



# Ageing and Employment Policies

## Korea

### *Vieillessement et politiques de l'emploi*



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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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## FOREWORD

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

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

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

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

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

\* \* \*

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

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## EXECUTIVE SUMMARY AND RECOMMENDATIONS

### **The challenge ahead: preparing Korea for rapid population ageing**

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

### **The precarious situation of older workers**

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

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

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

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

### **Recent reforms**

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

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

## Areas for further reform

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

### *Reforming pensions and income support arrangements*

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

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

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

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

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

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

### ***Changing employer attitudes***

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

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

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

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

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

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

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

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

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

### ***Improving the employability of older workers***

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

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

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

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

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

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

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

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

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