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## KOREA 2004

### 1. Overview of the system

Unemployed persons are covered by an unemployment insurance to which employers and employees contribute. As a last-resort benefit, social assistance is also provided under the National Basic Livelihood Security (NBLs) System which guarantees basic livelihood and supports self-reliance for all those with incomes below the minimum cost of living, the official poverty line, regardless of their working ability.

All net incomes, replacement rates and other figures in this report are based on the Korean tax and benefit system in effect as of 1 July 2004.

#### *1.1. Average production worker wage (APW)*

The national currency is the Won (KRW). In 2004, the average worker (broadened new definition) is expected to earn KRW 26 816 239<sup>1</sup>.

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1. AW refers to the Average Worker estimated by the Centre for Tax Policy and Administration ([www.oecd.org/ctp](http://www.oecd.org/ctp)). For more information on methodology see Taxing Wages 2005-2006, OECD, 2007, part 5, sections 2 and 3.

## 2. Unemployment insurance

There are two kinds of unemployment benefits. Only the Job-Seeking Allowance is contemplated in the calculations used in this study:

- *Job- Seeking Allowance*: provides cash payments to maintain the worker's standard of living and to facilitate their re-employment.
- Employment Promotion Allowance, split into:
  - Early Re-employment Allowance aims to facilitate the recipients' re-entry into a job, for those who get a steady<sup>2</sup> job earlier than halfway the given benefit duration; it amounts to a half of the residual days of Basic Allowance.
  - Job Abilities Development Allowance is paid to those who take training from vocational training institutes under the direction of the local labour offices.
  - Wide-area Jobseeking Allowance is paid to those who are seeking jobs 50 km away from their residence referred by the Employment Security Office.
  - Moving expenses are paid to those who move to another place to take jobs or training mandated by the Employment Security Office.

### 2.1 *Conditions for receipt*

Voluntarily unemployed people are disqualified.

#### 2.1.1 *Employment conditions*

See the contribution conditions (section 2.1.2).

#### 2.1.2 *Contribution conditions*

Having worked at least *180 days or more* in the 18-month period preceding unemployment.

### 2.2 *Calculation of benefit amount*

#### 2.2.1 *Calculation of gross benefit*

The daily basic allowance is 50 per cent of the daily wage. The daily wage is the amount calculated by dividing the wage paid in the last three months preceding unemployment by the total number of working days of the same three-month period. The minimum benefit is 90 per cent of the minimum

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<sup>2</sup> Jobs that guarantee more than 6 months of continuous employment. Number of working hours doesn't matter.

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wage; the maximum monthly benefit is KRW 1.05 million(KRW 35000 per one-day). The daily minimum wage is KRW 18 072.

### 2.2.2 *Income and earnings disregards*

If a recipient finds a job or earns income from the job he/she found, such an incident should be notified to employment office. If the income earned divided by the number of allowance days to which the beneficiary is entitled exceeds 60 per cent of the (daily) job-seeking allowance, such excess will be deducted from the (daily) job-seeking allowance the recipient is originally entitled to.

The payment of unemployment benefit is suspended in case the beneficiary gets re-employed and contributes to the Employment Insurance System (EIS). The same applies if the beneficiary works 80 hours or more per month.

### 2.3 *Tax treatment of benefit*

Unemployment benefits are not taxed, in accordance with Article 12 of the Income Tax Law. Early Re-employment Allowance is not taxable.

### 2.4 *Benefit duration*

The maximum duration of payment of unemployment benefits ranges between three and eight months, depending on the age of the recipient at the time of job loss and the period of contribution to the EIS. It is shown below in days of benefit:

Age (years)	Periods of contribution to the EIS (days)				
	Under 1 year	1-3 years	3-5 years	5-10 years	Over 10
Under 30	90	90	120	150	180
30-50	90	120	150	180	210
Over 50 and the disabled	90	150	180	210	240

There is a two-week waiting period. (7 days per week, 30 days per month, 365 days per year.)

### 2.5 *Treatment of particular groups*

#### 2.5.1 *Disabled persons*

Disabled persons, regardless of their age, are entitled to the same number of days of benefits as those over 50 years of age.

### 3. **Unemployment assistance**

None.

### 4. **Social assistance**

For the past forty years, the Korean government has provided limited protection mainly for those who are unable to work due to age or disabilities under the previous Livelihood Protection System. However, the Korean financial crisis in 1997 and following structural reforms caused rapid increase in the

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number of the poor and unemployed, which required urgent expansion of the social safety net. To face this situation in a fundamental way, the government enacted the National Basic Livelihood Security (NBLS) Act in September 1999, and fully implemented the system in October 2000.

The new system has changed the paradigm of policies to fight against poverty. The system emphasises social responsibility for poverty and has strengthened the right of the people in the low-income bracket to receive public assistance. All the people who live under the poverty line are provided financial benefit regardless of their working ability.

At the same time, the system provides well-organised self-support services so that recipients who are able to work can free themselves from poverty. The government provides self-support programmes for those in the lower-income bracket who are considered and judged to have a degree of ability to work.

#### 4.1 *Conditions for receipt*

Benefits for the NBLS are subject to means test based on the new income scale introduced in 2003. This new scale, named “Combined Income Criteria”(also known as “Evaluated Amount of Income Criteria”), reflects the combination of household income and property value that is converted into a certain amount. In addition, there is another eligibility criteria of “lack of supporters”.

**2004 Minimum Cost of Living\***

Size of household (persons)	1	2	3	4	5	6
Minimum Cost of Living (thousand KRW)	368	609	839	1055	1200	1354

\* The Minister of Health and Welfare declares the level of MCL every year.

Firstly, the Minimum Cost of Living is annually determined by the Central Living Assistance Committee, a committee appointed and led by the Minister of Health and Welfare to set up guidelines for overall social assistance matters. To be eligible for the NBLS benefits, the amount of combined income should be below the minimum cost of living as shown in the above table. Previously, recipients should meet both income and property criteria, while the application of the dual criteria often led to blind spots in protection of the needy. For example, the unemployed who had no income but owned a house (worth KRW 36million or over as of 2002) were excluded from the NBLS benefits. In order to address this problem, the government has adopted unified criteria where property value is converted into a monetary amount and added to the income amount. Specifically, properties are divided into three categories- general, financial, and vehicles-and the conversion rate\* is applied to each type of property, from which the total value of property is calculated. Debts are then subtracted and also the value of essential properties considered necessary to maintain everyday life of the recipient. These combined income criteria are designed to enhance rationality and equity in the provision of NBLS benefits.

\* Conversion rate is determined by the Ministry of Health and Welfare, considering interest rate, inflation rate, and the growth rate of real estate and housing prices.

Secondly, those who live with person/persons responsible for supporting them (hereafter, “legal supporter”) are not eligible as recipients. More concretely, eligibility is given only to those with neither spouse nor lineal relatives by blood nor brothers/sisters, who are not only liable but also able to support them. Obligation as a “legal supporter” is exempted in some cases such as his/her property value is less than 120 per cent of the total of both his/her and the applicant/recipient’s property value. The assistance

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agency, however, can provide assistance benefit in advance for those whose “legal supporters” refuse to support, and afterwards make those “legal supporters” pay the cost.

## 4.2 Calculation of benefit amount

### 4.2.1 Calculation of gross benefit

Assistance is given in the form of the total of seven benefits such as cost of living, housing, medical care, educational, childbirth, funeral and self-support benefits. The NBLS Act stipulates that the recipient’s total household income should exceed the minimum cost of living (MCL), which is set to guarantee the minimum for healthy and civilized living. If the recipient receives any supports under other programmes as well, they are deducted from the total amount of assistance under the NBLS system. Actually, the total amount of assistance under the NBLS system equals the balance of the minimum cost of living and the recognized income of the household including other supports under different programmes.

**Monthly cash benefit<sup>1</sup> (cost of living and housing cost) levels per household, under the NBLS in 2004**

Size of household (persons)	1 person	2 persons	3 persons	4 persons	5 persons	6 persons
Monthly benefit (in KRW)	324 186	536 905	738 476	928 901	1 056 160	1 191 780

1. In-kind benefits such as medical and educational aid, etc. are also provided separately in case those benefits are needed by the beneficiaries.

### 4.2.2 Income and earnings disregards

Thirty per cent of the income earned by the disabled in the "Job Rehabilitation Programmes", "Self-Support Cooperative", students and all recipients taking part in the Self-support labor program is deducted from the earned income which would otherwise lower the level of the total amount of assistance.

## 4.3 Tax treatment of benefit

Not taxable.

## 4.4 Benefit duration

Benefits continue until he/she loses his/her qualification as a recipient.

## 4.5 Treatment of particular groups

### 4.5.1 Allowance for the elderly

The Korean government provides monetary allowances for the elderly as a means of income support for senior citizens with low income. Under the current system, those eligible for the allowances are people at the age of 65 or above among the recipients of National Basic Livelihood Security System(NBLSS) benefits. Among the eligible people, those at the age of 80 or above receive KRW 50 000, and those aged between 65 and 79 receive KRW 45 000 per month. Similar allowances are paid on a monthly basis to the elderly whose level of income is slightly higher than those above but still inadequate to meet their basic needs. The poor elderly who were born before 1 July 1933 and whose combined income or assets(the combined income or asset of themselves, their spouses and their family or relatives who have

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a legal obligation to support them) are less than the threshold amount\* can receive KRW 35 000, if they have no spouses, or KRW 30 630, if they have spouses and the couples meet the criteria at the same time.

*\*Threshold amount of income : a monthly average of KRW 543000 per person.*

*Threshold amount assets : KRW 50750000 for rural households / KRW 54250000 for households in small cities / KRW 66500000 for households in large cities.*

**Allowance for the elderly in 2004**

Beneficiary ( thousand persons)	619
Budget (hundred million KRW)	2 115

**4.5.2 Disability allowance**

Disability allowance of KRW 60 000 is paid monthly to those with first and second degree of all kinds of disability, as well as those with third degree of mental disability or autism who also suffer from additional forms of disability.

## 5. Housing benefits

Housing assistance was newly introduced in the NBLSS to support residential stability in consideration of the fact that housing expenditure takes up a considerable part of living expenses, especially in the low-income class. It is provided in cash covering housing rent and the maintenance/repair expenses. In-kind benefits in the form of maintenance/repair services can be provided from 2001, when it is judged to be necessary by the assistance agency.

### 5.1 *Conditions for receipt*

The same eligibility with the recipient for social assistance is applied.

### 5.2 *Calculation of benefit amount*

#### 5.2.1 *Calculation of gross benefit*

**Monthly housing benefit levels per household, under the NBLSS in 2004**

Size of household (persons)	1 – 2	3 – 4	5 – 6
Housing assistance (thousand KRW)	33	42	55

### 5.3 *Tax treatment of benefit and interaction with other benefits*

### 5.4 *Treatment of particular groups*

#### 5.4.1 *Young persons*

#### 5.4.2 *Older workers*

#### 5.4.3 *Others if applicable*

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**6. Family benefits**

Undefined.

**6.1 *Conditions for receipt***

**6.2 *Calculation of benefit amount***

**6.2.1 *Calculation of gross benefit***

**6.2.2 *Income and earnings disregards***

**6.3 *Tax treatment of benefit and interaction with other benefits***

**6.4 *Treatment of particular groups***

**6.4.1 *Young persons***

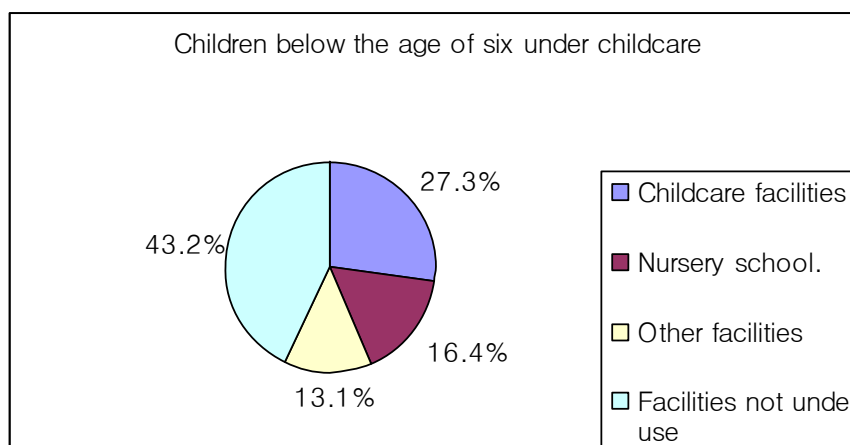
**6.4.2 *Older workers***

**6.4.3 *Others if applicable***

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## 7. Childcare for pre-school children

Currently in 2004, total number of children in childcare amount to 910 thousand people, which is 27.3% of 3331 children, and 16.4%(554 thousand children) are attending a nursery school.



The compulsory schooling begins at the age of six.

### *Out-of-pocket childcare fees paid by parents*

The average fee that is paid by parents varies according to the child's age and the type of facilities. The type of facilities can be distinguished into government facilities (public institution and corporation facilities) and non-governmental facilities (private facilities). Government facilities are facilities that fund labor and management costs, which in turn provide cheaper childcare fees than non-governmental facilities. Childcare fee for government facilities for children who are below the age of five is 153,000 won, and childcare fee for non-governmental facilities is 198,000 won. Children who use government funded childcare facilities amount to 32.9% of total number of children at June of 2004.

The childcare fees that parents pay are expenses that parents who work 40 hours a week can generally afford, and the fees are graded according to the income of the parents. The Korean government has implemented policies that set a limit on childcare fees in order to relieve the burden on behalf of the parents. As a result of this policy, the fees have decreased, but it has given a negative effect on the quality of education. At the end of 2004, the government has produced a standard childcare fee chart for determining the childcare fees in relation to the age of the child, and it is planning to implement the maximum limit policy in reference to the standard childcare fee chart. The portion of childcare fees that have increased in reference to the standard childcare fee chart is going to be funded by the government in order to relieve the burden on the parents.

The average childcare fees that parents pay reflect expenses that are actually necessary for the management of childcare facilities and related laws and standards that are sufficient for these necessary expenses. Expenses include the following: 1) labor wage for employees 2) Expenses for meal services 3) Book expenses 4) management expenses.

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There are legal regulations on tax deduction of childcare fees. Those are the ‘Tax deduction on Child Nursing Fees’ (Income Tax Law article 51 para. 1.4) and ‘Tax deduction on education fees for Infants, Preschool Children and Children in nursery schools.’(Income Tax Law article 52 para.1.4)

Tax deduction on Child Nursing fees refer to additional deductions from personal deductions, and apply to women workers (regardless of whether they have a spouse) and men workers who don’t have spouses. Furthermore, Tax is deducted to children of lineal descent who are below the age of six for 500 thousand won. Tax deduction on education is a special form of tax deduction and for each child 2 million won is deducted.

When minimum cost of living is measured, childcare fees will also be considered.

## 7.2 *Child-care benefits*

### 7.2.1 *Conditions for receipt*

Money delivery to parents for childcare can be distinguished into low-income families, the disabled, children below the age of six, and two children. In case of children from families that have income below a certain level and attend a childcare facility, childcare for these children will be graded according to their family income. In case of disabled children, regardless of their type of disability and family income, they will receive full financial aid. When there are more than two children who use childcare facilities, the government is giving partial financial assistance to the second child. In the year 2005, total number of children who are using a childcare facility amount to 980 thousand children, which is 42%( 410 thousand children).

### 7.2.2 *Calculation of benefit amount*

#### 7.2.2.1 Calculation of gross benefit

[1] Childcare fees that are graded (between the ages of 0~4 yrs old) : 272 thousand people, 169.9 billion won

Subject of Assistance	Cost of Assistance	Cost of Assistance
Legal low-income families	100%	- The age of 0~1: 299,000won - The age of 2 : 247,000 won - The age of 3~5 : 153,000 won
Minimum Cost of living below 120%	80%	
City working families average income below 50%	60%	
City working families average income below 60%	30%	

	up to 3	4	5	6
layer 1	beneficiaries of basic livelihood system			
2	under1.09 mil	under1.36mil	under1.56mil	under1.77mil
3	under1.5 mil	under1.7 mil	under1.9 mil	under2.1mil
4	under1.84 mil	under2.04mil	under2.24mil	under2.44mil

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[2] No childcare fee to children below the age of 5: 95 thousand people, 76.9 billion won.

- subject of assistance: city working families with average income below 80%
- unit cost of assistance: 153 thousand won monthly

[3] No childcare fee to disabled children: 9 thousand people, 14.2 billion won

- subject of assistance: disabled children below the age of 12 ( regardless of their family income)
- unit cost of assistance: 299 thousand won monthly

[4] Childcare fee for all children: 30 thousand people, 6.1 billion won

- subject of assistance: family income of city working families that is below 100% and when more than two children use childcare facilities, assistance to child born after the second child
- unit cost of assistance: 0~1 yrs old 60,000 won, 2 yrs old 50,000 won, 3 yrs old 30,000 won

The Livelihood Protection beneficiaries with children are eligible to the subsidies for child educare center fees as follows:

- Household with children below 5 years old; KRW 125 – 243 thousand a month.
- Household with children of 5 years old; KRW 125 thousand a month.

#### 7.2.2.2 Income and earnings disregards

#### 7.2.3 Tax treatment of benefit and interaction with other benefits

#### 7.2.4 Treatment of particular groups

Children from low-income families of lone mother and father, and Children of Disabled Parents will have the advantage be prioritized over other children in admitting them to childcare facilities, and according to their family income, they will receive financial assistance for their childcare fees from the government. Furthermore, general allowances can be distinguished into childcare allowances for the disabled children, disabled, adopted children, and children with lone mother and father. (More details on this are available at Ministry of Health and Welfare, which is a subsidiary organ)

## 8. Employment-conditional benefits

Self-support services for the people in the low-income bracket with working abilities are newly introduced in the NBLSS to embody the concept of Productive Welfare. Productive Welfare aims not only to prevent them from falling into deepening poverty, but also to make them support themselves on their own by providing proper self-support programmes.

Self-support programmes are aims to enable the recipients with work ability to support themselves by providing proper Self-support services according to their desire and ability to work. It takes a step-by-step development strategy to gradually enhance self-supporting desire and ability of the people participating in the program. At the initial stage, rehabilitation programmes or local social activities are provided to encourage the will for self-support. Then, in order to strengthen self-supporting abilities, the recipients take the self-support labor programs such as free nursing service and house repairing business. Also, the government supports the recipients by providing job training or supports business start-ups by establishing communities to ensure self-support. At the last stage, the recipients can support themselves by participating in the labour market as workers or by starting small businesses.

Year 2003 was the third year for self-support assistances, and the government mainly focused on establishing the infrastructure for efficient provision of services. It supported establishment of the Self-support Guardian Institutes, which has been increased to 209 in December 2003 from 70 in 2000. As a result of these efforts, Self-support services have been provided to 50 000 persons in 2002. As many as 4300 persons out of this total succeeded in self-support as of December 2003, while 3700 persons have been disqualified as recipients on account of their failure to take part in self- support programmes.

## 9. Lone-parent benefits

Lone-parents with combined value of income and property below the levels shown in the table are eligible to the benefits below:

- Child raising support subsidy; KRW 20 000 a month and school fees of high schools.
- Low-interest livelihood support loan; maximum KRW 20 million.
- Long-term low rental housing arrangement service.

Minimum property and income thresholds for lone-parent families were revised in 2003. The new thresholds, as in the eligibility for the NBLSS benefits, reflect the combination of household income and property value that is converted into a certain amount. They vary depending on the number of family members (in million KRW):

Number of family members	2	3	4	5	6
Combined value of income and property	0.84	1.11	1.38	1.56	1.76

10. Tax system

10.1 Income tax

10.1.1 Tax allowances and credits

10.1.1.1 Standard allowances

The standard reliefs are taken as deductions from the gross income.

Employment Income Deduction: the following deduction from gross income is allowed for wage and salary income earners:

Salary	Deduction
Up to KRW 5 000 000	Total amount
KRW 5 000 000 to KRW 15 000 000	KRW 5 000 000 plus 50% of the salary over KRW 5 000 000
KRW 15 000 000 to KRW 30 000 000	KRW 10 000 000 plus 15% of the salary over KRW 15 000 000
KRW 30 000 000 to KRW 45 000 000	KRW 12 250 000 plus 10% of the salary over KRW 30 000 000
Over KRW 45 000 000	KRW 13 750 000 plus 5% of the salary over KRW 45 000 000

- *Basic allowance*: a taxpayer can deduct KRW 1 000 000 from his/her income for each person who meets one of following conditions:
  - taxpayer him/herself
  - taxpayer’s spouse whose taxable income is under KRW 1 000 000;
  - taxpayer’s (including the spouse's) dependents (parents, siblings, children) within the same household whose income after accounting for the employment income deduction is under KRW 1 000 000 and whose ages are as follows:
    1. parents: aged 60 years (female: aged 55 years) or over
    2. brother/sister: aged 60 years (female: aged 55 years) or over, or aged 20 years or under
    3. children: aged 20 years or under (for the purposes of this Report, where there are two wage earners in the household, it is assumed that the principal wage earner will always claim this allowance).
- *Additional allowance*: a taxpayer can deduct KRW 1 000 000 (500 000 in the case of (c)) from his/her gross income when the taxpayer or his/her dependents fall into the following categories (for this report, only cases (c) and (d) would be applicable):
  - a person aged 65 years or over (KRW 1,500,000 in case of 70 years or over)(a)
  - a handicapped person (b)
  - a female wage earner who is the head of a household with dependents (but without spouse) or a female wage earner with spouse (in the case of this report, any female wage earner would be entitled to this allowance)<sup>3</sup> (c)

<sup>3</sup> This extra allowance was introduced to promote female work-force participation. The presence of this allowance necessitates further specifying the demographic make-up of each family type considered within this report.

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- A child aged 6 years or under .

Extra allowance:

- An income earner who is not claiming any other dependent may deduct KRW 1 million from gross income.
- A single income earner with a dependent (e.g. spouse, child) may deduct KRW 0.5 million from gross income.

Compulsory social security contribution:

- *National pension deduction:* Employees can deduct 100 per cent of their contribution of National Pension
- Medical insurance premium and Unemployment insurance premium deduction: employees can deduct 100% of their contribution to authorities.

Lump-sum tax relief:

- Wage and salary income earners may deduct from gross income the expenses for several items paid during the tax year such as insurance premiums(include Medical insurance premium and Unemployment insurance premium), medical expenses, educational expenses, saving/payments for housing, charities and credit card purchases (all of them up to specific limits). The calculations consider only the lump-sum tax relief.
- Any taxpayer whose total deductible expense for the categories mentioned above is not over KRW 1 000 000 may deduct KRW 1 000 000 from their gross income as a lump-sum tax relief.

#### 10.1.1.2 Standard tax credits

Tax credits: for wage and salary income earners, the following tax credit is allowed as follows:

Calculated tax	Amount of tax credit
Up to KRW 500 000	55% of the calculated tax
Over KRW 500 000	KRW 275 000 plus 30% of the calculated tax over KRW 500 000 (limit: KRW 500 000)

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To that end, for Korea, it is assumed that with the exception of the single parent with two children, the principal wage earner is a male.

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*10.1.2 Income tax schedule*

Over (in million KRW)	Not more than (in million KRW)	Marginal tax rate (%)
0	10	9
10	40	18
40	80	27
80		36

*10.1.3 State and local income taxes*

A uniform rate of 10 per cent is applied. However, the local government can adjust the rate between the lower limit of 5 per cent and upper limit of 15 per cent.

**10.2 Treatment of family income**

Each individual is taxed on his/her own income.

**10.3 Social security contribution schedule**

*10.3.1 National pension*

4.5 per cent of standardised average monthly wage income.

*10.3.2 Health Insurance*

2.105 per cent of standard income.

*10.3.3 Unemployment insurance*

0.45 per cent of gross income.

**10.4 Treatment of particular group**

*10.4.1 Young persons*

*10.4.2 Older workers*

*10.4.3 Others if applicable*

**11. Part-time work**

**11.1 Benefit rules for part-time work**

**11.2 Special tax and social security contribution rules for part-time work**

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**12. Policy developments**

*12.1 Policy changes introduced in the last year*

*12.2 Policy changes announced*