

# Social Security System of South Korea

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# Social Security System of South Korea\*

Sunju Lee<sup>1</sup>

## Abstract

This note describes the development of South Korea's social security system over the past several decades. The system is split into three main branches: social insurance, intended to achieve universal coverage, and social services and public aid that address the needs of the poor and vulnerable. The major programs included in the system are the National Pension, National Health Insurance, Long-Term Care Insurance, Child Care, and the National Basic Livelihood Security System. The report provides an overview of the social security system in general, the basic elements of the social insurance pillar, and details on how social services and public aid programs operate in the South Korean context.

**JEL classification:** I38, N35

**Key words:** South Korea, social security system, social service, public aid, social insurance

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## **Abbreviations and Acronyms**

LTCI	Long-Term Care Insurance
MOHW	Ministry of Health and Welfare
NBLSS	National Basic Livelihood Security System
NHI	National Health Insurance
NHIS	National Health Insurance Service
NPS	National Pension Scheme
OECD	Organization for Economic Co-operation and Development
SSIS	Social Security Information Service

## I. Introduction: current status of South Korea

South Korea is the thirteenth-largest economy in the world, with a per capita GDP of \$28,100<sup>2</sup> (nominal GDP is \$1,416,949 million), and a population of 50.4 million people in 2014 (IMF, 2015). However, the country was one of the poorest worldwide in 1950, with a per capita GDP of \$854—much lower than the Latin American average per capita GDP of \$2,440 that year (The Maddison-Project, 2013). Korea experienced an impressive rate of growth of 10% annually from 1960s through the late 1990s (World Bank, n.d.).<sup>3</sup>

As its economy has grown, Korea has expanded its social protection institutional framework. In the 1970s and 1980s, economic growth became the national policy priority, and government welfare programs were limited to forms of social insurance that require the insured to share program costs, such as universal healthcare (Yang, 2008). National Health Insurance (NHI) was introduced in 1977—and universal coverage was achieved in 1989. With continuing economic growth and democratization in the late 1980s, the government started to invest more in welfare and introduce new programs. The National Pension Scheme (NPS) was introduced in 1988—universal coverage was attained in 1999—and the Infant Care Act in 1991 marked the start of child care assistance.

Rapid changes in demographic and social conditions in the 2000s also led to new and expanded programs (*ibid.*). In 2000, in response to hardship associated with the 1998 financial crisis, Korea instituted the National Basic Livelihood Security System (NBLSS) for the poor. In 2008, services for the elderly were expanded with the introduction of Long-Term Care Insurance for the Elderly (LTCI), and in 2010, the Pension for Persons with Disabilities was instituted. In 2013 child care benefits were expanded to all income levels, in 2014 the elderly received further protection with the introduction of the Basic Pension, and in 2015 the NBLSS was modified in order to increase its flexibility.

With the growth of social programs and institutions, government spending on welfare has doubled over the last 10 years, increasing from \$45.6 billion<sup>4</sup> in 2005 to \$95.6 billion in 2014

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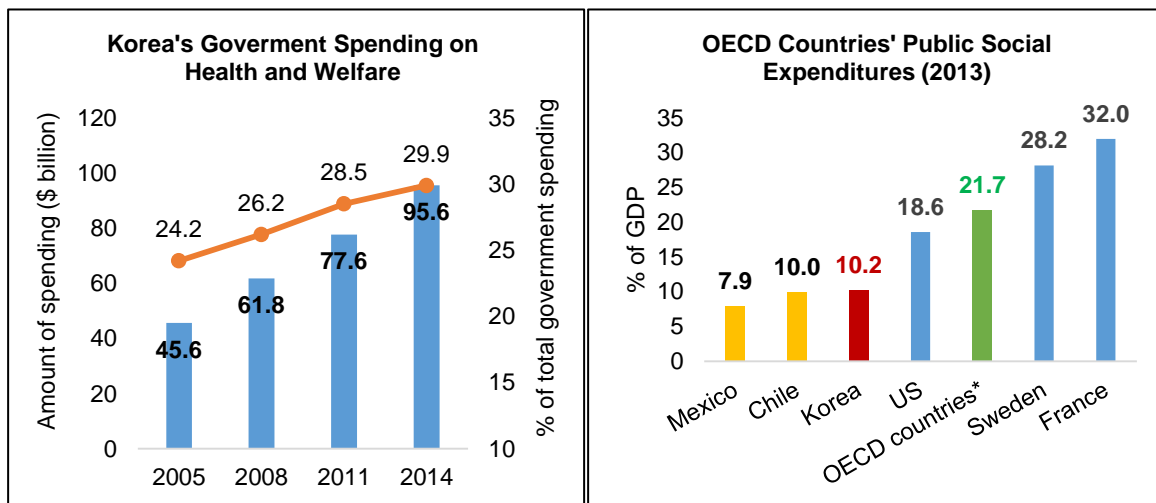
<sup>2</sup> All dollar figures in this report are in USD.

<sup>3</sup> The government believes its long-term economic development plan to change Korea to a competitive, export-led economy and its investment in human capital were the keys to Korean development (Joo, 2015). Acemoglu et al. (2012) also discuss how Korea could achieve the “Han River’s miracle” by investing in education and encouraging technology exports and knowledge transfers.

<sup>4</sup> The exchange rate in this report is \$1 = KRW 1,113.40, based on the rate of June 2, 2015.

(KRW 50.8 trillion to KRW 106.4 trillion; Ministry of Health and Welfare [MOHW], 2014b, 15). Welfare has been the biggest portion of government spending each year since 2004, and social expenditure as a percentage of GDP has also increased dramatically. According to the Organization for Economic Cooperation and Development (OECD), social spending has had an annual double-digit growth rate since 1990.<sup>5</sup> Public social expenditures increased from 2.8% of GDP in 1990 to 4.8% in 2000. In 2009, spending jumped to 9.6% of GDP (MOHW, 2014b, 22), and it was 10.2% of GDP in 2013 (See annexes 1–4 for details). This percentage is still lower than the OECD average of 21.7%<sup>6</sup> in 2013 (OECD, 2013b), as illustrated in Figure 1.

**Figure 1. Social Expenditures in Korea and the OECD Countries**



Source: MOHW (2014b, 15, 222).

\*This is the average for all OECD countries combined.

Despite the expansion of welfare programs, the government faces continuing challenges due to the country's rapid demographic transition toward a predominantly elderly population: The fertility rate in 2014 was 1.21, the lowest in the world (Statistics Korea, 2015b, 60), and the increase in proportion of the elderly in the population is projected to be among the highest in the world between 2010 and 2040, from 11% to 32.4% (Statistics Korea, 2015b, 32). Furthermore,

<sup>5</sup> The OECD defines "social expenditure as cash benefits, direct in-kind provision of goods and services, and tax breaks with social purposes. To be considered 'social', programs have to involve either redistribution of resources across households or compulsory participation. Social benefits are classified as public when general government (that is central, state, and local governments, including social security funds) controls the relevant financial flows. Net total social expenditure includes both public and private expenditure. It also accounts for the effect of the tax system by direct and indirect taxation and by tax breaks for social purposes" (OECD, 2015).

<sup>6</sup> In Chile, social expenditure amounted to 10% of GDP in 2013, and its nominal GDP in 2014 is \$257,960 million (IMF, 2015). In Mexico, social expenditure was 7.9% of GDP in 2013 (OECD, 2013b), and its nominal GDP is \$1,282,725 million in 2014 (IMF, 2015).



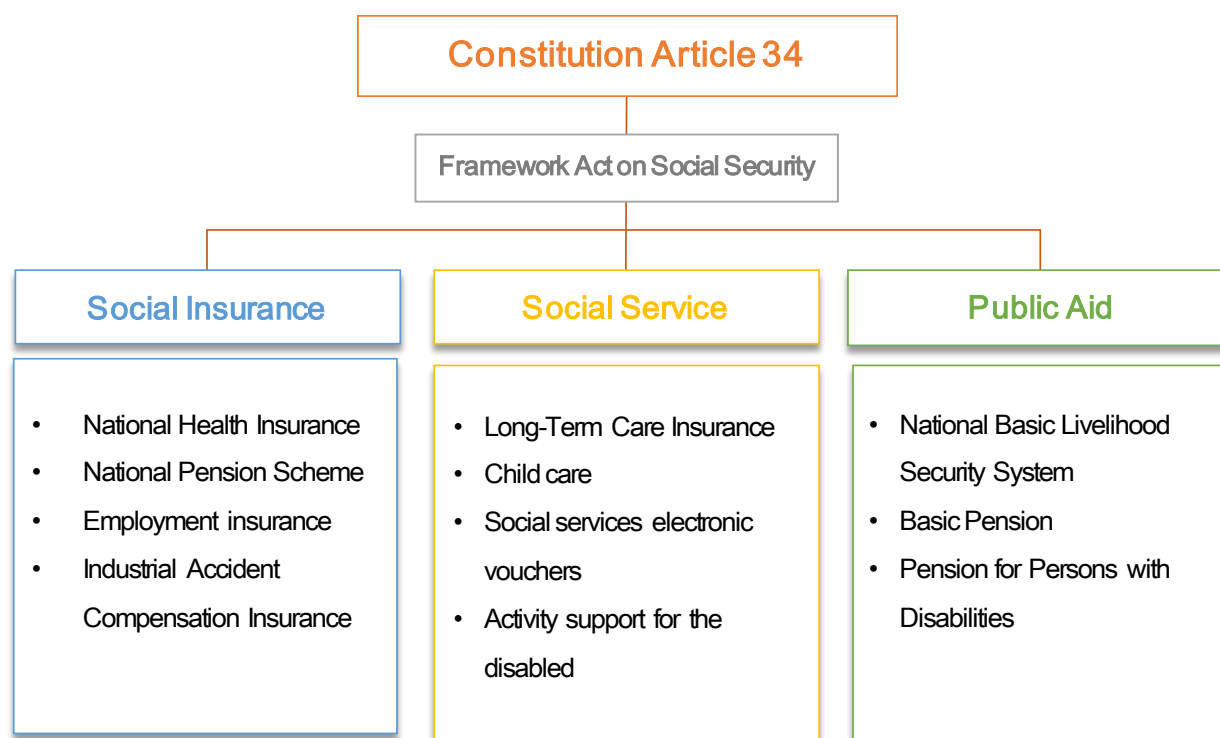
the number of elderly people ages 65 and over is expected to exceed the number of youth ages 0–14 by 2017 (Statistics Korea, 2013). Economic indicators are not positive either. The economic growth rate slowed from an average of 10% in the 1970s to 4% in the 2000s and is expected to decrease further, to 2% in the 2030s (Johansson, A. et al., 2013). The youth (ages 15–29) unemployment rate is also high, around 10% (Statistics Korea, 2015a).

This paper will explore the structure of Korea’s social security policies targeted to the poor and vulnerable. Section II gives an overview of the social security system, which is composed of three main branches. The first branch is social insurance which is briefly described in section III. The two branches that address the needs of the poor and vulnerable are social service programs and public aid programs, which are reviewed in sections IV and V, while section VI provides a brief final summary.

## II. Overview of the social security system

Article 34 of the Constitution of the Republic of Korea states that “all citizens shall be entitled to a life worthy of human beings” (MOGL, 2015). In that spirit, the Framework Act on Social Security defines social security as “systems that enhance citizens’ quality of life”, and it divides the systems into three categories: social insurance, public aid (which relies largely on cash transfers), and social services (MOGL, 2015). The social insurances are the NHI, NPS, employment insurances, and the Industrial Accident Compensation Insurance; these instruments are universal and provide protection from risk to all citizens. The social services are child care support, the LTCI,<sup>7</sup> and the Activity Support Service for the Disabled. In these services government support via vouchers or transfers is provided based on need. Finally, public aid refers to the NBLSS, Basic Pension, and the Pension for Persons with Disabilities. The social security system is diagrammed in figure 2.

**Figure 2. The Structure of Korea’s Social Security System**



Source: MOHW (2012b).

<sup>7</sup> Some scholars classify LTCI as social insurance since it is an insurance scheme. However, this paper classifies it as a social service because it is a typical care service.

To ensure coverage of intended beneficiaries, the government uses information from the census, public data, and relevant studies to estimate each program's target population and widely advertises the programs. Local government officials then reach out to make sure people in these target populations are aware of the programs. Moreover, every year, state and local (city, county, and district) governments conduct extensive investigations<sup>8</sup> to find eligible citizens who may have been overlooked to connect them to the proper programs.

Citizens who seek government benefits from public aid and social services programs must apply to local governments or relevant public organizations that have been certified by the government. Information on programs and beneficiary qualifications is available online and in local offices, and some program applications are available online for online submission; the website called "*Bokjiro*" ([www.bokjiro.go.kr](http://www.bokjiro.go.kr); shown in figure 3) provides information on every program. Once applications are received by the local governments, officials assess the eligibility of applicants. If enrollment is granted, officials routinely check the status of recipients to ensure that they remain eligible and adjust benefits according to any status changes.

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<sup>8</sup> Once or twice a year, the government reaches out to find people who are not initially identified as eligible for government programs. Research is done by teams composed of state and local government officials, police officers, and members of local NGOs. They visit warehouses and slums, for example, to check whether eligible beneficiaries have been registered for government programs, targeting people such as the homeless or those without identification papers. The government also accepts calls from citizens reporting on neighborhoods in difficulty.

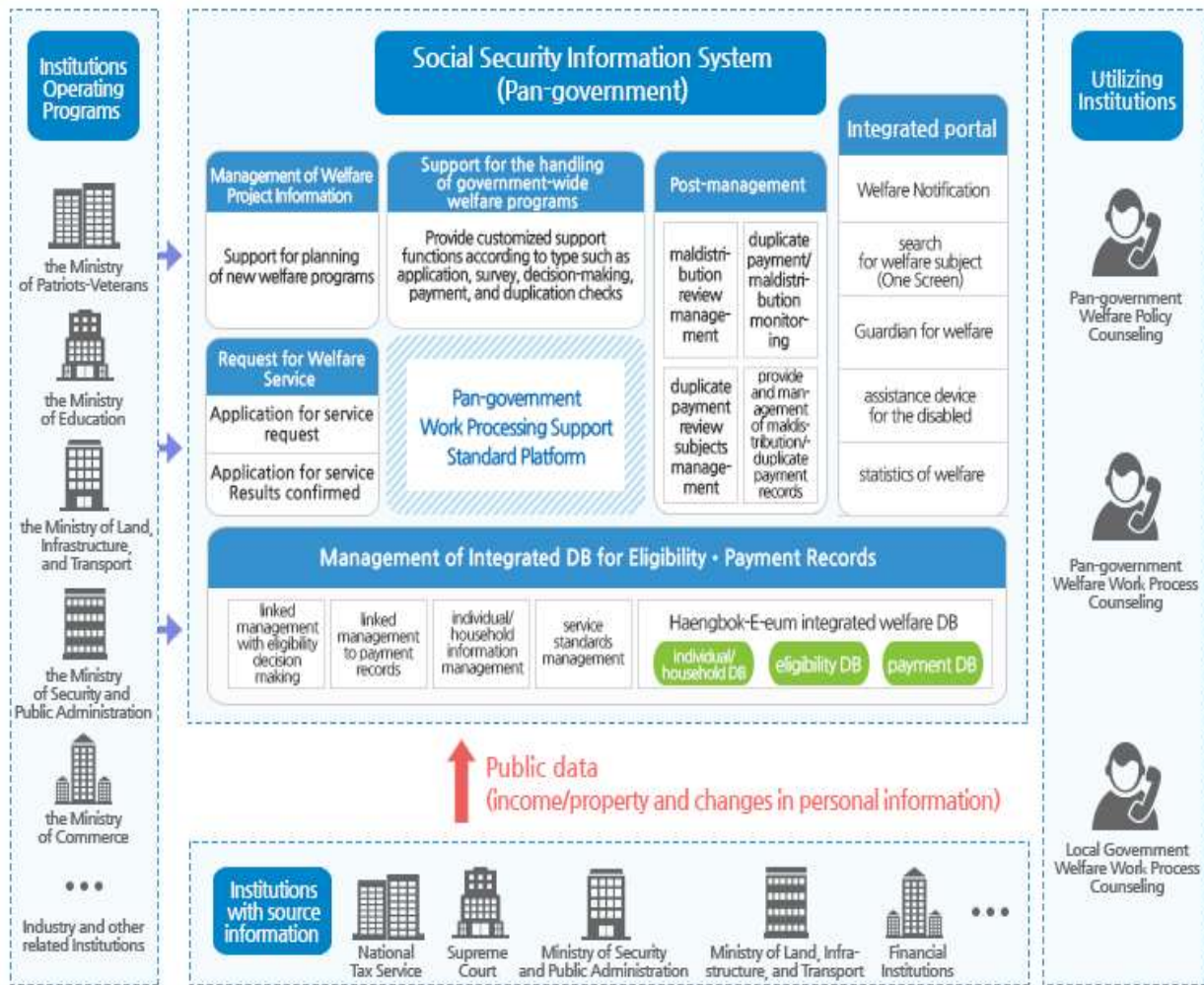
Figure 3. *Bokjiro*: The Comprehensive Welfare Information Site



Source: SSIS (n.d.a)

A distinctive feature of Korea’s social security system is its integrated computerized information system that was introduced in 2010 to enhance administrative efficiency, called the Social Security Information System or “Happiness E-eum.” The system is managed by the Social Security Information Service (SSIS) under the Ministry of Health and Welfare (MOHW). The system integrated over thirty fragmented information systems, and allows the MOHW to trace individual benefit records and profile changes. Through the new system, the government can manage personal information and benefit records of individuals and households on any welfare program. Once a potential beneficiary submits an application, the system automatically assesses the applicant’s eligibility according to the income and personal characteristics found on financial and personal information systems connected to the platform. The portal also reflects real-time changes in the lives of recipients, such as someone’s death, so that the government can adjust benefits accordingly. The new system has tremendously increased administrative efficiency. Time spent deciding eligibility has fallen dramatically, from 60 days in 2009 to 9.9 days in 2013 (MOHW, 2014b, 301). The system also increased transparency and allows government officials to check benefit records and provide any other services relevant to applicants. Figure 4 shows the system’s layout.

Figure 4. Layout of the Social Security Information System



Source: SSIS (n.d.b).

### III. Social Insurance

While the rest of the document provides a further description of the two pillars of social services designed specifically for the poor and vulnerable, social services and public aid, here we provide a basic understanding of the NHI and the NPS, which are the main programs within the social insurance. Social Insurance is defined by the Framework Act on Social Security as “a system that guarantees citizens' health and income by coping with social harms that occur even when people are covered by other forms of insurance” (MOGL, 2015).

Korea introduced the **National Health Insurance** in 1977 and it took over two decades to achieve universal coverage in 1989. The MOHW decides NHI policy, and the National Health Insurance Service manages the NHI as a single insurer. The system is regulated by the Health Insurance Review and Assessment Services, which oversees and reviews the system's medical claims and assesses the service quality of medical institutions. The system is financed by user contributions (82.7%) and government subsidies (17.3%). Expenditures in 2014 equaled \$43.5 billion (KRW 48.38 trillion;<sup>9</sup> Ko et al., 2014).

All citizens contribute to the NIH, but the contribution rate varies. For salaried workers, the contribution is calculated based on wages, and for the self-employed it is based on their income, age, gender, and assets. Everyone has a copayment rate of 20% for inpatient care, 30%–60% for outpatient care, and 30%–50% for pharmacy copayments, with a copayment ceiling ranging from \$1,078 to \$4,490 (KRW 1.2 million to KRW 5 million). The benefit is divided into cash and service benefits. Although contribution amounts differ according to payment capability, all people receive the same benefits.

The **National Pension Scheme** was introduced in 1988. It is an earnings-related program with a progressive formula and is income redistributive within generations. The MOHW governs the pension and establishes policies regarding its operation. The program is run by the National Pension Service, which is under the control of the ministry (National Pension Service, 2010). To secure individual income into old age, all citizens aged 18 to 59<sup>10</sup> are covered by the scheme. The NPS has a high number of insured beneficiaries, though the scheme was late relative to those of other developed countries. As of February 2015, the number of insured paying into the

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<sup>9</sup> Or 3.067% of GDP.

<sup>10</sup> Except public officials, military personnel, and school teachers (all of whom have special occupational pensions).

fund was about 21 million, while 3.5 million were receiving pensions from the fund (National Pension Service, 2015). The insured are divided into two categories: those with mandatory insurance and those with voluntary insurance. People with mandatory insurance are either employees or self-employed and are not allowed to withdraw funds, and the voluntarily insured are not employed and may withdraw funds. The contribution rate into the NPS was set low when the NPS was created, and currently is 9% of standard monthly income.<sup>11</sup>

The NPS provides four types of benefits; old-age pension, disability pension, survivor pension, and lump-sum refunds. The old-age pension is the most common benefit, and people who are insured more than 10 years can receive it after turning 60 (the official retirement age). Disability pension is for people who became disabled while they were contributing. The survivor pension is for the family of an insured person who dies; the usual beneficiaries are spouses or children. Lastly, a lump-sum refund is for people who briefly paid into the fund.<sup>12</sup> According to the OECD, the 2013 income replacement rate (gross relative pension level at median income) of Korea's National Pension was 39.6%, similar to the OECD average, 40.6% (OECD, 2013a).

NPS spending in 2014 was \$13.1 billion (KRW 14.6 trillion; which represents 0.92% of GDP MOHW, 2014a). The NPS had \$432 hundred billion (KRW 482 trillion) in assets as of February 2015 (National Pension Service, 2015), which makes it the fourth-largest pension fund in the world. However, considering the country's rapid demographic changes, the fund is expected to peak in 2043 and run out in 2060 (National Pension Service, 2015). To maintain financial sustainability, the MOHW has conducted reforms twice. In 1998, it decided to phase in an increase the retirement age from 60 to 65 by 2033 and reduce the benefits. To secure the fund's sustainability and stabilize returns, the ministry has also made a continuous effort to diversify the fund's portfolio.

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<sup>11</sup> The standard monthly income is the amount within the range from \$234 (KRW 260,000) to \$3,664 (KRW 4,080,000) on the basis of the insured person's monthly income.

<sup>12</sup> For example, someone who works and contributes through mandatory contributions but then permanently moves to another country would be eligible for a lump-sum refund.

#### **IV. Social Service Programs**

Social services are broadly defined in the Framework Act on Social Security as “systems that support all citizens who need assistance from state and local governments and the private sector by guaranteeing a decent life, namely through assistance with issues such as personal welfare, health and medical services, education, employment, housing, cultural inclusion, and environmental management, and by providing consultation, rehabilitation, care, information, relevant social facilities, development of competencies, and support for social participation” (MOGL, 2015).

Since 2008, Korea has introduced and expanded many social services programs as a means to create jobs and fulfill the demand of citizens. Currently, 51 programs are provided by eight ministries (see annex 5), which include the ministries of health and welfare, education, labor, and gender equality. The total government budget for social service programs in 2014 was around \$14.4 billion (KRW 16 trillion<sup>13</sup>),<sup>14</sup> and the foremost programs are the LTCI, child care, Activity Support Service for the Disabled, and the social-service electronic vouchers.

Each service has its own eligibility standards, delivery systems, financial resources and payment methods. Most of the services combine limits on income with other characteristics when deciding eligibility and benefit amounts, but unlike public aid, which is specifically for the poor, social service programs are not confined to low-income people.

Qualified public and private specialized centers or institutions provide services in accordance with standards set by the state government. Local governments examine the institutions’ applications and designate providers as qualified based on standards stipulated by the state. The standards include regulations on the facilities and human resources.

There are two kinds of payment systems. The first is a supply-side support structure in which the government pays providers or institutions a service fee. Every year the state government estimates the number of service users and institutions’ operational costs, then distributes the estimated funds to providers via local governments. The second is demand-side support which

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<sup>13</sup> The figure combines state and local government budgets. The LTCI input reflects total program spending (government budget + insurance premiums + user copayments).

<sup>14</sup> This information comes from an unpublished PowerPoint entitled “Social Service Policy 101” [in Korean] that was compiled in 2014 by the MOHW-Division of Social Services.



comes from the voucher system. Beneficiaries pay a service fee when using the electronic vouchers issued by the state government or a credit card company each time they use the services. The service fee for poor users is paid by the MOHW and is partially supported by recipients. The state government typically entrusts public organizations with affairs concerning claims, billing, and management of providers. Every month, providers request payment from the public organizations representing the state government, and the organizations pay the providers.

The scope and demand for social services has changed as the economic, social, and demographic conditions evolve. For example, demand for child care and elder care services are particularly on the rise, as the rise in the senior population is occurring alongside a rise in women's workforce participation—which signals the loss of the traditional family care system. Also, people care more about their quality of life and happiness, leading to demand for new services such as mental-health counseling and exercise facilities. Recently, as in other developed countries, social services have been an important source of employment in the context of overall lagging job creation in other sectors of the economy. Social services have been in the limelight because of their high job-creation capacity. According to the Bank of Korea, in 2012, the total labor requirement coefficient (persons/million dollars) was 41 persons, much larger than the average of all industries, which is 12.6 (Bank of Korea, 2015). Social services not only create jobs for providers, but also help original caregivers (usually women) join the workforce by freeing them from housework and child or elderly care.

The rest of the section provides a more detailed picture of some of the most relevant programs, namely the Long-Term Care Insurance for the Elderly, Child Care, Activity Support for the Disabled, and the electronic voucher programs.

### **Long-Term Care Insurance for the Elderly (LTCI)**

LTCI is only the third long-term social insurance care program within the OECD countries; Korea adopted the program after Germany and Japan took similar steps. The program was introduced in 2008 amid mounting concern over the rapidly aging population and associated budget pressures to enhance the quality of life for the elderly while reducing families' care burden. LTCI benefits are threefold: home care, institutional care, and, in exceptional cases, cash benefits. Both types of care services consist of bathing and nursing elderly family members and assistance with household activities.

Recipients are defined as elderly at age 65 or older, but people under age 65 who are senile or have mental degeneration diseases that leave them unable to live alone are also eligible. The National Health Insurance Service (NHIS), a public organization under the auspice of the MOHW, assesses applicant eligibility based on individuals' needs and the degree of their disease. Applicants are divided into five categories; categories 1 to 4 are for people who have difficulties in daily life. Category 1 is for people who have the most serious problems, and category 5 is for people with dementia. People assigned to categories 1 through 3 or 5 are entitled to LTCI. People who fall into category 4 are not eligible for LTCI, but may apply to other care services. As of December 2013, there were 378,000 beneficiaries (MOHW, 2014b, 183).

Private institutions and facilities are designated by local governments to provide care. There are two kinds of long-term care facilities: institutions that dispatch caregivers to beneficiaries' homes and medical facilities that admit the elderly. Organizations that want to open facilities must meet facilities and human resource requirements. There are also requirements for caregivers, who must finish and pass training courses established by the MOHW. As of June 2014, there were 24,865 long-term care facilities (MOHW, 2014b, 417).

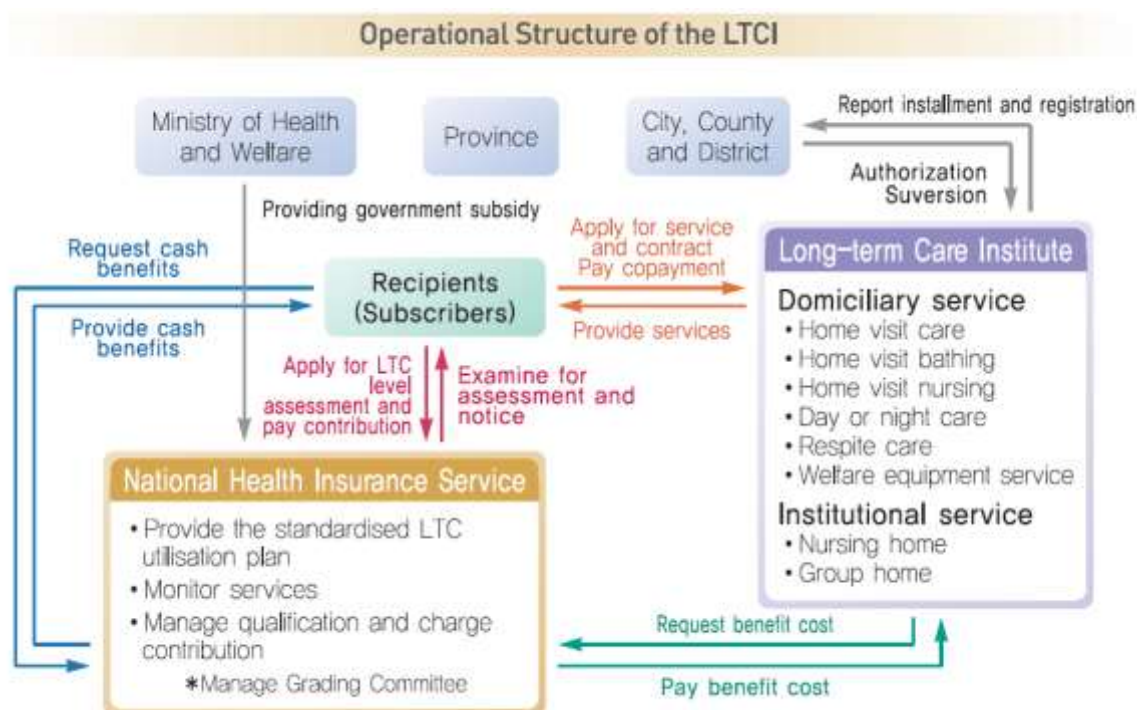
The price of each service is based on a survey of the facilities and it is decided by a committee appointed and led by the MOHW. Recipients pay 15%–20% of the total service fee, though the poor (beneficiaries of the NBLSS<sup>15</sup>) are exempt.

A potential beneficiary files an application for an approval of long-term care with the NHIS along with a doctor's written opinion on the applicant's health. The NHIS examines the applicant and decides whether the person is eligible and under which category, and beneficiaries sign a contract with their long-term care institutions of choice in order to receive services. The beneficiaries pay copayments for each service, and the NHIS pays the remainder of the cost. Figure 5 shows the LTCI's operating structure.

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<sup>15</sup> For example, a family of four that earned less than \$1,464 per month was eligible for the NBLSS in 2014.

**Figure 5. Operational Structure of the LTCI**



Source: NHIS (2014).

In 2014, total spending for LTCI was \$3.7 billion<sup>16</sup> (KRW 4.17 trillion), and the government budget was \$5.3 million (KRW 5,849 million; MOHW, 2014b, 418). The LTCI is financed by LTCI premiums, state and local government budgets, and user copayments. The average LTCI premium payment is around five dollars per month and is collected by the NHIS. All citizens with sufficient income must pay the fee, which is based on the NHI's contributed service cost. The LTCI premium = the individual's national health insurance contribution x 6.55%, and the national health insurance contribution varies depending on the income level of the insured (MOHW, 2014b, 418).

### Child care

The Child Care Program was initiated by the 1991 Infant Care Act, which was designed to help infants grow into healthy members of society and help parents engage in economic and social activities. In 2009, the MOHW introduced a system of electronic infant-care payment vouchers to enhance payment transparency and users' convenience. The voucher cards are issued by credit card companies linked to the MOHW.

<sup>16</sup> Spending was 0.2611% of GDP in 2014.

In 2012, the government dramatically expanded its child-care programs support in an attempt to both boost fertility rates and encourage women's economic participation. Before 2012, only the bottom seventieth percentile of the population was eligible for this type of government support. However, in 2012, all children ages 0–2 became eligible for support regardless of the household's income level, and in 2013, the age limit was expanded to children ages 3–5.

Each month, the government pays between \$90 (KRW 10,000) and \$678 (KRW 755,000) per child under the age of 5. The subsidies are paid to directly to parents or facilities. Two kinds of support are paid to parents with children ages 0–2. The first is a fostering allowance, which is for children who do not go to daycare centers or preschools. This allowance ranges from \$90 to \$180 (KRW 100,000–KRW 200,000), depending on the child's age. The second type of support is an electronic voucher for care services in a daycare or preschool facility, with the government providing vouchers for children who attend either. In 2014, the amount of monthly support varied from \$354 (KRW 394,000) for a newborn to \$256 (KRW 286,000)<sup>17</sup> for a 2 year-old. As a whole, Korea's 2014 budget for child care was \$4.7 billion (KRW 5.27 trillion; MOSF, 2015). About half of the cost comes from the state and half from local governments.

Families with children between the ages of 3 and 5 who attend daycare or preschool can receive \$198 (KRW 220,000) per month. Parents with disabled children who use daycare centers receive \$354 in vouchers (KRW 394,000) regardless of the child's age or degree of disability. Currently, 3.19 million children are using daycare centers (1.48 million), preschools (658 thousand), or receive the allowance (1.06 million; MOHW, 2014a, 198).

The government also supports daycare centers that care for children until age 2. This support, called a basic fostering fee, varies from \$103 to \$324 (KRW 115,000 to KRW 361,000) per month, per child. Figure 6 shows a breakdown of subsidies paid to families and facilities.

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<sup>17</sup> One comparison of benefit amounts between countries comes from the Big Mac Index, which was proposed in *The Economist* (D.H & R.L.W, 2015) and gauges the relative cost of a Big Mac in various countries. The average price of a Big Mac in the US is \$4.79, in Korea the price is \$3.78. The 2015 Big Mac Index for Mexico, for example, is \$3.35. As of April 2015, Korea's average monthly wage is \$2,851 (KRW 3,174,000) and minimum wage is \$5 (KRW 5,580) per hour, according to the Ministry of Employment and Labor.

**Table 1. Government Subsidies for Child Care (per month, per child)**

Support goes to	Children ages 0–2		Children ages 3–5	
	At home	At daycare centers	At home	At daycare centers
Parents	\$90–\$180 (allowance)	\$256–\$354 (vouchers)	None	\$198–\$354 (vouchers)
Facilities	None	\$103–\$324	None	None
Total	\$90–\$180	\$359–\$678	None	\$198–\$354

Source: MOHW (2014b).

All institutions and staff must meet qualifications set by the state. Examples of qualified individuals would be a daycare center owner who majored in child development and has worked in child care for three years, or a teacher who has finished infant-care courses. As of December 2013, 43,770 daycare centers and 8,678 of preschools were in operation. (MOHW, 2014b, p437).

Every year, the MOHW sets the “standard prices of child care” by considering the cost of meals, textbooks, and operating costs of the centers. Based on the standard prices, the government decides the amount of support that will be paid to facilities and parents of children ages 5 and younger. Daycare centers cannot charge more than the standard prices except for special activities, such as music or English classes.

To enter the program, parents and guardians apply directly to local governments or via the Bokjiro website. Local governments notify families about their decision on the application and any level of support offered. Beneficiaries using daycare centers pay their fees with their voucher cards, which are issued by credit card companies associated with the government, and the credit card companies then bill the SSIS accordingly.

### **Activity Support Service for the Disabled**

The Activity Support Service for the Disabled Program was introduced in 2011 to help disabled people live independently and alleviate family care burdens.

There is a national registry for the disabled that lists 6 grades and 15 kinds of disability. People

whose disability is rated as a 1 to 3<sup>18</sup> and who have difficulties independently carrying out their daily activities can apply for the benefit. A committee led by the local government assesses applicants and decides on their participation and benefit amount. The beneficiary is then assigned to one of four categories, and the amount of service support varies depending on the category. Benefits range from assistance with activities such as housekeeping, bathing, and nursing to helping the disabled beneficiary visit friends or receive overnight care. All recipients receive basic benefits, and further assistance varies depending on the degree of disability. Recipients with special living conditions, namely disabled people living independently, with elderly family members, or with newborn babies, can receive the additional benefits, though recipients who work or attend school can also receive them. As of December 2013, 48,335 people receive services (MOHW, 2014b, 348).

To begin the application process a person applies to a local government or a local branch office of the National Pension Service, which is a public organization under the MOHW. Next, a National Pension Service staff member visits the applicant to assess the person's difficulty in negotiating daily life. A committee led by local government then assesses the applicant's eligibility and categorizes the individual based on the result of the visit. Those determined eligible receive a voucher card from the SSIS and are free to make contracts with service providers. Once a contract is signed, the beneficiary may begin using the service. Participating institutions bill their services to the SSIS on a monthly basis.

Service Institutions for the program are designated by local governments. They must meet requirements set by the MOHW and caregivers need to have finished special training to provide services. As of December 2013, 934 institutions and 40,448 personnel were qualified (MOHW, 2014b, 348).

In 2014, the total budget was \$5.57 hundred million (KRW 620 billion), with \$3.85 hundred million (KRW 429 billion) coming from the state (MOHW, 2014b, 313).

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<sup>18</sup> Of the six grades, degree 1 is the highest and 6 is the lowest. For example, in the case of mental disability, degree 1 refers to a person who has an IQ of less than 35 and needs help to function, whereas degree 3 refers to someone with an IQ between 50 and 70 who can live alone after proper rehabilitation and education. In the case of physical disabilities, someone who has lost both hands, for example, belongs to degree 1, whereas a person who has lost one thumb belongs to degree 6.

### **Social-service electronic voucher programs**

The Social-Service Electronic Voucher Programs began in 2007, when the first programs to encourage competition among public service providers were launched. Centered on electronic vouchers, the programs were also designed to increase budget transparency. Since these programs used vouchers from the outset, and the size of the programs are relatively small, this group of programs is called the social-service electronic voucher programs. (Child care also uses vouchers but was not begun with this group of programs, so it is not included under this program umbrella.) The voucher programs include total elderly care, investments in local social services, mother/infant healthcare, housekeeping and nursing, rehabilitation treatment, language development training, and counseling for parents of disabled children.

Beneficiaries of the program do not have to be poor, so members of the middle class can use the services if they pay part of the cost. The amount of the government transfer varies depending on personal characteristics such as income or degree of need. Hence, participation in this program is not confined to a certain socio-economic profile, but government support is restricted based on income and need. There were 653,820 beneficiaries in 2013 (MOHW, 2015a). People determined eligible for the services are issued a voucher card that is used to pay for a portion or all of their services, depending on the beneficiary's income. The service providers then bill the SSIS on a monthly basis.

In order to participate and register with local governments, institutions must fulfill requirements set by the MOHW. As of 2014, 7,318 agencies including 120,669 caregivers were providing services (MOHW, 2014b, 314).

The budget for the seven services was \$4.06 million (KRW 4.54 billion) in 2013 (MOHW, 2015a) and \$4.45 million (KRW 4.96 billion) in 2014 (MOHW, 2014b, 314). Table 2 shows the type of support, number of beneficiaries, amount of government aid, and budget for each program as of 2013.

**Table 2. Social-Service Electronic Voucher Programs**

Program	Services provided	Qualifications	Recipients <sup>1</sup>	Government aid (\$; thousand KRW)	Budget (\$ millions; billion KRW)
Total elderly care	Home care, bathing assistance, housekeeping, etc.	Single, over 65, not receiving LTCI, income < 150% average income	42,282	\$198–\$308 per month (KRW 220–KRW 340)	\$87 (KRW 96.8)
Investments for local social services	Developed by local governments for local needs (700 types, such as senior travel services and exercise for obese adolescents)	People with < 100% of average income; some program-specific requirements	484,851	Varies by program	\$181 (KRW 201.6)
Mother/infant healthcare	Housekeeping, postpartum care services for 2–3 weeks	New mother has less than 50% average income	58,569	One-time payment of \$508–\$1,573 (KRW 566–KRW 1,751)	\$34 (KRW 38.6)
Housekeeping, nursing	Cleaning, laundry, and nursing services	Low-income and single-parent families	10,878	\$204 or \$230 per month (KRW 228 or KRW 256)	\$22.7 (KRW 25.3)
Rehabilitation treatments	Language, music and painting therapy	Developmentally disabled child, household has < 150% average income	55,556	\$124–\$198 per month (KRW 140–KRW 220)	\$77.4 (KRW 86.2)
Language development training	Counseling, language therapy, teaching sign language, etc.	Children with hearing- and speech-impaired parent in household with < average income	1,222	\$131–\$179 per month (KRW 146–KRW 200)	\$2.6 (KRW 2.9)
Counseling for parents of disabled children <sup>2</sup>	Counseling	Parents with mentally disabled children	462	\$131 per month (KRW 146)	\$2.1 (KRW 2.4)

Source: MOHW (2015a).

Note: Budget total includes state and local governments' figures from 2013.

<sup>1</sup> Date range is February 2013 to January 2014.

<sup>2</sup> The statistics of counseling program for parents of disabled children are as of June 2014.



## **V. Public Aid Systems**

The Framework Act on Social Security defines "Public Aid" as "state and local systems that guarantee the minimum standard of living, for citizens who are unable to maintain a living or need assistance with maintaining one, and support recipients' independence" (MOGL, 2015). Public aid usually refers to cash transfer programs such as the NBLSS, the Pension for Persons with Disabilities, and Basic Pension. Funds for the programs come from the state and local governments. Most programs are means-test<sup>19</sup> based, and some are for groups with specific attributes such as disabilities and seniors. Generally there are no additional conditions that public aid beneficiaries must fulfill, though the NBLSS requires people with the capacity to work to keep doing so to retain their benefits. In order to receive benefits, a person seeking support applies to a local government, which then conducts an eligibility assessment. Once an applicant becomes a beneficiary, the local government regularly checks that person's status and stops support if the person is no longer eligible.

### **National Basic Livelihood Security System (NBLSS)**

Korea's financial crisis in 1997 caused a spike in the poverty rate and widespread unemployment. In response, the MOHW introduced the NBLSS in 2000. The NBLSS is designed for people living below the "benefit standard" income (similar to the poverty line). In 2013 the budget for the NBLSS was \$7.4 billion (KRW 8.247 trillion) (MOHW, 2014b,) and in 2014 it reached \$7.93 billion (KRW 8.824 trillion) (MOHW, 2014a), with a matching proportion of the state government to local governments of around 4:1. As a major public aid program of Korea, the NBLSS has revealed some limitations, such as potential welfare dependency and limited coverage. The MOHW overhauled the system to address these issues in early 2015, and the new program was implemented as of July 2015. This section describes the basic features of the system as well as the recent reform.

In order to receive benefits from the NBLSS, an applicant or a family member or friend of the applicant may apply on behalf of the applicant to the local government. A government official may also submit the application on behalf of an individual. Once the application has been submitted, the local government and a public organization (the National Pension Service) examine the eligibility and work capability of the applicant to determine benefit levels. Once the beneficiary is admitted to the program, the local government transfers money to the

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<sup>19</sup> To determine applicants' income, the government uses public data such as the amount of tax paid and the NHI premium (which varies by income) via Happiness E-eum.

beneficiary's account. To stabilize recipients' livelihoods, the MOHW prevents debtors from collecting the transferred money, even if a recipient has a debt. The local government keeps track of the income of beneficiaries through the electronic system (Happiness E-eum) and regular visits. Support ceases when the government finds out that an applicant is no longer eligible for benefits because of increased income or some other ineligibility criteria.

There are seven types of benefits: livelihood assistance, housing assistance, medical care assistance, educational assistance, childbirth assistance, funeral assistance, and self-support assistance. The amount of total benefits paid equals the gap between the benefit-standard income and the eligible person's income. The benefit standard was \$1,464 (KRW 1,630,000) per month for a family of four in 2014 (MOHW, 2014b, 232). The amount of cash benefits is the gap between the benefit standard and recipient income and the amount of benefits provided in kind [cash benefits = (benefit standard – recipient's income) – additional in-kind benefits]. In 2015, the maximum cash benefit for a family of four is \$1,212 (KRW 1,349,428; MOHW, 2015b). Livelihood assistance and housing assistance are usually provided in cash. The seven benefits are as follows:

1. Livelihood assistance is to help the poor maintain basic daily living standards. It is provided in cash on a monthly basis, and the allowance includes the cost of clothing, food, and transportation.
2. Housing assistance is for assistance with rent and home maintenance. It is paid in cash or through in-kind assistance.
3. Medical care assistance provides medical care to beneficiaries at a lower rate of copayment. The copayment rate for inpatient care is 0% to 10% (whereas the NHI copayment rate is 20%). The copayment is \$0.45 (KRW 500) for each medication and \$1.80 (KRW 2,000) for outpatient care (as opposed to the NHI's 20% copayments for medications and 30% to 60% copayments for outpatient care).
4. Educational assistance provides enrollment fees, tuition, and school supplies. It ranges from \$347 to \$1,635 (KRW 387,000 to KRW 1,820,000) per school year.
5. Childbirth assistance covers the expenses of maternity services and is \$539 (KRW 600,000) per child in 2015.
6. Funeral assistance supplements funeral expenses and is \$674 (KRW 750,000) per body in 2015 (MOHW, 2015d). Educational, childbirth, and funeral assistance is provided as needed.

7. Self-support assistance is the provision of loans for self-sufficiency, job training, or employment opportunities. Recipients who are capable of working must participate in self-support programs as a condition of receiving benefits. Examples of self-support programs are local social activities and home or bicycle repair. The ultimate goal of the assistance is to help recipients find a job, including starting their own business.

In the past, the sum of an applicant's income and converted property income had to be below the benefit standard, or the income level set each year by a committee appointed and led by the MOHW. The standard was a minimum cost of living which was the equivalent of \$1,464 (KRW 1,630,000) per month for a family of four in 2014. (MOHW, 2014b, 232). Also, applicants who had any close family members (children or in-laws) who are liable to support the person were not eligible. Roughly 3% of total population was receiving benefits as of 2013 (MOHW, 2014b, 228).

The program eligibility requirements were very strict prior to 2015, but once determined eligible, beneficiaries were able to obtain all seven benefits. This all-or-nothing system discouraged people from leaving the program because once they were out, they would lose support on too many fronts. Also, the funds supplemented beneficiaries' income, so the more a beneficiary earned, the smaller the benefit award. This process caused serious welfare dependency and lowered beneficiaries' work incentives (MOHW, 2015c). The proportion of beneficiaries who found jobs fell annually, from 15.4% in 2001 to 10.6% in 2012 (MOHW, 2015c). Moreover, 51.2% of beneficiaries had been in the program for more than five years, and 24.5% have been in the program more than 10 years (MOHW, 2012a). Strict eligibility requirements limited coverage. In 2010, 1.17 million people made less than the benefit standard but could not receive benefits (Lee, T. et al., 2011).

To address these problems, the MOHW relaxed the eligibility criteria and tapered the withdrawal of benefits. Instead of determining a single, integrated benefit standard, as of mid-2015, each year the MOHW will choose an annual median level of income as a reference for a new standard for each benefit. The government can set different standards for different benefits based on the new median income. For instance, people eligible for the livelihood benefit may earn below 30% of median income while medical assistance is offered for people earning up to 40% of median income and housing assistance is for people earning up to 43% of median

income, and education assistance is awarded for people with as much as 50% of median income. The 2015 median monthly income for a family of four is \$3,792 (KRW 4,222,533). With the new system, even though a beneficiary's income rises, the person can still receive medical and educational benefits. In addition, the MOHW allowed housing benefit limits to vary by region and eliminated the requirement that individuals receiving education assistance must prove that they cannot be supported by another person (e.g., a family member).

With the reform in place, the ministry hopes to encourage beneficiaries to work themselves off the program. It also hopes to increase the number of people served and reduce the number of people who are eligible for services but are overlooked (and unserved) by the previous targeting mechanisms. The number of recipients is expected to increase from 1.34 million to 2.1 million, and average monthly benefit amounts will rise from \$380 to \$424 (KRW 423,000–KRW 472,000; MOHW, 2015c).

### **The Basic Pension and the Pension for Persons with Disabilities**

Complementary to the NBLSS, the other major Public Aid programs are the Basic Pension and the Pension and Allowance for Persons with Disabilities. In order to receive these benefits, people seeking either form of assistance need to apply to local governments. Eligible beneficiaries receive bank transfers each month from local governments.

Korea introduced the Basic Pension in 2014 as a complement of the NPS. The MOHW offers a monthly allowance of around \$179 (KRW 200,000) to elderly people ages 65 and older who are in the bottom 70 percentile of income earners. In 2014, there were 4.09 million recipients, the country's annual contribution was \$4.7 billion (KRW 5.2 trillion), and the total annual budget, including local governments, was \$6.3 billion (KRW 7 trillion; MOHW, 2014b, 472).

To help disabled people lead stable lives, the MOHW introduced the Allowance for Persons with Disabilities in 2007 and the Pension for Persons with Disabilities in 2010. The ministry provides from \$36 to \$251 (KRW 40,000 to KRW 280,000) in pension payments per month to people ages 18 and over with serious disabilities. The recipients must have a monthly income below a certain level, for example \$782 (KRW 870,000) for a household with one member (MOHW, 2014b, 346). Persons above the age of 18 who have a light to moderate level of disability can receive an allowance from \$18 to \$36 (KRW 20,000 to KRW 40,000) per month, and children

with disabilities can receive allowances ranging from \$18 to \$180 (KRW 20,000 to KRW 200,000) per month (MOHW, 2015e) if household income is below or just above the benefit standard of the NBLSS. In 2013, 343,809 people were paid the allowance and 304,574, the pension. In 2014, the budget allowance was \$95.2 million (KRW 106 billion) and \$419 million (KRW 466 billion) for the pension (MOHW, 2014b, 346)

## **VI. Summary**

Korea has introduced and expanded many public assistance programs and strengthened its social safety net in a very short time relative to other countries. Facing a low fertility rate and an aging population, the country expanded the child care benefit to all income levels and supported more stable livelihoods for seniors by introducing the LTCI and the Basic Pension. The government introduced the NBLSS to ensure that low-income people are able to maintain basic living standards; the Pension for Persons with Disabilities and the Activity Support Service for the Disabled similarly contribute to the stable livelihoods and social participation of disabled people. Accordingly, the number of beneficiaries increased rapidly. Child care program recipients jumped from 996,000 in 2008 to 2,248,000 in 2012, and LTCI recipients increased from 214,000 in 2008 to 342,000 in 2012. Beneficiary numbers for the Pension for Persons with Disabilities rose from 210,000 in 2010 to 310,000 in 2012 (Republic of Korea, 2014).

As social service programs adapt to evolving socioeconomic and demographic trends, Korea faces challenges associated with increasing demand for additional services, such as maintaining its high quality standards while meeting the new demand and strengthening the synergy between the several programs within the Framework Act on Social Security and between the different levels of government. It will also be critical to consider fiscal constraints given the prospects of a lower rate of economic growth than when the social security system was expanded.

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## VIII. Annexes

### 1. Annex 1. Public-Sector Social Expenditures

Policy areas	Expenditure (% of GDP)	Programs (examples)
Seniors	2.1	Basic Pension, LTCI, Pension (NPS and occupational pensions)
Survivors (spouses of deceased)	0.3	Survivor pension in NPS and occupational pensions, pension for patriots
Incapacity-related	0.5	Disability pension in NPS, Pension for Persons with Disabilities, Allowance for Persons with Disabilities, Industrial Accident Compensation Insurance
Health	4.0	NHI, LTCI, medical assistance of NBLSS
Family	0.9	Child care, afterschool care, support for multicultural families
Active labor-market programs	0.3	Job-training programs, support for social enterprises
Unemployment	0.3	Employment Insurance
Housing	---	Housing assistance of NBLSS
Other	0.6	NBLSS, support for the vulnerable (such as North Korean refugees), culture vouchers
Total	9.0	

Source: OECD Stat (2015); Shin et al. (2013, 186).

Note: All figures were grouped according to OECD categorizations from 2011.

## 2. Annex 2. OECD Countries' Public Social Expenditures (% of GDP)

Policy Areas	Korea	Chile	Mexico	US	France	Sweden	OECD
Seniors	2.1	2.6	1.6	6.0	12.5	9.4	7.4
Survivors	0.3	0.7	0.3	0.7	1.7	0.4	1.0
Incapacity-related	0.5	0.8	0.1	1.4	1.7	4.3	2.2
Health	4.0	3.2	2.8	8.0	8.6	6.7	6.2
Family	0.9	1.3	1.1	0.7	2.9	3.6	2.2
Active labor market programs	0.3	0.3	---	0.1	0.9	1.2	0.5
Unemployment	0.3	---	---	0.8	1.6	0.4	1.0
Housing	---	1.0	1.1	0.3	0.8	0.4	0.4
Other	0.6	0.3	0.6	0.9	0.6	0.7	0.5
Total	9.0	10.2	7.7	19.0	31.4	27.2	21.4
GDP* (2015,\$ million)	1,416,949	257,960	1,282,725	17,418,925	2,846,889	570,137	---

Source: OECD Stat (2015).

Note: All figures are grouped according to OECD categorizations from 2013.

\* IMF (2015).

### 3. Annex 3. Public Social Program Expenditures (% of GDP)

Programs	Expenditure	Details
Social insurance	6.3	NHI (3.144) NPS (0.965) LTCI (0.279) Industrial Accident Compensation Insurance (0.309) Employment Insurance (0.460) Occupation-related insurances (1.176)
Basic Pension	0.3	
Child care, elderly care, and policies for the disabled	0.8	Child care (0.724) Elderly care (0.015) Pension for Persons with Disabilities (0.038) Allowances for Persons with Disabilities (0.015) Activity Support Service for the Disabled (0.038)
Others	2.3	NBLSS (0.739) Active Labor Market Policies (0.407) Public housing (0.113) Allowances and compensations from Ministry of Patriots and Veterans (0.249) Earned Income Tax Credit (0.053) Local governments' programs (0.181) Others (0.573)
Total	9.8*	

Source: Shin et al. (2013, 73, 182).

Note: All figures are grouped into OECD categorizations from 2013.

\* Total rounds up from 9.7 to 9.8.

### 4. Annex 4. Categories of Public Social Expenditures (% of GDP)

Category	Social service	Public aid	Social insurance	Social compensation	Total
Expenditure	2.0	1.2	6.3	0.3	9.8

Source: Shin et al. (2013, 190).

Notes: LTCI is considered social insurance. Social compensation refers to compensation for specific groups, such as patriots, North Korean refugees, and persons who were killed or died for so-called right causes.

## 5. Annex 5. Social Service Programs by Ministry

No.*	Program name	Ministry
1	Rehabilitation treatment service	MOHW
2	Local community-based rehabilitation service	
3	Language development training for children with hearing- and speech-impaired parents	
4	Basic elderly care	
5	Total elderly care	
6	LTCI	
7	Mother/infant health care service	
8	Housekeeping and nursing services	
9	Emergency care for single seniors	
10	Child care for children age 0–2	
11	Child care for children age 3–5 (daycare center)	
12	Child care for infants with disability	
13	Total service for children (Dream Start)	
14	After-school child care (local child centers)	
15	Support for fostering disabled children	
16	Support for living facilities for the disabled	
17	Investments for local social services	
18	Administrative assistant (provide jobs for the disabled)	
19	Activity Support Service for the Disabled	
20	Job support for the elderly	
21	Job support for the disabled	
22	Health improvement programs for local community	
23	Suicide prevention and mental health improvement programs (alcohol addiction counseling centers)	
24	Suicide prevention and mental health improvement programs (local mental health center)	
25	Education for disabled women	
26	Job training for people with serious disabilities	

### Annex 5. Social Service Programs by Ministry, cont.

No.	Program name	Ministry
27	Child care for children ages 3–5 (preschools)	Ministry of Education
28	Support for special schools for the disabled	
29	Vouchers for afterschool classes	
30	Assistance service for college students who have disabilities	
31	Wee Project (counseling service for students who have difficulties with school life because of school violence, etc.)	
32	Afterschool care at elementary schools	
33	Culture and art education (support fee for art teachers in school)	Ministry of Culture, Sports and Tourism
34	Culture class for the elderly in local culture centers	
35	Culture vouchers	
36	Sport vouchers	
37	Extension of opening hours (night, weekend) of public culture institutions (museum, library, etc.)	
38	Support for venerable farmers (dispatch assistants for farming, housekeepers)	Ministry of Agriculture, Food and Rural Affairs
39	Job training for the poor	Ministry of Employment and Labor
40	Support for social enterprises	
41	Teenager partnership program (counseling, job-training service, etc., for teenagers who drop out of school)	Ministry of Gender Equality and Family
42	Home-visit childcare services	
43	Support for the multicultural families	
44	Support for social participation of disabled women	
45	Internet and game addiction treatment for teenagers	
46	Job training for mothers who want to return to workforce	Ministry of Patriots and Veterans
47	Support for living facilities for female domestic abuse survivors	
48	Homecare services for patriots and veterans	
49	Job-training vouchers for veterans	
50	Support for LTCL service fees for patriots and veterans	Ministry of Justice
51	Job training for released convicts	

Source: MOHW-Division of Social Service Policy (2014).

Note: The numbers are for reference only and are not connected to the programs themselves.