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Transforming and advancing public pension coverage for the self-employed in South Korea: Issues and challenges

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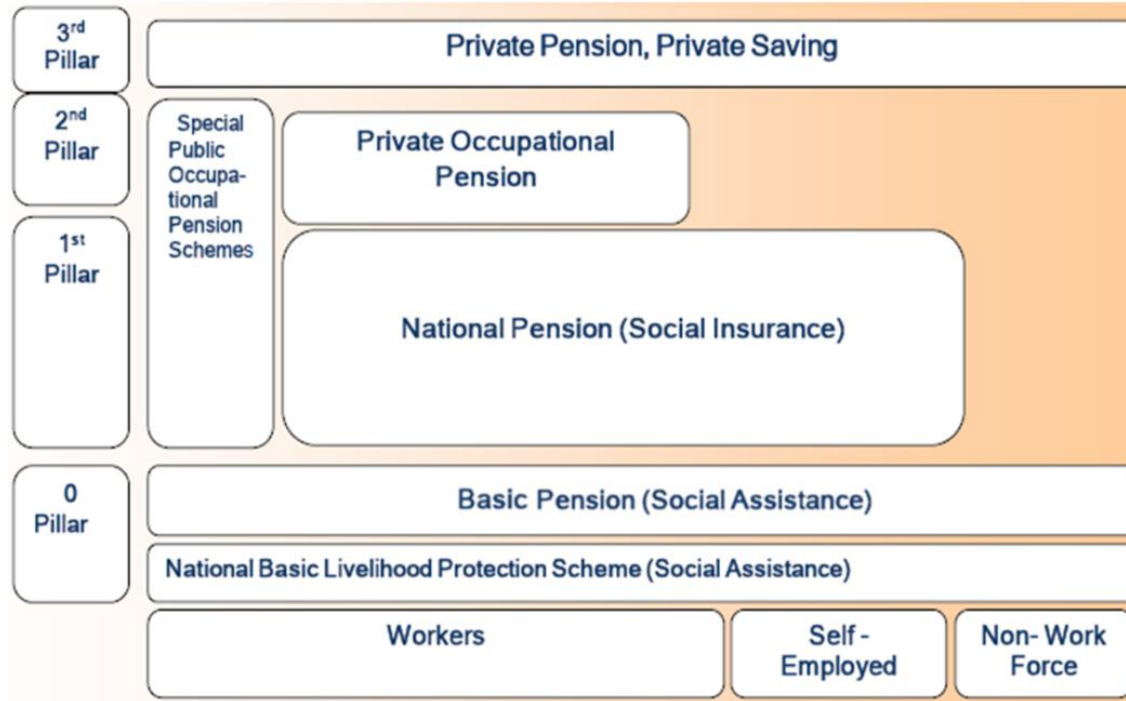
Social security for the self-employed and platform workers

Kuala Lumpur, Malaysia, 27 – 28 August 2024 | ISSA Technical Seminar

Why we need to focus on the self-employed (OECD, 2023)

- Self-employed workers are not enjoying the same level of pension protection as employees
- The self-employed often pay reduced contributions for pensions or social security and many of them have little income
- Harmonising pension protection between self-employed workers and employees is difficult due to lack of (distinct) employer and employment contract
- New forms of work magnify challenges posed by traditional non-standard work on pensions: misclassification of employment status and informality
- In Korea, platform-based (gig) workers (who are on the border between employees and self-employed workers) are recognized as self-employed workers and obligatory subscribers of the NPS, but since their NPS subscription rate is low due to the burden of the entire contribution payments, there is an argument that it is necessary to convert them to workplace insured employees to ease the contribution burden
- However, it is not easy to find a solution because they are not recognized as employees under the National Pension Act and the problem of contribution payment sharing such as the employer's burden or contribution payment support is difficult

Korea's Multi-tier pension system



The Korean public pension system

- **0 tier: National Basic Livelihood Security Scheme (general assistance) + Basic Pension (categorical assistance for those aged 65 and over)**
- **1st tier: National Pension Scheme (NPS) + public occupational pension schemes (including Government Employees Pension)**
- **The Korean public pension system mainly consists of the partially funded earnings-related Defined Benefit scheme (the NPS), which is designed to accumulate a substantial amount of funds at the initial stage, and the means-tested Basic Pension**

Overview of the National Pension Scheme (NPS)

- Introduced in 1988 and reformed in 1998 and 2007
- The NPS covers the entire workforce aged between 18 and 59 such as employees, the self-employed, farmers, and fishermen
- The benefit of the NPS consists of two parts:
 - One is the average earnings of the insured of the NPS, measured over the previous three years and valorised in line with prices (A-value)
 - The other is the average of individual lifetime average earnings, valorised in line with wage growth
- The contribution rate of the NPS is 9% (employer 4.5% and employee 4.5%) and the targeted replacement rate is about 40% with 40 years of contributions
- The pensionable age is currently 63 increasing to 65 by 2033

Issues in old-age security and the NPS

- Old-age poverty rate (OECD, 2023): Korea 40.4%, OECD average 14.2%
- Coverage rate (beneficiaries of pension as a proportion of those aged 65 and over in 2022)
 - Public pension (NPS + public occupational pension) coverage rate: 57.6%
 - Basic Pension coverage rate: 67.4% / NPS+BP simultaneous coverage rate: 31.5%
- Adequacy (single person median income in Korea, 2023 = USD 1,535)
 - Average benefit of NPS old-age pension: KRW 620,000 in 2023 (USD 457)
 - 49.8% of old-age pension recipients receive a benefit of less than KRW 400,000
 - Basic Pension amount: KRW 323,000 in 2023 (USD 238)
 - OECD poverty line USD 761, if one receives both the NPS benefit (average) and the full BP benefit, then USD 695

Issues in the NPS

- Uncovered population and contribution gap between the insured
- A large difference in NPS contribution history by type of insured person
 - The average contribution period for workplace insured employees was 146 months
 - That for individually insured self-employed workers was 90 months in 2023 (NPS, 2024)

Type		Person	Ratio
Total Population (18-59)(A)		30,875	(100.0)
	Labour market participants (B)	22,414	-
Insured (A+B+C)		20,687	(67.0)
	Contribution exemption (A)	3,098	(10.0)
	Long term arrears (B)	1,023	(3.3)
	Paying members (C)	16,566	(53.7)
Other public pensions insured (D)		1,679	(5.4)
Excluded from the system (E)		8,509	(27.6)
Uncovered population (A+B+E)		12,630	(40.9)
Insured rate	Among total population ((C+D)/A)	(59.1)	
	Among LMP ((C+D)/B)	(81.4)	

Average monthly income of insured persons of the NPS

■ Employees

(Unit: thousand won)

	2013	2018	2023
Men	2,599	3,125	3,452
Women	1,770	2,178	2,503
Total	2,299	2,733	3,437

■ Self-employed workers

(Unit: thousand won)

	2013	2018	2023
Men	1,214	1,409	1,577
Women	1,131	1,250	1,316
Total	1,176	1,330	1,444

Average contribution period of insured persons of the NPS

■ Employees

(unit: month)

	2013	2018	2023
Men	131	146	162
Women	80	96	124
Total	111	125	146

■ Self-employed workers

(unit: month)

	2013	2018	2023
Men	83	90	97
Women	53	66	83
Total	70	79	90

What did we do for the non-standard forms of workers

- Subsidy on contribution for Farmers and Fishermen (1995.7~)
 - 50% of the contribution payments (up to KRW 46,350) is supported
- Subsidy on contribution for Low-wage workers (2012.7~) called 'Durunuri'
 - For new workers (those who have no history of contributing to the NPS for the past six months prior to the date of application) with an average monthly income of less than KRW 2.7 million (USD 2,000) in small-sized firms (under 10 employees)
 - 80% of contribution payments is supported for up to 36 months
- Subsidy on contribution for the Unemployed (2016.8~)
 - If unemployment benefit recipients wish to pay contribution payments and pay 25% of the payments, the country supports the remaining 75% for up to 12 months
- Subsidy for Low-income individually insured self-employed workers (2022.7~)
 - If an insured person who is exempted from contribution payment due to unemployment, business closure, etc. resumes payment, 50% of the contribution payment (up to KRW 46,350) is supported for up to 12 months

How to improve the NPS coverage for the self-employed

- **Enhancing work-friendliness**
 - To support work and transition into labour market and avoid disincentive to work
- **Advancing subsidy on contribution for Low-wage workers called 'Durunuri'**
 - Depending on the size of the business and whether or not they are new workers, genuine low-wage workers are sometimes excluded, and the support period is strictly limited to 36 months
- **Developing subsidy on contribution for the Unemployed**
 - It is not generous to require unemployed people with no income to pay 25% of the contribution payments and limit the support period to 12 months
- **Improving subsidy for Low-income individually insured self-employed workers**
 - Is it appropriate to provide contribution payment support only to those who resume payment? It is desirable to improve the system more generously so that all low-income self-employed workers can receive support



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THANK YOU

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