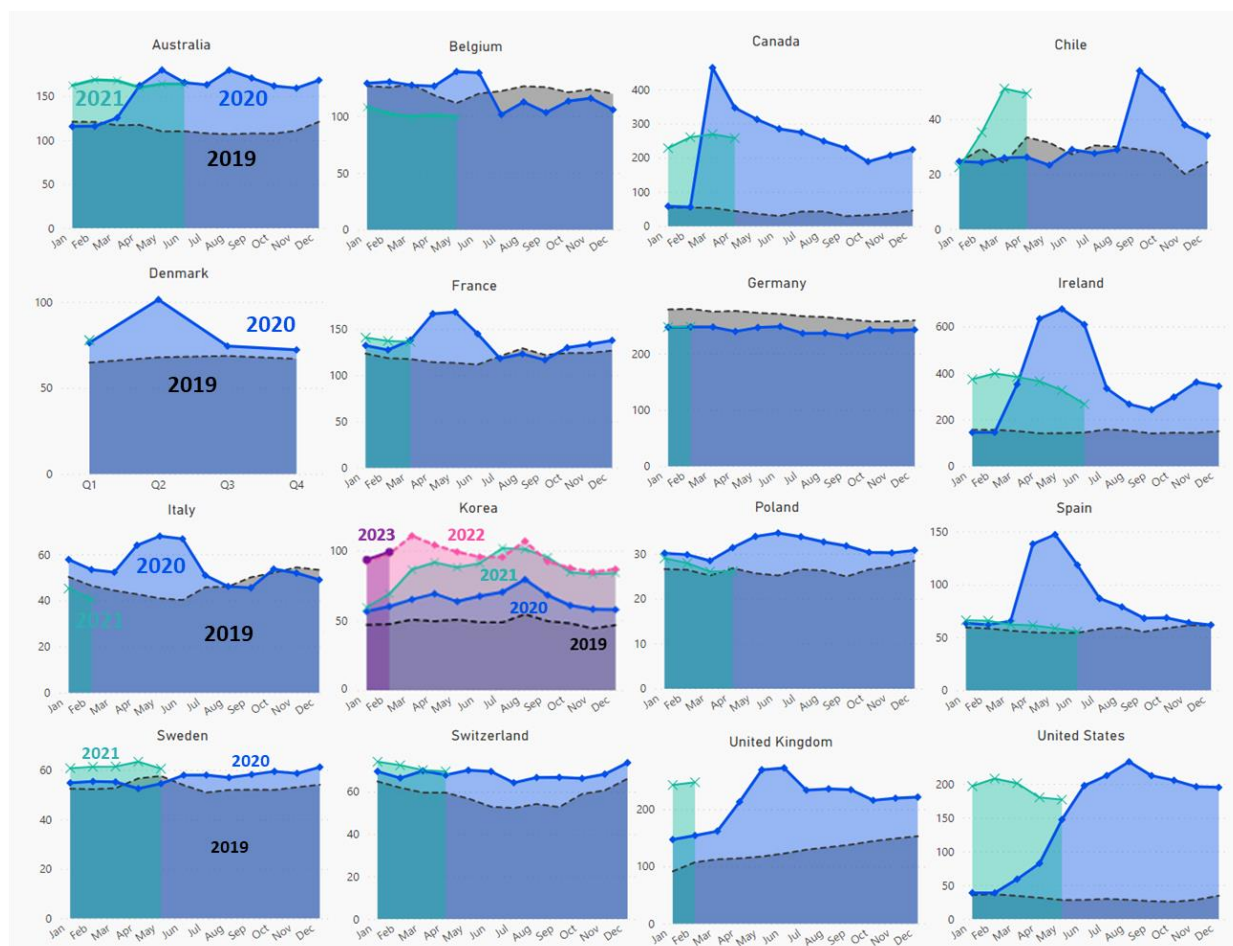
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Figure 4.2. Administrative data on benefit payments


Panel A. Payments as a share of all unemployed ("pseudo" coverage rates), 2018, in percent



Panel B. Recipient trends before and after the onset of the COVID 19 pandemic



Note: “Unemployed” refers to the standard ILO definition, i.e. out of work, actively looking for work, and available to start work. The numerator is the number of beneficiaries taken from administrative sources. The denominator is the number of unemployed as reported in labour force surveys (with the same source as in Figure 4.1). The results are commonly referred to as “pseudo” coverage rates as the population in the numerator and denominator do not fully overlap. For instance, in some countries, significant numbers of people who say they are not actively looking for work (e.g. discouraged jobseekers) may be able to claim unemployment benefits. Pseudo coverage rates can exceed 100% as a result (OECD, 2018^[36]). Data for Korea prior to 2021 do not include recipients of unemployment assistance (“Job Search Promotion Allowance” of ESPP see Box 3.1) as the information was not available in the format required for the comparative OECD SOCR database. Recipients data for Korea in Panel B include unemployment assistance from 2021 onwards (NESP “Job Search Promotion Subsidy” or “Type-I” support). Source: Panel A: OECD Social Benefit Recipients Database (<http://oe.cd/socr>), Panel B: OECD SOCR, supplemented with NESP recipient data from the Employment Information Integrated Analysis System of the Ministry of Employment and Labor.

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4.1.2. Entitlement conditions and benefit durations

Reasons for low benefit coverage among Korean jobseekers are complex and inter-related. Formal entitlement restrictions are one factor, including for the large number of non-standard workers, but also for regular dependent employees. In comparison with many OECD countries, the contribution period that is required for accessing benefits (ca. 7 months in 2020) is in fact not particularly long in absolute terms (Figure 4.3, Panel A). However, the reference period (the period prior to joblessness during which the contribution requirement needs to be satisfied) is also shorter than in some other countries (e.g. Italy, France, Finland, Slovenia, Spain). Moreover, a given contribution requirement, even a short one, is more likely to be binding in the context of Korea’s very short job tenures (with a median of just over 5 years, compared to an OECD average of just over 8 years, see Figure 2.2 and Table 2.1). According to

information provided by the Ministry of Employment and Labour, a majority (75%) of EI members who became jobless did satisfy contribution requirements in 2022, but not necessarily all other eligibility conditions. 25% did not have sufficient contributions, and many others with short employment contracts may have sought to avoid EI membership if they considered it unlikely that they would qualify for EI benefits (see Figure 3.1).

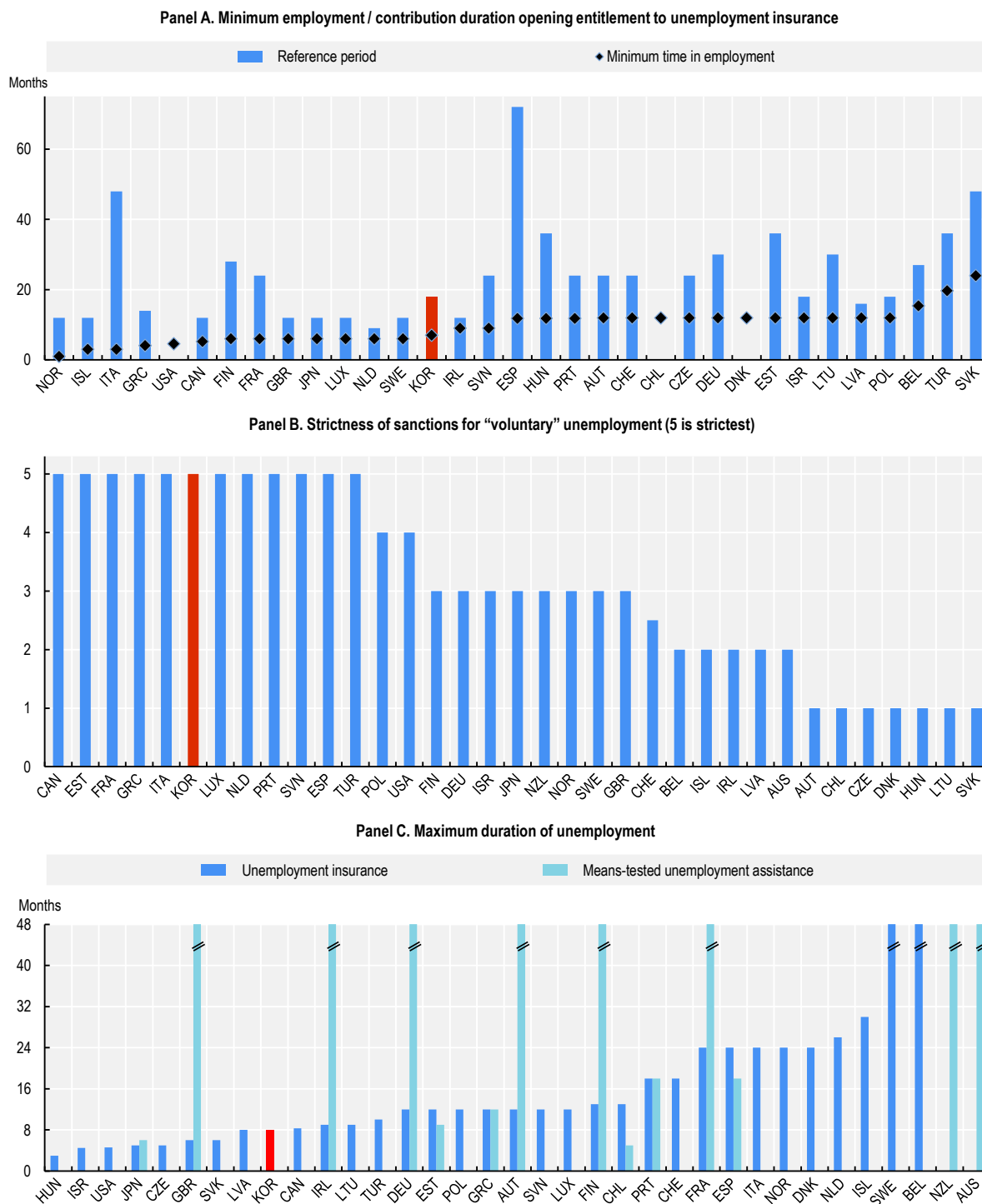
Another factor driving coverage rates is the duration of benefit entitlements, which are comparatively short in international perspective (Figure 4.3, Panel C). Moreover, Korean jobseekers who are judged to have entered unemployment “voluntarily” are ineligible from the outset (Figure 4.3, Panel B). Across the OECD, about a third of countries also consider “voluntary” jobseekers as ineligible for unemployment benefits. Like other countries requiring involuntary unemployment, Korea has provisions that effectively extend EI entitlement to voluntary quits that are acknowledged as inevitable or otherwise legitimate (see Box 1). The new unemployment assistance (NESP), established in 2021, does not require involuntary unemployment (see section 3).

Worryingly, a long-standing problem of non-compliance has translated into large shares of workers who should have access to benefits when becoming unemployed, but who are not participating in the EI system for one reason or another, i.e. their employer did not register them and does not transfer contributions to the EI fund. In 2020, some 23% of wage workers reported that they were not covered in the EI system (Figure 3.1). The drivers of non-compliance are complex and can be difficult to substantiate. While employer and employee insurance premiums are comparatively low, their impact on labour costs can be felt by smaller firms that operate on small profit margins. Perhaps more importantly, the risks of non-compliance as perceived by these firms can be low, as detecting non-compliance is more difficult in micro-businesses. Evidence conclusively and consistently points to significant challenges in enforcing labour regulations.¹⁴ In part, this is due to limited enforcement resources. The number of workplaces per labour inspector stood at 770 in 2021 (OECD, 2023^[7]). While this was down from 1 270 in 2016, following a boost in staff resources initiated over recent years, these ratios translate into very high enforcement burdens for staff. In addition, and despite evidence of limited success, successive governments have tended to prioritise positive compliance incentives/rewards for employers’ participation in a mandatory programme, over strict enforcement and tough penalties (see the discussion of the costly *Duru-Nuri* subsidies below).

Workers, too, may perceive incentives for EI membership as weak. In some circumstances, e.g. if their pay is low, they may collude with their employer to avoid paying insurance premiums in order to boost their net wage. Indeed, evasion of EI contributions is mainly a problem among small businesses, where wages tend to be low (Figure 3.1). Relatedly, workers may wish to avoid paying insurance premiums because relatively few of them have, traditionally, received benefits in the case of unemployment. In this sense, low coverage and low participation, can be mutually reinforcing. Reasons for evasion are not a problem only for EI, however. For instance, people who are enrolled in the health insurance as dependents have an incentive to avoid enrolling in any part of social insurance when taking up a job, in order to avoid paying health insurance premia.

In 2020, Korea and 11 other OECD countries operated lower-tier unemployment assistance programmes for those who are not, or no longer, entitled to first-tier insurance benefits (in addition to Australia and New Zealand, where means-tested unemployment assistance is the principal benefit for jobseekers, see <https://taxben.oecd.org/policy-tables/TaxBEN-Policy-tables-2020.xlsx>). A strong focus on re-employment support in the Korean unemployment assistance has provided little continuous income support for claimants in the past, and recipient rates, while significant, were modest relative to the number of jobseekers. Korea recently began to strengthen its unemployment assistance programme with the introduction of NESP (see section 3), though it is too early to assess the impact of this reform.

Figure 4.3. Benefit access conditions vary widely across countries, 2020



Note: **Panel A:** For 40-year-old individuals with full-time open-ended contracts prior to employment loss. Norway, the United States: Minimum earnings requirements also apply. Italy: Plus at least 30 days in the 12 months prior to the start of the unemployment spell. Greece: Or 200 days in last two years. Canada: Assuming 40-hour work week. the United Kingdom: Six months in any one of the past two years. Sweden: Plus minimum membership period in an unemployment insurance fund of 12 months. Ireland: Or 26 weekly contributions in each of previous two years. Must also have 104 weekly contributions in whole career. Austria: For first benefit claim: 12 months within two years (6.5 months within one year for under-25s). Subsequent claims: 7 months within one year or 12 months within two years. Chile: Plus 12 months of contributions since the previous unemployment spell or withdrawal from the individual account, with last three contributions continuous and with same employer. Türkiye: Plus must have held the labour contract for the last 120 days before termination. Slovak Republic: Reference period is for temporary contracts, 12 months shorter for open-ended contracts.

Panel B: Scores from 1 (least strict, no requirement of involuntary unemployment) to 5 (most strict, complete loss of entitlements for those judged to be unemployed voluntarily without good cause). See (Immervoll and Knotz, 2018^[39]) for content and scope of the strictness indicator.

Panel C: For a 40-year-old with a "long" employment record. Double slash means durations that are longer than 48 months, or unlimited. Canada: maximum benefit duration depends on regional unemployment rate and is shown for the national rate in December 2019. Chile: Unemployed individuals can draw unemployment insurance pay-outs provided there are sufficient assets in their individual savings account. Japan: up to 300 days of benefits for claimants who are deemed to be difficult to re-employ. Sweden and in some other countries: additional unemployment support can be available for unemployed individuals participating in activation and employment support programmes. United States: benefit durations vary by State and unemployment rate. The 20-week duration refers to Michigan.

Source: OECD Tax-Benefit Policy Databases, <http://oe.cd/TaxBEN> and <https://oe.cd/ActivationStrictness>.

StatLink  <https://stat.link/6tqskd>

4.1.3. Provisions for non-standard workers

Prior to the COVID-19 pandemic, just over one in five non-standard workers in Korea reported receiving any income support following job loss. As noted above, this was lower than in any of the other 15 OECD countries that were included in the same study (Figure 1.1).

Across OECD countries, statutory access for non-standard workers typically varies by employment type. Temporary and part-time workers are commonly covered in the same way as permanent full-time employees in most countries, as long as they satisfy the same entitlement conditions that also apply to standard workers (applicable employment periods, earnings thresholds, etc.). Some countries operate exemptions for specific non-standard contractual arrangements, such as casual employment, seasonal work or hybrid categories. For instance, in the Slovak Republic, those with temporary employment contracts benefit from a longer reference period during which contribution requirements must be met. Access to unemployment support is also sometimes not conditional on job-search efforts or participation in ALMPs for jobseekers who have engaged in seasonal work (e.g. Greece, as well as Austria for those with an existing re-employment agreement).

By contrast, statutory access for self-employed workers is very frequently restricted in contributory social protection systems. Indeed, provisions that were mostly set up with a steady employer-employee relationship in mind do not easily accommodate the self-employed (Box 4.1). When self-employed workers do have access to social protection, it is frequently on a voluntary basis, including in Korea (Box 4.2). Prior to the COVID-19 pandemic, extensions of unemployment-benefit coverage for self-employed workers were legislated or discussed in a number of other OECD countries, including France, Ireland and Spain. In summer 2018, the French Parliament passed a law that provides for flat-rate unemployment benefits for jobseekers who become unemployed after a period of self-employment with earnings of at least 10 000 euro per year and subject to liquidation of the former business. Ireland introduced the Jobseeker's Benefit for the Self-Employed in 2019. The programme provides support also for those with low earnings in past self-employment. Benefit durations are somewhat shorter than for dependent workers, and entitlement requires longer contribution records. Spain made a previously voluntary unemployment insurance scheme for self-employed workers compulsory from early 2019.

Figure 4.4 summarises the situation at the onset of the crisis. 11 of 36 countries offered self-employed workers similar unemployment protection provisions as for dependent employees. Another seven offered partial access, i.e. with lower amounts and/or more stringent entitlement criteria than for dependent employees. In 5 countries, the self-employed had the option to join a voluntary unemployment insurance

scheme, but membership rates were often low – under 1% of all self-employed workers in Austria and Korea, 3% in the Slovak Republic and 10-15% in Finland (European Commission, 2022^[40]; Park, 2020^[41]). The remaining 13 countries did not offer any unemployment insurance benefits for self-employed workers.

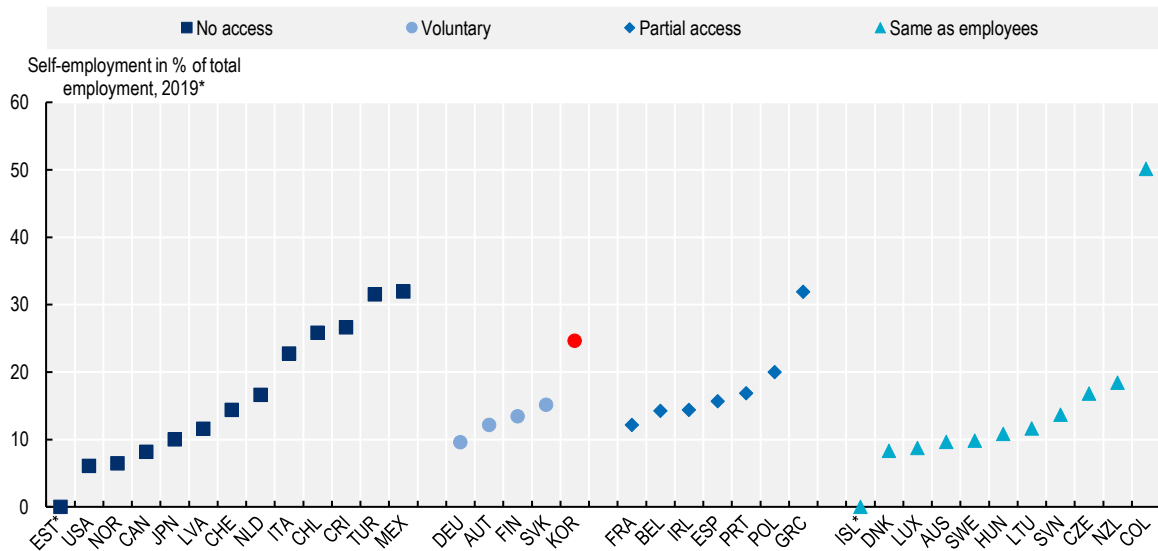
Self-employed workers have been particularly vulnerable to income losses during the COVID-19 crisis and they often did not benefit from headline support measures such as job retention schemes. Incomplete coverage in unemployment support programmes therefore left a significant number of workers exposed as the crisis hit. By contrast, countries where (some) self-employed workers already had access to unemployment benefits were able to quickly shore up support using existing structures: in Denmark, for example, self-employed workers could retrospectively join an Unemployment Insurance Fund by paying a year's contributions if they were affected by containment measures, while Ireland suspended minimum contribution requirements.

A number of countries without pre-existing systems for assessing past earnings and entitlements sought to create such structures quickly. Austria, Norway, Switzerland and the United States, among other countries, introduced new emergency benefits for self-employed workers that were tied to previous earnings or crisis-related losses. But in the absence of established administrative procedures, the accurate assessment of previous income (especially the fluctuating income of the self-employed) takes time. Some countries relied on self-reported earnings losses, especially at the beginning of the crisis (e.g. Austria), accepting lower targeting accuracy. Others circumvented time-consuming earnings-assessments by providing flat rate benefits (e.g. Canada, France, and Italy). Chile, Germany, the Netherlands, and to a lesser extent Mexico extended their existing minimum income programmes to make them more accessible to self-employed workers (Denk and Königs, 2022^[42]).

In light of this experience, several countries are currently extending income protection for self-employed workers. Germany is considering extending access to voluntary unemployment benefits for self-employed workers without an insurance record as dependent employees. In France, there are plans to extend unemployment support to those with unviable businesses (currently, only those whose business has been closed by court order are eligible). Italy introduced a new unemployment benefit for the previously uncovered group of para-subordinate professionals (unlicensed professionals, such as web designers, who are legally self-employed but economically dependent on one or very few clients). The new programme is initially time-limited, lasting from 2021 to 2023. It insures against significant reductions in income (at least 50% over the last three years) and cushions half of this loss. This type of income insurance can be especially well-aligned with the circumstances of freelancers relying on a small number of clients.

Figure 4.4. Statutory access for self-employed workers was limited before the pandemic

Statutory access to unemployment benefits for self-employed workers compared to dependent employees (“employees”) in 2020 by incidence of self-employment



Note: Gaps between dependent employees (full-time open-ended contract) and self-employed workers. If there are several legal forms of self-employment in a country, the graph refers to the most prevalent form of self-employment, excluding farming and liberal professions. For Italy, the graph refers to craftspeople, shopkeepers/traders and farmers, and not to para-subordinate workers, who are covered by a separate scheme. For Portugal, the graph refers to dependent self-employed workers. For Belgium, “partial access” refers to the *droit passerelle*, a separate non-contribution-based programme for self-employed workers. For Germany, “voluntary access” refers to the unemployment insurance benefit *Arbeitslosengeld I*, not to the needs-based unemployment assistance benefit *Arbeitslosengeld II* that self-employed workers may also claim. In the Czech Republic, self-employed workers are statutorily insured at half of their taxable income but may choose a higher contribution base. Partial access: self-employed workers are insured through a different scheme, receive lower benefit amounts and/or have more stringent entitlement criteria than dependent employees. “No access”: compulsory for dependent employees but the self-employed are included.

* No data on the incidence of self-employment in Estonia and Iceland. Data on self-employment incidence refers to 2018 for Norway and 2015 for the Slovak Republic.

Source: Adapted and updated from (OECD, 2019^[43]), using OECD Questionnaire on Policy Responses to the COVID-19 Crisis supplemented with information from the OECD Tax-Benefit Database (<http://oe.cd/TaxBEN>), MISSOC (2020^[44]), Spasova et al. (2017^[45]) and (ESPN, 2021^[46]) for European countries, Government of Canada (2022^[47]) on Canada, and OECD (2023^[8]; forthcoming^[48]) on Greece and the United States. Incidence of self-employment: OECD (2022^[49]), “Labour Force Statistics: Summary tables”.

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Box 4.1. Making social insurance available for self-employed workers: Key challenges

- Double contribution issue:** Who should be liable for employer contributions in the absence of an employer? In practice, total formal contribution burdens are frequently lower for the self-employed than for dependent employees. Requiring the self-employed to pay the equivalent of both employer and employee contributions brings formal burdens in line with dependent employees. But effective burdens may be higher for the self-employed, especially those with lower earnings, because minimum wages typically do not apply to them or because they may lack the bargaining power to shift any contribution-related costs onto their clients by charging higher prices (OECD, 2018^[50]).

- **Fluctuating earnings (and margins for avoiding contribution liabilities):** The self-employed, along with some atypical employees such as on-call workers or those with zero-hours contracts, are often paid at irregular intervals, either because of time lags between work and payment, or because demand for their services is erratic (ISSA, 2012^[51]). This complicates the calculation of contributions (as well as the assessment of entitlements). In particular, self-employed workers may be able to avoid or lower contributions by optimising their contribution base, e.g. through timing their work or earnings.
- **Moral hazard:** Demand or price fluctuations affecting self-employed workers are difficult to distinguish from voluntary idleness and this complicates the provision of unemployment insurance in particular. For instance, there is no employer to confirm a layoff and efforts to re-establish a business operation are more difficult to monitor than the search for dependent employment. In addition, earnings levels may fall more readily for self-employed in response to market developments, e.g. because there are no minimum wages and downward wage rigidity does not apply to them. If entitled to unemployment benefits, those with poor earnings prospects may therefore have relatively strong financial incentives to wind down the business and claim unemployment benefits. Where self-employed individuals can claim benefits, they typically need to meet relatively stringent requirements to demonstrate that their business is no longer operational. For instance, claimants of unemployment benefits in Sweden are required to wind down or “freeze” their business and cannot claim benefits again for several years if they once again take up their previous self-employment activity after a benefit spell.

Source: (OECD, 2019^[43]), *OECD Employment Outlook 2019: The Future of Work*, <https://doi.org/10.1787/bfb2fb55-en>

Box 4.2. Voluntary insurance for self-employed: Rationale, problems and country experiences

The provision of income insurance on a voluntary basis partly reflects specific risk patterns and fairness considerations: as entrepreneurs seek to make a profit in return for taking on business risks, they can be less risk averse, and therefore may not “require” insurance to the same extent as employees. However, the same rationale could be invoked more broadly, e.g. for employees who face lower risks or are less risk averse than others. Ultimately, strong reliance on selective or voluntary social protection membership widens the scope for gaming social risk-pooling systems, resulting in insurance becoming inefficiently narrow. With “good risks” able to opt out (or not opting in), actuarially neutral insurance premia will be higher (and possibly unaffordable) for those who need it most (the “bad risks”). Indeed, low-earning individuals may underinsure even when social insurance provisions offer attractive cost-to-risk ratios, see (Codagnone et al., 2018^[52]).

In practice, membership in non-mandatory insurance schemes is often organised on an opt-in basis. But there are also examples of auto-enrolment, e.g. voluntary pension insurance for marginal employees (mini jobs) in Germany since 2013. In all cases, voluntary membership risks adverse selection of members: where insurance premiums are uniform, those with the highest risk have the biggest incentive to join. If the scheme is entirely self-funded, this can lead to a vicious circle of contribution hikes and low-risk members leaving; if the scheme is publicly subsidised, costs can increase. An example of this mechanism is the Canadian Special Benefits for Self-employed Workers scheme, providing maternity and parental, sickness and care benefits since 2010. Self-employed workers pay the same contribution as standard employees but without the employer part that would be due for dependent employees. Over three-quarters of claims were initially for maternity and parental benefits, two-thirds of opt-ins were women (who represent only 43% of all self-employed workers), and

two-thirds were between the ages of 25 and 44 (compared to just one-third of all self-employed). As opt-ins had significantly lower incomes than other self-employed, contributions covered less than one-third of benefit payments.

In 2007-08, reforms of the voluntary unemployment insurance in Sweden linked employee contributions to unemployment risk and raised average premia by 300%. Membership in the Unemployment Insurance Funds dropped by around 10 percentage points in the following years. Older workers, who have the lowest unemployment risk of all age groups, were particularly likely to exit the system, as were those under the age of 25, who typically have low earnings and short unemployment durations.

Self-employed workers in Austria can opt into a short-term sickness benefit programme, and about 8% of eligible self-employed workers do. In 2016, close to half of those who were covered received a benefit, and the average benefit duration was nearly twice the average sick leave duration for dependent employees, highlighting moral hazard risks. In response to the resulting deficits in the programme, the minimum benefit was cut significantly in 2017.

As EI in Korea, some schemes offer choice in terms of contribution levels. For example, self-employed in Latvia and Spain can choose their contributions to unemployment and occupational injury insurance. Similar to selectivity mechanisms in insurance provisions with voluntary membership, higher-risk individuals can have an incentive to choose higher contributions in order to maximise their entitlements. Yet, if the system is explicitly redistributive (offering higher replacement rates for low incomes/contributions), there are incentives for keeping contributions low. Indeed, approximately nine out of ten contributors to the schemes in Latvia and Spain chose to pay the minimum.

Source: (OECD, 2019^[43]), *OECD Employment Outlook 2019: The Future of Work*, <https://doi.org/10.1787/bfb2fb55-en>

4.2. Benefit levels

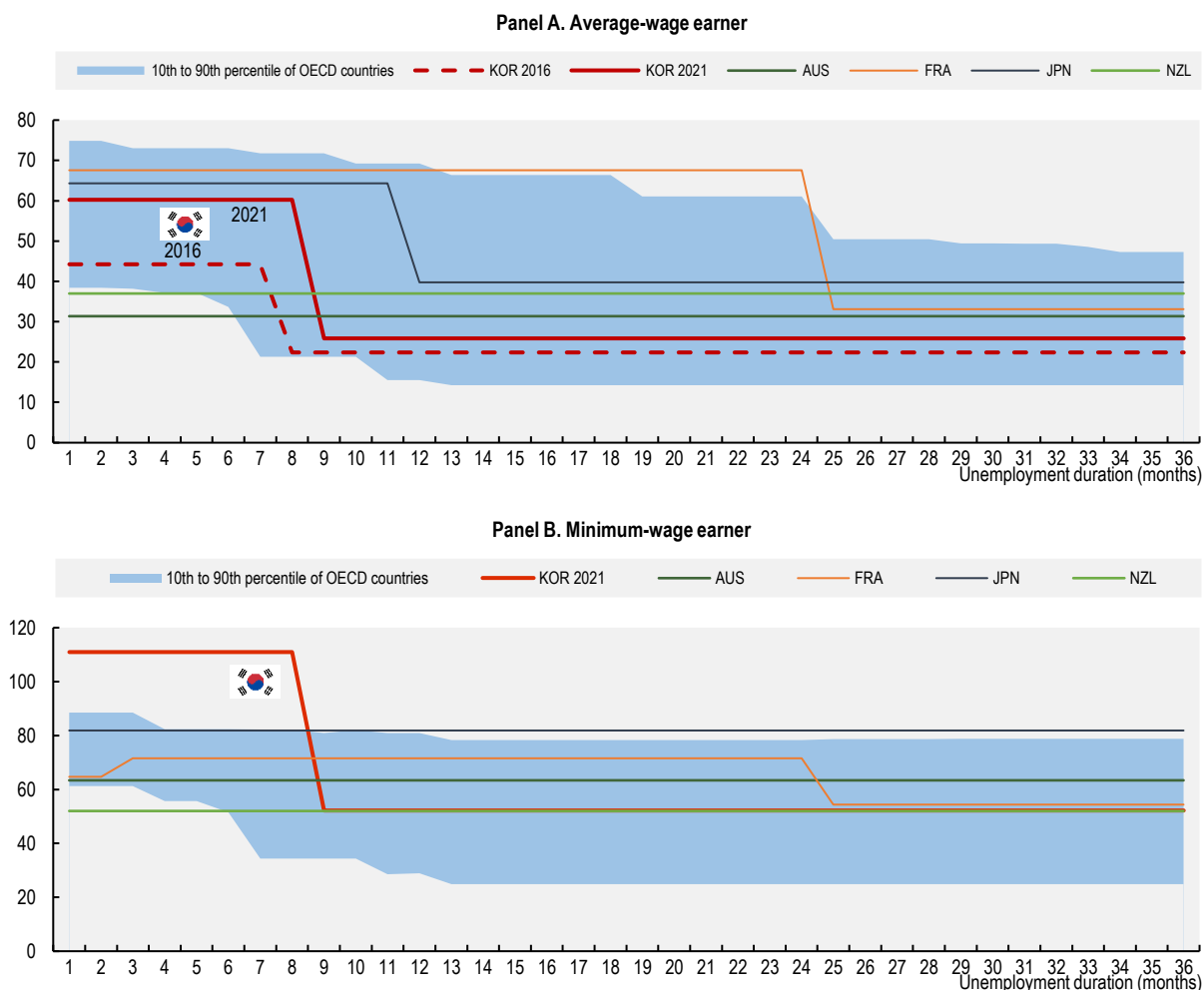
Prior to the COVID-19 pandemic, support levels reported by low-income benefit recipients after recent employment loss were the lowest among 16 OECD countries studied in (Immervoll et al., 2022^[6]). Estimates reported in Figure 1.1 above point to values of EI and other available benefits ranging between 20% of median household income for standard workers, and under 10% for non-standard workers.

In fact, for average-wage earners with a long employment history, initial replacement rates after job loss are broadly in line with those in other OECD countries with an unemployment insurance, and they have been boosted as part of a reform in 2019 (Figure 4.5, Panel A). Benefit duration has also been extended, but the income drop (after close to 9 months of unemployment) comes earlier than in comparator countries. The drop is also much larger, even assuming full entitlement to means-tested support (such as BLSS livelihood and housing benefits). Replacement rates for longer-term unemployed in Korea are lower than in Australia and New Zealand, where no unemployment insurance exists, and where all income support for jobseekers takes the form of means-tested benefits.

By contrast, initial replacement rates for low-wage earners are exceptionally high. For minimum-wage workers, they can be above 100% (Figure 4.5, Panel B). Even though benefit durations are comparatively short, such high replacement rates can translate into significant financial disincentives to work, notably for workers who have multiple options for when or how much to work (OECD, 2020^[53]). The reason for these substantial disincentives is the unusually high benefit floor described in section 3.3. The floor can exceed the net income of low-wage earners, a group whose employment decisions tend to be particularly responsive to financial incentives (Immervoll, 2012^[54]). The benefit floor's detrimental impact on work incentives for this group is much stronger than the effects of policies that seek to make work pay, such as the earned income tax credit, and Korea's comparatively low income tax and social contribution burdens.

Figure 4.5. Replacement rates are too high for low-wage earners, but low for longer jobless spells

Net replacement rates at different points in the unemployment spell



Note: Policy rules as of January 2021, as reported by responsible ministries in OECD member countries. The shaded area illustrates the range of replacement rates across most OECD countries. Net replacement rates express net out-of-work income as a percentage of net income while in work. Calculations are for a single-person household (40-year-old, “long” and uninterrupted employment history, involuntary job loss). They account for income tax, social contributions, and the full range of benefits that are available while in work (e.g. tax credits) and unemployed (unemployment benefits, minimum-income benefits, cash housing support). Panel B: Minimum-wage earners in Korea are assumed to earn KRW 8 720 per hour, and to work 209 hours a month. Their EI entitlements were KR 60 120 (the daily EI benefit floor), paid 7 days per week. Source: OECD tax-benefit models, <http://oe.cd/TaxBEN>.

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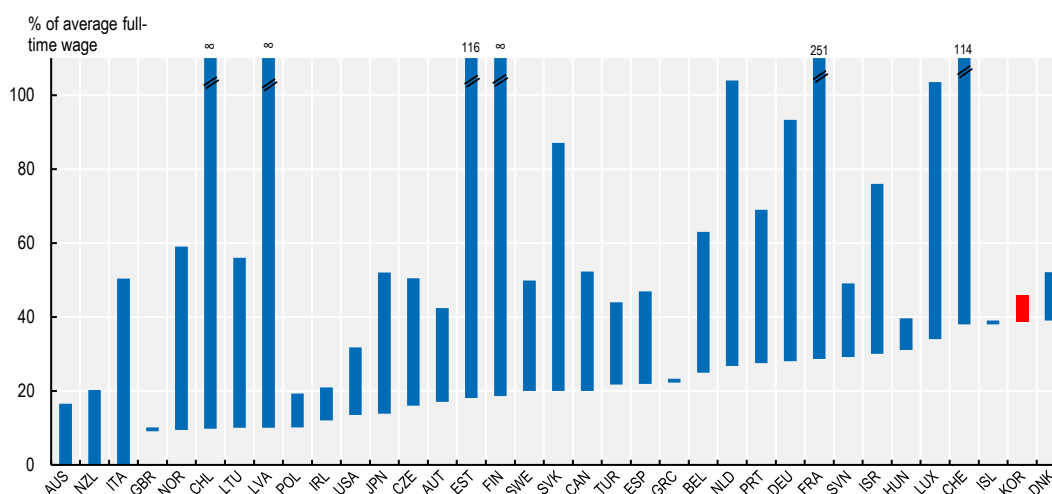
4.2.1. There is no longer a meaningful link between benefit entitlements and past earnings

Even though EI was designed as an insurance benefit, it no longer provides earnings insurance as commonly conceived. This is shown in Figure 4.6, which compares statutory benefit floors and ceilings and, this the interval in which earnings-related benefits operate in practice. In countries where the main unemployment benefit is means-tested (Australia and New Zealand), the ceiling refers to the benefit available for someone without any other resources. In Korea, concerns about negative work incentives, combined with a tight financial situation of the Employment Insurance Fund, have prevented or slowed

regular adjustments of benefit ceilings over time. As ceilings did not keep up with wage growth, benefit entitlements for workers with moderate to higher earnings levels kept falling behind. Their low prospective entitlements, in turn, may have contributed to a reluctance of workers above a certain income (and their employers) to actively seek EI membership. Meanwhile, the benefit floor has been effectively linked to the minimum wage. As minimum pay was boosted over time, this pushed the benefit floor much higher than in other OECD countries with earnings-related benefits. In international comparison, the combination of a low benefit ceiling and the absence of a ceiling on contributions is unusual. Effectively, EI still works like an insurance benefit on the financing side, while benefit entitlements are almost flat rate. Rather than providing a degree of earnings insurance for everybody, the current policy configuration therefore mainly redistributes from higher-earning to lower-earning EI members.

Figure 4.6. Korea's benefit floor is very high, very close to the maximum benefit amount

Benefit floor and ceiling, main unemployment benefit programme, 2020



Note: Average full-time wage refers to the economy-wide average (not to the average for the benefit claimant). Benefit amounts are relevant for jobseekers who meet all applicable eligibility, entitlement and behavioural conditions; are aged 40; and are single and without dependents. Floor amounts shown are whichever is highest between: i) the explicit minimum benefit amount, and ii) the de facto minimum benefit amount a jobseeker would receive after full-time employment paying the applicable minimum wage.

Source: OECD tax-benefit models and policy database, <http://oe.cd/TaxBEN>

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4.3. Employment incentives and support

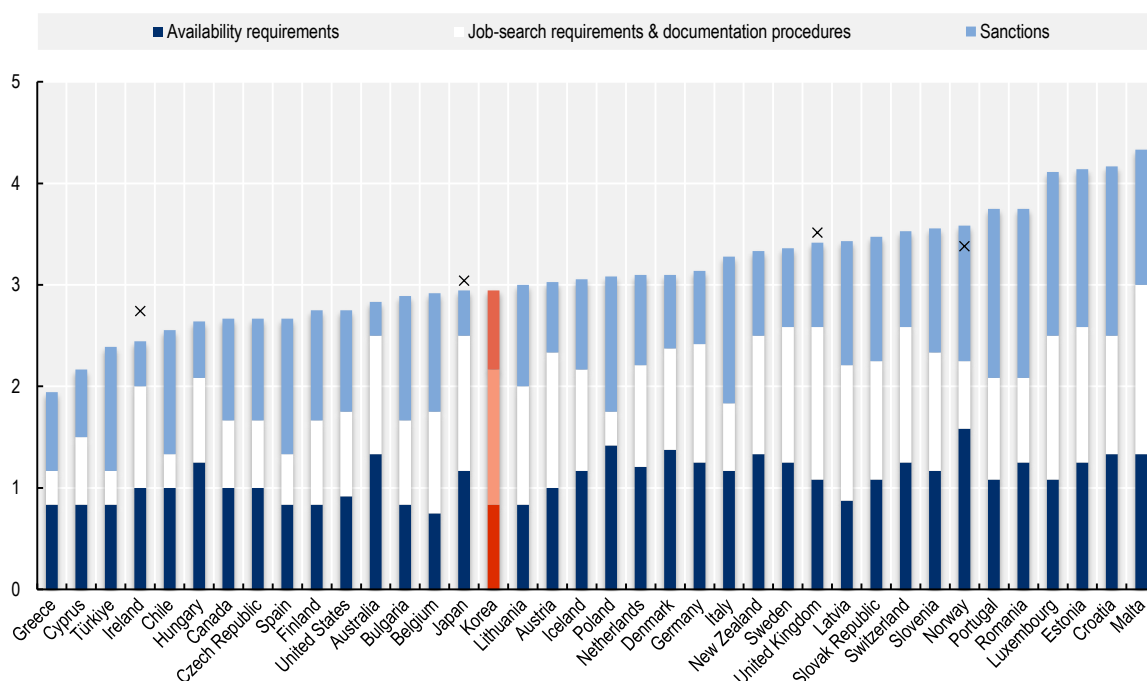
Weak work incentives due to overly generous out-of-work benefits are rarely the only, or even the main, employment barrier for jobseekers. Korea is no exception to this pattern (Fernandez et al., 2020_[13]). Nevertheless, a labour market as fluid as Korea's – with comparatively short employment durations, less binding constraints on contractual arrangements and working conditions than in most of the OECD, and various options for when and how long to work – creates ample opportunities for acting on positive and negative incentives.

4.3.1. Labour markets in transition: A need to broaden the scope of activation policies?

Korea scores close to the OECD average in terms of the overall strictness of activation requirements (Figure 4.7). These activity-related eligibility criteria regulate the requirements that claimants need to meet in order to continue receiving a benefit, they include conditions regarding the availability for employment and job-search activities, as well as benefit sanctions in case conditions are not met. Requirements regarding claimants' availability for employment (the types of work that benefit claimants need to accept) are relatively lenient in Korea. This is driven by weak demands on occupational mobility, while geographical mobility requirements are in fact strict.¹⁵ Legal provisions regarding job-search requirements and related monitoring procedures are more demanding than in many other countries. Sanctions for non-compliance with activity requirements are comparatively lenient overall, reflecting mild sanctions for those refusing job offers or participation in ALMPs. However, as noted earlier in this section, Korea imposes significant sanctions (complete benefit loss) on benefit claimants who are judged to be voluntarily unemployed without good cause.

Figure 4.7. Strictness of activation requirements

Scored from 1 (most lenient) to 5 (most strict), 2022



Note: Preliminary results, responses from some countries missing or incomplete. Where overall strictness scores changed relative to 2020, crosses indicate previous (2020) values.

Source: (Lee, Immervoll and Knotz, forthcoming^[55]), "Activation requirements after COVID: How demanding?", <https://oe.cd/ActivationStrictness>.

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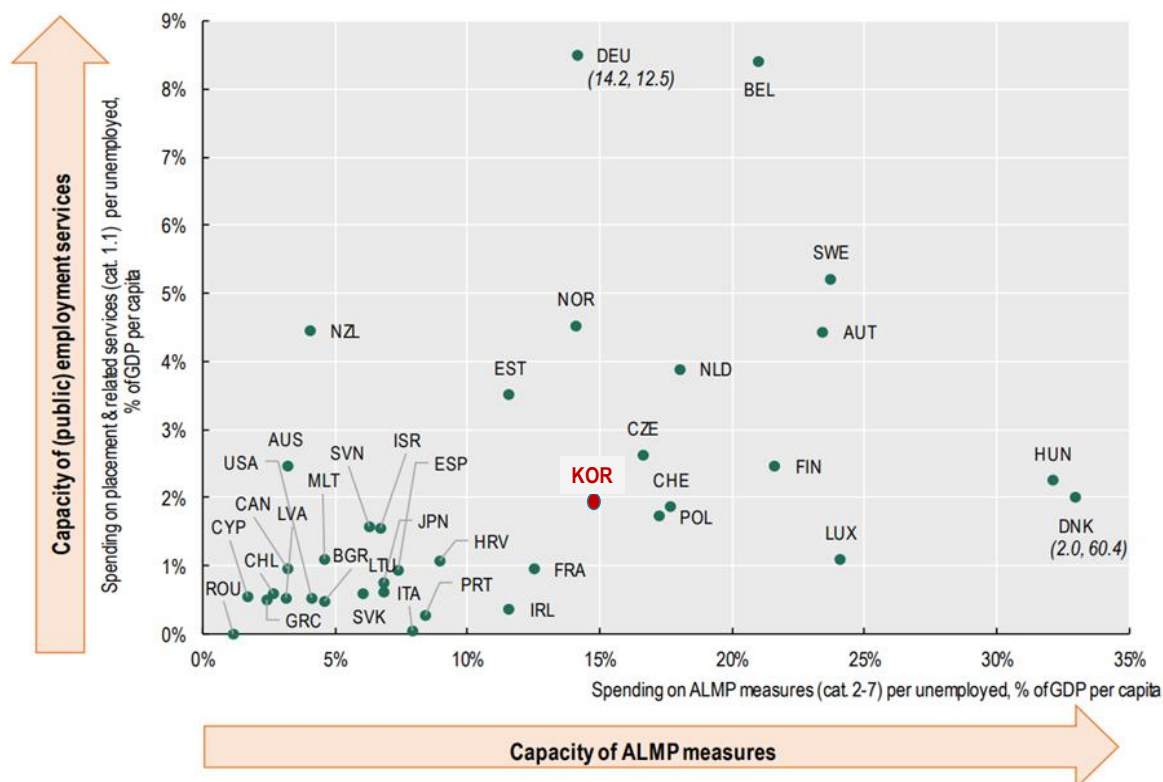
Changing work patterns and new forms of employment raise novel questions about the scope and ambition of activation policies. For instance, compared with out-of-work individuals with past standard employment, jobseekers with a history of self-employment can be less likely to rely on PES for their job search, e.g. if a lack of benefit entitlements means that there is no immediate financial incentive for regular interaction with the PES. Limited engagement with the PES, for whatever reason, can become a growing concern when independent forms of work increasingly become substitutes for dependent employment.

Extending benefits to additional groups can help to ensure that new forms of work are not left outside the scope of income and employment support. At the same time, there can be a need to review whether benefit reforms that are intended to tackle coverage gaps also create a need to rebalance the demanding and supporting elements of existing rights-and-responsibilities frameworks. An emergence of alternative working arrangements, with additional scope for arranging work or earnings patterns in a way that is compatible with benefit receipt, may call for additional efforts to formulate and enforce clear and reasonable responsibilities for benefit recipients. Likewise, ensuring adherence to job-search responsibilities, and to requirements to actively participate in re-employment measures, may be a necessary counterweight to any extensions of benefit rights to new groups of jobseekers. Certain elements of Korea's recent reforms suggest that policy makers generally share the view that adding new groups to the scope of EI necessitates a reconsideration of activation provisions. Examples are the longer benefit waiting periods that apply for artists and dependent self-employed who leave their jobs voluntarily (4 weeks and 2 to 4 weeks, respectively). Nevertheless, a comprehensive review of the full range of activity requirements, and their suitability for different groups of jobseekers, should accompany reforms of income support entitlements.

New or growing forms of non-standard work may also require weighing the intended role and objectives of publicly provided labour market intermediation and employment services. A key issue is to what extent PES should actively connect people to very short-term work engagements ("gigs"), casual work (e.g. on-call employment or "zero hours" contracts) or independent forms of employment. Although the PES' intermediation role can be partly redundant for platform work that is readily accessible online, some PES today already use web scraping technology to consolidate vacancies from a number (sometimes hundreds) of vacancy repositories. For instance, in the Netherlands, more than one-third of vacancies that are listed on the PES job portal are sourced from other web resources using such technology. Similarly, the Austrian AlleJobs (<http://www.ams.at/allejobs>) platform (and a smartphone app) can be searched by everybody (whether or not registered with PES), and seeks to combine all job vacancies, advertised at PES or otherwise, in a single place.

Figure 4.8. Capacity of active labour market policy

Expenditures on ALMPs in 2018



Source: (Lauringson and Lüske, 2021^[56]), "Institutional set-up of active labour market policy provision in OECD and EU countries: Organisational set-up, regulation and capacity", <https://doi.org/10.1787/9f2cbaa5-en>.

Weak financial work incentives for low-paid workers, concerns in the policy debate about the number of repeat benefit claims, and the government's welcome commitment to tackling blind spots in the EI and NESP programmes, highlight the importance of well-balanced responsibilities for both benefit claimants and employment services. They also underline the need for reviewing resources for active labour market policies, as well as activation approaches, when the scope of unemployment support broadens. For instance, demanding proof of independent job search could be particularly effective when the public employment service (PES) has limited capacity for providing job-search assistance. Relatedly, very strict requirements may be ineffective when monitoring compliance is difficult. Deviations between formal rules and their actual enforcement in day-to-day practice are more likely when resource constraints at the PES or benefit office preclude an effective follow-up and credible monitoring of claimants' compliance with relevant obligations and responsibilities (Grubb, 2000^[57]). These considerations are relevant in the context of Korea's spending on PES and active employment programmes (ALMPs) per unemployed person (Figure 4.8). Korea's past experience with the rapid increase in the capacity of employment services also highlights the importance of quality control, notably in a context of contracts with providers of employment services (OECD, 2018^[2]).

4.4. Financing

As Korea sought to expand EI coverage in the past, financing needs have risen, resulting in increasing contribution rates for workers and employers (see section 3). At 0.9% and 1.15-1.75% of wages, respectively, worker and employer contribution burdens for EI have remained comparatively modest, however. Indeed, total contribution burdens for unemployment insurance are notably lower than in most other advanced economies, where they are typically in the order of 4-8%, see <http://oe.cd/TaxBEN> and (ILO, 2019^[58]). Yet, future expansions will translate into additional resource needs. Any measures to provide more meaningful income security for workers with average wages, by re-establishing a link between entitlements and past earnings, can also be expected to drive up overall spending. The fiscal context for working-age support is potentially challenging, with fiscal space squeezed from different directions. Labour incomes are the main funding base of most social protection systems, and this base has weakened overall. Labour's share in national income has declined significantly over the past two decades in many OECD countries, with one of the largest drops in Korea, at more than 10 percentage points of GDP (OECD, 2018^[59]).

On the spending side, population ageing puts growing pressures on pension, health and long-term care systems, which absorb increasing shares of available social protection budgets across OECD countries. Indeed, expenditures on old age and survivor benefits over the past 25-30 years have grown substantially not only in total but, in spite of pension reforms, also on a per capita basis. Averaged across OECD countries with longer series of social spending, the spending on old age and survivor benefits per individual aged 65 and older has grown from 22% of GDP per capita in 1990, to 32% in 2000 and 38% in 2013. In Korea, per person spending levels for old age income protection were lower but the increase was very steep, from 4% of GDP per capita in 2000, to 15% in 2014.¹⁶

Indeed, the financial soundness of the EIS has deteriorated following the employment shock in the wake of the pandemic, but also because of additional spending commitments resulting from recent EI reforms. Prior to the announcement of financial consolidation measures in 2021, the EI reserve fund had been expected to become depleted by 2023 and recovering it to sustainable levels has rightly been a prominent topic of discussion in Korea.

The government announced the "Employment Insurance Financial Rehabilitation Plan" at the end of 2021. In response, the government is pursuing policies to increase fund revenue and restructure expenditures. For instance, an additional transfer will be undertaken from the general budget, to cover expenses related to maternity protection benefits, and the employment insurance premium rate will be raised by 0.2 percentage points. In addition, the government plan includes considerations for moderating expenditures through strengthening benefit sanctions, extending benefit waiting periods, and reducing benefits for repeat claims. The fiscal balance of the EI fund positive in 2022 and is currently projected to remain in surplus in 2023.

5 Policy directions

The government's EI roadmap and the current reform momentum towards more effective income support build on Korea's history of successive expansions of social protection in response to economic crises and significant labour market transformations. Recent and ongoing reforms have also sought to tackle a number of concerns raised in earlier analyses, including by the OECD. For instance, progress has already been made on extending the formal coverage of EI, expanding certain aspects of the cost-effective unemployment assistance programme (NESP), and restricting the scope of the costly *Duru-Nuri* contribution subsidy.

Despite these reform steps, a number of challenges remain. In addition, some of the recent or ongoing reforms may have implications for the sequencing of future policy changes.

5.1. Key reform priorities and trade-offs

International comparisons, such as those reported in the previous section, highlight the low effective reach of unemployment benefits in Korea, and the very limited income support that is available for longer-term jobseekers. Following the complete erosion of the EI programme's original link between benefits and past earnings, current benefit provisions can nevertheless result in benefit entitlements that are close to – and sometimes above – the in-work incomes of low-wage workers. Weak work incentives resulting from EI provisions counteract Korea's significant policy initiatives to make work pay, e.g. through successive expansions of the earned income tax credit. Financial disincentives also translate into challenges for activation policies, notably in the context of Korea's efforts to expand income support to non-standard workers.

Efforts to strengthen income security for non-standard workers are timely, and their scope and ambition compare favourably with initiatives in other OECD countries. Establishing reliable income protection for non-standard workers is, indeed, particularly urgent in Korea, given the particularly high prevalence of non-standard work. At the same time, promoting an inclusive labour market and harnessing Korea's human resources and skills also calls for tackling long-standing challenges that have hindered access to support for standard workers, including weak compliance with EI mandates and the complete exclusion of certain categories of "voluntary" jobseekers from EI benefits.

Based on the analysis in this report, priorities in Korea's ongoing and emerging reform programme include the following.

- **Maintain the recent reform momentum with successive steps to tackle support gaps for the large number of non-standard workers.** Recent extensions of EI mandates to some groups of independent workers add to the urgency of including also other self-employed in order to avert loopholes. Support levels and eligibility should account for the specific support needs and earnings opportunities of different non-standard workers, including their ability to choose when and how much to work. Reforms in this area should build on Korea's experience with recent extensions to certain categories of workers, and on the emerging practice in other OECD countries.

- **Strengthen the enforcement of existing EI mandates**, in addition to expanding the scope of EI to additional/remaining groups of non-standard workers. Along with suitable sanctions for non-compliance, continued investment into enforcement infrastructure would also be in line with broader objectives of tackling labour market informality and ensuring adherence to key standards of job quality and employment conditions. With a broadening scope of the EI mandate, it will be important to proactively review whether additional enforcement capacities are needed to ensure compliance, especially among the large number of small and very small businesses.
- **Accompany benefit reforms with sustained efforts to incentivise active job search and participation in employment-support measures.** Non-standard workers can have significant scope for arranging work or earnings patterns in a way that is compatible with benefit receipt. Broadening the scope of income-support entitlements calls for additional efforts to formulate and enforce clear and reasonable responsibilities for benefit recipients. Ensuring active job search and active participation in re-employment measures is a necessary counterweight to extending benefit rights to new groups of jobseekers. In a context of more accessible income support for non-standard workers, it is useful to monitor patterns of repeat benefit claims. Although repeat claims may reflect genuine labour-market insecurity, they can also point to unintended incentives for “gaming” unemployment benefit provisions, e.g. by timing hires and layoffs in a way that maximises benefit entitlements.
- **Reduce EI benefit levels for low-wage earners**, by cutting the unusually high benefit floor. A process should be established to maintain a suitable distance between benefit floor and benefit ceiling in the future, in order to re-establish and maintain a meaningful link between benefit entitlements and past earnings/contributions. Transforming the existing EI programme into a genuine flat-rate income support may be an alternative. This would constitute a major reform, however, and would have additional implications. For instance, financing should then also be de-linked from worker earnings (and come from general tax revenues).
- **Ensure that active employment support is effective and accessible for all jobseekers.** With an expanding scope of income insurance and safety nets for jobseekers, it becomes all the more important to address existing structural challenges, and to ensure that support promotes good-quality employment. In the context of Korea’s heterogeneous labour market, raising PES capacity and staff levels, and aligning them with international good practice, remains a priority.
- **Consider a further softening of the “involuntary unemployment” requirement as an eligibility criterion for EI.** Although many OECD countries operate specific benefit provisions for voluntary job quits without good cause, most allow benefit receipt in principle, e.g. delaying or reducing benefits instead of removing entitlements entirely. It can be difficult in practice to distinguish voluntary from involuntary unemployment. Workers can be as well placed as employers to decide that an existing job does not provide a good match for their skills and experiences. EI will be more effective at facilitating efficient labour market outcomes, if it provides some degree of income and employment support both to dismissed workers, and to those quitting to find better-suited employment. The distinction between voluntary and involuntary job loss can be particularly difficult in the context of ongoing extensions of EI to non-standard workers, who act more independently than standard employees. It can also appear incoherent with provisions of the expanding NESP programme, which (appropriately) does not require involuntary job loss.
- **Review whether additional extensions of EI benefit durations become feasible**, notably from a financial point of view, to strengthen income security further, and to facilitate better job matches by allowing for a more thorough search and preparation for new employment.
- **Soften the very steep drop in income support for people with longer unemployment spells.** One option would be to continue boosting the generosity of means-tested safety nets. Alternatively, or in parallel, it can be useful to consider reducing EI entitlements in steps, rather than stopping

them abruptly. However, such a “degressive” benefit schedule makes limited sense as long as overall EI durations remain very short.

- **Ensure effective access to unemployment assistance for economically vulnerable jobseekers.** It would be desirable to review whether BLSS recipients and other jobseekers without EI entitlement, could be actively directed to NESP and associated employment-support measures. There is scope for increasing the number of beneficiaries of means-tested income assistance provided by the NESP programme, and of associated employment-support measures. For instance, (OECD, 2018^[2]) suggested that a three- to five-fold increase in the number of beneficiaries in ESPP (NESP’s predecessor) could be desirable. Emerging data on recipient trends since the NESP introduction in 2021 will allow assessing progress towards such a scenario. It will also provide valuable input possible measures to strengthen take-up, such as additional outreach efforts about programme eligibility, e.g. to jobseekers, who are judged to be unemployed “voluntarily”, or to others groups not entitled to EI.

Financing represents a key issue for reforms in this area. While some of the priorities suggested above can create additional fiscal space, others require additional spending, including in the short term. The financial soundness of the EIS had deteriorated following the employment shock in the wake of the pandemic, but also because of additional spending commitments resulting from recent EI reforms. Following a number of measures, the fiscal balance of the EI fund was positive in 2022 and is currently projected to remain in surplus in 2023. Nevertheless, in a challenging broader fiscal context, considering opportunities for curbing spending increases and raising revenues will remain a central part of necessary efforts to adapt and strengthen income protection in Korea. Further options for improving the budgetary outlook of unemployment support programmes include the following:

- **Continue redesigning the *Duru-Nuri* Social Insurance Subsidy Programme, or abolish it altogether.** *Duru-Nuri* seeks to encourage participation of low-paid workers in small firms in the (mandatory) EI and National Pension schemes. From 2021, subsidies stopped for existing members, but continued for new subscribers, with support covering 80% of contribution burdens for up to 36 months. However, past evaluations have pointed to very high deadweight costs and underlined that premium subsidies do not solve the problem of low EI coverage in Korea in very small businesses, which emerge and disappear with high frequency. Supporting up to 80% of contributions for up to 36 months indeed remains very generous, especially in the Korean context of short job durations. A number of other OECD countries also provide significant contribution subsidies, but the objective is typically to lower labour costs or boost work incentives, rather than “encourage” enrolment in a programme that is mandatory in any case.
- **Review whether the Early Re-employment Allowance provides sufficient value for money.** The allowance pays a large share of remaining unemployment benefit entitlements to individuals who find a steady job early on during their benefit spell. Earlier assessments have pointed to very high deadweight costs, e.g. because the allowance was mainly taken up by men in their 30s and 40s, who had comparatively good employment prospects anyway (Hwang, 2013^[60]). Partly in response to those findings, successive reforms have tightened entitlement criteria. But even after these adjustments, it is unlikely that the allowance makes a substantial difference for those with weaker employment prospects. For instance, entitlement requires remaining in the same job for 12 months, which can be long relative to the short job tenure of many workers in Korea (Figure 2.2, Table 2.1), and can exclude those with the greatest labour market problems. If a form of re-employment allowance is maintained, the government could consider targeting it more narrowly and channelling the resulting savings towards more cost-effective employment-support measures.
- As in other OECD countries, **revenues can be boosted by widening the tax and contributions base**, e.g. by aligning the tax and contribution treatment of different forms of work, removing unintended fiscal incentives for short contract durations and self-employment, and by combating so-called “false” self-employment. An essential element of such a strategy is limiting opportunities

for selective opt-outs that are present in all systems where membership is, in part, voluntary. This includes the extension of mandates to dependent self-employed and artists, as already in force since July 2021. This report argues that the broadening of EI mandates to further groups of self-employed, which currently remains under discussion, should remain a priority. There is also a good case for including those public sector workers, who still contribute on a voluntary basis. Indeed, a limited reach of unemployment support, combined with significant opt-out opportunities, not only reduce the effectiveness of social protection for the individuals concerned. They also compromise its financial and political sustainability.¹⁷ Key characteristics of non-standard workers in Korea suggest that the fiscal effects of opt-out opportunities may be sizeable. For instance, median earnings of the self-employed are very close to those of standard workers, while they are typically much lower in other OECD countries.

- Relatedly, the government should **consider whether mandates can be unified across different parts of the social protection system**. Currently, some groups of workers may be legally required to subscribe to some provisions (e.g. old-age pensions), while membership in the unemployment scheme remains optional. Such differentiation can go against more encompassing concepts of social risk sharing across both individuals and risk types and, in doing so, it may exacerbate selective opt-in/opt-out behaviour. Packaging unemployment, pensions and other social protection elements through a unified set of mandates and regulations reduces the scope for “cherry picking” and can help to maintain a more diversified risk pool.

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Notes

¹ Risk sharing through collective protection systems, such as social insurance or assistance, thus has unique strengths not only in terms of equity objectives but also on efficiency grounds (Chetty and Finkelstein, 2013^[62]; Gruber, 1997^[63]; Barr, 1989^[64]). Indeed, key labour market risks, such as unemployment and low earnings, are not insurable without government intervention, such as mandated membership, price setting or related regulation (Boeri and van Ours, 2013^[65]).

² Very long working hours have remained common, even after a recent reform reduced maximum weekly working hours (Hijzen and Thewissen, 2020^[68]).

³ The retirement benefit system, under the Employee Retirement Benefit Security Act, has been in place in some form since the 1950s. It stems from a time when no social insurance programmes were in place, and it served a dual role of providing income support during unemployment and upon retirement. More recently, its role evolved towards a supplement of the national pension system and a mechanism for encouraging workers to save for retirement. In practice, it nevertheless still provides a form of severance pay to workers changing jobs. Workers can also draw on their balances prior to leaving a job in certain circumstances (e.g. when purchasing a house).

⁴ For instance, around the mid-2000s, only around 40% of displaced workers were re-employed within a year, half the rate of the best-performing OECD members, such as some Nordic countries (OECD, 2013^[4]).

⁵ Effective coverage has been low even for displaced workers, who have been the primary focus of the EI programme from the start when it was introduced, and who meet the “involuntary job loss” requirement by definition. An early study of displaced workers found that as many as half of them did not receive benefits through any of the available out-of-work income support programmes. For displaced daily workers (83%) and those with fixed-term contracts (72%), non-coverage rates were higher still (OECD, 2013^[4]).

⁶ In addition, self-employed people who have been contributing to EI and move into a job as an employee without claiming benefits were able to cumulate those periods with the subsequent contribution periods as an employee.

⁷ Intervention was structured in three phases lasting a total of 9-12 months and unsuccessful jobseekers could re-apply after 3-30 months.

⁸ “Vulnerable” groups included persons with a disability, low-income self-employed, low-income non-regular workers, female heads of households, unmarried mothers, lone parents; former soldiers with technical skills, individuals who have been declared bankrupt, ex-prisoners, homeless people, international migrants by marriage, as well as defectors from the Democratic People’s Republic of Korea.

⁹ For January 2020, the OECD SOCR database (<http://oe.cd/socr>) shows 1.24 million individuals living in households supported by National Basic Livelihood Security, compared to 0.5 million individual EI payments (i.e. counting payments only, not the individuals in recipient households).

¹⁰ The so-called “obligatory provider” criterion was abolished as an eligibility requirement of Basic Livelihood Security Programme in 2015 for education benefits, in 2018 for housing benefits, and in 2021 for livelihood benefits. As of today, the “Obligatory Provider” criterion only applies to medical benefits.

¹¹ Insurance solicitor, visiting lecturer for study book, visiting lecturer for educational school, delivery driver, loan solicitor, credit card member solicitor, door-to-door salesperson, rental product visiting inspector, home appliance delivery and installation technician, after-school instructor (elementary and secondary school), construction machine pilot, trucker.

¹² In Denmark, the minimum working-hours entitlement condition was changed into an earnings criterion corresponding to at least 12 months of employment up to a certain earnings limit, see detailed country information for Denmark on <http://oe.cd/TaxBEN>.

¹³ According to OECD calculations based on Ministry of Employment and Labour data, NESP unemployment assistance in 2021 and 2022 accounted for about 14-15% of all unemployment benefit recipients in any given month on average (NESP Type-I support and EI). Comparable data on the number of unemployment-assistance recipients were not available for years 2020 or earlier.

¹⁴ For instance, about half the hours that should attract overtime premia were left unpaid in 2016, and about 10% of employees in 2016-17 were paid below the minimum wage (Choi, 2018_[61]). Overall, around 40% of all wage workers in Korea were found to engage in some form of informal work, defined as work that is not fully covered by minimum wage regulation, labour standards and social insurance (Lee, 2017_[21]).

¹⁵ Strict requirements regarding geographical mobility are accompanied by support payments. A “Wide-area Job-seeking Allowance” is paid to those seeking work at a distance of more than 50km from their residence, while a “Moving Allowance” is available for jobseekers who relocate for work or training.

¹⁶ Increasing per capita spending on pensions is in line with growing employment rates, especially among women, and the resulting growth in the number of people with significant pension entitlements. The average spending figures quoted in the text for OECD countries are for: Austria, Australia, Chile, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, the United Kingdom and the United States.

¹⁷ For instance, a small or shrinking group of insurance members or contributors, say as a result of readily available alternative work arrangements that allow bypassing relevant provisions, can undermine the very foundations of risk pooling. If mandates are partial or weakly enforced, those with comparatively lower risks (the “good risks” in insurance terminology) are able to minimise their contributions or choose to opt out entirely. Widespread opt-outs, in turn, imply either greater financing burdens or weaker protection for the remaining (higher-risk) groups. In the absence of regulation or public subsidies this produces further opt-out incentives and, ultimately, a cycle of escalating costs and declining reach of social protection (Rothschild and Stiglitz, 1976_[66]; Akerlof, 1970_[67]).

Benefit Reforms for Inclusive Societies in Korea

INCOME SECURITY DURING JOBLESSNESS

Protecting people, rather than specific jobs, plays a key role in promoting labour-market inclusiveness and dynamism. Effective unemployment benefits reduce inequality, and raise productivity by facilitating a good match between workers' skills and job requirements. They are a crucial policy lever for adapting to the major societal, technological and environmental transitions of our time.

This report is the first of a number of OECD country reviews of income support policies. Each report analyses key policy challenges, discusses recent reform initiatives, and identifies good practices from other OECD countries.

This report on Korea focuses on avenues for strengthening benefit coverage, income security and re-employment in the context of a “dual” labour market with large parts of the workforce in short-duration, non-standard or informal employment. It welcomes Korea's recent reforms towards more accessible jobseeker support, and points to priorities for additional policy action to make income and employment support more effective and inclusive.



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