

**ESTIMATION OF SOCIAL EXPENDITURES
IN KOREA BASED ON
THE OECD GUIDELINES: 1990~2007**

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List of Abbreviations

| | |
|-------|---|
| GDP | Gross Domestic Product |
| GSE | Gross Social Expenditure |
| NSE | Net Social Expenditure |
| SE | Social Expenditure |
| TBSP | Tax Breaks for Social Purposes |
| OECD | Organization for Economic Cooperation and Development |
| MW | Ministry for Health, Welfare and Family Affairs |
| MOFE | Ministry of Finance and Economy |
| MPAS | Ministry of Public Administration and Security |
| MEST | Ministry Education, Science and Technology |
| MND | Ministry of National Defense |
| MOLAB | Ministry of Labor |
| MOU | Ministry of Unification |
| MJ | Ministry of Justice |
| NEMA | National Emergency Management Agency |
| MPVA | Ministry of Patriots and Veterans Affairs |
| KP | Korea Post |
| NHIC | National health insurance corporation |
| FKI | Federation of Korean Industries |
| KNR | Korean National Railways |
| NSO | National Statistical Office |
| NTS | National Tax Service |

Chapter 1. Introduction

Since it became the member of the OECD(Organization for Economic Cooperation and Development), Korea has been submitting its social expenditures statistics to OECD every year. The level of social expenditures, an indicator for social security, has been attracting close attention not only from national organizations but also from various international institutions.

As the OECD requested its members to compile five statistical series-the Public social Expenditure(PSE), the Mandatary private social Expenditure(MSE), the Social Expenditure(SE), the Gross Social Expenditure(GSE) and the Net Social Expenditure(NSE), Korea has submitted them to OECD.

While the level of social expenditures varies widely among the members of OECD, the level of net social expenditures(NSE) converges to a similar level, i.e., about 25 per cent of factor GDP for the members of the OECD. This may reflect that the level of social expenditures, after taking into accounts of voluntary private sector and taxation system, remain at the same level for most of the OECD member countries.

Compilation and study on these statistics for GSE and NSE are important not only for the submission to the OECD but also for the domestic necessity of obtaining valuable basic data. These statistics will provide insights on the magnitude of total social expenditures, for both public and private sectors, the reductions in income resulting from tax burden, increases in income arising from tax exceptions and the international comparisons of these statistics. This information would be very valuable basic data for policy formulation for the Government as well as academic scholars interested in this field.

The purpose of this study is to estimate the statistics on "Social expenditure", "Gross social expenditure" and "Net social expenditure" in Korea pursuant to the OECD Guidelines. It is very important that we collect social expenditures by resource, branch, and programme in Korea.

As these statistics would enable us to understand the overall level of Korean welfare, those statistics make us measure the magnitude of social expenditure, confirm its trend, and compare these with the other OECD member countries. OECD Guidelines are comprehensive enough to include Korea's features brought to institutions, programs, and other circumstances. With estimate Korea's social expenditures according to the OECD guidelines, we estimate fully Korean social expenditures in the future.

Chapter 2. Definitions

1. Concepts

The definitions of the OECD on the following concepts are presented below.

1) Categorization: type of expenditure

"Public Social expenditure is defined as the provision by public institutions of benefits to, and financial contributions targeted at, households and individuals in order to provide support during circumstances which adversely affect their welfare, provided that the provision of the benefits and financial contributions constitutes neither a direct payment for a particular good or service nor an individual contract or transfer. Such benefits can be cash transfers, or can be the direct(in-kind) provision of goods and services(OECD, 2001)".

"Mandatory Social expenditure is defined as the social support by legislation but operated through the private sector, e.g. direct sickness payments by employers to their absent employees as legislated by public authorities, or benefits accruing from mandatory contributions to private insurance funds(OECD, 2009)."

"Voluntary Social expenditure is defined as the benefits accruing from privately operated programs that involve the redistribution of resources across households and include benefits provided by NGOs, and benefit accruing from tax advantaged individual plans and collective(often employment-related) support arrangements, such as for example, pensions, childcare support, and in the US, employment-related health plans(OECD, 2009)."

"Social expenditure is defined as the provision by public institutions of benefits to, and financial contributions targeted at, households and individuals in order to provide support during circumstances which adversely affect their welfare, provided that the provision of the benefits and financial contributions constitutes neither a direct payment for a particular goods or service nor an individual contract or transfer. Such benefits can be cash transfers, or can be the direct("in-kind") provision of goods and services(OECD, 2006)."

Gross social expenditure is defined as the sum of social expenditure and voluntary private benefits. "Social effort is not just determined by the prevalence of public and private social cash benefits and services, but also by the extent to which governments pursue social policy objectives through the tax system. To measure this effect on gross(before tax) social expenditure indicators, account has to be taken of tax advantages for social purposes(e.g. child tax allowances); direct taxation of benefit income; and, indirect taxation of consumption by benefit-recipients(OECD, 2001).

From the government perspective, "net(after tax) public social expenditure" gives an

impression of budgetary efforts in the social field after tax. From the perspective of benefit-recipients "net total social expenditure" gives an impression of the proportion of an economy's domestic production to which they lay claim(OECD, 2001).

2) Categorization: programs across policy areas

"The OECD Social Expenditure Database groups benefits with a social purpose in nine policy areas-Old-age, Survivors, Incapacity-related benefits, Health, Family, Active labor market policies, Unemployment, Housing, and Other social policy areas. Table 3 shows the structure of SOCX database for public and mandatory private programs simply(OECD, 2009)."

Table 1. Structure of SOCX database for social expenditure

| | |
|--|--|
| 1. OLD AGE | 5. FAMILY |
| Cash benefits | Cash benefits |
| Pension | Family allowances |
| Early retirement pension | Maternity parental leave |
| Other cash benefits | Other cash benefits |
| Benefits in kind | Benefits in kind |
| Residential care/Home-help services | Day care/Home-help services |
| Other benefits in kind | Other benefits in kind |
| 2. SURVIVORS | 6. ACTIVE LABOUR MARKET PROGRAMS |
| Cash benefits | Employment service and administration |
| Pension | Labour market training |
| Other cash benefits | Youth measures |
| Benefits in kind | Subsidised employment |
| | Employment measures for disabled |
| 3. INCAPACITY-RELATED BENEFITS | 7. UNEMPLOYMENT |
| Cash benefits | Cash benefits |
| Disability pensions | Unemployment compensation/severance pay |
| Pensions(occupational injury & disease) | Early retirement for labour market reasons |
| Paid sick leave(occupational injury & disease) | Benefits in kind |
| Paid sick leave(occupational injury & disease) | 8. HOUSING |
| Other cash benefits | Benefits in kind |
| Benefits in kind | Housing assistance |
| | Other benefits in kind |
| 4. HEALTH | 9. OTHER SOCIAL POLICY AREAS |
| Benefits in kind | Cash benefits |
| | Income maintenance |
| | Other cash benefits |
| | Benefits in kind |
| | Social assistance |
| | Other benefits in kind |

Sources: OECD, 2009.

Table 2. Structure of SOCX database for voluntary private expenditure

1. OLD AGE

Pensions to former private sector workers

Pensions to former civil servants

3. INCAPACITY-RELATED BENEFITS

4. HEALTH

9. OTHER SOCIAL POLICY AREAS

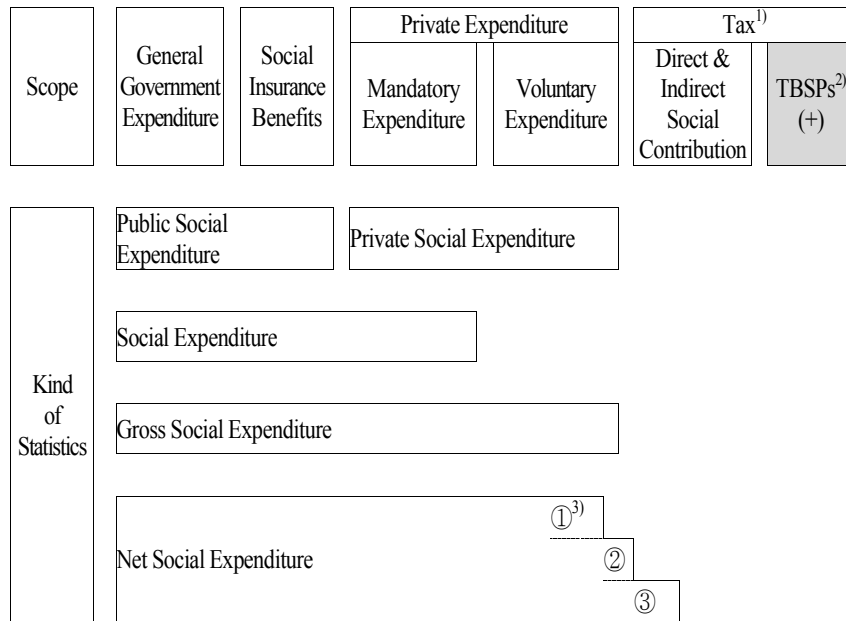
Sources: OECD, 2009.

Recently Korea's retirement payment transfer Unemployment(SOCX NO. 6) to Old-age(SOCX NO. 1). OECD experts asked the retirement payment in Korea neither severance pay when taken mass dismissal for the labour market reasons, nor retirement benefit for elderly. In terms of this reason OECD would not accept the retirement payment. We appeal that retirement payment is still one of the centerpieces in securing income for the aged, although much of the payments are in fact paid before the recipients reach the retirement age as severance payments. Both retirement payment system and retirement pension system are under the umbrella of the 'Employee Retirement Benefits Security Act'. In conclusion, OECD experts and Korea correspondent come to the agreement that SOCX database would be included 20% of retirement payment in Korea when the retirement pension provision are produced.

2. Scope

The scope of the social expenditures include the social expenditures of the central and local governments, payments effected by the social insurance organizations incorporated under the provisions of the Law, and the expenditures of private employers obligated by legal provisions. For the net social expenditure, as well direct and indirect social insurance contributions as TBSPs(tax breaks for social purposes) would be considered.

Figure 1. Comparison of Scopes of Various Social Expenditure Statistics



Notes: (1) Tax: Direct and indirect taxes borne by transfer income beneficiaries.
 (2) TBSP: tax exemptions granted to transfer income earners and social services providing institutions.
 (3) ① Tax > TBSPs, ② Tax = TBSPs, ③ Tax < TBSPs.

3. Applying in Korea

With the SOCX structures, Korea's social expenditure database follows as below.

Table 3. Categorization of programs in Korea: social expenditure

(Unit: Won, million)

| Division | Program examples | '07year |
|-----------------------------|---|---------|
| Old-age | - Pension(National pension, Civil servants pension, Private Teachers pension, Military Pension, Postal Employees pension) - Elderly group home, Residential care support, Transport fee subsidies, Public housing construction cost, elderly employment center | 19,724 |
| Survivors | - Survivor's pensions(National pension, Civil servants pension, Private Teachers pension, Military Pension, Postal Employees pension) - Funeral payments(NHIC), Lump sum compensation payment | 2,471 |
| Incapacity-related benefits | - Disabled pension(National pension, Civil servants pension, Private Teachers pension, Military Pension, Industrial accident compensation Insurance) - Disability benefit, Disabled children education fee subsidies, disabled children rearing payment, Educational facility of special classes - Health rehabilitation, Job rehabilitation, | 6,587 |
| Health | - Medical benefit, Recuperation benefit(Civil servants pension, Private Teachers pension, Industrial accident compensation Insurance) - Block allotment(NHIC), Collective health care facilities | 33,702 |
| Family | - (Disabled) Adopted children care support, Infertile couples support, Child development account(CDA), community children center - Early childhood education and Care fee subsidies, care-schooling, Free school lunch, Eduzone support - Maternal leave benefits, Parental leave benefits(Employment Insurance) - Women emergency call, sexual assault and domestic violence clinic | 4,920 |
| ALMP | - Job security, Vocational skills development(Employment Insurance) | 1,267 |
| Unemployment | - Job Seeker 's Allowance, Sickness benefit, start-up incentives | 2,434 |
| Housing | - | - |
| Other social policy area | - Subsistence benefit, housing benefit, education benefit, self support program tax deduction - Disaster incense money(Civil servants pension, Private Teachers pension, Military Pension, Postal Employees pension), Relief payment - refugee educational support and resettlement fund from north Korea | 7,591 |

When the OECD guidelines applied to Korea's spending estimate, there are some challenges. First, in public sector expenditures, Housing(SOCX NO. 8) items are rent subsidies and other benefits to the individual to help with housing costs. This includes direct public subsidies to tenants 'earmarked' to support with the cost of housing(OECD, 2009). SOCX does not include (capital) subsidies towards the construction of housing support, for example in Korea and the United States, instead of that SOCX also reports direct in-kind

housing provision to the elderly and disabled and shelter for those in immediate need in other sections(1.2.1, 3.2.1., 9.2.2. respectively). Korean social expenditure also housing support provision divides into Old-age, Incapacity-related, and the Other social policy areas respectively.

Table 4. Social facilities and housing loan in Korea

(Unit: Won, million)

| Examples | Activities | Amount |
|------------------------------------|--|-----------|
| | Total | 9,138,913 |
| Social welfare facilities loan | - Medical Facilities Improvement Loan, Youth residential facility loan support, etc. | 34,848 |
| House purchasing and leasing loan | - living environment loans in the rural areas, Workers purchasing loan, Private capital financing with low-income households, rentals loan, etc. | 8,805,978 |
| Employment environment improvement | - Elderly and women's employment environment improvement loan, Industrial Accident prevention facility composition loan, etc. | 298,088 |

Sources: Ministry of Health & Welfare, intra data 2007.
 Ministry of Land, Transport and Maritime Affairs, intra data 2007.
 Ministry of Labor, intra data 2007.

Second, "The conventional definition of social protection stipulates that the intervention does not involve a simultaneous reciprocal arrangement. This should be conceived as excluding from the scope of social protection any intervention where the recipient is obliged to provide simultaneously something of equivalent value in exchange."(OECD, 2009). Actually, in Korea, many private welfare facilities have received loans from the government for the construction costs and operation fees in Korea. In 2007, social welfare facilities loan, house purchasing and leasing loan, and employment environment improvement for disadvantaged group(elderly, disabled, women) approximately 124,323 billion in Korea. Actually, SOCX database include only 25.4% of all. Excluded amount and activities see Table 4.

Third, voluntary private expenditure including the concepts are very limited. For example, the most important private pension savings are excluded from the SOCX in the countries building multiple retirement income security system. However SOCX include pensions to former private sector workers and pensions to former civil servants in the voluntary private sector. Although individual retirement savings, in particular multiple income security system for elderly where the U.S., U.K., and Korea need to estimate, sufficient old age income secured in the public sector where Sweden and Germany, it is not necessary.

In Korea and Italy, it is general inter-generation redistribution through family transfer

(grandparent-parent-children) where countries in the traditional family values respected. However, SOCX exclude inter-personal redistribution through intra-family. Kim(2005) demonstrated that informal transfers within family or relatives in 2000 estimates 18,315 billion (3.5% of GDP) based on the National Statistical Office data.

Chapter 3. Methodologies

The methodologies utilized in undertaking this Study follow as below.

1) Literature Reviews

The literature reviews can be divided into domestic and foreign studies. First using domestic studies concerned social welfare, we review the concepts, scope, institutions of the social welfare and social expenditure in Korea. Particularly social expenditure has been estimated since 1980s, reviews on the net social expenditure have no materials. However specific studies including corporate welfare, fundraising by voluntary sector, religious social welfare, indirect tax estimate using statistical researches has been.

Second, we refer to the foreign literature, for examples, OECD Guidelines, OECD working paper, OECD Revenue Statistics, UN National Account, and books concerned social welfare.

2) Bottom-up method

It is hard to collect the Korean social welfares are operated by ministries, by programs, by institutions. Basic statistics produce using revenue budgets by the administrative departments, annual statistics for public corporations, intra statistics, and tax reduction annual local finance yearbook.

3) Re-analyze with secondary data

Some statistics have collected with re-analysis secondary data or retain data original statistics produced. For example, public sector expenditures re-analyzed follow as; construction costs concerning public housing(direct benefits in kind), housing support benefits excluded rental income. Mandatory private sector expenditures retained by original producing data institutions follow as; parental cash benefit and sickness benefit.

4) Survey

Some statistics produced using the survey follow as; transport and communications privileges to disadvantaged group, fundraising by voluntary private sector, and the actual conditions by the religious.

5) Case Study with OECD experts

When estimate on the Korean social expenditure are different the OECD common standards, we consult OECD experts case by case. This year, it is a lot of controversy whether the retirement payments would be included Old-age(SOCX NO. 1) or Unemployment(SOCX, NO. 6). In conclusion, the 20% of retirement payments included Old-age this time, we come to agree estimates retirement benefits and retirement payments together in the future.

6) Discussion with domestic experts

In order to determine the reliability and accuracy the estimate of social expenditure in Korea, we discuss with domestic experts concerned civil servants, professionals on social welfare, representative over the religious and social welfare.

Chapter 4. Structure of Korea's social expenditure database - by branches, type of expenditures, and type of programs

1. Public Social Expenditure

The major service providers of social expenditure are the government, social insurance agencies and private sector providers. The main programs of their contents, methods of estimation and the sources of information are presented below.

1) Government Expenditure

□ Contents of Government Social Service system

The Government's social services are composed of the public support program which is targeted to the poor income group and the social welfare services covering all population. The public support program is an income security system to ensure the basic minimum subsistence income for the poorest families, and has been designed to provide supplementary income to the lowest income group through means testing. For the poor who have some capability to be gainfully employed, the Government has been pursuing the

productive welfare policy under which the provision of supplementary income has been obligated to take some compulsory reemployment training program so as to encourage them to work. The social welfare services are special programs being provided by the central and local governments to address or resolve some specific problems faced by individuals, families or communities, which include not only welfare services for the elderly and the handicapped but also some temporary workfare program.

□ Estimation Method and Sources of Data

The estimation of public support program and social welfare services has been carried out on the basis of the budgetary documents(detailed revenue and expenditures data) of the Ministries for Health, Welfare and Family Affairs(MW), Ministry of Labor(MOLAB), National Emergency Management Agency(NEMA), Ministry of Unification(MOU) and Ministry Education, Science and Technology (MEST). The scope of the budget of the central government included not only the social expenditure of the central government but also the subsidies and transfers to local governments. The only item that was excluded in the budget was the expenditures of local governments for their local projects, because of the lack of information on these items. The total social expenditures of the government were estimated at Won 47,644 billion in year 2007 as shown in Table 5.

Table 5. Government's Social Expenditures by Programs

(Unit: Won million)

| Programs | Source | Items | Amount | |
|-------------------------|-----------------------------------|--|--|----------------------|
| Total | | | 25,581,256 | |
| Public Support program | MW | - Medical, livelihood & education support, Homeless accommodation, workfare program, Special schools for handicapped | 8,396,637 | |
| Public Support program | MEST | - Medical, livelihood & education support, Homeless accommodation, workfare program, Special schools for handicapped | 1,045,477 | |
| Public Support program | MOGE | - Medical, livelihood & education support, Homeless accommodation, workfare program, Special schools for handicapped | 1,720 | |
| Public Support | Local Government | - Medical, livelihood & education | 248,559 | |
| Public Support program | NEMA | - Disaster relief & shelter rehabilitation | 78,904 | |
| Public Support program | MOU | - Protection of refugees from the North Korea | 51,049 | |
| Public Support program | MPVA | - Compensation, training & medicare | 1,988,252 | |
| Social Welfare Services | Programs for Elderly and Disabled | MW | - Welfare services for elderly - Welfare services for handicapped | 1,803,531 829,827 |
| Social Welfare Services | Programs for Elderly and Disabled | Local Government | - Welfare services for elderly | 405,942 |
| Social Welfare Services | Family Welfare | MW | - Nursery, child care - Operation of welfare centers - Domestic violence - Sexual assault | 256,222 |
| Social Welfare Services | Family Welfare | MEST | - Nursery, child care - Operation of welfare centers - Domestic violence - Sexual assault | 630,699 |
| Social Welfare Services | Family Welfare | MOGE | - Nursery, child care - Operation of welfare centers - Domestic violence - Sexual assault | 1,421,699 |

Table 5. Continued

| Programs | | Source | Items | Amount |
|-------------------------|---------------------|------------------|---|-----------|
| Social Welfare | Family Welfare | Local Government | - Nursery, child care - Operation of welfare centers | 931,697 |
| Social Welfare Services | Public Housing | MLTM | - Elderly, disabled, low-income household | 3,158,703 |
| Social Welfare Services | Health Care | MW | - Health care facilities & equipment | 3,38,785 |
| Social Welfare Services | Health Care | MEST | - School health care | 3,38,785 |
| Social Welfare Services | Health Care | Min. of Justice | - Health care in correctional facilities | 3,38,785 |
| Social Welfare Services | Health Care | MND | - Health care for military personnel | 3,38,785 |
| Social Welfare Services | Health Care | Local Government | - Health care for military personnel | 17,715 |
| Social Welfare Services | Active Labor Policy | MOLAB | - Pub. exp. collective health - Pub. exp. prev., pub. health - Pub. exp. health. admin & insurance. - Pub. inv. med. facilities - Pub. exp. on health R&D - Pub. exp. social serv. LTC | 252,183 |
| Social Welfare Services | Others | Local Government | - Others | 629,055 |

2) Social Insurance

□ Contents of Programs

The social insurance comprises of pension insurance, health insurance, employment insurance, and industrial accidents compensation insurance. The pension insurance includes the National Pension, Civil Service Pension, Private School Teachers Pension, Military Pension, and Special Postal Employees Pension. As to the types of pension payments, there

are old age pension, survivor pension, and disability pension(except for the Special Postal Employees Pension) which are being paid by all pension schemes, though the level and amount of pensions differ slightly.

The health insurance is composed of the national health insurance whose coverage is national(universal coverage) and medical aid that is being paid to the low income group who are eligible for public workfare program. In our study, the medical aid is already included in the government expenditure under the heading of "public support program". Unlike the pension schemes which are being administered by multiple agencies, both the employment insurance and the industrial accident compensation insurance are being operated by a single institution, i.e., the Ministry of Labor. The employment insurance is composed of job seeking allowance, employment stabilization program and job capacity training program while the industrial accident compensation insurance further includes medicare allowance, closure allowance, disability payment, survivor allowance, disability compensation pension and funeral expenses.

□ Estimation Method and Sources

Estimation of expenditures by four major insurance schemes were carried out by using data obtained from the annual statistical reports published by each insurance scheme, and their total expenditures were estimated at Won **** billion, as shown in Tables 6,7, and 8.

Table 6. Insurance Payments by Pensions

(Unit: Won million)

| Pensions | Ministry Concerned | Amount Paid | | | | |
|------------------|--------------------|-------------|------------|-----------|----------|----------------------|
| | | Total | Old age | Survivor | Accident | Others ¹⁾ |
| Total | | 15,098,016 | 13,369,378 | 1,365,231 | 363,017 | 390 |
| National Pension | MW | 5,182,610 | 4,226,082 | 662,325 | 294,203 | |
| Civil Service P. | MPAS | 6,855,770 | 6,390,328 | 414,392 | 50,862 | 188 |
| Private Teachers | MEST | 1,219,160 | 1,145,997 | 72,013 | 1,053 | 97 |
| Military Pension | MND | 1,818,300 | 1,586,400 | 214,900 | 16,900 | 100 |
| Postal Employees | MOLAB | 22,176 | 20,571 | 1,600 | - | 5 |

Notes: 1) Others include retirement allowance, Lump sum payment, death compensation payment.

Sources: National Pension Corp., *National Pension Statistical Yearbook*, 2007.

Civil Servants Pension Corp., *Civil Service Pension Statistical Yearbook*, 2007.

Private School Teachers Pension Corp., *Statistical Yearbook*, 2007.

Ministry of National Defense, Internal data, 2007.

Special Postal Employees Association, Internal data, 2007.

Table 7. Detailed Expenditures of Health Insurance(2007)

(Unit: Won million)

| Type of insurance | Ministry Concerned | Programs | Amount |
|---|--------------------|---------------------------------|------------|
| Workplace insurance Regional insurance | MOLAB | individual health care | 26,113,033 |
| | NHI | public health care & management | |
| | MND, MW MEST | facilities & equipment | |

Sources: Health Insurance Evaluation Agency, *Health Insurance Evaluation Statistical Yearbook*, 2009.

Table 8. Employment Insurance and Accident Insurance

(Unit: Won million)

| Type of insurance | Ministry Concerned | Programs | Amount |
|--|--------------------|--|-----------|
| Employment Insurance ¹⁾ | MOLAB | Job seeking allowance, Job security program, Job capacity training program | 3,449,087 |
| Industrial accident compensation insurance | | Medicare allowance, Closure allowance, Accident compensation, Survivor allowance, Sickness allowance, Funeral expenses | 3,242,276 |

Note: 1) The figures exclude loans and similar assistance.

Sources: Ministry of Labor, *Employment Insurance Statistics Yearbook*, 2007.

Ministry of Labor, *Accident Insurance Statistics Yearbook*, 2007.

3) Mandatory Private Sector

(1) Corporate Welfare

□ Contents of the Programs

The compulsory social expenditures of private sector have been designed to obligate the owners of business firms by law to provide welfare services to employees. This is composed of the compulsory retirement allowance, maternity leaves and compensation for sickness and disability. The retirement allowance is compulsory under the provision of Article 34 of the Labor Standards Act while the business owner is obliged to pay 90 days wages as maternity leave allowance under the Article 72 of the Labor Standard Act. The owner is also obligated under the Article 82 of the Labor Standards Act to compensate the workers when they are under medical treatment and can not work due to sickness or disability(60% of average wage).

□ Estimation Method and Sources

The retirement allowances were estimated by using the electronic data from the National Tax Service and the results are summarized in Table 9.

Table 9. Current Status of Mandatory Retirement Allowance

(Unit: Number of persons, Won million)

| | Ministry Concerned | Number of recipients | Amount |
|---------------------------------|--------------------|----------------------|-----------|
| Compulsory Retirement Allowance | MOLAB | 2,479,009 | 1,877,285 |

Sources: National Tax Service, internal data, 2007.

As the maternity leave allowances entitlement is wage for 90 days, the allowance payments were estimated by multiplying the number of expecting mothers by their average wages for 90 days, assuming that all business owners have followed the legal provisions. The results of the estimation are summarized in table 10.

$$\text{Maternity benefit} = W_{ij} \times 3,$$

Where W_{ij} = the average monthly wage of j(mother) in year i.

Table 10. Current Status of Maternity Allowance Payments

(Unit: Number of persons, Won million)

| | Ministry Concerned | Number of Recipients | Amount (Won million) |
|------------------------|--------------------|----------------------|----------------------|
| Maternity Allowances | MOLAB | 60,964 | 132,412 |
| Parental leave benefit | | 21,185 | 60,989 |

Note: The number of children borne to the women benefitted under the workplace medical insurance(about 60 thousand persons) was equivalent to 10% of the total babies(602,111) in 2007.

The workers sickness benefit was estimated by utilizing the sickness data(sickness rate and number of days off works) compiled by the National Statistics Office(NSO) and the basic wage structure survey(number of wage workers) and the monthly labor statistics survey(average wage, sick off days) of the Ministry of Labor, assuming also that legal entitlements of all workers were fully paid.

$$\text{Sickness Benefit} = \sum (M_{ij} \times B_{ij} \times 26.0714)^{c1} \times E_{ij} \times W_{ij} \times 0.02^{c2}$$

Where, Sickness Benefit = legally entitled wage during sickness;

M_{ij} = sickness ratio of j age bracket in year i;

B_{ij} = number of sick days of j age group in year i;

E_{ij} = number of employed workers of j age group in year i;

W_{ij} = average monthly wage of j age group in year i.

Constant 1(c1) = annualized sickness rates and days of sample group;

Constant 2(c2) = converted daily wage of legal entitlement(60%).

$\sum (M_{ij} \times B_{ij} \times 26.0714)$ = average annual sick-off days for each worker.

Table 11. Status of Sickness Benefit Payments

(Unit: won billion, 1,000 persons)

| | 1992 | 2002 | 2007 |
|---|---------|-----------|-----------|
| Sickness benefit | 190 | 679 | 695 |
| Average annual sick days | 3.37 | 4.0 | 3.35 |
| Average monthly wage(all industry)(Won) | 596,589 | 1,532,750 | 1,785,048 |
| Number of wage workers | 4,728 | 6,237 | 6,681 |

(2) Transport Fare and Communications Expenses Exemption for Elderly

□ Contents of the Program

Since the 1980s, the Korean Government has been providing special fare exemptions and reduced tariff on communications charges for some disadvantaged groups such as elderly under a legal safeguard. Senior citizens and the handicapped are given special treatment in using telephone service, mobile telephones, railways, subways and domestic airline services by providing them with free passage or reduced rates which are specified under the laws. The actual beneficiaries of this privilege are increasing rapidly as the number of elderly and registered handicapped are increasing very fast.

We have included only those privileges that are clearly indicated in the law and, therefore, some of services provided voluntarily by individuals or local community are excluded from the scope of this study(The good examples of voluntary services are the Senior Card in the U.S. and the Senior Citizen's ID Card in New Zealand.).

□ Estimation Method and Sources

Actual surveys were conducted with the major service providers such as the Ministry of Health and Welfare, Ministry of Information and Communications(MIC) and the Korean National Railways(KNR), and the expenditures under this category were estimated by analyzing the survey results, as presented in Table 12 and 13.

Table 12. Service Providers Surveyed and Survey Method

| Sector | Services | Providers | Survey Method |
|-------------------------------------|------------------|---|--------------------|
| Transport | Railways | KNR, KTX | Actual surveys |
| | Subways | Subway companies in Seoul, Pusan, Daegu, Gwangju, and Incheon | |
| | Domestic airline | KAL and Asiana, Jeju Air | |
| | Highway toll | Korea Highway Corporation | |
| Communication | Telephones | KT, Hanaro, Dacom and Onse telecom | Actual surveys |
| | Mobile phones | SK Telecom(010· 011· 017), KTF(010· 016· 018), LG telecom(010· 019) | |
| | TV charges | KBS | |
| Admissions to Royal Palaces & Tombs | Palaces/ tombs | Cultural Properties Administration | Internal estimates |

Table 13. Trend in Transport & Communications Privileges to Disadvantaged Group

(Unit: Won million)

| | | 1995 | 1999 | 2003 | 2007 |
|-----------------------|------------------------------------|--------|---------|---------|---------|
| Total amount | | 54,856 | 171,782 | 524,947 | 914,939 |
| Transport | Railway('91.1) ¹⁾ | 8,500 | 32,700 | 74,251 | 164,404 |
| | Subways('91.1) | 22,537 | 51,067 | 134,925 | 302,971 |
| | Domestic air fare('91.8) | 1,700 | 8,753 | 28,187 | 19,238 |
| | Highway toll('97.8) | 519 | 7,739 | 24,841 | 43,231 |
| | Bus, Passenger Vessel('04) | | | | 3,494 |
| Communi- cations | Telephone service('89.7) | 13,908 | 35,301 | 247,509 | 357,142 |
| | Mobile phones('96.6) ²⁾ | - | 24,241 | | |
| | TV reception charges('97.1) | 5,212 | 8,931 | 12,330 | 21,630 |
| Tourism | Royal palaces & tombs('90.9) | 2,479 | 3,050 | 2,903 | 2,829 |
| Percentage to GDP(%) | | 0.01 | 0.04 | 0.07 | 0.09 |
| Annual growth rate(%) | | | | | |

Note: () data estimated at first.

2. Gross Social Expenditure

□ Contents of the Program

In recent years, the share of private social expenditure is increasing in total social

expenditure. The voluntary private social expenditure, though its share is still small and importance is limited, is playing an increasingly important role in supplementing the national welfare activities.

The voluntary private social welfare activities can be classified into three categories according to their funding modes. First, some private organizations have been actively mobilizing funds for social purposes some of which are legally permitted but most of them are purely depending on voluntary private contribution in their funding modes. These type includes the social welfare funding agencies incorporated by the provisions of the Social Welfare Funding Act, the Tuberculosis Fund Drive, Red Cross Fund, Disaster Relief Funding Campaigns, New Life Fund by MBC and Sister Village Assistance Movement just to name a few. Second, the roles of some religious groups which have strong presence in social welfare in response to the demand of the times, such as Catholic, Buddhist, Presbyterian and Won Buddhist social welfare organizations, should be fully recognized and appreciated. Third, there are some important social welfare activities sponsored by business enterprises on a voluntary basis and some social welfare organizations set up by some associations of businesses.

In this study, we have confined our scope to the activities of social welfare organizations which have some legal basis and excluded the purely private voluntary contributions since we considered the voluntary contributions by individuals are outside the scope of this study.

The conceptual components of the gross social expenditure are summarized and presented in Table 14 where the unshaded area represents the "social expenditure" area while the shaded area represents the additional area to form the gross social expenditure.

Table 14. Conceptual Components of Gross Social Expenditure

| Programs | | Component Items |
|-------------------------|------------------|---|
| Public support | | Livelihood protection, medicare, refugee benefit, veterans benefit |
| Social insurance | | Pension, health insurance, unemployment insurance, accident & disaster insurance. |
| Social welfare services | | elderly & handicapped, family welfare, health care, positive labor market policy. |
| Private sector: | mandatory sector | mandatory retirement allowance, maternity leave benefit, sickness leave benefit |
| Private sector | voluntary sector | Welfare-related expenditure of funding agencies and social welfare funds of religious organizations. |
| | | Social welfare activities of firms or trade associations for social welfare or disaster relief and prevention |
| | | Employment-related benefits from companies such as family allowance, education grants, housing assistance. |
| | | Benefits of special interest groups: Korean Medical Association's Cooperative benefit. |
| | | Private medical benefit: personal injury benefits paid by car insurance companies. |

□ Estimation Method and Sources of Data

Estimation of social expenditure of private funding agencies and religious welfare organizations was made by analyzing the financial statements and other internal documents provided by private welfare funding agencies and religious social welfare organizations. The benefits related to employments were estimated by analyzing the "Labor Cost Survey Report of Business Enterprises" and the "Labor Statistics Yearbook" published by the Ministry of Labor while the welfare activities of corporations and corporate foundations were estimated by utilizing the "2007 White Paper on the Social Contribution of Corporations and Corporate Foundations" published by the Federation of Korean Industries(FKI). The social expenditure of special interest groups and car insurance companies were estimated by analyzing the internal documents provided by the Ministry of Education, Science, and Technology, and the Insurance Development Institute, respectively.

3. Net Social Expenditure

Net social expenditure can be estimated by adding TBSPs(tax breaks for social Purposes) and by deducting the tax and social insurance paid by transfer income earners. The tax and social insurance borne by transfer income earners tend to reduce the transfer income. The Government increases social expenditure indirectly by providing various tax breaks for social purposes which tend to increase net social expenditure. In Table 15, the unshaded area represents the "gross social expenditure" zone while the shaded area represents the additional area for the estimation of the "net social expenditure" area.

□ Estimation Method and Data Sources

The income tax for compulsory retirement allowance was estimated by using the electronic data of the National Tax Service(NTS) while the income tax obligations for maternity and sick leave benefits were estimated by applying the effective tax rates of wage earners. The indirect taxes were estimated by using the micro data from the National Statistics Office(NSO) such as the urban and farm household surveys as well as using the macro data from the Bank of Korea(national accounts). As the results of indirect tax estimation were diverging very much as shown in Table 17, this study has taken the micro data estimation which presented lower rate of indirect tax.

Table 15. Conceptual Components of Net Social Expenditure

| Programs | | Component Items | |
|--|--|---|--|
| Gross Social Expenditure | Public support | Livelihood protection, Medicare, Refugee benefit, Veterans benefit | |
| | Social insurance | Pension, Health insurance, Unemployment insurance, Accident & disaster insurance. | |
| | Social welfare services | Elderly & handicapped, Family welfare, Health care, Active labor market policy. | |
| | Private sector | Compulsory sector | Compulsory retirement allowance, Maternity leave benefit, Sick leave benefit, Transport and communications charges exemptions. |
| | | Voluntary sector | Welfare-related expenditure of funding agencies and social welfare funds of religious organizations. |
| | | | Social welfare activities of firms or trade associations (for social welfare or disaster relief and prevention). |
| Employment-related benefits from companies such as family allowance, Education grants, Housing assistance. | | | |
| | Benefits of special interest groups: Korean Medical Association's Cooperative benefit. | | |
| | Private medical benefit: Personal injury benefits paid by car insurance companies (Below this line represents the shaded area) | | |
| Net Social Expenditure | Tax system: | Tax burden (-) | Estimation of direct and indirect tax obligations. - Income tax levied on private benefit; - Indirect tax on transfer income earners. |
| | | Tax breaks (+) | Estimation of various tax concessions. - Duty-free imports privilege for handicapped equipment; - Duty-free import of cars for handicapped; concessions at the stage of buying (exemptions of consumption and education tax), concessions during registration and car ownership. |
| | | | Income tax exemptions for handicapped, elderly, women households and donations. |
| | | | Reduction of property tax on non-profit public corporation. |
| | | | Reduced corporate tax on social expenditure of firm |
| Social insurance payment (-) | Social insurances paid by beneficiary and income earners. | | |

Table 16. Conceptual Components of Taxes and Social Insurance

| | Kind of Taxes | Applicable to | Data source | Remarks | |
|---------------------------------|------------------------|-----------------------|---|---------------------------------|----------------|
| Tax Burdens | 1. Direct tax | Retirement allowance | NTS | Old age pension may be taxable. | |
| | | Maternity benefit | National health insurance corporation(NHIC) | | |
| | | Sick leave benefit | NSO, MOLAB | | |
| | 2. Indirect tax | Household expenditure | Urban household survey | Farm household survey | |
| | | | | | |
| | 3. Social insurance | | Health insurance for pensioner | NHIC | 1999 data etc. |
| Social insurance by wage earner | | | MOLAB, NSO | | |
| Tax Breaks | 1. Tax reduction | Duty free import | Custom Duty Office | 100 breaks('01) | |
| | 2. Duty free cars | for Disabled users | Internal Tax Office | Hard to estimate. | |
| | | - On buying | | | |
| | | - Registration/owning | | | |
| | 3. Property tax break | Non-profit firms | NEMA | | |
| 4. Income tax breaks | Elderly, Disabled etc. | NSO, MOFE | Few beneficiaries | | |
| 5. Corporate tax breaks | Enterprises | NSO, MOFE | Need more study. | | |

The health insurance payments by pensioners were estimated by applying the effective burden rates of the National Health Insurance Corporation. As to tax concessions for handicapped for importing duty free cars and special equipment, duty exemption was estimated by using the data from the Custom Duty Office while car import privileges were estimated by analyzing data from the Custom Duty Office, NTS and NEMA. Likewise, reduction of corporate tax applicable for non-profit organizations was estimated by using data from NEMA. The reduction of corporate tax arising from social welfare activities of business firms, however, cannot easily be estimated due to the limitation in basic data which deserves further in-depth study in the future.

Table 17. Comparison of Indirect Tax Estimation(Micro vs Macro Data)

| | | 1995 | 1999 | 2001 | 2007 |
|--------------------------|---------------------|-------|-------|-------|-------|
| Micro data ¹⁾ | | 2.51 | 2.76 | 3.27 | - |
| Macro data | Minim ²⁾ | 10.36 | 11.63 | 12.74 | 11.43 |
| | Maxim ³⁾ | 16.18 | 16.89 | 17.90 | - |

Notes: (1) Indirect tax burden rate of transfer income household = total indirect tax / total income of transfer income household x100;

(2) Minim = general consumption tax / (private consumption + gov't consumption - wage for Government employees)

(3) Maxim = taxes on goods and services / final private consumption expenditures

Sources: (1) National Statistics Office, Urban Household Surveys, Farm Household Surveys, various years

(2) The Bank of Korea, *National Accounts*, various years.

(3) OECD, *Revenue Statistics, 1965/2001, 2002, 2008*

Chapter 5. Estimations and Comparison

1. Social Expenditure

Social expenditure in Korea has been estimated to amount Won 78,696 billion in 2007, which was equivalent to 8.1% of current GDP. This share exceeded double in 1997(4.3%), actually it is the highest social expenditure level in Korea.

In terms of the functional classification of the social expenditure, the "health" sector had the highest share with Won 33,702 billion(42.8%), followed by "old-age" which accounted for Won 19,724 billion(25.0%), respectively. These top two functions accounted for most of social expenditure with 67.9% share in total expenditure. The major components of "health" expenditure were payments related to health insurance, medicare, and industrial accident compensation insurances while most of "old age" expenditures were pension payments of occupational pension schemes.

The incapacity-related benefits expenditures, which include expenditures for handicapped, industrial accidents and occupational diseases, amounted to Won 6,587 billion(8.4%), followed by expenditures under "family" that amounted to Won 4,920 billion(6.2%)-despite the increase in all functional expenditures "family" heading decreased. Active labor market programs(1.6%) is the lowest percentage of the social expenditure. "Housing" has no social expenditure under the heading.

In terms of the social expenditure by institutional programs, the social insurance had the highest share of 60.2% as shown in Table 15, followed by public welfare services(17.5%), public support (15.0%), corporate welfare(6.1%), and private welfare services(1.2%), respectively. Similar trend was shown in the social expenditure by financing sources as

presented in Table 16, which showed that the highest share was accounted by social insurance(60.2%), followed by private sector(7.3%), and general government(32.5%), respectively.

Table 18. Trend in Social Expenditure by Branches¹⁾

| | (Unit: Won billion, %) | | | | | |
|--|------------------------|-------|-------|-------|--------|--------|
| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
| 1. OLD-AGE ²⁾ | 1,525 | 1,895 | 2,549 | 3,258 | 4,114 | 5,357 |
| □ Retirement pay | 359 | 424 | 521 | 597 | 797 | 984 |
| 2. SURVIVORS | 298 | 409 | 452 | 494 | 569 | 637 |
| 3. INCAPACITY-RELATED BENEFITS ³⁾ | 705 | 944 | 1,178 | 1,182 | 1,495 | 1,744 |
| 4. HEALTH ⁴⁾ | 2,964 | 3,263 | 3,835 | 4,300 | 4,873 | 5,928 |
| 5. FAMILY | 60 | 89 | 111 | 154 | 185 | 263 |
| 6. ACTIVE LABOUR MARKET PROGRAMS | 51 | 44 | 103 | 144 | 114 | 168 |
| 7. UNEMPLOYMENT | - | - | - | - | - | - |
| □ Unemployment Compensation ⁵⁾ | | - | - | - | - | - |
| 8. HOUSING | - | - | - | - | | - |
| 9. OTHER SOCIAL POLICY AREAS ⁶⁾ | 335 | 336 | 328 | 359 | 363 | 459 |
| TOTAL SOCIAL EXPENDITURE | 5,939 | 6,979 | 8,556 | 9,890 | 11,712 | 14,557 |
| % GDP | 3.18 | 3.09 | 3.32 | 3.40 | 3.44 | 3.65 |

Notes: 1) Expenditures of local governments to finance local projects excluded;
2) Compulsory retirement allowances of various workplaces;

Table 18. Continued¹⁾

(Unit: Won billion, %)

| 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | |
|--------|--------|--------|--------|--------|--------|--|
| 5,742 | 7,330 | 13,159 | 15,614 | 11,048 | 9,318 | 1. OLD-AGE ²⁾ |
| 1,091 | 1,872 | 4,226 | 2,606 | 3,474 | 2,599 | ↳ Retirement pay |
| 720 | 819 | 874 | 900 | 1,040 | 1,172 | 2. SURVIVORS |
| 2,049 | 2,443 | 2,504 | 2,432 | 2,851 | 3,327 | 3. INCAPACITY-RELATED BENEFITS ³⁾ |
| 7,543 | 8,746 | 9,648 | 11,352 | 12,779 | 17,647 | 4. HEALTH ⁴⁾ |
| 339 | 515 | 644 | 685 | 879 | 1,252 | 5. FAMILY |
| 184 | 360 | 1,627 | 3,266 | 2,313 | 1,429 | 6. ACTIVE LABOUR MARKET PROGRAMS |
| 10 | 79 | 799 | 936 | 471 | 845 | 7. UNEMPLOYMENT |
| 10 | 79 | 799 | 936 | 471 | 845 | ↳ Unemployment Compensation ⁵⁾ |
| - | - | - | - | - | - | 8. HOUSING |
| 586 | 745 | 888 | 1,469 | 1,659 | 2,600 | 9. OTHER SOCIAL POLICY AREAS ⁶⁾ |
| 17,173 | 21,036 | 30,144 | 36,655 | 33,040 | 37,590 | TOTAL SOCIAL EXPENDITURE |
| 3.83 | 4.28 | 6.23 | 6.92 | 5.48 | 5.77 | % GDP |

3) Benefits related to handicapped, industrial accidents, occupational and other diseases;

4) Unemployment benefit under employment insurance.

5) Include cash payments under the public workfare program.

Table 18. Continued¹⁾

(Unit: Won billion, %)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|--|--------|--------|--------|--------|--------|--------|
| 1. OLD-AGE ²⁾ | 9,668 | 11,663 | 14,513 | 15,836 | 17,512 | 19,724 |
| ┆ Retirement pay | 2,330 | 2,863 | 3,266 | 3,182 | 3,330 | 3,663 |
| 2. SURVIVORS | 1,364 | 1,597 | 1,825 | 2,013 | 2,235 | 2,471 |
| 3. INCAPACITY-RELATED BENEFITS ³⁾ | 3,962 | 4,600 | 5,381 | 5,713 | 6,248 | 6,587 |
| 4. HEALTH ⁴⁾ | 18,501 | 20,248 | 22,369 | 25,628 | 29,894 | 33,702 |
| 5. FAMILY | 1,278 | 1,589 | 2,330 | 2,518 | 5,010 | 4,920 |
| 6. ACTIVE LABOUR MARKET PROGRAMS | 1,342 | 932 | 941 | 1,035 | 1,089 | 1,267 |
| 7. UNEMPLOYMENT | 835 | 1,030 | 1,448 | 1,752 | 2,074 | 2,434 |
| ┆ Unemployment Compensation ³⁾ | 835 | 1,030 | 1,448 | 1,752 | 2,074 | 2,434 |
| 8. HOUSING | - | - | - | - | - | - |
| 9. OTHER SOCIAL POLICY AREAS ⁶⁾ | 3,052 | 3,284 | 5,509 | 6,040 | 7,519 | 7,591 |
| TOTAL SOCIAL EXPENDITURE | 40,002 | 44,943 | 54,316 | 60,535 | 71,581 | 78,696 |
| % GDP | 5.55 | 5.86 | 6.57 | 7.00 | 7.88 | 8.07 |

Table 19. Social Expenditure by Programs

| | | (Unit: Won billion) | | | | | |
|---------------------------------------|--------------------------------------|---------------------|-------|-------|-------|--------|--------|
| Institution | Program | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
| Total | | 5,939 | 6,979 | 8,556 | 9,890 | 11,712 | 14,557 |
| Public support | Sub-total | 861 | 1,035 | 1,127 | 1,258 | 1,324 | 1,524 |
| | Livelihood protection ¹⁾ | 821 | 1,014 | 1,126 | 1,246 | 1,320 | 1,490 |
| | Refugee protection ²⁾ | 40 | 21 | 1 | 12 | 4 | 33 |
| | Disaster relief aid | - | - | - | - | - | 1 |
| | Defoliant etc. | - | - | - | - | - | - |
| Social welfare services | Sub-total | 1,041 | 1,240 | 1,460 | 1,633 | 2,037 | 2,366 |
| | In-facility protection ³⁾ | 52 | 64 | 74 | 85 | 123 | 138 |
| | In-house protection ⁴⁾ | 104 | 128 | 174 | 239 | 297 | 424 |
| | Worker's welfare ⁵⁾ | 38 | 30 | 90 | 107 | 237 | 319 |
| | Health welfare ⁶⁾ | 847 | 1,018 | 1,122 | 1,202 | 1,380 | 1,485 |
| | Housing welfare | - | - | - | - | - | - |
| | Education welfare | - | - | - | - | - | - |
| Social insurance | Sub-total | 3,534 | 4,115 | 5,256 | 6,198 | 7,334 | 9,392 |
| | Pension ⁷⁾ | 1,235 | 1,571 | 2,141 | 2,785 | 3,453 | 4,482 |
| | Medical protection ⁸⁾ | 1,760 | 1,842 | 2,183 | 2,560 | 2,902 | 3,774 |
| | Industrial accident Insurance | 539 | 702 | 932 | 853 | 979 | 1,134 |
| | Employment Insurance | - | - | - | - | - | 2 |
| Private welfare service ⁹⁾ | - | - | - | - | - | 55 | |
| Corporate welfare | Sub-total | 502 | 591 | 711 | 802 | 1,017 | 1,220 |
| | Retirement pay | 359 | 424 | 521 | 597 | 797 | 984 |
| | Maternity leave benefit | - | - | - | - | - | - |
| | Sick leave benefit ¹⁰⁾ | 143 | 166 | 190 | 205 | 220 | 235 |

Notes: 1) Livelihood protection, temporary aid, homeless protection, vocational training for low income group, medicare protection and veterans benefits.

2) House reconstruction cost, disaster relief cost

3) Welfare facility for handicapped protection, elderly facility protection, children facility protection, mother and child protection.

4) In-house handicapped protection, in-house elderly protection, in-house mother and child households protection, children support facility and operation of social welfare pavilions.

5) Operating expenses of special schools for handicapped, employment service, support for vocational training, HRDKorea and handicapped employment promotion co. support(operation costs of vocational training facility), operation of handicapped protection workplaces.

Table 19. Continued

(Unit: Won billion)

| Institution | Program | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---------------------------------------|--------------------------------------|--------|--------|--------|--------|--------|--------|
| Total | | 17,173 | 21,036 | 30,144 | 36,655 | 33,040 | 37,590 |
| Public support | sub-total | 1,781 | 2,077 | 2,512 | 3,352 | 3,810 | 5,265 |
| | Livelihood protection ¹⁾ | 1,751 | 2,069 | 2,449 | 3,286 | 3,784 | 5,239 |
| | Refugee protection ²⁾ | 29 | 7 | 62 | 65 | 19 | 10 |
| | Disaster relief aid | 1 | 1 | 1 | 1 | 7 | 16 |
| | Defoliant etc. | - | - | - | - | - | - |
| Social welfare services | Sub-total | 3,259 | 3,973 | 4,768 | 5,921 | 5,186 | 4,463 |
| | In-facility protection ³⁾ | 163 | 216 | 216 | 197 | 258 | 362 |
| | In-house protection ⁴⁾ | 580 | 797 | 840 | 915 | 1,152 | 1,357 |
| | Worker's welfare ⁵⁾ | 355 | 601 | 1,516 | 3,015 | 2,149 | 1,266 |
| | Health welfare ⁶⁾ | 2,161 | 2,359 | 2,004 | 1,626 | 1,421 | 1,101 |
| | Housing welfare | - | - | - | - | - | - |
| | Education welfare | - | - | 192 | 168 | 206 | 377 |
| Social insurance | Sub-total | 10,685 | 12,592 | 18,018 | 23,999 | 19,579 | 24,036 |
| | Pension ⁷⁾ | 4,728 | 5,511 | 8,945 | 13,052 | 7,656 | 6,712 |
| | Medical protection ⁸⁾ | 4,578 | 5,407 | 6,512 | 8,235 | 9,545 | 14,218 |
| | Industrial accident Insurance | 1,355 | 1,556 | 1,451 | 1,274 | 1,456 | 1,745 |
| | Employment Insurance | 24 | 118 | 1,110 | 1,438 | 922 | 1,361 |
| Private welfare service ⁹⁾ | 68 | 96 | 134 | 172 | 272 | 348 | |
| Corporate welfare | Sub-total | 1,380 | 2,299 | 4,717 | 3,210 | 4,193 | 3,479 |
| | Retirement pay | 1,091 | 1,872 | 4,226 | 2,606 | 3,474 | 2,599 |
| | Maternity leave benefit | - | 85 | 94 | 153 | 212 | 309 |
| | Sick leave benefit ¹⁰⁾ | 289 | 343 | 397 | 451 | 506 | 571 |

6) Health expenditure of central and local governments.

7) National Pension, Civil Service Pension, Private School Teachers pension, Military Pension and Special Postal Workers Pension.

8) Medical insurance contribution of workers in workplaces, regional agencies, government employees and private school teachers.

9) Fare reduction or exemption and reduced communications charges for elderly and needy persons.

10) Sick leave compensation benefit of workers.

Table 19. Continued

| | | (Unit: Won billion) | | | | | |
|---------------------------------------|--------------------------------------|---------------------|--------|--------|--------|--------|--------|
| Institution | Program | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| Total | | 40,002 | 44,943 | 54,316 | 60,535 | 71,581 | 78,696 |
| Public support | Sub-total | 5,850 | 6,370 | 7,545 | 9,246 | 11,044 | 11,805 |
| | Livelihood protection ¹⁾ | 5,528 | 6,137 | 7,468 | 9,167 | 10,831 | 11,673 |
| | Refugee protection ²⁾ | 297 | 197 | 35 | 28 | 168 | 79 |
| | Disaster relief aid | 25 | 36 | 42 | 50 | 43 | 52 |
| | Defoliant etc. | - | - | - | 1 | 2 | 2 |
| Social welfare services | Sub-total | 4,910 | 5,315 | 9,066 | 9,258 | 12,947 | 13,776 |
| | In-facility protection ³⁾ | 442 | 458 | 752 | 161 | 1,004 | 760 |
| | In-house protection ⁴⁾ | 2,138 | 2,548 | 2,755 | 3,129 | 4,874 | 5,536 |
| | Worker's welfare ⁵⁾ | 860 | 366 | 320 | 269 | 248 | 252 |
| | Health welfare ⁶⁾ | 1,118 | 1,543 | 1,602 | 2,358 | 2,470 | 3,439 |
| | Housing welfare | - | - | 3,161 | 2,776 | 3,763 | 3,159 |
| | Education welfare | 352 | 400 | 476 | 565 | 588 | 631 |
| Social insurance | Sub-total | 25,542 | 28,916 | 32,765 | 37,070 | 42,335 | 47,383 |
| | Pension ⁷⁾ | 7,330 | 8,912 | 10,294 | 12,095 | 13,332 | 15,100 |
| | Medical protection ⁸⁾ | 14,849 | 15,881 | 17,479 | 19,357 | 22,798 | 25,398 |
| | Industrial accident Insurance | 2,016 | 2,482 | 2,860 | 3,026 | 3,164 | 3,242 |
| | Employment Insurance | 1,347 | 1,641 | 2,132 | 2,592 | 3,041 | 3,642 |
| Private welfare service ⁹⁾ | 430 | 525 | 617 | 715 | 803 | 915 | |
| Corporate welfare | Sub-total | 3,269 | 3,816 | 4,329 | 4,240 | 4,453 | 4,817 |
| | Retirement pay | 2,330 | 2,863 | 3,266 | 3,182 | 3,330 | 3,663 |
| | Maternity leave benefit | 260 | 321 | 362 | 307 | 366 | 459 |
| | Sick leave benefit ¹⁰⁾ | 679 | 633 | 701 | 751 | 757 | 695 |

Table 20. Social Expenditure by Sources of Fund

(Unit: Won billion)

| Year | Total Grand | sub-total | Public Sector | |
|-----------------|-------------|-----------|--------------------------|--------------------------------|
| | | | Government ¹⁾ | Social Insurance ²⁾ |
| 1990 | 5,939 | 5,437 | 1,902 | 3,534 |
| 1991 | 6,979 | 6,389 | 2,275 | 4,115 |
| 1992 | 8,556 | 7,845 | 2,587 | 5,256 |
| 1993 | 9,890 | 9,088 | 2,891 | 6,198 |
| 1994 | 11,712 | 10,695 | 3,361 | 7,334 |
| 1995 | 14,557 | 13,282 | 3,890 | 9,392 |
| 1996 | 17,173 | 15,725 | 5,040 | 10,685 |
| 1997 | 21,036 | 18,641 | 6,050 | 12,592 |
| 1998 | 30,144 | 25,292 | 7,280 | 18,018 |
| 1999 | 36,655 | 33,273 | 9,273 | 23,999 |
| 2000 | 33,040 | 28,575 | 8,996 | 19,579 |
| 2001 | 37,590 | 33,764 | 9,728 | 24,036 |
| 2002 | 40,002 | 36,303 | 10,760 | 25,542 |
| 2003 | 44,943 | 40,602 | 11,685 | 28,916 |
| 2004 | 54,316 | 49,370 | 16,611 | 32,765 |
| 2005 | 60,535 | 55,581 | 18,504 | 37,070 |
| 2006 | 71,581 | 66,325 | 23,991 | 42,335 |
| 2007 | 78,696 | 72,964 | 25,581 | 47,383 |
| (% of '07 year) | (100.0) | (92.7) | (32.5) | (60.2) |

Notes: 1) This represents expenditure for public support and social welfare services.

2) Benefits from four major social insurance schemes.

3) This represents the fare exemption and reduced communication charges for the disadvantaged people, including elderly.

Table 20. Continued

(Unit: Won billion, %)

| Private Sector | | | | | Year |
|----------------|----------------|-------------------------|------------------------|--|-----------------|
| Sub-total | Retirement pay | Maternity leave benefit | Sickness leave benefit | Private welfare services ³⁾ | |
| 502 | 359 | - | 143 | - | 1990 |
| 591 | 424 | - | 166 | - | 1991 |
| 711 | 521 | - | 190 | - | 1992 |
| 802 | 597 | - | 205 | - | 1993 |
| 1,017 | 797 | - | 220 | - | 1994 |
| 1,274 | 984 | - | 235 | 55 | 1995 |
| 1,448 | 1,091 | - | 289 | 68 | 1996 |
| 2,395 | 1,872 | 85 | 343 | 96 | 1997 |
| 4,851 | 4,226 | 94 | 397 | 134 | 1998 |
| 3,382 | 2,606 | 153 | 451 | 172 | 1999 |
| 4,464 | 3,474 | 212 | 506 | 272 | 2000 |
| 3,827 | 2,599 | 309 | 571 | 348 | 2001 |
| 3,700 | 2,330 | 260 | 679 | 430 | 2002 |
| 4,341 | 2,863 | 321 | 633 | 525 | 2003 |
| 4,946 | 3,266 | 362 | 701 | 617 | 2004 |
| 4,954 | 3,182 | 307 | 751 | 715 | 2005 |
| 5,256 | 3,330 | 366 | 757 | 803 | 2006 |
| 5,732 | 3,663 | 459 | 695 | 915 | 2007 |
| (7.3) | (4.7) | (0.6) | (0.9) | (1.2) | (% of '07 year) |

2. Gross Social Expenditure

The gross social expenditure of Korea was estimated at Won 98,650 billion in 2007, which was equivalent to 11.4 % of factor GDP. In 2007, the share of gross public expenditure was the largest with 74.0% of total gross social expenditure, followed by the

gross compulsory private expenditure(5.8%) and gross voluntary private expenditure(20.2%), respectively. With the government's meager share of 74.0% in total expenditure, this represents that the public sector should play a much stronger role in social expenditure.

Table 21. Magnitude of Gross Social Expenditure in Korea(2000~2007)

| Composing Items | (Unit: Won billion, %) | | | | | | | |
|--|------------------------|--------|--------|--------|--------|--------|--------|--------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| Gross Social Welfare Expenditure(1+2+3) | 45,134 | 50,481 | 54,369 | 61,554 | 67,619 | 75,513 | 88,981 | 98,650 |
| % of factor GDP | 8.5 | 8.8 | 8.6 | 9.1 | 9.2 | 9.8 | 11.1 | 11.4 |
| 1. Gross Public Expenditure ¹⁾ | 28,575 | 33,764 | 36,303 | 40,602 | 49,370 | 55,581 | 66,325 | 72,964 |
| 2. Gross Mandatory Private Expenditure ²⁾ | 4,464 | 3,827 | 3,700 | 4,341 | 4,946 | 4,954 | 5,256 | 5,732 |
| 3. Gross Voluntary Private Expenditure ³⁾ | 12,094 | 12,890 | 14,366 | 16,611 | 13,303 | 14,978 | 17,400 | 19,954 |

Notes: 1) Benefits from public support, social welfare service and social insurance;

2) Includes compulsory retirement allowance, maternity leave benefit, sick leave benefit and fare exemption and communication charge reduction for socially disadvantaged persons.

3) Includes private fund mobilizing agency, religious organizations, voluntary contributions of business firms, and medical expenses paid by private sector.

3. Net Social Expenditure

The Net Social Expenditure of Korea is estimated to amount Won 101,179 billion in 2007, which was equivalent to 11.7% of the factor GDP. In 2005, net social expenditure of Korea was 10.7% of the factor GDP, it raised up slightly.

This implies that tax breaks were larger than tax burden in Korea. As mentioned earlier in the introduction chapter, we would like to critically review how fast the net social expenditure could grow annually to catch up the level of more advanced OECD countries where the net social expenditure converges to a level which is 25.0% of factor GDP.

In Korea, the ratio of social expenditure to factor GDP was 8.07% whereas the ratio of net social expenditure to factor GDP was 11.7% in 2007, thereby giving net social expenditure a margin of 3.63% over social expenditure(Please see Table 18). The level of net social expenditure in Korea to factor GDP was much too low compared with the OECD member countries(average 23.2%). Korea's net social welfare level(11.7% of factor GDP) remained at half of the OECD average.

Table 22. Size of Net Social Expenditure of Korea(2000~2007)

| Composing Items | (Unit: Won billion, %) | | | | | | | |
|------------------------------------|------------------------|--------|--------|--------|--------|--------|--------|---------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| 1. Gross Social Expenditure | 45,134 | 50,481 | 54,369 | 61,554 | 67,619 | 75,513 | 88,981 | 98,650 |
| 2. Tax burden ¹⁾ | 2,246 | 2,535 | 2,932 | 3,534 | 3,947 | 4,307 | 4,610 | 4,592 |
| Direct tax and social insurance | 131 | 244 | 239 | 267 | 374 | 392 | 449 | 534 |
| Indirect tax | 2,115 | 2,292 | 2,693 | 3,267 | 3,573 | 3,914 | 4,161 | 4,058 |
| 3. Tax Breaks ²⁾ | 1,660 | 2,024 | 3,990 | 4,709 | 4,840 | 5,659 | 6,107 | 7,121 |
| T1 | 1,660 | 2,024 | 3,990 | 4,709 | 4,840 | 5,659 | 6,107 | 7,121 |
| T2 | - | - | - | - | - | - | - | - |
| Net Social Expenditure (1-2+T1-T2) | 44,547 | 49,970 | 55,427 | 62,729 | 68,512 | 76,865 | 90,478 | 101,179 |
| NSE/Factor GDP(%) | 8.36 | 8.71 | 8.76 | 9.28 | 9.33 | 10.07 | 11.24 | 11.73 |

Notes: 1) Direct tax is levied on retirement allowance, maternity benefit, and sick leave benefit(Benefits from social insurance are exempted from direct tax). Indirect tax is estimated separately for social insurance, compulsory private benefits, and tax exemption, taking average figures if different rates were estimated for urban and rural households.

2) This represents reduction in income tax, duty free import of cars and other equipment for handicapped persons, and property tax concessions for non-profit corporations. Reduction of corporate tax for social expenditure was not included here due to the lack of data.

Sources: Gho, internal data.

4. International Comparison of Social Expenditure

Table 19 presents the international comparison of Korea's social expenditure with those of the OECD countries for 2005. As Korea's social expenditure remained at low level of 7.0% of current GDP(2005), this is very low even compared with the U.S.(17.8%) and Japan(19.8%), which are considered as backward countries among the OECD countries so far as social expenditure is concerned. Considering some countries like Sweden(37.8%) and Denmark(32.5%) where these figures exceeded 30% marks(more than 3 times of Korean figure), our social expenditure level remains about 28~58% of those advanced countries. In 2007, Korea's social expenditure was 8.1%.

Table 19 also presents the international comparison of Korea's net social expenditure with those of the OECD countries for 2005. As Korea's net social expenditure remained at low level of 10.7% of factor GDP(2005), this is very low even compared with the Denmark(25.4%) and Japan(22.8%), which are considered as backward countries among the OECD countries so far as social expenditure is concerned. Considering some countries like Germany(30.2%), U.K.(29.5%), Sweden(29.2%) where these figures exceeded 30%

marks(more than 3 times of Korean figure), our net social expenditure level remains about 35~47% of those advanced countries.

In 2007 compared to year 2005, Korea's social expenditure and net social expenditure raise up slowly, but certainly. With U.K., U.S., Japan, and Korea were higher net social expenditure than social expenditure. This could see that the effects of tax advantages are very important in these countries.

Table 23. International Comparison of Social Expenditure(2005)

| | Korea ¹⁾ | Sweden | Denmark | Germany | U.K. | Japan. | U.S |
|----------------------------------|---------------------|--------|---------|---------|------|--------|------|
| SE/ Current GDP ²⁾ | 7.0 (8.1) | 29.8 | 27.3 | 27.9 | 22.1 | 19.1 | 16.3 |
| NSE/ Factor GDP ³⁾ | 10.7 (11.7) | 29.2 | 25.4 | 30.2 | 29.5 | 22.8 | 27.2 |

Note: 1) () was in 2007.

Source: OECD, SOCX 2009.

Chapter 6. Status and Challenges of Korea social expenditure

It is shown that Korea's social expenditure estimates in 2007 include the following features. First, the level of Korea's social expenditure was very low compared to the OECD member countries. The lower level of social expenditure may be attributable to the immature social welfare institutions and budget constraints. Why is keeping a low social spending the following these. In Korea, social safety net is built but blind spots exist still. In addition, due to the short history of social insurance, full pensioners are just emerged 2008 for the first time. Also, aged population is just started in Korea despite most developed countries are already entered aged society. Why is constraining the enlargement of social spending the following these. GDP in Korea (\$1.8millions) is low compared to those of western countries(\$2.5-3.0millions). Also due to the division of Korea into north and south, burdens of defense budget excess drastically.

Second, although public social expenditure is still high(92.7%), social insurance (60.2%) has increased dramatically compared to government spending(32.5%). This can be guessed the highest expenditure, National Health Insurance among the social insurance. In addition, burdens of social insurance fund is expected to grow continuously because of the Elderly Long-term Care Insurance(2007) and Disability Pension(2010) are introduced.

Third, to strengthen international comparison more completely, recently OECD applies

for the classification of Old-age (SOCX NO. 1) strictly. Then SOCX can only include severance payments when these are made on retirement. Accordingly, Korea's legal retirement allowance included only retirement allowance when he arrives at legal retirement age. In addition, Old-age excludes retirement allowance of voluntary unemployed and working age population.

Fourth, low expenditure of the voluntary private sector is due to the limitations of social expenditure in Korea. In order to estimate the social expenditure better, it is essential that the relevant information on social welfare in both public and private sectors should be availed to researchers easily. In this regards, the Government as well as private sector should place high priority to form a better statistical database and encourage active participation of private sector in this endeavor.

Finally, as the net social expenditure is the key indicator to reflect the overall picture of social welfare, utmost endeavors must be done to compile this statistics on a credible manner with the understanding that this kind of undertaking cannot be achieved within a short time frame of couple of years. Consequently, it is essential to carry out well planned in-depth studies on various constituents of net social expenditure with a belief to approach this goal from both collection and compilation efforts. It is imperative that the Government must provide continued supports, both administrative as well as fiscal supports, to this endeavor until the collection and compilation of relevant data will arrive at certain level.