

OECD THEMATIC FOLLOW-UP REVIEW OF POLICIES TO IMPROVE LABOUR MARKET PROSPECTS FOR OLDER WORKERS

KOREA (situation mid-2012)

*In 2011, the employment rate for the population aged 50-64 in Korea was 3.4 percentage points **higher than in 2005** and 6.3 percentage points **above the OECD average**. Further statistical information about the labour market situation for older workers in Korea is presented in the scoreboard in Table 1.*

A major multi-country OECD review of employment policies to address ageing took place during 2003-05 and was summarised in the OECD synthesis report *Live Longer, Work Longer*, published in 2006. That report put forward an agenda for reform, consisting of three broad areas where policy action was seen as necessary to encourage work at an older age:

- strengthening financial incentives to carry on working
- tackling employment barriers on the side of employers
- improving the employability of older workers

One of the main purposes of this follow-up review is to take stock of the progress OECD countries have made in implementing this reform agenda. In the third quarter of 2011, a questionnaire was sent to all member countries, seeking information on the measures and reforms carried out since 2006. For each of the 21 countries¹ that had participated in the original review, the questionnaire was adapted to refer to the OECD's specific policy recommendations in each corresponding country report.

The main actions taken in Korea since 2005 are described in this Note. A summary assessment of the extent to which Korea has followed the OECD's recommendations in the report *Ageing and Employment Policies: Korea* is given in Table 2.

¹ Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom, United States. For further information, see www.oecd.org/els/employment/olderworkers.

A. STRENGTHENING FINANCIAL INCENTIVES TO CARRY ON WORKING

A.1. OECD recommendations to Korea in 2004 – action taken

Broaden the effective coverage of the pension system

Several steps are taken to expand coverage of the pension system with the aim of providing old-age income security, especially for marginal groups. In 2010, the lowest income level, at which contributions begin for voluntarily insured persons, was reduced from KRW 126 000 to KRW 89 000. The requirements for qualifying as voluntarily and continuously insured were loosened in 2011. Uninsured persons reaching the age of 60 are allowed to join the National Public Pension Scheme (NPS) if they have a past record of subscribing to the scheme. The requirements for being considered workplace-based insured are reduced. Moreover, farmers and fishermen who are locally insured can have their contributions subsidised by 50%.

Data from the National Tax Service, the National Health Insurance and the National Employment Insurance establish which persons are not registered in any pension scheme. In 2011, 138 000 persons were enrolled in the national workplace-based pension scheme, while 530 000 persons with taxable income and a continuously registered business took out local insurance. Moreover, workplace inspections are increased to identify those left out among childcare workers

Reduce replacement rates under the public pension system

Through the 2007 national pension reform, the income replacement rate was lowered from 60% to 50% of previous income. Since 2009, a yearly reduction rate of 0.5 percentage points is being applied with the target of reaching a replacement rate of 40% by 2028. Replacement rate adjustments in the NPS are one of the measures to ensure long-term fiscal stability of the public pension system and so accelerate its development.

Convert the retirement allowances system into a corporate pension scheme

A company pension system, the Retirement Pension Plan, was introduced in 2005 as a means of offering multi-layered old-age income security. By the end of 2011, 3.3 million employees, representing 36% of all employees, had joined the plan. The aggregate reserves of the plan were KRW 50 trillion by the end of 2011. Laws already in place were amended in 2011 to promote enrolment.

B. TACKLING EMPLOYMENT BARRIERS ON THE SIDE OF EMPLOYERS

B.1. OECD recommendations to Korea in 2004 – action taken

Restrict the use of mandatory retirement

The government has introduced various measures to encourage firms to voluntarily extend their mandatory retirement age. The Act on Prohibition of Age Discrimination in Employment and Aged Employment Promotion was adjusted in 2008, so that the retirement age an employer sets should be 60 or over. Firms with 300 employees or more were surveyed in 2011 to identify their retirement age and encourage its extension. Firms with 100 employees or more will be included in the surveys from 2012. Campaigns to promote employment of older people were run in 2011.

Reform the seniority-wage system

“Wage peak” measures, where a cut in wages after a certain age is accepted in exchange for employment security, have been introduced in 2005 and since then expanded in coverage. The adoption rate of such measures among enterprises employing 100 or more workers increased from 2.3% in 2005 to 12.3% in 2011. A compensation allowance was introduced in 2006 to encourage employers to adopt the wage peak system. In 2011, the subsidy was further applied to retirement age extension, working hour reduction and re-employment, and eligibilities for these are differentiated. Also that year, the maximum subsidy payment period was extended from six to ten years.

Firms are encouraged to set reasonable wage rates, adopt a performance-based wage system and conduct productivity-based collective bargaining. Campaigns have been conducted to promote firms that have successfully reformed their workplace through improvement of the wage system. In November 2011, ten firms were selected and awarded. Information about best practices is distributed through websites, conferences and publications.

Rationalise further the system of wage subsidies for older workers

The previous elderly employment grant was scrapped from January 2011, due to its limited net effects and deadweight losses. To extend the employment period of those older workers (60 and over) who are most likely to be made unemployed, a new system of subsidies was adopted. The retirement age extension subsidy described above can from January 2012 be paid over a two-year period, prolonged from the previous one year. The payment period of the retiree re-employment subsidy was increased from six months to a maximum of two years, also starting from January 2012. Moreover, a new temporary subsidy for employment of people aged 60 and over until 2014 in selected occupations was implemented. The government decided to apply 100% of the minimum wage rate to workers engaged in intermittent work to ensure their employment security in workplaces rendered vulnerable by the jobs crisis.

Consider introduction of an in-work benefit

An Earned Income Tax Credit (EITC) was introduced in 2008 to strengthen incentives to work. Through an amendment to the Restriction of Special Taxation Act in 2011, the application and payment of the EITC was extended, beginning with 2012 payments. Furthermore, eligibility for the EITC is extended in 2012 to include households without children and some groups of self-employed (insurance salespersons, door-to-door salespersons, etc.).

Introduce measures to combat age discrimination

Following the Act on Prohibition of Age Discrimination in Employment and Aged Employment Promotion, age discrimination has been prohibited in recruitment since 2009, and in all employment aspects – including wages, education/training and dismissals – since 2010. If a person is subjected to discrimination for age reasons, they can file a complaint with the National Human Rights Commission of Korea. If the Commission’s recommendations are not met, the Ministry of Employment and Labour may issue a remedial order.

Monitoring for age discrimination in recruitment is conducted quarterly. In 2011, 20 567 cases were monitored and in 519 of those, warnings and remedial orders were issued against enterprises that violated the Act. Monitoring is supplemented by awareness activities. To create an atmosphere where performance takes precedence over age, a ceremony was held in 2011 to mark “Elderly Employment Week”, where firms and workers performing best practices were awarded. Monitoring is supplemented by awareness activities, as described in the paragraph that follows.

Provide guidelines to firms to promote age diversity in employment

A set of activities aims to change attitudes toward and among older workers, and to promote and share best practices. Every year since 2006, the third week of November is designated “Elderly Employment Week”, a slogan of which is: “Ability is more important than age”. Here again, firms and workers demonstrating best practices in promoting the employment of older people are awarded. Every May and September, the job centres organise an “Employer-Employee Meeting Day for the Aged“. Best practices for the employment of older people, successful examples of their re-employment, and good examples of employment service provision for the older jobseekers are selected and awarded.

B.2. OECD recommendations to Korea in 2004 – no action taken

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.

Review the voluntary quota system

The quota system for older workers in firms with 300 employees or more is still in place. The share of firms that successfully met the quota was 59% in 2011.

C. IMPROVING THE EMPLOYABILITY OF OLDER WORKERS

C.1. OECD recommendations to Korea in 2004 – action taken

Strengthen and expand training opportunities for mid-career and older workers

Employment support programmes for mid-career and older workers have been introduced. A vocational skills enhancement programme for older workers started in 2011. In 2012 a restart programme for mid-career professionals will be launched to provide career auditing services and training in strategies for successfully obtaining re-employment.

A New Workplace Adaptation Support for Workers Aged 50+ will be launched in 2012. Workers aged 50 and over are given on-site training in small and medium-sized enterprises over a three-month period to facilitate and support their job search and re-entry into work.

Continue to improve the quality of the PES and build links with private employment agencies

A talent bank for older jobseekers is established to provide job opportunities. Forty-two job centres will be connected to this talent bank in 2012. Moreover, some private agencies have been designated as employment service centres, to support middle-aged professional workers with a certain level of qualifications in their job search.

In 2008, initiatives were taken to strengthen employment services for older people. Those in charge of providing such services are trained how to advise and support this specific age group. They are also informed about necessary co-ordination with other relevant agencies. Programmes necessary for the employment service to furnish appropriate assistance and guidance to older people have been operating since 2006.

Lower long working hours

The Korean government has gradually improved employment flexibility by adopting less rigid working hours. To implement the final phase of reducing standard working hours, application of the 40-hour workweek was expanded to enterprises with 5 or more workers in 2011.

Modification of the 40-hour workweek in 2011 was supported by a number of measures. The Korean Federation of Small and Medium-Sized Businesses was designated as a commissioned information agency. A comprehensive on-site and online education programme paved the way for implementation. These efforts were supplemented by pamphlets, campaigns and advertisements to ensure successful adoption of the new system throughout society.

The government has supported modification of the 40-hour workweek through guidance and counselling as well as monitoring. Small and medium-sized firms are provided free consulting services that advise on how to implement the new legislation with assistance from 65 centres. Professional consultants may visit the enterprises to design and provide appropriate systems to introduce the reduced working hours.

A special period for reporting violations of the 40-hour workweek has been established to encourage people to report forced overtime work and wage reduction cases to the homepage of the Ministry of Employment and Labour and to the regional offices. The regional offices regularly monitor enterprises where forced overtime work has previously been revealed.

To allow more flexible adjustment of working hours in industries exposed to seasonal demands such as tourism, the adjustment period of The Flexible Working Hour System was increased from three months to one year. In addition, The Working Hour Savings Account System was adopted so that overtime and night and holiday work can be replaced by extra leave and vice versa. Workers can either “save first, use later” or “use first, save later”.

In 2011, subsidies were offered to firms that reduced their employees’ actual working hours or added additional workers to replace existing staff taking education or training courses. The aim is to stimulate flexible work arrangements as well as creating new employment.

Improve working conditions

According to the Labour Standards Act, workers engaged in intermittent work are excluded from the application of working hours, time off and holidays prescribed by the Act if their employer has obtained approval from the Minister of Employment and Labour. The Minister should issue an approval only when the worker engaged in intermittent work meets all the criteria prescribed in the work regulations of the labour inspectors. The provision of exceptions to application has been in place since enactment of the Labour Standards Act in 1953.

Improve work safety

To improve the protection of older workers vulnerable to industrial accidents, in 2011 vocational skills agencies offered health and safety education to enterprises hiring a large number of older workers; 33 414 persons in 247 enterprises participated. Special education materials supplying pertinent information to prevent accidents among older workers are published and distributed.

Table 1. Older workers scoreboard, 2001, 2005 and 2011

| | Korea | | | OECD ^h | | |
|--|-------|------|------|-------------------|------|------|
| | 2001 | 2005 | 2011 | 2001 | 2005 | 2011 |
| Employment | | | | | | |
| -- Employment rate, 50-64 (% of the age group) | 62.9 | 64.2 | 67.6 | 55.6 | 58.4 | 61.2 |
| <i>of which</i> 50-54 | 70.3 | 72.1 | 74.7 | 71.8 | 73.7 | 76.1 |
| 55-59 | 62.5 | 63.1 | 67.4 | 55.9 | 59.9 | 64.8 |
| 60-64 | 53.8 | 53.4 | 55.1 | 32.5 | 35.6 | 40.0 |
| -- Employment rate, 55-64 (% of the age group) | 58.3 | 58.7 | 62.1 | 44.9 | 49.0 | 52.9 |
| -- Employment rate, 65-69 (% of the age group) | 43.1 | 42.2 | 41.0 | 15.2 | 16.5 | 18.5 |
| Job quality | | | | | | |
| -- Incidence of part-time work, 55-64 (% of total employment) | 11.5 | 12.6 | 14.9 | 17.2 | 17.2 | 18.7 |
| -- Incidence of temporary work, 55-64 (% employees) | 40.6 | 41.8 | 39.4 | 9.0 | 9.1 | 9.1 |
| -- Full-time ^a earnings, 55-59 relative to 25-29 (ratio) | 1.19 | 1.23 | 1.35 | 1.32 | 1.33 | 1.34 |
| Dynamics | | | | | | |
| -- Retention rate ^b , after 60 (% of employees <i>t</i> -5) | - | 18.2 | 17.6 | 37.8 | 40.4 | 42.2 |
| -- Hiring rate ^c , 55-64 (% of employees <i>t</i> -1) | 46.5 | 44.2 | 46.9 | 7.8 | 9.2 | 8.5 |
| -- Effective labour force exit age ^d (years) Men | 67.5 | 70.2 | 71.4 | 63.1 | 63.3 | 63.9 |
| Women | 66.7 | 67.7 | 69.9 | 61.1 | 62.0 | 62.8 |
| Unemployment | | | | | | |
| -- Unemployment rate, 55-64 (% of the labour force) | 2.3 | 2.5 | 2.5 | 4.6 | 4.8 | 5.8 |
| -- Incidence of long-term ^e unemployment, 55+ (% of total unemployment) | 3.0 | 0.5 | 0.1 | 46.8 | 47.7 | 45.9 |
| Employability | | | | | | |
| -- Share of 55-64 with tertiary education ^f (% of the age group) | 8.6 | 10.0 | 12.8 | 15.9 | 19.9 | 22.9 |
| -- Participation in training ^g , 55-64 | | | | | | |
| Absolute (% of all employed in the age group) | - | - | - | 6.6 | 8.2 | 9.4 |
| Relative to employed persons aged 25-54 (ratio) | - | - | - | 0.44 | 0.52 | 0.57 |

-- unavailable.

a) Mean gross hourly earnings, 1999, 2004 and 2009.

b) All employees currently aged 60-64 with tenure of five years or more as a percentage of all employees aged 55-59 5-years previously, 2008 and 2010.

c) Percentage of employees aged 55-64 with a job tenure of less than one year, 2004, 2005 and 2010.

d) 2001, 2005 and 2011. Effective exit age over the five-year periods 1996-2001, 2000-2005 and 2006-2011. The effective exit age (also called the effective age of retirement) is calculated as a weighted average of the exit ages of each five-year age cohort, starting with the cohort aged 40-44 at the first date, using absolute changes in the labour force participation rate of each cohort as weights.

e) Unemployed for more than one year, 2000, 2005 and 2010.

f) 2000, 2005, 2010.

g) Job-related training during the last month.

h) Unweighted averages for 34 OECD countries.

Source: OECD estimations from national labour force surveys and OECD Education database.

www.oecd.org/els/employment/olderworkers

Table 2. Ageing and employment policies: Korea (situation mid-2012)

| OECD's recommendations to Korea in 2004 | Action taken |
|---|--------------|
| A. Strengthening financial incentives to carry on working | |
| <i>Broaden the effective coverage of the pension system</i> | + |
| <i>Reduce replacement rates under the public pension system</i> | ++ |
| <i>Convert the retirement allowances system into a corporate pension scheme</i> | + |
| B. Tackling employment barriers on the side of employers | |
| <i>Restrict the use of mandatory retirement</i> | + |
| <i>Reform the seniority wage system</i> | + |
| <i>Loosen strict employment protection rules</i> | / |
| <i>Rationalise further</i> the system of wage subsidies for older workers | + |
| <i>Consider introduction of an in-work benefit</i> | + |
| <i>Review the voluntary quota system</i> | / |
| <i>Introduce measures to combat age discrimination</i> | + |
| <i>Provide guidelines to firms to promote age diversity in employment</i> | + |
| C. Improving the employability of older workers | |
| <i>Strengthen and expand training opportunities for mid-career and older workers</i> | + |
| <i>Continue to improve the quality of the PES and build links with private employment agencies</i> | + |
| <i>Lower long working hours</i> | + |
| <i>Improve working conditions</i> | + |
| <i>Improve work safety</i> | + |
| <p>Notes</p> <p>/ = no (relevant) action taken; + = some action taken, but more could be done; ? = some action taken, but could have negative impact and requires further assessment; ++ = substantial action has been taken.</p> <p>Source: OECD (2004), <i>Ageing and Employment Policies: Korea</i> and answers to the follow-up questionnaire from Korea.</p> | |