
KOREA 2001

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 (NBLIS) 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.

The national currency is the Won (KRW). In 2001, the average worker (broadened new definition) is expected to earn KRW 20 617 658¹.

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 2001.

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.
- *Employment Promotion Allowance*, split into:
 - Early Re-employment Allowance, aimed to facilitate and encourage the recipients' re-entry into a job, for those who get a steady job earlier than halfway the given benefit duration; it amounts to a half of the residual days of Basic Allowance.
 - Job Abilities Development Allowance, for those who take training from the approved vocational training institutes.
 - Wide-area Jobseeking Allowance. This allowance is paid to those who are seeking jobs 50Km away from their residence referred by the Employment Security Office.

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

- Moving expenses. Paid for moving expenses 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 (2.1.2).

2.1.2 Contribution conditions

Having worked at least 6 months in the 18-month period preceding unemployment (see 13 below)

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 percent of the minimum wage; the maximum monthly benefit is KRW 1 050 000. The daily minimum wage is KRW 15 810 (see 13 below).

2.2.2 Income and earnings disregards

A recipient who finds a job can keep part of the benefit up to a given ceiling. That ceiling -- equal to 60 percent of the (daily) job-seeking allowance amount -- applies if the income earned divided by the number of allowance days to which the beneficiary is entitled exceeds 60 percent of the (daily) job-seeking allowance amount.

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.

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	1-3 years	3-5 years	5-10	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*

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 Korea government provides 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 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 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 NBS are subject to means test based on both household income and its property value. In addition, there is another eligibility criteria of “lack of supporters”.

[2001 Income and property criteria]

Size of household	1	2	3	4	5	6
Evaluated amount of income (million won)	33	55	76	96	109	123
Property value(million won)	3,100	3,100	3,400	3,400	3,800	3,800

Firstly, eligibility criteria for income and property are annually determined by the Ministry of Health and Welfare. In order to qualify as a recipient, the amount of his/her income and property value should be below the level as shown in the table. As a complementary measure for the property criteria, those who have his own house of more than 50 m² or live in a rented house of more than 66 m² or who have a farm land larger than the Province average are not eligible. In addition, those who have their own cars (except both below 2000cc for disabled persons and below 1500cc for business use) are not eligible. Along with these criteria, the government introduced several exceptions and special measures to minimize blind spots where the needy are excluded from the NBS benefits due to strict application of criteria. The assistance agency can include as recipients those who do not meet those criteria but are judged to have high needs to be protected in consideration of their peculiar situation or actual living status.

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 percent of the total of both his/her and the applicant/recipient’s property value. The assistance 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 five benefits such as cost of living, housing, medical care, educational, and self-support benefits. The NBS 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 NBS system.

Actually, the total amount of assistance under the NBLSS 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 benefit¹⁾ (cost of living and housing cost) levels per household, under the NBLSS in 2001 >

grade	level of evaluated household income (unit : 10,000 Won)	household size					
		1 person (unit : Won)	2 person (unit : Won)	3 person (unit : Won)	4 person (unit : Won)	5 person (unit : Won)	6 person (unit : Won)
61	120 ~ 123						51,000
60	118 ~ 120						51,000
59	116 ~ 118						66,000
58	114 ~ 116						71,000
57	112 ~ 114						76,000
56	110 ~ 112						81,000
55	108 ~ 110					51,000	86,000
54	106 ~ 108					51,000	91,000
53	104 ~ 106					66,000	96,000
52	102 ~ 104					71,000	101,000
51	100 ~ 102					76,000	106,000
50	98 ~ 100					81,000	111,000
49	96 ~ 98					86,000	123,000
48	94 ~ 96				37,000	91,000	143,000
47	92 ~ 94				37,000	96,000	163,000
46	90 ~ 92				52,000	101,000	183,000
45	88 ~ 90				57,000	106,000	203,000
44	86 ~ 88				62,000	111,000	223,000
43	84 ~ 86				67,000	119,000	243,000
42	82 ~ 84				72,000	139,000	263,000
41	80 ~ 82				77,000	159,000	283,000
40	78 ~ 80				82,000	179,000	303,000
39	76 ~ 78				87,000	199,000	323,000
38	74 ~ 76			37,000	102,000	219,000	343,000
37	72 ~ 74			37,000	122,000	239,000	363,000
36	70 ~ 72			52,000	142,000	259,000	383,000
35	68 ~ 70			57,000	162,000	279,000	403,000
34	66 ~ 68			62,000	182,000	299,000	423,000
33	64 ~ 66			67,000	202,000	319,000	443,000
32	62 ~ 64			72,000	222,000	339,000	463,000
31	60 ~ 62			77,000	242,000	359,000	483,000
30	58 ~ 60			87,000	262,000	379,000	503,000
29	56 ~ 58			107,000	282,000	399,000	523,000
28	54 ~ 56		23,000	127,000	302,000	419,000	543,000
27	52 ~ 54		23,000	147,000	322,000	439,000	563,000
26	50 ~ 52		38,000	167,000	342,000	459,000	583,000
25	48 ~ 50		43,000	187,000	362,000	479,000	603,000
24	46 ~ 48		48,000	207,000	382,000	499,000	623,000
23	44 ~ 46		53,000	227,000	402,000	519,000	643,000
22	42 ~ 44		62,000	247,000	422,000	539,000	663,000
21	40 ~ 42		82,000	267,000	442,000	559,000	683,000
20	38 ~ 40		102,000	287,000	462,000	579,000	703,000
19	36 ~ 38		122,000	307,000	482,000	599,000	723,000
18	34 ~ 36		142,000	327,000	502,000	619,000	743,000
17	32 ~ 34	23,000	162,000	347,000	522,000	639,000	763,000
16	30 ~ 32	23,000	182,000	367,000	542,000	659,000	783,000
15	28 ~ 30	38,000	202,000	387,000	562,000	679,000	803,000
14	26 ~ 28	43,000	222,000	407,000	582,000	699,000	823,000
13	24 ~ 26	48,000	242,000	427,000	602,000	719,000	843,000
12	22 ~ 24	66,000	262,000	447,000	622,000	739,000	863,000
11	20 ~ 22	86,000	282,000	467,000	642,000	759,000	883,000
10	18 ~ 20	106,000	302,000	487,000	662,000	779,000	903,000
9	16 ~ 18	126,000	322,000	507,000	682,000	799,000	923,000
8	14 ~ 16	146,000	342,000	527,000	702,000	819,000	943,000
7	12 ~ 14	166,000	362,000	547,000	722,000	839,000	963,000

6	10 ~ 12	186,000	382,000	567,000	742,000	859,000	983,000
5	8 ~ 10	206,000	402,000	587,000	762,000	879,000	1,003,000
4	6 ~ 8	226,000	422,000	607,000	782,000	899,000	1,023,000
3	4 ~ 6	246,000	442,000	627,000	802,000	919,000	1,043,000
2	2 ~ 4	266,000	462,000	647,000	822,000	939,000	1,063,000
1	0 ~ 2	286,000	482,000	667,000	842,000	959,000	1,083,000
MCL in Won		333,731	552,712	760,218	956,250	1,087,256	1,226,868

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

4.2.2 *Income and earnings disregards*

15% of the income earned by the disabled in the “Job Rehabilitation Programmes” and 10% of the income earned by both so-called “Self-Support Cooperative” and students are disregarded from the earned income which would otherwise be deducted from 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 *Old age pension*

Old age pension of 45,000 won is paid monthly to those aged over 65 (50,000 won for those aged over 80).

4.5.2 *Disability benefit*

Disability benefit of 50,000 won is paid monthly to those with first, second and third (mental disability or autism) degree disability who suffer from additional forms of other 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.

< Monthly housing benefit levels per household, under the NBLSS in 2001 >

Size of household(person)	1 - 2	3 - 4	5 – 6
Housing assistance(won)	23,000	37,000	51,000

6. Family benefits

Not yet installed.

7. Child-care benefits

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; 115 – 225 thousand won a month

Household with children of 5 years old; 115 thousand won a month

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.

To achieve this goal, the government provides allowances on the condition that they participate in self-support programmes. The programmes are provided step-by-step, deepening on the recipients' will and ability to work. At the initial stage, rehabilitation programmes or local social activities are provided to encourage the will for self-support. Then, the recipients develop self-supporting abilities such as free nursing and house repairing. Next step is to enter into the labour market. 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.

For efficient provision of self-support services, the government has developed eleven self-support programmes as of November 2001, and increased Self-Support Guardian Institutes from 70 in 2000 to 169 by December 2001, and induced the establishment of Self-Support Guardian Institutes from 70 in 2000 to 169 by December 2001, and induced the participation of the private sector by establishing two Self-Support information Centers in Seoul and Busan. As a result of these efforts, the recipients of self-support assistances have increased from 63,000 people in October 2000 to 81,000 in 2001. As many as 6,000 people succeeded in self-supporting, while 9,000 were disqualified as recipients on account of their failure to take part in self-support programmes.

9. Lone-parent benefits

Lone – parents with property below worth of 50-60million won and monthly income below 564 – 1,495 thousand won are eligible to the below benefits;

Child raising support subsidy; 16,300 won a month and school fees of middle and high schools

Low-interest livelihood support loan; maximum 12 million won

Long-term low rental housing arrangement service

Minimum property and income thresholds for lone-parent families vary depending on the number of family members (in KRW):

Number of Family Members	2	3	4	5	6
Property		50 million		55 million	60 million
Monthly Income	564 thousand	1.06 million	1.24 million	1.38 million	1.495 million

10. Tax system

10.1 Personal Income Tax System

10.1.1. Tax unit

Principle: Each individual is taxed for his/her own income. Exception: In the case of a married couple receiving rental income from real estate property or interest and dividend income (only if more than KRW 40 million when both are combined) the income from both spouses is combined to determine their taxable income.

10.1.2 Allowances and tax credits

10.1.2.1 Standard reliefs

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
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Up to KRW 5 000 000	Total amount
KRW 5 000 000 – KRW 15 000 000	KRW 5 000 000 plus 40 per cent of the salary over KRW 5 000 000
KRW 15 000 000 – KRW 45 000 000	KRW 9 000 000 plus 10 per cent of the salary over KRW 15 000 000
Over KRW 45 000 000	KRW 12 000 000 plus 5% per cent of the salary over KRW 45 000 000

Basic allowance: a taxpayer can deduct KRW 1 000 000 per person who meets one of following conditions:

- taxpayer him/herself
- taxpayer's spouse whose taxable income is less than KRW 1 000 000
- taxpayer's (including the spouse's) dependents (parents, siblings, children) within the same household whose taxable income is under KRW 1 000 000 and whose ages are as follows :
 - parents: aged 60 years (female : aged 55 years) or over
 - brother/sister: aged 60 years (female : aged 55 years) or over, or aged 20 years or under
 - children: aged 20 years or under

Additional allowance: a taxpayer can deduct KRW 500 000 from his/her gross income when the taxpayer or his/her dependents fall into the following categories:

- a person aged 65 years or over
- a disabled person prescribed by a Presidential Decree
- a female wage earner who is the head of a household or a female wage earner with spouse
- child under 6 years of age (permitted only for a female wage earner or a male wage earner without a spouse)

Extra allowance:

- a single income earner without a spouse or any other dependents may deduct KRW 1 000 000 from gross income.
- A single parent with a child under 7 years of age may deduct KRW 500 000 from gross income.
- a single income earner with a dependent (e.g., spouse, child) may deduct KRW 500 000 from gross income for each dependent.

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

Calculated tax	Amount of tax credit
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Up to KRW 500 000	45 per cent of the calculated tax
Over KRW 500 000	KRW 225 000 plus 30 per cent of the calculated tax over KRW 500 000 (limit: KRW 600 000)

10.1.2.2. Main non-standard tax reliefs

Wage and salary income earners may deduct from gross income the expenses for several items paid during the tax year such as insurance premiums, 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.

Lump-sum tax relief: Any taxpayer whose total deductible expense for the categories mentioned above is not over KRW 600 000 may deduct KRW 600 000 from their gross income as a lump-sum tax relief. This is assumed to be the case for the taxpayer in this report.

10.1.2. Tax schedule

Over (KRW)	Not more than (KRW)	Marginal tax rate (%)
0	10 000 000	10
10 000 000	40 000 000	20
40 000 000	80 000 000	30
80 000 000		40

10.2. Local income tax

10.2.1. Tax base

The local income tax base is the income tax paid to the central government.

10.2.2. Tax rate

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.

10.2.3. Tax rate (selected for this study)

A country-wide rate of 10 per cent

11. Employees' Social Security Contributions to Schemes Operated within the Government Sector

11.1. National pension

4.5 percent of standard income.

11.2. Medical insurance

1.7 percent of standard income.

11.3. Unemployment insurance

0.5 per cent of gross income.

11.4. Work injury insurance

None.

12. Universal Cash Transfers

None.

13. Main Policy Changes in the Tax/Benefit System

Social welfare expenditure has increased significantly over the past few years, which has resulted in increased social assistance benefits for families in financial need. Among other policy changes, the Korean authorities have enacted a new social assistance system in September 1999, the 'National Basic Livelihood Security Law', in effect as of 1 October 2000. The concept underlying this new law is that of 'productive welfare', i.e. the purpose is to provide adequate income support while encouraging benefit recipients to participate in the labour market (see OECD (2000) *Pushing Ahead with Reform in Korea: Labour Market and Social Safety Net Policies*, for detailed up-to-date information on these changes).

Changes in unemployment insurance during year 2001:

- The contribution conditions have been modified, reducing the minimum requirement from 12 to 6 months in the 18 months preceding unemployment.
- The minimum benefit is 90 percent of the minimum wage.
- The daily minimum wage is KRW 15 810 as of 1 September 2001.
- The following table concerning benefit duration applies from 1 January 2001:

Age (years)	Periods of contribution to the EIS (days)				
	Under 1	1-3 years	3-5 years	5-10	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)