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THE UNIFICATION OF THE SOCIAL INSURANCE CONTRIBUTION COLLECTION SYSTEM IN
KOREA

Sinchul Jang

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Sinchul Jang is labour attaché at the Korean delegation to the OECD. This paper is based on his book *Unification of Social Insurance Application and Collection Systems and Future Tasks*.¹ The book is based on his work as a Project Manager of the Task Force on Unification of Contribution Collection set up by the Presidential Commission on Social Inclusion (PCSI) in 2005. After Mr. Jang left the PCSI, related work in 2006 led to draft legislation in November 2006 which, if and when it is passed by the National Assembly, will create a new collection agency under the administration of the National Tax Service. The OECD Secretariat provided editing assistance.

1. In Korean, 289 pp, Korea Labor Institute 2006 (www.kli.re.kr/kli/html_eng/03_public/01_view.asp?seq=6299&page=1&mode=2&slang=2&cnum=4).

SUMMARY

Korea introduced industrial accident insurance (IACIS) in 1964, medical insurance (MIS) in 1977, pension insurance (NPS) in 1988 and employment insurance (EIS) in 1995. In line with Korea's economic development, social insurance coverage has grown rapidly, and contribution coverage rates now generally exceed 80% for regular workers. However, the four social insurance systems developed separately. The main split in contribution collection methods has been between the insurances under the responsibility of the Ministry of Labour (EIS and IACIS) and those under the Ministry of Health and Welfare (MIS and NPS), although there are also some differences between MIS and NPS. About 50% of the staff in each system has been engaged in collection activities.

Contribution collection processes differ in terms of the definition of the wage base, payment intervals, end-year adjustments when final information for annual incomes becomes available, employer ID codes and other features. Separate collection has been administratively costly and inconvenient for contributors, and differences in the wage base and payment timing have prevented the sharing of information and cross-checks between different income declarations. These features have contributed to continuing low insurance coverage rates, particularly for non-regular workers and the small firm sector.

The need for a reform of collection procedures has been debated in Korea for over a decade. Barriers to unification have been both institutional, since each social insurance institution may defend its independence and fear staff cuts, and technical, since specific choices about detailed aspects of the unified system need to be made and some of the current differences in procedures reflect varying needs. This paper summarizes the analysis and conclusions of the Task Force on Unification of Contribution Collection which was set up in 2005 by the Presidential Commission on Social Inclusion. After a year of in-depth debate among stakeholders, as of February 2007 the texts of several revised laws to implement the new contribution collection system had been completed and were being deliberated in the National Assembly. Firstly, wage bases will be aligned with the definition of taxable income to facilitate income data sharing with the tax authority. Second, collection will be based on the previous year's income and the contribution amount will be imposed on employers after calculation by the insurers. Third, as long as the insurance corporations collect contributions separately, their current payment intervals will be maintained. Fourth, the MIS, EIS and IACIS will maintain an end-year adjustment system, but the NPS will not since pension is a long-term insurance where benefits depend on life-long contributions. Other reforms include the abolition of the grading (income bracket) system used in collecting the MIS and NPS contributions, the development of common ID units and ID codes for workplaces and a revision of the management system for the EIS insured, although the new system will not be applied to construction sites until proper record-keeping for each daily worker is established.

Much else needs to be done for the development of social insurance in Korea. Among other things, a single agency should be created for collecting social insurance contributions. The unification of social insurance contribution collection with tax collection can be envisaged as a more distant objective. According to the bill proposed on 16 November 2006, a new collection agency will be created under the administration of the National Tax Service and entrusted with the integrated collection function on behalf of the social insurance corporations. A range of further measures to reduce gaps in insurance coverage (the "dead zone") should be undertaken as soon as possible.

Most countries at certain stages of economic development experience periods with low social insurance coverage, and the widespread informal employment relationships and labour market duality that this implies. As development proceeds, structural reforms are typically needed to coordinate social insurance systems which initially covered a particular social risk and particular population subgroups. Although such reforms are one-off investments which produce a permanent stream of efficiency gains, and which should usually be undertaken as soon as possible, in this area it often proves difficult to overcome inertia and resistance to change. Annex 1 of the paper shows that shortfalls from an ideal of unification or adequate coordination persist in many OECD Member countries. Several countries have moved decisively towards unification in recent decades, so the general trend is clear but it remains slow. There is little international literature on the detailed issues involved and the OECD, by publishing this description of Korean and international experiences, aims to encourage strategic reflection by policy-makers.

RÉSUMÉ

La Corée a créé l'assurance pour les accidents du travail (IACIS) en 1964, l'assurance médicale (MIS) en 1977, l'assurance retraite (NPS) en 1988 et l'assurance emploi (EIS) en 1995. En tandem avec le développement économique du pays, la couverture de la protection sociale a rapidement augmenté et les taux de cotisation dépassent désormais 80% pour les travailleurs "réguliers" (fixes). Pourtant les quatre systèmes d'assurance sociale se sont développés séparément. La principale scission en ce qui concerne les méthodes de collecte des cotisations a été entre les assurances sous le Ministère du Travail (EIS et IACIS) et celles sous le Ministère de la Santé et du Bien-être (MIS et NPS), bien qu'il existe également certaines différences entre le MIS et le NPS. Environ 50% du personnel dans chaque système est engagé dans les activités de collecte.

Les procédures de collecte des cotisations diffèrent en termes des définitions du salaire de base, la fréquence des versements, les régularisations en fin d'année en fonction de la disponibilité d'une information définitive concernant le revenu annuel, les codes d'identification des employeurs et d'autres éléments. La collecte séparée a été onéreuse pour l'administration et peu pratique pour les contribuables, alors que les différences des salaires de base et de dates de versement ont empêché le partage d'information et les vérifications par croisement des différentes déclarations de revenu. Ces traits ont participé aux bas niveaux de couverture des assurances sociales, surtout pour les travailleurs "non réguliers" et les petites entreprises.

Le débat en Corée sur le besoin d'une réforme des procédures de collecte se poursuit depuis plus de dix ans. Les obstacles à l'unification ont été à la fois institutionnels, puisque chaque organisme d'assurance sociale peut défendre son autonomie et craindre des licenciements, et techniques, puisque des choix spécifiques concernant les détails du système unifié sont impliqués et les différences actuelles répondent parfois aux problématiques de gestion différentes. Cette étude résume l'analyse et les conclusions du Groupe de travail sur l'unification de la collecte des cotisations créé en 2005 par la Commission présidentielle sur l'inclusion sociale. Après une année de débats approfondis entre les parties prenantes, en février 2007 les textes de plusieurs projets de lois révisées pour mettre en œuvre le nouveau système de collecte des cotisations sont entrés en délibération à l'Assemblée nationale. Tout d'abord, les salaires de base seront alignés sur la définition du revenu imposable, afin de faciliter le partage de l'information avec les autorités fiscales. Deuxièmement, la collecte se fondera sur le revenu de l'année précédente et le montant sera imposé à l'employeur d'après un calcul de l'assureur. Troisièmement, tant que les organismes d'assurance collectent les cotisations séparément leurs fréquences de paiement actuelles seront maintenues. Quatrièmement, les MIS, EIS et IACIS continueront avec un système de régularisations à la fin de l'année alors que le NPS ne le fera pas, puisque la retraite est une assurance pour laquelle les prestations sont en fonction des cotisations de la vie entière. Parmi les autres réformes sont l'abolition du système de grades (tranches de revenu) utilisés pour la collecte des cotisations des MIS et NPS, le développement d'unités d'identification et de codes d'identification communs pour les lieux de travail et une révision du système de gestion pour les assurés du EIS, excepté que le nouveau système ne s'appliquera pas aux chantiers de construction en attendant qu'un système d'enregistrement adéquat de chaque travailleur journalier soit établi.

Beaucoup reste à faire pour le développement de l'assurance sociale en Corée. Parmi autres choses, il faut créer une agence unique pour la collecte des cotisations. L'unification de la collecte des cotisations avec la collecte des impôts peut être envisagée comme un objectif plus lointain. Selon le projet de loi

proposé le 16 novembre 2006, une nouvelle agence sera créée sous le Service national des impôts et la fonction de collecte pour le compte des organismes d'assurance sociale lui sera confiée. Dès que possible il faut introduire une gamme d'autres mesures pour combler les lacunes de la couverture sociale (la "zone morte").

La plupart des pays traversent à certains stades du développement économique des périodes où la couverture de l'assurance sociale est limitée, avec l'importance des relations de travail informelles et de la dualité du marché du travail qui en découle. Avec la poursuite du développement, des réformes structurelles sont habituellement nécessaires pour coordonner les systèmes d'assurance qui couvraient initialement un risque spécifique et des sous groupes spécifiques de la population. Bien que de telles réformes sont des investissements uniques qui génèrent des gains permanents d'efficacité et devraient normalement être engagées le plus tôt possible, dans ce domaine il s'avère souvent difficile de surmonter l'inertie et la résistance au changement. L'Annexe 1 de cet article montre que des manquements par rapport à l'idéale de l'unification ou d'une coordination adéquate persistent dans de nombreux pays Membres de l'OCDE. Plusieurs pays ont franchi des pas décisifs vers l'unification ces dernières décennies, mais si la tendance générale est claire elle reste lente. Il y a peu de littérature internationale au sujet des questions de détail soulevées et l'OCDE, en publiant cette description des expériences coréennes et internationales, espère encourager la réflexion stratégique par les décideurs politiques.

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THE UNIFICATION OF THE SOCIAL INSURANCE CONTRIBUTION COLLECTION SYSTEM IN KOREA²

I. Introduction

1. Korea's four major social insurance systems were introduced one by one at different phases of economic development. Each insurance system has evolved separately, with a lack of close coordination with the other systems, especially in terms of the collection of contributions. Although each system may have its own individual logic, it has become difficult to defend the logic of the four systems together, since there are now many overlapping administrative functions, overlapping benefits and "dead zones" which lack insurance coverage.

2. Due to their relative newness, the four Korean social insurance systems are facing numerous challenges related to the adequacy of benefit levels, undeclared work, low coverage especially for irregular (*i.e.* non-regular) workers, and demographic changes such as the low birth rate and population ageing. Unsatisfactory levels of contribution compliance make it more difficult to cope with these issues and have become a threat to the financial stability of each system. Various labour market programmes and social safety net provisions are inaccessible for many workers in the informal sector. Both tax authorities and social insurance administrators have claimed that it is currently too difficult, with limited manpower, to efficiently manage the large number of small businesses and irregular workers in the Korean economy. At the same time, they have dedicated little effort to addressing this matter, maintaining that there are more urgent issues to be tackled.

3. Until now 50% of the staff in each system has been engaged in collection activities. Data sharing between these collection agencies has been limited due to differences in the wage bases used for contribution collection by the different social insurance systems and for income taxation, and data sharing with tax authorities has not been very effective. Differences in the contribution base and other aspects of the collection process have also been a great administrative burden for employers. No-one likes to pay taxes, and in order to increase compliance with social insurance contributions and income taxes, collection agencies should limit the administrative burden on contributors as much as possible. The unification of social insurance contribution collection systems, by eliminating problems of data sharing and reducing the administrative burden on taxpayers, should help to achieve significantly higher levels of compliance.

4. At the international level, two major types of administrative arrangement are used for the collection of social insurance contributions: the parallel collection system and the integrated collection system. The type of system used largely depends on the historical background of each country and how the social insurance system was adopted. In the parallel system a single social insurance contribution collection agency collects the contributions and distributes them to individual insurance agencies, and in the integrated system social insurance contributions are collected by the tax authorities. Several countries

2. My sincere thanks go to David Grubb of the OECD Directorate for Employment, Labour and Social Affairs who proposed publication of this paper in English and provided suggestions, comments, detailed editing and additional information for the international overview (Annex 1). The content and opinions expressed in this paper remain those of the author, who is responsible for all remaining errors, and do not necessarily reflect the views of the OECD.

which formerly used the parallel system have now integrated the tax and social insurance contribution collection agencies. Increased coordination between tax and social policy, with for example in-work benefits or employment subsidies being paid through the tax system, is one factor that has favoured a close connection between the tax and social insurance contribution collection functions.

5. Over the last two decades, Korean business circles and academia have criticized the absurdity of the collection system and the low productivity of insurance administration resulting from this system. However, related to their status as public sector monopolies, the four social insurance systems at first were not responsive to these stakeholders' voices and to changes in the economic environment. An attempt at introducing a more rational collection system was made in 1999, only to fail because of resistance from labour unions, a general feeling that the timing was wrong (Asian Economic Crisis), and a lack of political determination. However in 2005 another effort was made by Presidential Commission on Social Inclusion (PCSI), and after a year of debate, consultation and in-depth discussions, the new system was agreed by stakeholders and approved by the government. It is a pity that unification was not carried out earlier, but the agreement of 2005 now provides a strong impetus for work on many pending issues concerning social insurance. As of February 2007, the relevant authorities had finished revising several laws with the aim of implementing the new contribution collection system as early as possible and the National Assembly was deliberating the laws.

6. The purpose of the present paper is to provide more detailed information on the issues involved in the unification of the social insurance contribution collection system. It is organized as follows: Section II reviews the four social insurance systems in Korea and their contribution collection arrangements. Section III explores the progress of the unification of collection systems and Section IV examines in depth outstanding issues such as the unification of wage base, collection methods, and ID codes for workplaces, and income data sharing between authorities. The final Section makes some suggestions concerning the establishment of a single revenue agency and measures to combat undeclared work. For reference, the social insurance contribution collection systems in selected OECD countries are reviewed in Annex 1.

7. Although this report relates to Korea, the core administrative issues regarding the collection of social insurance contributions are not very different from country to country. The problems experienced with the Korean collection system (until 2006) and how they are being resolved may be a useful example for other countries that plan to move ahead towards coordinated collection and increased information-sharing among authorities.

II. Four social insurance systems and their contribution collection systems in Korea

1. Four social insurance systems

8. Korea has four major social insurance systems. They were introduced very late in comparison to other advanced countries where major social insurance systems were adopted before the Second World War.³ With progress in industrial development, Korea implemented the Industrial Accident Compensation Insurance System (IACIS) in 1964 and the Medical Insurance System (MIS) in 1977. The years 1988 and 1995 saw the adoption of the National Pension System (NPS) and the Employment Insurance System (EIS), respectively. The Ministry of Health and Welfare is in charge of managing the MIS/NPS with the National Health Insurance Corporation and National Pension Corporation in charge of implementation. The Ministry of Labour administers the EIS/IACIS with the Korea Labour Welfare Corporation (WELCO) responsible for implementation, except for employment services and the payment of unemployment benefits.

3. However, interwar unemployment insurance was commonly limited to voluntary and union-based systems.

A. *The Medical Insurance System (MIS)*

9. The MIS was first applied in 1977 to workplaces with over 500 employees. Its coverage was extended to government employees and private school employees in 1979, then to workers in agricultural and fishing communities, and eventually to the self-employed in rural and urban areas in 1989.

10. Before 1998, there were 227 regional medical insurance associations and 139 workplace medical insurance associations in addition to government and private school medical insurance associations. There was growing criticism that the multiplicity of insurance systems was causing considerable problems including a reinforcement of the divide between rich and poor and high administrative costs. Confrontation arose between one side which supported the unification and another side which opposed it, mainly because the reserves of the wealthier occupational associations would cross-subsidise the weaker, mainly regional, associations. Eventually, it was decided to unify the medical system in two stages. In 1998, the 227 regional medical insurance associations and government and private school medical insurance agencies were integrated and in 2000, the 139 workplace medical insurance associations were integrated to finally make a single unified medical insurance system for employees, although still with separate region-based insurance for the self-employed.

Table 2.1. The number of MIS insured, 2001 to 2005

	Total	Private sector employees		Government and private school employees		Regional self-employed	
		Insured	Dependents	Insured	Dependents	Households	Persons covered
	Thousand						
2001	47 882	6 504	11 998	1 381	3 283	8 564	23 213
2003	47 103	7 377	12 772	1 428	3 257	8 781	22 520
2004	47 372	7 823	13 414	1 460	3 282	8 612	21 393
2005	47 392	8 283	14 279	1 463	3 209	8 384	20 158

Source: www.nhic.or.kr

11. About 97% of nationals are covered by the MIS and 3% by free medical benefits under the public assistance system called the NBL (National Basic Livelihood Security) system. Among the total number of persons covered (47 million), 57.5% are covered by workplace-based insurance (for private sector employees, government employees and private school employees) the rest are covered by region-based insurance (Table 2.1).

12. Thanks to subsidies from the National Treasury and, starting in 2002, from the tobacco tax, a positive level of cumulated reserves was restored by 2004 (Table 2.2). The MIS is sure to face a more difficult financial situation due to a low birth rate, ageing population, sharp increases in medical benefits paid to the elderly and those with chronic diseases, and demands for higher-quality medical services.

Table 2.2. Financial status of the MIS, 1999 to 2005

	1999	2000	2001	2002	2003	2004	2005
	Billion KRW						
Income: Total (A)	8 692	9 529	11 642	13 890	16 823	18 572	20 332
Of which: National Treasury Tobacco tax	(1 166)	(1 553)	(2 625)	(2 575)	(2 779)	(2 857)	(3 021)
	-	-	-	(439)	(645)	(626)	(925)
Expenditure (B)	9 561	10 538	14 051	14 6 51	15 744	17 004	19 154
Yearly financial surplus (A-B)	-869	-1009	-2409	-761	1 079	1 568	1 179
Cumulated reserves	2 242	919	-1 811	-2 572	-1 492	76	1 255

Source: Ministry of Welfare and Health

B. The National Pension System (NPS)

13. After the first effort to introduce a national pension system failed in 1973 due to the oil crisis, there was a large-scale revision of the project and the new system came into effect in January 1988, when the Korean economy was in fairly good shape. At first, the NPS covered only workplaces with 10 or more full-time employees. The coverage of the NPS was expanded to workplaces with 5 or more employees in 1992, to farmers and fishermen in July 1995, and to urban citizens in April 1999, essentially covering the entirety of the general public, in principle.⁴

14. In 2005, the total number of pension contributors was 17.1 million. Among them, 7.9 million were workplace-based insured and 9.1 million were region-based insured (Table 2.3).

Table 2.3. The number of NPS insured, December 2005

	Total	Workplace-based insured*	Region-based insured			Voluntarily insured**
			Subtotal	Farmers & fishermen	Urban	
Thousand						
2002	16 499	6 288	10 005	2 007	7 998	206
2003	17 193	6 968	9 963	2 053	7 880	262
2005	17 124	7 950	9 124	1 969	7 154	50

* Before 2006, coverage was compulsory only for employees in workplaces with 5 or more employees and some other categories.

** The voluntarily insured are workers aged 61 to 65, who can opt to contribute in order to complete their contribution history.

Source: Ministry of Welfare and Health.

4. Other public pension schemes in Korea include the Government Employees Pension (from 1960), Military Personnel Pension (from 1963), and Private School Teachers Pension (from 1975).

15. The overriding concern for the NPS has been one of long-term financial stabilization, even though accumulated reserves in September 2005 exceeded 150 trillion KRW. It has been predicted that the funds will be exhausted by 2047 if the current 60% replacement rate is not changed. The government in 2003 introduced a revised bill with a 50% replacement rate and a step-by-step increase in the pension contribution rate from the current 9% to 15.9% by 2030, but it has been pending in the National Assembly for several years. The opposition Party is proposing a Basic Pension Plan in order to solve the problem of the low coverage of the current NPS.

C. *The EIS*

16. Since its introduction in 1995, the Korean EIS has combined traditional unemployment insurance and active labour market policies (ALMP). It consists of three schemes: unemployment benefits, employment services, and vocational training. The EIS was first applied in workplaces with over 30 employees, but to cope with skyrocketing unemployment caused by the Asian financial crisis in 1997, beginning in October 1998 coverage was extended to all workplaces. As of 2005, 8 063 thousand employees were registered (Table 2.4).

Table 2.4. The number of EIS insured, 1999 to 2005

	Workplaces			Employees		
	Total	Less than 5 employees	5 or more employees	Total	Less than 5 employees	5 or more employees
	Thousand					
1999	601	405	197	6 054	804	5 250
2001	807	547	260	6 909	1 105	5 804
2003	846	544	302	7 203	1 050	6 153
2005	1 148	816	332	8 063	1 288	6 775

Source: Ministry of Labour.

17. As Table 2.5 demonstrates, the EIS has remained the most financially stable of the insurance funds. As of December 2005, the cumulated reserves of the unemployment benefit fund were 2.4 times annual benefit expenditure. But the contribution rate is only 0.9%, the lowest level among OECD Member countries. The surplus is mainly due to a fairly low unemployment rate of 3-4%, short unemployment spells, somewhat rigid entitlement conditions for unemployment benefits⁵ and a low wage replacement rate.⁶ However, this financial stability is expected to be steadily eroded as insurance contribution periods become longer and expenditures related to maternity subsidies⁷ and for daily workers rise, etc.

-
5. To claim unemployment benefits, the unemployed person should have made contributions for more than 6 months over the previous 18 months and separation from the job should be involuntary.
 6. The income replacement rate of unemployment benefits is 50% and the benefit period ranges from 90 days to 240 days depending on the contribution record.
 7. Maternity subsidies for childbirth and childcare are have been provided to employees since 2004.

Table 2.5. Income, expenditure and end-year reserves of the EIS, December 2005

	Total	Employment Security Scheme	Training Scheme	Unemployment Benefit Scheme
	Billion KRW			
Income(A)	36 033	4 409	9 171	22 454
Expenditure(B)	29 323	2 744	7 525	19 054
Financial surplus (A-B)	6 711	1 665	1 646	3 400
Cumulated reserves (C)	91 197	26 264	12 104	52 829
C/B	3.1	9.6	1.6	2.4
C/A	2.5	6.0	1.3	2.8

Source: Ministry of Labour.

D. The IACIS

18. The IACIS was implemented in 1964 when Korea first began its economic development. At first it was applied to workplaces with 500 workers or more in the mining and manufacturing industries. With the extension of coverage to workplaces with one worker or more in July 2000, IACIS now covers almost all workers. Insurance benefits are provided to all workers even if the workplace was not contributing to the IACIS at the time of an industrial accident, so there is practically no exclusion from IACIS benefit coverage, although IACIS still has fewer employee contributors than the MIS (Table 2.6). During a medical care period IACIS replaces 70% of average wages.

Table 2.6. Number of IACIS insured, 1999 to 2005

	Workplaces			Employees		
	Total	Less than 5 employees	5 or more employees	Total	Less than 5 employees	5 or more employees
	Thousand					
1999	249	44	205	7 441	119	7 322
2001	909	589	321	10 581	1 203	9 379
2003	1 007	649	357	10 599	1 265	9 334
2005	1 176	826	350	12 069	1 482	10 587

Source: Ministry of Labour.

19. The financial situation of the IACIS worsened after 2003 when the one-year financial balance went into the red (Table 2.7). Recent increases in the number of accident victims, longer periods of medical care, and growth in the number of accident pensioners contributed to the deficit. There has been increasing criticism over the last two decades claiming that the IACIS is oriented towards higher benefits and expanded coverage, generally neglecting quality improvement in the area of efficient care management, rehabilitation services and changes in the benefit structure.

Table 2.7. Financial situation of the IACIS

	2000	2001	2002	2003	2004	2005
	Billion KRW					
Income total (A)	1 956	2 365	2 716	2 711	3 128	3 504
Contribution	1 876	2 256	2 395	2 465	299	
Other	79	108	320	246	136	
Expenditure total (B)	1 685	1.999	2 435	2 961	3 369	3 675
Insurance benefits	1 456	1.745	2 020	2 482	2 860	3 026
Other	228	255	4 145	478	509	649
Financial surplus (A-B)	271	365	280	-249	-241	-171
Cumulated reserves	1.073	1 425	1 844	1 926	1 815	1 678

Source: Ministry of Labour.

2. *Problems of the current contribution collection systems*

A. *General*

20. Table 2.8 outlines the current collection procedures for the four social insurance contributions. Procedures for the EIS and the IACIS are the same while the other two are different. It seems that the distinct characteristics of the collection procedures have been emphasized under the influence of a fairly rigid sectionalism and the separation of the ministries in charge of each insurance system. It would be difficult to argue that a high degree of professional or expert analysis has provided a rational basis for the differences between the collection systems.

Table 2.8. Outline of the contribution collection systems as of 2006

	MIS	NPS	EIS	IACIS
Wage base for paying contributions	Taxable income * But non-taxable income from abroad up to 150 000 KRW and subsidies for expense accounts are included	Taxable income * But non-taxable overtime pay and non-taxable income from abroad up to 1 500 000 KRW are included	"Total wages"	
Contributors	Employees (½), Employers (½)	Employees (½), Employers (½)	UI: Employees (½), Employers (½) Other Schemes: Employers alone	Employers alone
Contribution Rate (2006)	4.48%	9%	1.15% to 1.75%	1.78% on average (varies by industry)
Ways of reporting contributions	A grade (see below) is notified to the taxpayer on the basis of taxable income in earlier years. The grade defines the required monthly contributions (notified payments). In the following year, the final amount due is calculated on the basis of the actual taxable income of the year and the balance is reimbursed.	A grade (see below) is notified to the taxpayer on the basis of taxable income in earlier years. The grade defines the required monthly contributions (notified payments). No later adjustments are made.	Impose estimated amounts and reimburse the balance the following year (voluntary payment). Estimated amounts can be paid on a quarterly basis, and most of employers pay quarterly.	
Due dates	Current month's contributions by the 10 th of the following month	Current month's contributions by the 10 th of the following month	Estimated amount: March 31 every year Adjusted amount: May 31 following year	
Ways of calculating contributions	Standardized monthly wages (100 grades) x contribution rate	Standardized monthly wage (45 grades) x contribution rate	Annual total payroll of a workplace x contribution rate	

21. The wage base is crucial for the unification of the collection systems. Table 2.9 shows that the wage bases for the MIS and the NPS are very similar to taxable income defined by the Income Tax Act, apart from 2 or 3 items. Taxable income includes salary, wages, compensations, bonuses, overtime pay amounting to over 2.4 million KRW a year, but excludes compensation for expenses up to a certain limit, meal subsidies (up to 100 000 KRW) and accident compensation, etc. However, EIS and IACIS are based on wages defined by labour law. These wages differ from taxable income in that total wages do not include performance-based bonuses or any expense compensations except for meal subsidies that are provided to all employees. Thus the MIS and NPS have relative advantages in terms of income data sharing.

Table 2.9. Comparison between taxable incomes and wage bases for social insurance contributions

	Income tax	MIS (Standard Monthly Income)	NPS (Standard Monthly Wage)	EIS/IACIS (total wage)
Taxable income	Performance-based bonus	Included	Included	Not included
	Maternity leave payments and child care leave payments provided by EIS	Included	Not included	EIS: Included IACIS: not included
	Salary, wages, compensations, bonuses	Included	Included	Included
	Income from abroad amounting to over 1.5m KRW per year	Includes all income from abroad	Same as left	Same as left
	Overtime pay amounting to over 2.4 million KRW per year	Includes all overtime pay	Same as left	Same as left
Non- taxable income	- compensation for expenses up to a certain limit -meal subsidies up to 100 000KRW -accident compensation, condolence payments	Only includes expense accounts	Does not include any non-taxable income	Only includes meal subsidies provided to all employees

B. Issues for contribution collection in the four insurance systems

a. The MIS

22. Contributions for insuring the employee are borne 50% each by the employee and employer, whereas a self-employed person alone must pay the entire contribution, which is based on a total number of points allocated according to the particular economic activity, assets and income, occupation, etc. The monthly contribution is calculated per household unit. For the insured self-employed, the government supports 35% of the total expenditures for benefits and administrative costs. The National Health Insurance Cooperation (NHIC) is in charge of collecting the MIS contributions.

23. Contributions are calculated by multiplying the insured person's "Standard Monthly Income" (SMI) by the contribution rate. When one year of total wages or salary is divided by 12 months, we get the SMI, which is the average monthly wage for a certain year. The previous year's income is used for calculating the SMI. When in the previous year part or all of remuneration was not paid, due to temporary retirement from office or to other circumstances, the SMI should be calculated on the basis of income up to the month preceding the occurrence of the circumstances in question. The SMI has 100 grades according to the wage bracket. The first or lowest grade is 280 000 KRW and the highest or 100th grade is 5 million KRW (see the SMI table in Annex 2).

24. Every month employers pay a contribution according to each employee's SMI which has been notified by the NHIC. Each month, employers deduct the portion of the contributions for the month to be borne by the employee insured from his or her remuneration. The employer is required to notify the amounts deducted to insured employees every month when wages are paid. Because the wage base for the MIS is the previous year's income, it is necessary to adjust the contribution based on the current year's income for the following year.

25. The use of previous year's wages for the SMI is criticized because when employees' wages change every year, or the current year's wages are less than the previous year's, it is a burden for

employees to pay contributions. An adjustment of the SMI is possible at any time, upon request, but this is not well known.

26. The most controversial issue concerning the collection of MIS contributions is that the MIS has dual criteria for calculating the contributions of employees and the self-employed as seen in Table 2.10. It is true that these dual criteria give rise to equity issues between employees and the self-employed, and many complaints have been filed when employees change their status to self-employed or vice versa. However, it is thought that this issue should be examined separately from the unification of employee wage bases and that a more thorough review should be completed within the MIS beforehand.

Table 2.10. Criteria for imposing premiums by type of worker

	Workplace employees	Self-employees
Factors considered	Wages only	Income, assets, cars, level of living, economic activity
Calculation of contributions	SMI x contribution rate	Total scores x contribution amount per score

b. The NPS

27. NPS contributions are also equally borne by employees and their employer, and the collection process is exactly the same as that of the MIS. NPS contributions are calculated by multiplying the Insured Person's "Standard Monthly Wage" (SMW) by the contribution rate. The SMW is similar to the SMI used in the MIS and it also uses the previous year's income as the wage base. But the SMW has far fewer grades according to wage bracket. The first grade is 220 000 KRW and the 45th grade is 3.6 million KRW (see the SMW table in Annex 2). The SMW is used as the basis for the calculation of pension benefits as well as contributions.

28. The SMW like the SMI has faced criticism for using the previous year's income. However, the SMW has been more heavily criticized because once the SMW grade has been established the NPS does not have any adjustment system for income during a given year, and the contribution rate for the NPS is much higher than for the MIS. The NPS is the only insurance that imposes contributions based on the previous year's income without an adjustment in the following year. The justification offered is that a pension is a long-term insurance resulting from life-long contributions to pension benefits. Thus adjustments of contributions in line with the current year's income are said to be unnecessary. Proposals to implement end-year adjustments for the NPS in line with practices for the other insurances remain controversial. At the same time, the lack of an adjustment system remains problematic for those employees who have had a big wage cut compared to the previous year, which can arise in particular for irregular workers. This problem is cited by employees as an excuse for non-payment of the NPS contribution.

c. The EIS and IACIS

29. In case of contributions for unemployment benefits, employers and employees equally share the burden, while the contributions for two other schemes (the Employment Scheme, and Job Training Scheme) are funded only by employers. IACIS contributions are paid solely by employers and the rates are different according to the risk of accidents (experience-rating system) and the similarity of business activities.

30. The method for calculating contributions for both of these insurances is exactly same. The total amount of contributions is calculated by multiplying the total estimated annual payroll by the contribution rate.

- Contribution = annual total payroll of a workplace x contribution rate

31. Unlike the MIS/NPS, the EIS/IACIS do not have a Grade System for imposing contributions and thus there is no maximum or minimum limit for these contributions. Employers should voluntarily pay an estimated amount of contributions by March 31 every year and in the following year they have to report the final amount of contributions payable and make up for any difference between the estimated and final calculation of contributions. The WELCO is in charge of collecting contributions for the EIS and IACIS. While WELCO provides IACIS benefits, EIS benefits are handled by the Job Centre under the Ministry of Labour.

32. The current system has been maintained since the IACIS was launched in 1964 when computer systems were hardly used by the administration. While the estimate reporting system has its merits, a problematic issue is that it is almost impossible to efficiently manage insured individuals in line with their wages. The use of total wages in the workplace means that insurers do not know individual employees' wages. In theory, the total wages of a workplace should be the sum of the individual employee's wages, but in reality there is often a large gap between them. In order to check an individual employee's wages, WELCO would need to refer to the tax data or visit the workplace itself. This problem makes it hard to curb the high amount of fraudulent demand for unemployment benefits⁸ through collusion between an employer and his employees. This type of cheating is also problematic for the IACIS. There is controversy over whether or not the IACIS should also keep records of individual wages even though employees do not contribute to it. However the IACIS like the EIS needs accurate individual wage records to allow sound management of claims.

III. Progress in the unification of the contribution collection system

1. *The legacy of the Consolidating Taskforce Team for Social Insurance*

33. Discussion on the streamlining or consolidation of social insurance dates back to February 1998 when the first Tripartite Commission agreed to a 2:2 integration of the contribution collection system: MIS and NPS vs. EIS and IACIS. In the wake of this agreement, a High-level Government-Party Coordination Meeting decided that in order to proceed with the related work the "Consolidating Taskforce Team for Social Insurances" (CTTSI) would be launched under the "Social Insurance Deliberation Committee" whose chair was the Prime Minister. Due to this decision, the CTTSI was launched in November 1998. The Taskforce Team included 60 members from scholars and researchers to government officials. The Head of the Korea Labour Institute (KLI) and the Head of the Korea Institute for Health and Social Affairs (KIHASA) acted as Secretaries. There were 3 subdivisions under the CTTSI and their roles were as follows: the First Division was to study insurance coverage and contribution collection systems, the Second Division was to study social insurance benefits and finance management, and the Third Division was to study information sharing between the different social insurances (CTTSI, 2000).

34. After one year of in-depth studies, the CTTSI made a series of recommendations to the government (see Box 1). But further work was not carried out for various reasons. Looking back on these times, several factors prevented the government from implementing the recommendations:

8. To provide unemployment benefits, the Jobcenter relies on information from employers about the individual's employment for up to 18 previous months and wages for at least three previous months.

- It did not seem to be the right moment to proceed with the consolidation of the different social insurances. At that time, a considerable number of employees were excluded from coverage by law. These were daily workers and employees working at workplaces with less than 5 employees. Many experts thought that the expansion of insurance coverage was a much more important issue than the integration of contribution collection systems. Moreover, 161 region-based associations and 142 workplace associations were being operated separately within the MIS. It thus seemed too early to discuss the integration of the social insurance contribution collection systems prior to merging the vast number of associations that existed.
- The year 1997 marked the beginning of the financial crisis in Korea and the government could not spare any energy for streamlining collection. To cope with a skyrocketing unemployment rate, the government needed to concentrate on strengthening the social safety net and developing other employment measures.
- The CTTSI failed to convince Ministries and the labour unions of the three Social Insurance Corporations, which systematically protested against unification due to fears related to job security.
- Finally, the government had no obligation to adopt CTTSI recommendations and there was no later follow-up or push to implement the recommendations in the government ministries.

Box 1. CTTSI recommendations to the government

Consolidation of organizations: phased 2:2 consolidation

Preparatory stage: create a favourable environment for the consolidation

- Apply the NPS to entire population and unify the MIS
 - First phase: merger of contribution collection and management of insured persons.
 - Second phase: unification of MIS with NPS and EIS with IACIS
- Long-term goal: Complete unification of the four insurance contribution collection systems

Consolidation by function

Wage bases for imposing social insurance contributions

- The MIS and NPS shall adopt taxable income as their wage base for employees, then all four social insurance systems shall ultimately use total wages as their wage base.
- The application of the new contribution collection system shall be postponed for the self-employed until the verification of income by tax authority is improved.

Management of the insured

- Preparatory: unify various forms and standardize the Workplace Identification Code
 - First Phase: consolidate MIS and NPS management of the insured based on an individual base.
 - Second Phase: individual-based management through the 2:2 organization merger

Benefits and Financing

- These functions shall be managed separately.
- A single Research Institute shall be established for long-term projections of financing for the four insurance systems

Information sharing system

- A team shall be established to implement an information sharing system.

35. Though the recommendations were not developed to a stage where they were implemented through government policies, the work of the CTTSI was nonetheless very meaningful in that it underlined a common feeling regarding the necessity of unifying social insurance contribution collection and management of the insured in the future. Thanks to the influence of CTTSI recommendations, significant progress has been made in several fields since 2000 (see Box 2).

Box 2. Reforms after CTTSI work

Collection

- Narrowing of the wage base gap between the MIS and NPS bringing them closer to that of taxable income
- Unification of due dates for contributions to be paid for the MIS and NPS
- Implementation in 2005 of a Unified Act for contribution collection in the EIS and IACIS systems

Organization

- Creation of a single MIS organization after the merger of many associations

Information sharing

- Establishment of a “Centre for Information Sharing of the Four Social Insurance Systems” and the opening of an internet portal (www.4insure.or.kr) in 2003.
- Various reporting forms are now processed through any window in three Insurance Corporation offices.

2. *The work of the Presidential Commission on Social Inclusion*

36. In early 2005, the Presidential Commission on Social Inclusion (PCSI) decided to set up a small Task Force consisting of about 10 participants including working-level government officials, scholars, and three Insurance Corporation personnel. The PCSI believed that in order to implement Long-term Care Insurance and Earned Income Tax Credits (EITC) in 2008 and also to facilitate the adherence of small companies to the social insurance systems, the unification of the collection system should not be delayed any more.

37. Within an agreed framework of basic objectives (Box 3), the Task Force team discussed issues one by one and reached some working-level conclusions in October 2005, thereafter beginning official consultations with related organizations. After consultation on many technical issues, the PCSI’s final report was approved in the vice-Ministerial Meeting on November 24th and subsequently by the National Council⁹ headed by the President on November 29th. Thus an outcome was reached after over 10 years of discussions on the unification of collection systems. However, the results are not complete in that they largely concern the unification of software used for the collection of contributions and the management of individual insurance records, and the use of taxable income as the contribution base. There is still work to be completed on the integration of collection agencies themselves in the near future to achieve administrative efficiency, active data exchange among authorities, elimination of the “dead zones” which lack insurance coverage and lowering of contributor compliance costs.

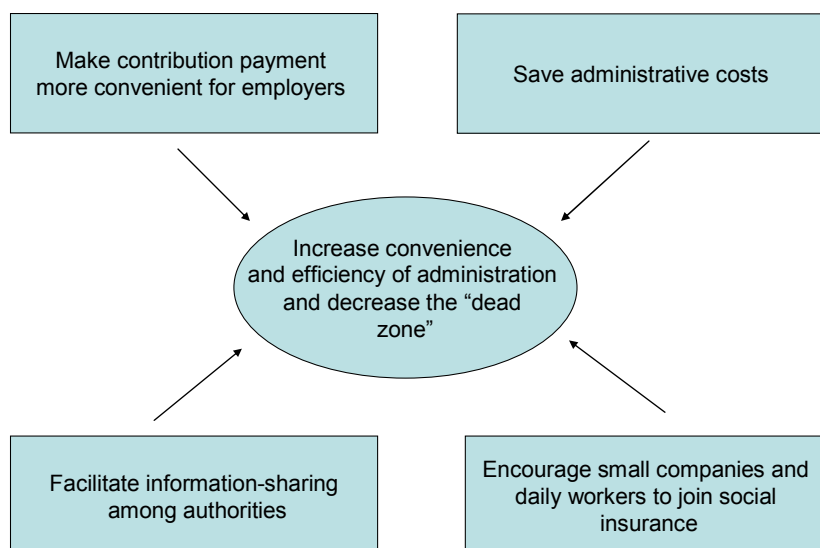
9. The National Council is the top decision-making body within the Korean government.

Box 3. Basic directions for the unification of the collection system

In proceeding with the unification of the collection system project in 2005, several basic directions were agreed upon by the participant organizations and these directions were maintained up until the final agreement.

- First, the aim of unification is not to unite the hardware (organizations), but to unite the software which is common among the four social insurances so as to make the system more convenient and the administration more efficient.
- Second, the objective of unification is to streamline the collection system of workplaces, not that of the self-employed who are insured. Considering that the EIS and the IACIS apply only to workplaces, whereas Medical Insurance and National Pension apply to self-employed persons as well as workplaces, the first step should be to unify the workplace collection system.
- Third, the efficiency of the insurance administration should be expanded by decreasing the burden of employers and the three insurance corporations.
- Finally, information exchange between tax authorities and the 3 insurance corporations needs to be facilitated. Current data exchange has been limited a great deal due to the different wage bases, different identification codes for workplaces, and passive attitudes on data sharing among organizations.

Figure 4.1. Basic directions for the unification of the collection systems



IV. Review by issues

1. *The unification of wage bases for imposing social insurance contributions*

38. Up until now, the four social insurances have each maintained their own wage base different from the others and from taxable wages. As already mentioned, the MIS wage base is dubbed the Standard Monthly Income (SMI), the NPS wage basis is the Standard Monthly Wage (SMW) and the EIS and IACIS use “total wages”. The differing wage bases have seriously impeded data sharing and mutual cooperation between social insurance authorities.

39. The unification of wage bases is thus the most crucial groundwork to be completed in order to increase administrative efficiency and decrease the burden for employers. The PCSI zeroed in on “taxable income” or “total wages” as candidates for a unified wage base (see Table 2.9 above). Some scholars have proposed “Standard Income” which consists of basic pay, regular allowances and regular bonuses, but excludes irregular allowances like overtime pay, menstruation pay, monthly leave pay and irregular bonuses. However, the PCSI did not consider Standard Income as an option because standard income is a new wage concept not used in any field, and would thus make the current complex wage systems even more complex.

A. *First option: taxable income*

Definition of “taxable income”

40. Taxable income here refers to earned income that is subject to income tax. Regardless of the specific type, all kinds of income in return for work or services are included. If the return is in kind, its monetary value is calculated according to the decrees of the tax authority. Taxable income does not include non-taxable income, in cases where the government has waived its tax rights, or unearned income which is not regarded as employment income. Table 4.1 elaborates on these two forms of income. Roughly speaking, the sorts of earnings which count as taxable income from employment include annual salary or wages, bonuses, overtime pay, commission, tips or gratuities, holiday pay, sick pay, earnings from part-time employment, directors’ fees or other remuneration, and in-kind benefits (National Tax Service, 2005).

Table 4.1. Comparison of non-taxable income and non-earned income

Non-taxable income	Non-earned income
<ul style="list-style-type: none"> ▪ Actual reimbursed expenses ▪ Earned-income from abroad of up to 100 000 KRW per month ▪ A percentage of meal subsidies ▪ Night time work pay for manufacturing workers up to 2.4 million KRW per year ▪ Fringe benefits for employees ▪ Meal costs of less than 100 000 KRW per month ▪ Education fees prescribed by Presidential decree 	<ul style="list-style-type: none"> ▪ Any income accruing from the difference between the acquisition value and market value of stocks owned by a member of an employee stockholders association ▪ Benefits obtained from housing provisions ▪ Research subsidies to university professors ▪ Income from stock options ▪ Bus fare for commuting to work ▪ Gross profits not exceeding 30 million KRW per year from exercising stock options

Pros and cons of using taxable income as a unified wage base

41. The most outstanding advantage of using taxable income would be to reduce, for each of the insurance providers, the administrative cost of verifying incomes. The use of taxable income could save them much time and resources in this respect. With the exception of small-sized companies, the information provided by employers to tax authorities at the end of each year through the “Income payment Record” is highly accurate. Employers tend to report the income accurately so as to reduce the corporate tax burden.

42. One alleged demerit of using taxable income is that those who have a high proportion of taxable income in wages will pay higher insurance contributions although their total wages may be the same. This allegation arises from the fact that non-taxable wages and bonuses are a large proportion of wages in Korea. For instance, if employees in large companies have a high proportion of non-taxable income, they would pay less than now, which runs contrary to the objective of income redistribution. Another alleged demerit of using taxable income is that employers may try to reduce their insurance contribution costs by enlarging the proportion of non-taxable income in wages. The discussion below of Figures 4.2 and 4.3 evaluates these arguments.

B. Second option: total wages

Definition of “total wages”

43. Total wages are the “total of wages”. The question is “What are wages?”. The Korean Labour Standard Act §18 defines wages as “wages, salary and any other payment to a worker from an employer as remuneration for work, regardless of the designation of such a payment”. Accordingly, solatiums (compensation payments for suffering or prejudice), condolence money, irregular bonuses depending on company profits, actual expense reimbursements, and in-kind benefits are not included.

44. Total wages are used only for collecting the EIS and IACIS contributions, while “average wages” are used as criteria for compensation payments such as retirement pay, bereavement compensation in the IACIS, and unemployment benefits. Average wages are essentially the amount calculated by dividing total wages paid to the particular worker during three calendar months prior to the date on which the event necessitating such a calculation occurred by the total number of calendar days during those three calendar months (Korean Labour Standards Act § 19). Thus the boundary of income between total wages and average wages is same, but total wages are used for the collection of contributions and average wages are used for various compensation payments.

Merits and demerits of “total wages”

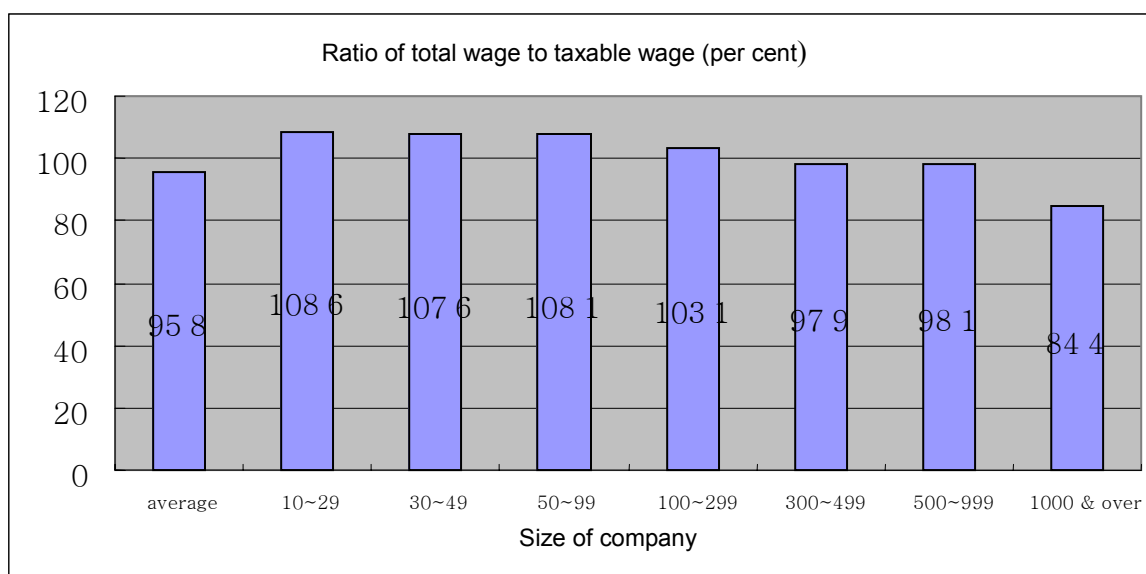
45. Taxable income may vary depending on the tax policy, but total wages are free from policy stipulations, and changes in the items included are limited. There could be many problems when collecting insurance contributions if taxable income items varied from year to year under the influence of politicians. Another merit of total wages is that the concept is familiar to working-level staff engaged in labour-related jobs in companies.

46. One demerit is that the use of total wages is mainly limited in labour fields and could hinder the sharing of income information with tax authorities. It is hard to neglect this factor as income information needs to be shared more actively between the tax authority and Social Insurance Corporations. Another demerit is that total wages exclude performance-based bonuses (PBB). This raises equity issues between employees in large and small companies. PBBs are more prevalent in large companies and since PBBs are excluded from total wages, the principle of “paying according to ability” would be eroded. The MIS and

NPS impose contributions on PBBs, but the EIS and IACIS do not. Therefore, if total wages were used as the unified wage base, employees in larger companies would pay lower contributions than they do now.

47. The amount of total wages had allegedly been thought to be bigger than that of taxable income. But according to the survey by the Federation of Korean Employers in 2005, which was requested by the PCSI, taxable income has turned out to be larger in workplaces with over 300 employees, whereas total wages are larger in workplaces with less than 300 employees (see Figure 4.2). The most important reason for this difference is the exclusion of PBBs from total wages. The PBB share in total income is on the rise, especially in larger companies. Thus, contrary to the preconceived notions, the use of taxable income as the unified wage base can potentially tackle equity issues. On average, taxable income is 95.8% of total wages.

Figure 4.2. Comparison of total wage vs. taxable income, 2005



Source: Survey by the Federation of Korean Employers.

C. Conclusions

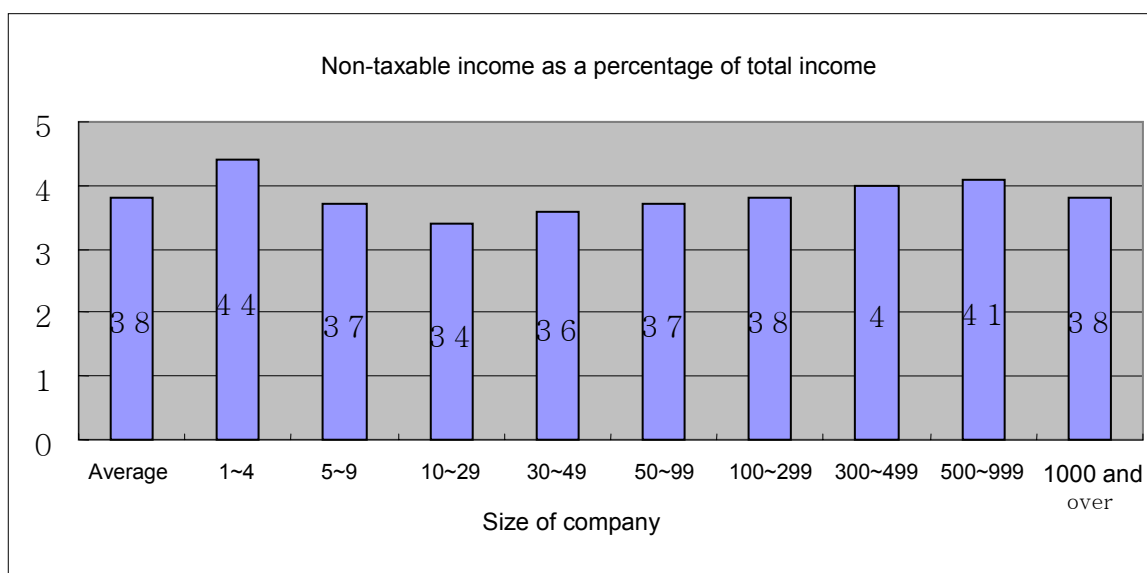
48. The Presidential Commission decided to use taxable income as the wage base, contrary to the CTTSI's recommendation in 1999. The reasoning was as follows:

- Taxable income has many advantages in terms of income data sharing among the relevant authorities and income checks.
- The wage bases of the MIS and NPS have evolved to become close to taxable income and it is thus considered reasonable to change the wage bases of the EIS and IACIS in order to minimize the shocks to the MIS and NPS.
- The financial situation of the EIS/IACIS is far better than that of the MIS/NPS, which makes it possible for the EIS/IACIS to adjust in a flexible manner to the changes in wage base criteria. The MIS and NPS would face enormous financial controversy as well as a change of contribution rates if the wage base were converted to total wages.

- The administrative burden for employers will decrease if they no longer need to calculate total wages.
- The use of taxable income as the wage base for social insurance contribution would be in line with practice of most OECD countries.

49. There has been some argument that the use of taxable income as the wage base would give rise to equity problems between employees because the employees in larger companies allegedly have a higher proportion of non-taxable income compared to employees in small companies. Furthermore, it has been contended that employers may try to increase the portion of non-taxable wages so as to reduce social insurance contributions. And analysis of tax data base shows, however, that, the non-taxable share in wages is on average 3.8% in all industries, and, in contrast to general thinking, is not higher in large companies compared to small companies (see Figure 4.3).

Figure 4.3. Percentage of non-taxable income in total income, 2003



Source: National Tax Service.

2. *The unification of collection methods*

50. As shown below, a variety of specific methods can be used for contribution collection depending on the characteristics of the insurance and the taxpayer's and insurer's administrative capacity, etc. Currently, each social insurance has its own collection system, which gives rise to administrative burdens and data-sharing problems. By and large, Korean social insurances use 2:2 collection methods, with MIS and NPS opposed to EIS and IACIS. For instance, the MIS and NPS notify the employee's income grade to the employer and collect monthly payments, while the EIS and IACIS have adopted a voluntary pre-payment system without any income grades and with yearly payments. So the choice of wage base will also greatly influence the choice of collection methods. Any decision regarding collection methods must also be made considering how to improve income data sharing between the tax authorities and social insurance providers. Sub-sections below consider the following issues:

1. Previous year's income base vs. current year's income base (Subsection IV.2.A);
2. Voluntary payment vs. notified payment (Subsection IV.2.B);
3. Yearly payment vs. monthly payment and contribution adjustment vs. no adjustment (Subsection IV.2.C);
4. Sharing of income data held by tax authorities (Subsection IV.3);
5. Unification of the identification codes for workplaces and employees (Subsection IV.4);
6. Individual records of employee insurance contributions (Subsection IV.5);
7. Abolition of the grading system for incomes (Subsection IV.6).

A. Previous year's income vs. current year's income

51. This is the most crucial factor when choosing the method for collecting social insurance contributions. The question of voluntary vs. notified payments also depends on this decision as demonstrated in the following paragraph. Consideration must be given to the authority's ability to verify income amounts, collection costs, and the characteristics of each insurance. At present, the MIS and NPS use the previous year of income when calculating the amount of contributions, but the EIS and IACIS use the current year of income. Table 4.2 summarizes some advantages and disadvantages of each choice concerning the base year.

52. Using the previous year of income makes it easier to calculate contributions since social insurance administrations and employers already know the employee's income, and if the previous year's income is divided by 12 employers can pay the same amount of contributions each month. Insurers also have less administrative burden when collecting contributions, because they receive the same amount for each employee every month. However under this system in principle it is desirable to make end-year adjustments so that the total contributions for a year are based on income in the same year rather than income in the previous year.

53. When the current year's income is used instead, it is still only possible to collect contributions when employee incomes over a shorter period are known. For example, March's contribution can be collected in April, or the first quarter contribution can be collected in the first month of the second quarter. Then, if employers correctly withhold the employee's contributions, there is no need for end-year adjustments.

54. It is not practical to adopt a notified payment system when using the current year's income. For this system, insurers need to know the income of the insured with only one or two month's time lag. This is only possible when employers regularly provide income data to the insurers, but this inevitably means a heavier administrative burden for employers. Current Korean Tax law stipulates that employers must report each employee's income data once a year.

Table 4.2. Comparison between previous vs. current year of income as the basis for collecting contributions

	Previous year of income	Current year of Income
Merits	<ul style="list-style-type: none"> ▪ Possible to use income tax information ▪ Less burden collecting the same amount of tax every month 	<ul style="list-style-type: none"> ▪ No need to adjust contributions ▪ Timely collection of contributions based on current income
Demerits	<ul style="list-style-type: none"> ▪ Difficult to implement if income or workplaces changes frequently ▪ Need to adjust the tax based on the current year of income 	<ul style="list-style-type: none"> ▪ Greater administrative burden due to collecting different amounts of tax each month or each quarter ▪ Inevitable time-lag when using income data managed by tax authorities

B. Voluntary payment vs. notified payment

55. In the voluntary payment system, employers themselves calculate the insurance contributions and report them to social insurance administrations on a regular basis. Voluntary payment is based on a self-assessment principle. In the notified payment system, on the other hand, insurance administrators determine the amount to be paid and submit a written notice to the person responsible for payment, which indicates the time and place of payment. Since notified payment is based on administrative assessment, it usually needs to be accompanied by a further process for making a final assessment and paying end-year adjustments. As mentioned above, the method of payment is dependent on which year of income is used, and thus it is difficult to say that one method is better than the other. Accordingly, it would seem important to find an optimal method after taking into account various factors, such as the insurance provider's ability to verify the employee's income with a minimum time-lag, the employers' attitude and willingness to pay, as well as their administrative burden. With a voluntary payment system, it is necessary to impose a heavy penalty on employers who have been negligent in reporting, so as to reduce monitoring costs. In conclusion, a system using the previous year's income can be used with either the voluntary payment or notified payment, but a system using the current year's income is not amenable to the notified payment system.

Experience with voluntary payments by employers

56. Statistics show that voluntary payments by employers have not been satisfactory due to a lack of ability on the part of administrations, in addition to frequent start-ups and closures of small businesses. Table 4.3 shows that 70.3% of workplaces have less than 5 employees. The Welfare Corporation which deals with the EIS and IACIS finds it hard to manage information on workplaces when 400 000 businesses appear or disappear every year. The EIS and IACIS Act requires employers to report information on total wages and the amount of total contributions once a year, but only 70% of employers report these within the designated period. And less than 50% of workplaces with fewer than 5 employees report them on time. For the Medical Insurance and National Pension systems, which use the notified payment system, the compliance rate is higher: about 85% of workplaces with less than 5 employees pay contributions before the deadline.

Table 4.3. Number of workplaces by size according to Welco's IACIS data

December 2005

	Total	below 5	5-9	10-29	30-99	100-299	300 over
Workplaces	1 175 606	825 960	167 214	125 635	40 808	12 106	3 883
(in construction)	(166 173)	(107 036)	(22 831)	(22 069)	(9 063)	(3 685)	(1 489)
%	100.0	70.3	14.2	10.7	3.5	1.0	0.3

Source: Welco.

The authorities' ability to verify employees' incomes each month

57. Korean employers do not report each employee's income every month under the current tax laws. Instead, employers report the "Monthly withholding of income tax" which shows only the total number of employees and the total amount of income taxes withheld. Employers must provide detailed records to the tax authority by the end of February each year. Therefore, it is not before the end of February each year that the tax authority obtains concrete information on the income and taxes withheld from an individual employee's wages. Without a new system that requires employers to report monthly or quarterly records for employee incomes, a notified payment system based on the current year's income will not be possible.

C. *Conclusion: unification using "previous year's income AND notified payment system"*

58. Ideally, employers should withhold contributions every month when wages are paid and report the withheld contributions to the tax authority or social insurance administrations on a regular basis. However, the reporting of varying amounts of contribution each month or each quarter may mean a heavier administrative burden for small businesses. In addition, compared to current systems which collect the same amount of contributions every month (MIS and NPS), or estimated/adjusted contributions once a year (EIS and IACIS), record keeping and monitoring of varying amounts of contribution on a regular basis may give rise to a much heavier administrative burden for the insurers as well.

59. Taking these factors into account, it was agreed that collection methods will be based on the previous year's income and the contribution amount will be imposed on employers after calculation by the insurers. Furthermore, it was decided that the MIS, EIS and IACIS will maintain an end-year adjustment system, but the NPS will not, since pension is a long-term insurance where benefits depend on life-long contributions. Consideration was also given to the fact that if income adjustments are made every year, the amount of pension benefits may vary in retrospect.

60. When it comes to payment intervals, the MIS and NPS collect contributions on a monthly basis. It was agreed that under the current system, where 3 insurance corporations collect contributions separately, there is no need for the EIS and IACIS to collect contributions every month rather than once a year or every three months.

61. At the same time, it was agreed that a system should be created where income adjustments can be made upon the employee's request, or where the employee can pay contributions based on the current year's income based on his or her ability to pay. As already mentioned, for employees whose wages fluctuate, use of the previous year's income is problematic. Imposing contributions based on the previous year's income is not a problem for regular workers whose wages usually increase from year to year. These days, however, more and more workers are experiencing wage decreases due to the expansion of performance-based pay and the increase in numbers of irregular workers. It is difficult for the collection agency to record the previous year's income of daily workers, in particular daily construction workers who are frequently transferred and experience income fluctuations. Thus a proper income adjustment system is needed to help increase contribution compliance by some workers whose income is not stable.

3. *Strengthening the sharing of income data held by tax authorities*

A. *The current situation*

Income verification by the tax authority

62. Income verification by the Korean tax authority depends on such factors as tax system efficiency and administrative capacity and taxpayers' compliance. Good coordination of collection between the tax

authority and the social collection agencies, and optimal staffing,¹⁰ are necessary to allow a higher rate of income verification. Income verification has not been very satisfactory until recently, especially in the fields of low-income earners and the self-employed, but the unification of the social insurance contribution collection system is expected to bring great improvements in those fields.

63. As of 2003, a review of the tax authorities' verification of income for employees and the self-employed showed that income data was obtained for an estimated 73.8% of employees (Table 4.4). The remaining 26.2% of employees are mainly daily or casual workers. Until 2005, employers were not required to report the earnings of daily workers earning less than KRW 80 000 a day because such low earnings usually did not make taxable income large enough to create an income tax liability. However, from 2006 employers have been required to report the income of all daily employees regardless of the size of the compensation, as described in the conclusion of this section.

Table 4.4 Data on employee incomes held by tax authorities, 2003

Total number of employees	Income data exists	Income data does not exist
Thousand (per cent)		
14 402 (100.0%)	10 626 (73.8%)	3 800 (26.2%)

Source: National Tax Service.

64. As regards the self-employed, among the 4.2 million prospective tax payers, Table 4.5 shows that 49% of people did not report their income because they were under the tax-exempt threshold (negative taxable income). The Income Tax Act allows taxpayers whose earnings are below a certain level not to maintain book-keeping as long as they keep a reliable record of business transactions. With such a system in place, many taxpayers may tend to reduce their sales amounts and hide employees' wages in an effort to evade social insurance contributions.

Table 4.5. Comprehensive Income Tax report and number of tax-exempt, 2003

Comprehensive Income Tax declarations, total	Paying VAT based on book-keeping reports	Paying VAT based on estimated reports	Exempted from paying VAT
Million (per cent)			
4.2 (100%)	1.0 (24%)	1.2 (27%)	2.1 (49%)

Source: National Tax Service.

65. The schedular Value-Added Tax (VAT) also allowed simplified book-keeping, and 87% of the employers who used simplified book-keeping did not pay any VAT (Table 4.6). This made it hard for the tax authorities to check sales amounts, which caused somewhat negligent income reporting.

10. Korea in the early 2000s had about 1 tax administration staff for each 2800 citizens, compared with higher staffing rates in most other OECD countries (1 staff per 600 to 800 citizens, in many European countries) (OECD, 2004a).

Table 4.6. Number of VAT taxpayers

VAT declarations, total	Book-keeping employers	Simplified book-keeping employers		
		Sub-total	taxpayers	Tax-exempt
Thousands (per cent of Total) (per cent of Sub-total)				
3 597 (100%)	1 952 (54%)	1 645 (46%) (100%)	222 (6%) (13%)	1 424 (40%) (87%)

Source: National Tax Service, based on 2nd quarter 2004 data.

66. To reduce the gap between the amounts that should be paid by the self-employed the amounts actually paid, a couple of measures have been initiated and many more are expected. Examples of these measures are the income tax credit for salary income earners' payments by credit card and the documentation of cash purchase amounts by Cash Receipt.¹¹ Businesses under double-entry bookkeeping requirement are required to use a business bank account for business transactions from July 2007 and expansion of the business account requirement to all businesses irrespective of the size is planned. All high-income self-employed businesses such as lawyers and doctors are required to use the business account regardless of the bookkeeping requirement. Other initiatives to reinforce third-party reporting and penalties for non-compliance are being introduced.

Use of tax information for the purpose of social contribution collection

67. The three Social Insurance Corporations use income data stored in the tax database. The National Health Insurance Corporation and National Pension Corporation depend heavily on the National Tax Service's data since the wage bases for the MIS and NPS are very similar to taxable income, and the tax authorities' income data is used to check whether reported incomes are correct

68. However, the tax authorities' income data cannot be used before July each year to notify employers of the amount of each employee's contribution. Though the tax authorities receive employee's income reports by February, several months are needed to check for errors and missing data. However, since the fiscal year of the MIS and NPS begins in April, these two Corporations need to notify the employer of April's contributions no later than at the end of March. Thus the MIS and NPS also ask employers to report the previous year's income data by February of each year, which creates an additional administrative burden and supplementary costs for employers and the two insurance providers. To summarize, the tax authorities' income data is only used to adjust the previous year's contribution and to check whether the amounts notified by the MIS and NPS are correct. This example illustrates the lack of cooperation among related authorities and the extent to which the current MIS and NPS contribution collection systems are provider-oriented.

69. In addition, it has been pointed out that the definition of daily workers in the Income Tax Act needs to be amended in order to increase data sharing between authorities. The Income Tax Act defines daily workers as "workers who work less than three month (one year in case of construction business) for the same employer." In the social insurance acts, daily workers are defined variably as "those who work less than one month" (EIS) or "those who work less than three months" (MIS and NPS) for the same employer. These different definitions make it difficult to identify the total number of daily workers and pinpoint target groups for policies.

11. Cash Receipt is a purchase receipt, similar to credit card receipt, issued for cash transactions and the transaction data are transferred to National Tax Service electronically.

B. *Conclusion*

70. When the introduction of the EITC in 2008 was announced, it was agreed that from the year 2006, employers should report all their employees' annual incomes to tax authorities regardless of their income level or employment type. These employees will include low-income regular workers and daily workers who have not until now reported their income. Moreover, with a view to strengthening enforcement powers, a penalty or fine normally applied to negligent employers will also be applied to simplified book-keeping employers who do not report employee incomes. Employers now have to report the compensation their employees, regular or irregular, even when the compensation is under the income tax liability threshold. Non-compliance with this reporting requirement results in a penalty equivalent to 2% of the compensation paid to employees. This measure has been adopted because the EITC will target low-income workers. The EITC is expected to be a great help in terms of increasing income verifications and ensuring a more favourable environment for the implementation of various government policies that will support low-income earners and include them in social insurance coverage.

71. Furthermore, to expand the use of income data held by tax authorities, it was decided that the Social Insurance Corporations will be able to directly access the tax authorities' databases - dubbed the "HOMETAX" system – instead of having to request that employers supply the employee's annual income report. The National Tax Service is developing measures to allow the Corporations to receive annual income reports from employers via the HOMETAX system as opposed to paper reporting, since computerized reporting is the only means of reducing the time lag arising from data entry and verification of missing data, etc. The new bill proposed to the National Assembly in November 2006 provides that the collection agency can request data necessary for the completion of the agency's mandates from any national or local government body and other institutions. This information request can not be rejected without due reason.

4. *The unification of the application unit and identification code*

A. *The current situation*

72. In order to facilitate data exchange among the relevant authorities, the unification of the insurance application unit and the identification code (ID code) are crucial. This unification will allow an "Express Way" for data exchange among authorities. As regards the management of insured individuals, it is already common for the EIS, MIS and NPS to use the same "Citizenship Registration Number". However the ID codes for application units on the employer side are not yet unified.

73. The application unit is a management unit which is needed to manage companies (or workplaces) and their insured employees. In general, a company is an application unit and is assigned an ID code, but in the case where there are branches, factories and offices where independent human resource management is possible, separate ID codes may be allocated to them. Table 4.7 indicates that all four social insurances use the company as an application unit. However, the MIS and NPS tend to assign ID codes to headquarters only, while the EIS and IACIS – under the longstanding influence of IACIS administration practices – assigns ID codes to any workplace where independent human resource management is possible, especially for construction workplaces.

Table 4.7. Insurance management unit of the four social insurances

	EIS	IACIS	MIS	NPS
Application unit	Company (workplace) and person	Company (workplace)	Company and person	Company and person
(in the case of construction sites)	Workplace-oriented	Workplace-oriented	Headquarters-oriented	Headquarters-oriented
Collection unit	Company	Company (workplace)	Company	Company
(in the case of construction sites)	Workplace-oriented	Workplace-oriented	Headquarters-oriented	Headquarters-oriented
ID code	Workplace and person	Workplace	Workplace and person	Workplace and person

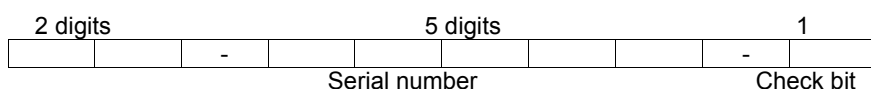
74. The four social insurances for many years used different ID codes for workplaces as demonstrated in Figure 4.4. However due to the difficulties in data sharing, a “Common ID Code” was developed and implemented in 2003. This Code consists of digits corresponding to the year and serial numbers only, and thus does not allow the extraction of valuable information on workplaces. The practice of assigning ID codes to workplaces in certain cases only also makes it still difficult to exchange information.

B. Conclusion

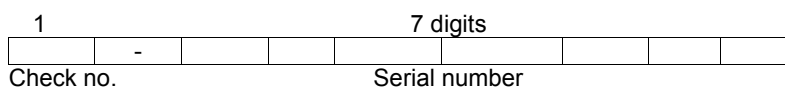
75. An agreement was reached that the ID codes for workplaces will be first assigned to a company (headquarters) itself. However, if there are branches, factories, workplaces where a separate ID would be more reasonable, separate ID codes will be assigned under the company ID code. This will give a Unified ID Code for workplaces, which should be developed as soon as possible. The unified ID code preferably will allow extraction of various information regarding workplaces, including the type of industry, the region and the number of branches. The example of a unified ID code (see Figure 4.5) developed by the CTTSI will be examined as an option. The 10-digit ID code currently used by tax authorities will be examined as a possible alternative. Some OECD countries currently use a Taxpayer Identification Number (TIN) as a tool to link taxes and social insurance information. Of course, it would be best if a common ID code could be developed for both the tax authorities and Social Insurance Corporations.

Figure 4.4. Current ID codes for a workplace

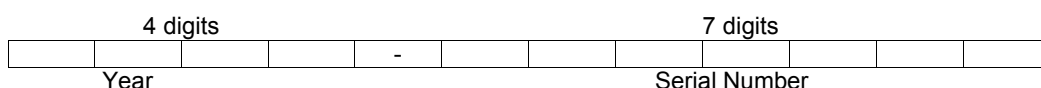
(1) NPS



(2) MIS



(3) EIS, IACIS



(4) Common ID

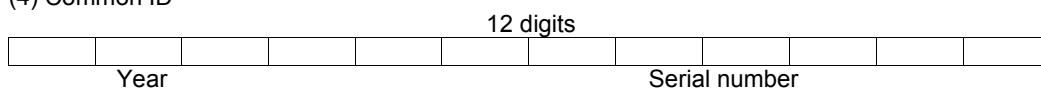
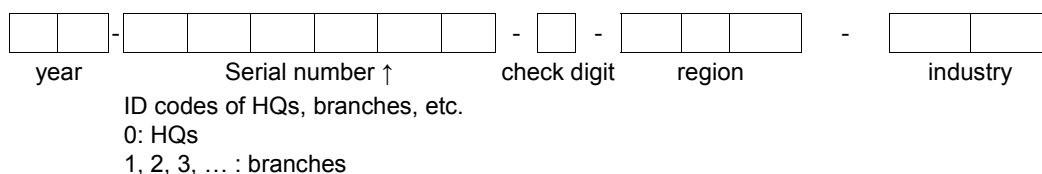
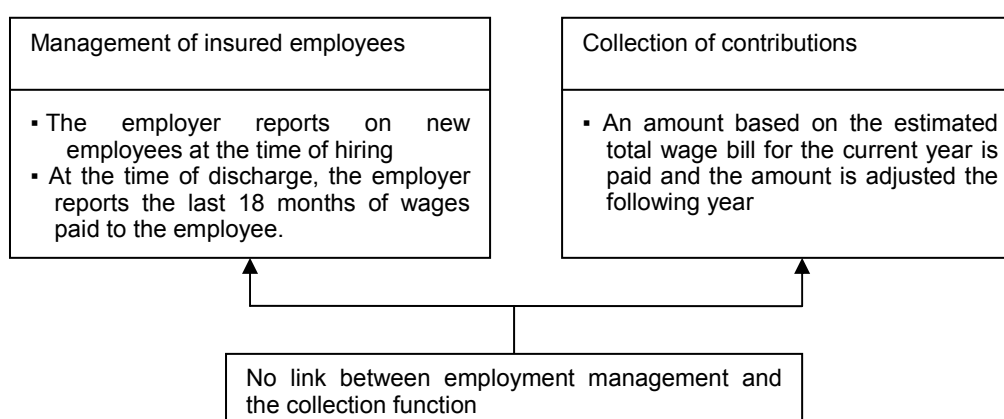


Figure 4.5. Example of a unified ID code

5. *Revision of the management system for the EIS insured*

A. *The current situation*

76. As mentioned in Subsection II.2.B, the EIS contribution collection system is problematic in that collection is not based on individual employee incomes, but on the total wage bill of the workplace. Thus collection activities are not related to the function of managing the insured (see Figure 4.6). Under this system, employees need to provide a record from their employer of their employment for up to 18 previous months and exact wages for the last three months when they ask for unemployment benefits. However, there is a common practice of exaggerating wages in collusion with the employer in some small businesses. It will be hard to curb this practice as long as EIS contribution collection continues with the current system.

Figure 4.6. Management of the insured and collection of EIS contributions

B. *Conclusion*

77. A consensus was reached that once the wage base for contributions is aligned with taxable income and methods of contribution collection are unified, the EIS will also have no problem in connecting collection activities with the management of the insured. The EIS will be able to keep track of life-long payment records for employees and employers, as the MIS and NPS currently do.

78. There is controversy over whether the IACIS will also keep track of employment and wage records in each workplace since it is only employers who pay IACIS contributions and the link between management of insured employees and the payment of contributions is minimal. The fact that IACIS benefits are provided even if the workplace is not insured at the time of an accident weakens the case for record-keeping. It is true that for these reasons, it is not essential for the IACIS to manage employees on an individual basis.

79. However, there was a general consensus that the IACIS should manage employees and their income on an individual basis, because the EIS and IACIS insured are almost same and individual

management in the IACIS would not engender further administrative costs or burdens. Also income management of each employee seems necessary to curb the fraudulent reporting of wages so as to obtain more benefits.

6. Review of the abolition of the grading system and thresholds

A. The current system

80. The MIS and NPS have maintained grade systems which include numerous income grades or brackets according to the insured person's Standard Monthly Income or Wages. The MIS and NPS have a 100 Grade and 45-Grade system, respectively (see Annex 2). The alleged advantages of a grade system are: 1) income brackets simplify the calculation of benefits; 2) the grades provide a sort of guideline when estimating incomes for the region-based insured or voluntarily-insured persons whose exact income is hard to know.

81. The disadvantages of the grading system have recently been discussed more and more. Given the rapid progress of the ICT, the calculation of contributions no longer poses great problems. On the contrary, it may be simpler to impose contributions on real incomes. Furthermore, it is not so easy to adjust the grade on a timely basis in line with increases of incomes or prices, and this leads to a growing gap between the real income structure and the grade structure. One illustration is the NPS grade system which has not been changed since 1995. The proportion of contributors falling into the 41st to 45th grades (highest income brackets) has increased from 1.8% in 1995 to 14.6% in recent years, whereas the proportion in the 1st to 5th grades (lowest income brackets) have decreased from 8.69% in 1995 to 0.07% more recently. As seen in Table 4.8, as of 2005, 10.3% of the total insured were in the highest (45th) grade. It is also an onerous task to change the number of grades, the income ranges corresponding to each grade and the representative amount of each grade. When the NPS was first implemented in 1988, the income grades used by the NPS and the MIS were quite similar, but nowadays this similarity has disappeared. This also makes the grade system less useful. It is known that Japan is the only other country that has maintained a grade system in social insurance.

Table 4.8. Number of insured by grade in the NPS, October 2005

	A+B (%)	Workplace (A)	Regions (B)		
			Sub-total	city	Rural area
Total	12 295 457	7 867 630	4 427 827	3 307 480	1 120 347
1 st Grade (220 thousand KRW)	6 405 (0.1)	4 221 (0.1)	2 184 (0.0)	1 802 (0.1)	382 (0.0)
24 th Grade (1 130 thousand KRW)	645 104 (5.2)	297 175 (3.8)	347 929 (7.9)	287 525 (8.7)	60 404 (5.4)
45 th Grade (3 600 thousand)	1 264 745 (10.3)	1 218 998 (15.5)	45 747 (1.0)	38 020 (1.1)	7 727 (0.7)

Source: National Pension Corporation.

82. As regards the thresholds, only the NPS and MIS have an upper limit and lower limit for collecting contributions. In the case of pensions, to achieve income redistribution and maintain an optimal balance between contributions and benefits, many countries use thresholds.¹² The MIS has had thresholds

12. In general, the lower limit is 10% to 20% of the average income of insured population and the upper limit is 100% to 250% of the average.

from the start with the aim of income redistribution, despite the fact that contributions are not related to the level of medical benefits.

83. Thresholds may or may not be adopted depending on the characteristics of each insurance. For example, it would be desirable for the MIS and IACIS not to have a threshold because the characteristics of medical protection make it hard to link services and benefits strongly to contributions. However in the case of the NPS and EIS, benefits are strongly linked to contributions and the threshold may or may not be adopted based on what factors should be emphasized. If curbing excessive pension benefits is crucial, an upper limit on contributions and benefit levels should exist. If the EIS wants to put emphasis on solidarity among workers, it would be more desirable to maintain the current system that has an upper limit on benefits, but no upper limit on contributions.

B. Conclusion

84. Since the disadvantages of the grade system appear to exceed its advantages, it was decided to abolish the grade system. In a similar vein, it was concluded that the National Tax Service should supply income information based on real income rather than bracketed income to the three Insurance Corporations.

7. Review of the application of the new collection system to construction sites

85. In terms of insurance management, construction workplaces have several unique characteristics including the frequent establishment and disappearance of the workplaces themselves, high labour mobility, much fluctuation in workers' wages, and a prevailing subcontracting system. These factors mean that the social insurance administrators find it hard to manage construction sites efficiently. In this regard, a review is necessary if the unified collection system is to be applied to construction sites without extensive problems.

A. Coverage rates of the current social insurance schemes on construction sites.

86. By law, the four Social Insurance acts are applied to almost all workers except those who work less than 1 month (less than 80 hours a month) in the case of the MIS and NPS, and those who work less than 60 hours a month in the case of the EIS. According to a recent survey (Shim, 2004), daily construction workers work an average of 19.7 days per month (rainy season: 18 days, winter season: 16.3 days) and 236 total working days per year. Thus, in principle, almost all workers in construction sites should be covered by the social insurances. Also, the law concerning premium collection of EIS and IACIS makes the chief contractor on a particular building site responsible for tax liabilities unless an explicit contract prescribes that subcontractors will pay the premiums.¹³

87. However, in reality, few daily construction workers are covered. Table 4.9 shows that only around 30% of the irregular workers are covered by the MIS, NPS and EIS, and the rate for daily workers is much lower than the average for irregular workers. Moreover, it is clear that coverage of daily workers at construction sites is much lower than that of irregular workers in general, although there is no data specifically on this. And in practice, most chief contractors force subcontractors to accept a contract in which prescribes that the subcontractor will pay EIS and IACIS premiums.

13. However, MIS and NPS do not have such a regulation, and impose premiums on chief contractor and subcontractors, respectively.

Table 4.9. Coverage rate of the social insurances, 2003

	Total (A+B)	Regular Workers (A)	Irregular workers									Sub-total (B)
			Part-time	Fixed- term	Daily workers	TR	Service contract	Dispatch ed workers	In-house work	Independ ent contracto r	Depende nt contracto r	
NPS	67.4	79.4	11.1	69.0	14.5	19.5	67.3	84.7	16.5	4.4	83.4	29.7
MIS	72.2	85.2	11.7	72.2	15.4	15.4	78.0	85.0	18.0	5.2	84.8	31.6
EIS	74.2	86.6	19.1	74.2	22.9	24.4	73.1	84.9	17.9	4.6	83.2	35.3
IACIS	76.3	86.9	28.3	76.4	36.8	34.5	84.3	85.3	16.9	6.5	89.1	43.1

* TR: Temporary replacement

Source: Ministry of Labour, Establishment Survey.

88. The situation of the MIS and NPS is less favourable in terms of the insurance coverage rate because neither of these insurances has developed any concrete measures for efficient management of daily workers on construction sites. The management system for regular workers is applied to irregular workers without any differentiation between the two. But because of the unique characteristics of construction sites, normal administrative arrangements have not operated well here. Since both these insurances have been plagued with other important issues such as financial instability and the integration of separate associations, policy concerning the low coverage rate on construction sites has been on the back burner. In the case of the MIS, workers are usually covered because they need medical insurance regardless and tend to join region-based insurances. However, they tend to avoid the NPS as much as possible because of its higher contributions and their negative attitude towards paying now for future income.

89. On the other hand, the EIS has been able to penetrate the construction sites since 2004 with the Electronic Card Reporting System. The E-Card has a built-in chip that contains basic information on the card holder, and an employer may add necessary information such as wages, qualifications and the number of days worked, etc. Compared to paper reporting, E-Card reporting is very fast, accurate and labour-saving because there is neither data entry work nor any time-lag in sending related information. However, the disadvantages of the E-Card are that the large number of cards and card reader machines required are costly and construction workers must carry the card at all times. Some employers are reluctant to use the E-Card lest their concrete wages information be exposed to government authorities.

90. The E-Card is now being applied to large construction sites where the construction budget is over 10 billion KRW (Table 4.10) and the number of insured construction daily workers is on the increase. To boost the use of the E-Card by construction workers, the Ministry of Labour has combined the E-card with other convenient functions like the electronic subway card and bus card which most citizens carry at all times. Currently, an E-Card is issued with 5 000 KRW of credit in order to induce workers to carry the Card and to use it whenever they enter the workplace or commute. In addition to such efforts, the wide-spread talk about the benefits of unemployment insurance and construction workers' positive thinking regarding the EIS has also contributed to an increase in the number of insured.

Table 4.10. Number of daily workers insured

Month	Jan '04	Mar	Jun	Sep	Dec	Jan '05	Mar	Jun	Sep	Dec
	Thousand									
No. of insured	7	118	659	469	528	515	445	656	645	722

Source: Ministry of Labour.

91. The low coverage rate on construction workers is not simply a result of a lack of management on the part of the social insurances. As previously mentioned, the number of layers in the subcontracting system at a construction site make it hard to efficiently manage employment records, with workers' frequent transfers making it even more difficult. Outdated contracting systems and low contract prices in bidding also cause problems. As would be expected, when the contract price is low, construction employers tend to evade social insurance contributions. In Korea, the average contract price of construction work ranges from 40% to 90% of the prices originally paid to the chief contractor. Given these unfair contracting transactions and low profitability among small-scale construction companies, it would not be easy to force construction employers to join the social insurances.

92. To summarize, low coverage of construction workers can be attributed to several structural factors, and it will be hard to increase coverage without solving these. A government-wide approach on several levels is needed. In order for employers to have the appropriate budget for social insurance contributions, it would seem necessary that the amount of social insurance contributions be maintained separately from the other cost items. However, in the current Korean accounting regulations, which are managed by the Ministry of Finance and Economy, the budget for social insurance contributions is not separated from other cost items. Therefore, if the contract price is low, construction employers tend to sacrifice the budget intended for social insurance contributions. If the separate accounting system (in which contracts with suppliers separately list the budget for social insurance contributions) is adopted, employers are required to adjust the premiums after the construction work. Also, there needs to be a new regulation which ensures that employers do not misuse the budget for other purposes than paying contributions. Secondly, the E-Card Reporting System needs to be expanded to more construction sites nation-wide, and the MIS and NPS should also adopt the E-card if there are no better alternatives. Further, the MIS and NPS Acts should abolish the clause which stipulates that workers who work less than 1 month for the same employer are excluded from coverage, because this clause acts as a loophole for employers who do not want to offer MIS or NPS coverage to their workers,

B. Conclusion

93. The bottom line of the new collection system is that the four different social insurances will collect contributions based on a common wage base and common record-keeping for each employee. This means that the ability to efficiently manage individual insured employees is a prerequisite for applying the new collection system. It is essential that the unified collection system be applied to every industry including construction workplaces and to the daily workers employed there. Needless to say, it is the construction employers' responsibility to withhold construction workers' contributions and forward these to the authorities on a regular basis.

94. Nonetheless, the reality is somewhat more problematic. As already mentioned, MIS and NPS authorities still have not found the right measures to penetrate into construction workplaces and their know-how regarding construction sites is very limited. The EIS has been trying to improve its ability to manage construction sites, but the E-Card system is still in its infancy and more time and energy will be needed to establish it. Given this situation, if a new unified collection system is applied to construction sites, it is clear that there will be a huge loss of contribution income, especially for the EIS. Since the central point of the new collection system (apart from the IACIS) is the collection of contributions based on each employee's monthly income, the authorities cannot collect the contribution if individual employees are not registered. Under the current EIS and IACIS "Casting net" system, where contributions are based on the total wage bill in a workplace, construction employers have paid more contributions to the EIS than they would under the new system where only insured individuals pay contributions. The EIS administration has had a surplus from this system. From the point of view contribution income, unless there is a huge increase in coverage of insured employees on workplaces the new contribution collection system cannot be applied to construction sites.

95. After taking these factors into consideration, the PCSI has decided that the new collection system will not be applied to construction sites until the E-Card system is better established and other chronic problems concerning construction sites are resolved through government-wide comprehensive measures. The streamlined collection system will eventually be applied to construction sites without exception but this may take some years.

V. Concluding remarks

96. Thus far, the paper has shown how the collection of social insurance contributions was streamlined in 2005, and how tax and social insurance contributions were integrated more closely through the adoption of taxable income as a common wage base and the development of a Common ID unit/ID code for workplaces. However, some more work needs to be done for the future development of social insurance in Korea. Among other things, the following issues should be resolved as soon as possible.

Creation of a single agency for collecting social insurance contributions

97. Though the organizational aspects of creating a *single* revenue agency for social insurance contributions were not addressed in the 2005 discussion, further work on this topic was done by PCSI in 2006. Based on the work, a new bill for integrating the collection of social contributions was proposed to the National Assembly on 16 November 2006.

98. Since the CTTSI discussions of 1999, many alternatives have been proposed as to how to organize a single revenue agency. However, given international practice and the Korean situation, only two options seem plausible. The first is to use the tax authority as a single revenue agency, as is the case with Anglo-Saxon countries. This option has many advantages, but would involve large-scale restructuring of the related authorities. The second option is to designate one of the insurance corporations as a single revenue agency. This option might receive support since parallel collection agencies have been maintained up to now and social insurance contributions are generally not treated as taxes. The most likely candidate would be the MIS Corporation which has more staff and local offices than any of the other Corporations (Table 5.1).

Table 5.1. Size of the organisations in charge of the social insurances

	NPS Corporation	MIS Corporation	Welfare Corporation	Job centres (Ministry of Labour)*
No. of staff	4 790 persons	10 474	2 782	1 800
organisations	89 local offices, 22 counselling centres	6 Regional Headquarters, 227 local offices	6 Regional Headquarters, 40 local offices	120 local offices

* Job centres handle unemployment benefits, training and job placement, etc.

99. In deciding how to create a single revenue agency, several factors need to be considered. For example, in 2008 a long-term care insurance and EITC will be adopted and these new systems will require sizable increases in staff. Furthermore, tackling the low coverage rate of social insurances with regard to irregular workers will also require more staff. In this sense, though there will be restructuring in the three Social Insurance Corporations, redundant staff in the collection part of activities could be fully transferred to places requiring more staff. Thus, job security may be less of a problem when ironing out the details of creating a single revenue agency. The PCSI thought that the year 2006 was the right time to discuss a single revenue agency and tried to initiate consensus-building among stakeholders. The option of using the tax authority as the single revenue agency gained support from various stakeholders, leading to the bill now under the consideration by the National Assembly.

100. If the bill is enacted, the contribution for the four major social insurances will be calculated based on taxable income and a new collection agency will be created under the administration of the National Tax Service and entrusted with the integrated collection function on behalf of the social insurance corporations. The purpose of this bill is to increase the efficiency of the collection of contributions by utilizing the data and the experience of the tax authority and to reduce the administrative burden on businesses by simplifying the contribution payment procedures.

Reducing the gaps in insurance coverage (“dead zone”)

101. There are two dimensions to the so-called “dead zone” of insurance. One involves insurance coverage and the other is the exclusion of certain insured persons from benefits due to strict entitlement conditions or an insufficient amount of social insurance. However, the latter dead zone is a matter of the protection level and is related to the social insurance structure itself. Thus, this paper focuses only on the former issue.

102. In terms of legislation, the four social insurances in Korea have achieved social insurance coverage for all within a short period of time. The MIS took 12 years, the NPS 11 years and the EIS 3 years (9 years for daily workers) to achieve full coverage. However, though the four social insurances must be applied to almost all employees by law, the reality is very different, as shown in Table 5.2 below. As of October 2005, less than 30% of regular workers and less than 10% of irregular workers in workplaces having less than 5 employees were covered. The dead zone was concentrated in small companies with less than 5 employees and irregular workers such as temporary, daily and special category workers who have quasi-self-employed characteristics.

Table 5.2. Coverage rate for each social insurance*

Firm size	Temporary workers				Non-typical workers				Part-time workers				Irregular workers				Regular workers			
	2001	2002	2003	2005	2001	2002	2003	2005	2001	2002	2003	2005	2001	2002	2003	2005	2001	2002	2003	2005
	Thousand workers (covered workers as per cent of category total)																			
Total	1 839	2 022	3 013	3 615	1 696	1 739	1 678	1 907	873	807	929	1 044	3 602	3 794	4 606	5 483	9 614	9 836	9 542	9 486
(of which):	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
NPS-covered	424	614	1 108	1 718	410	410	376	450	9	17	19	22	774	942	1 405	2 008	6 072	6 181	6 757	7 184
	(23.1)	(30.4)	(36.8)	(47.5)	(24.2)	(23.6)	(22.4)	(23.6)	(1.0)	(2.1)	(2.0)	(2.1)	(21.5)	(24.8)	(30.5)	(36.6)	(63.2)	(62.8)	(70.8)	(75.7)
MIS-covered	465	685	1 240	1 760	458	483	443	492	20	21	25	24	859	1 062	1 504	2 068	6 319	6 454	6 919	7 196
	(25.3)	(33.9)	(41.2)	(48.7)	(27.0)	(27.8)	(26.4)	(25.8)	(2.3)	(2.6)	(2.7)	(2.3)	(23.8)	(28.0)	(32.7)	(37.7)	(65.7)	(65.6)	(72.5)	(75.9)
EIS-covered	420	627	1 117	1 632	394	420	368	420	13	25	28	23	756	967	1 347	1 893	5 447	5 500	5 701	6 050
	(22.8)	(31.0)	(37.1)	(45.2)	(23.2)	(24.2)	(21.9)	(22.0)	(1.5)	(3.1)	(3.0)	(2.2)	(21.0)	(25.5)	(29.2)	(34.5)	(56.7)	(55.9)	(59.7)	(63.8)
Less than 5 workers	563	538	782	871	527	502	521	554	433	374	428	496	1 145	1 087	1 322	1 500	1 681	1 753	1 515	1 474
(of which):	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
NPS-covered	12	13	18	90	28	19	16	41	1	-	-	2	36	29	30	117	113	98	101	377
	(2.1)	(2.4)	(2.3)	(10.3)	(5.3)	(3.8)	(3.1)	(7.4)	(0.2)	(0.0)	-	(0.4)	(3.1)	(2.7)	(2.3)	(7.8)	(6.7)	(5.6)	(6.7)	(25.6)
MIS-covered	17	22	23	95	35	24	20	48	2	1	1	3	48	41	37	125	149	148	120	368
	(3.0)	(4.1)	(2.9)	(10.9)	(6.6)	(4.8)	(3.8)	(8.7)	(0.5)	(0.3)	(0.2)	(0.6)	(4.2)	(3.8)	(2.8)	(8.3)	(8.9)	(8.4)	(7.9)	(25.0)
EIS-covered	13	23	27	83	30	24	17	39	3	2	2	2	40	43	41	107	161	153	148	343
	(2.3)	(4.3)	(3.5)	(9.5)	(5.7)	(4.8)	(3.3)	(7.0)	(0.7)	(0.5)	(0.5)	(0.4)	(3.5)	(4.0)	(3.1)	(7.1)	(9.6)	(8.7)	(9.8)	(23.3)
5 or more workers	1 276	1 484	2 231	2 743	1 169	1 237	797	1 354	440	433	501	549	2 457	2 707	3 284	3 983	7 933	8 083	8 027	8 001
(of which):	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
NPS-covered	412	600	1 160	1 628	382	391	360	408	9	16	19	20	738	913	1 375	1 891	5 959	6 083	6 656	6 807
	(32.3)	(40.5)	(52.0)	(59.4)	(32.7)	(31.6)	(45.2)	(30.1)	(2.0)	(3.7)	(3.8)	(3.6)	(30.0)	(33.7)	(41.9)	(47.5)	(75.1)	(75.3)	(82.9)	(85.0)
MIS-covered	448	663	1 217	1 665	423	478	422	445	17	20	24	21	811	1 021	1 467	1 944	6 170	6 306	6 799	6 828
	(35.1)	(44.7)	(54.5)	(60.7)	(36.2)	(38.6)	(52.9)	(32.9)	(3.9)	(4.6)	(4.8)	(3.8)	(33.0)	(37.7)	(44.7)	(48.8)	(77.8)	(78.0)	(84.7)	(85.2)
EIS-covered	407	604	1 090	1 550	364	395	351	381	11	23	26	22	716	924	1 306	1 786	5 286	5 347	5 553	5 707
	(31.9)	(40.7)	(48.9)	(56.5)	(31.1)	(31.9)	(44.0)	(28.1)	(2.5)	(5.3)	(5.2)	(4.0)	(29.1)	(34.1)	(39.8)	(44.8)	(66.6)	(66.2)	(69.2)	(71.2)

*Coverage rates for 2003 particularly for regular workers are lower here than in Table 4.9 related to the different data source: data issues are discussed by Grubb, Lee and Tergeist (forthcoming).

Source: National Statistics Office, "Economic Activity Supplementary Survey", August each year.

103. Although the level of seriousness may vary, many OECD countries are also plagued with this kind of dead zone. When undeclared work offers financial benefits to both employers and workers, it is not easy to curb it. OECD (2004b, Chapter 5; 2006, p. 152-154) examined this issue under the title of “Informal Employment and Promoting the Transition to a Salaried Economy” and analyzed why the main instruments of labour market policy such as employment regulation, social insurance and active labour market programmes have difficulty in reaching undeclared workers. OECD’s policy suggestion is that, since taxes are progressive and business owners usually have higher incomes than their employees, efforts should be concentrated on ensuring a high level of detection of value added throughout the economy by the tax authorities. Any concealed employee earnings then appear as increased declared earnings of the business owner, resulting in higher overall tax liabilities. When accurate book-keeping is enforced, most business owners act as agents for the tax authorities, reporting the employment spells and earnings of individual employees and withholding taxes from them, and bearing most of the administrative costs involved. In situations of partial non-detection of value added (*e.g.* when 20% of value added is concealed), some additional tax progressivity (*i.e.* where business incomes/profits are taxed at a somewhat higher rate than employee earnings) can ensure that there is still an incentive to declare employee earnings.

104. Undeclared work is defined as any paid activity that is lawful in nature but not declared to public authorities (Mateman and Renooy, 2001). These activities should be taxed, but buyers and sellers of labour get mutual benefits by declaring wages below their market value. As of 1999, undeclared work in the European Union (EU) was estimated to account for between 7% to 16% of the GDP of the EU, and to correspond to between 7% and 19% of total declared employment (European Commission, 1998, pp. 4-5). As expected, construction sites, hotels, restaurants and personal service sectors account for most of the undeclared work in OECD countries.¹⁴ Judging from the coverage rate of social insurances in Korea, it may be estimated that around 60% of irregular workers and 30% of regular workers are undeclared.

105. European Commission (EC) experts claimed that various factors contribute jointly, but in varying degrees, to the existence of undeclared work (EC, 1998, pp. 5-6): 1) the emergence of a highly disparate demand for ‘personalized services’ to families; 2) the reorganization of industry and firms into long lines of vertical disintegration and chains of subcontracting, which often leads to an increase in self-employment and of entrepreneurs, some of whom may be operating within the undeclared economy; and 3) the impact of the spread of ICT, such as personal computers, which provide new working opportunities and open up new areas of service activities. The European Commission also mentions that the scope for, and extent of, undeclared work vary according to tax and social insurance contribution levels, regulatory and administrative burdens, inappropriate labour market legislation, industrial structures with large numbers of small firms, low competitiveness of firms and the existence of easy opportunities.

106. The European Commission’s analysis is also valid for the current situation in the Korean labour market, but the Korean situation is much more serious in that undeclared workers in Korea are full-time regular or irregular workers in workplaces, whereas in EU countries undeclared workers are usually illegal migrants or third-country nationals, “economically inactive” persons (students, housewives, and early retired persons), and multiple job holders.

107. Until now, the Korean government has been addressing this issue sporadically using a traditional strategy of severe monitoring and penalties for evasion of contributions, but not in an efficient or continuous manner. These policies have not been very effective under the different collection systems and

14. As of 1998, URSSAF analyzed undeclared work by sectors in France as follows: construction sites 25.5%, personal care service 24.4%, retail 20.3%, hotel and restaurants 14.7%, transportation 8.4%, etc (URSSAF, 1999). According to one case study on undeclared work in Germany, undeclared work declined from 10.4% in 2001 to 8.8% in 2004. Undeclared work took place in: construction 48.9%, transportation 10.2%, money broker 6.8%, hotel and restaurants 5.3%, etc. (Feld and Larsen, 2005)

barriers to data exchange between authorities. The unification of collection methods and collection agencies will not be enough to guarantee a decrease in these dead zones as long as employers and employees continue to have mutual benefits by evading social insurance contributions, and without some other programs to induce better reporting by employees and employers.

108. The unification of collection offers a good opportunity for the Korean government to examine the idea of social insurance contribution subsidies for low-income workers. These subsidies could, for example, cover 1/2 to 2/3 of the employee's burden regarding social insurance contributions. The subsidies should be matched by the employee's own payments in order to induce the employee's participation in social insurance. The contribution subsidy for employees needs to be designed to have the positive function of "in-work benefits", which may ultimately induce labour market participation of inactive people. In some countries, such as the United Kingdom and Germany, certain employees do not pay social insurance contributions if their income is below a particular level. If there is a sufficient budget, full exemption of social insurance contributions for vulnerable groups is an option to be considered, given the low coverage and weakness of the social safety net in Korea.

109. Some countries such as France and the Netherlands are implementing contribution subsidies for employers, targeting low-income employees whose wages are close to the minimum wage. However, in the case of employer subsidies, it is well-known that deadweight loss and substitution effects are large and hard to eliminate (Lee, 2005, pp. 304-324). Moreover, given the total rate of social insurance contributions paid by Korean employers is only around 10% of wages, as opposed to 30% to 40% on average in EU countries, subsidies for employers would not seem to be as effective a solution for making employers contribute to social insurances. Therefore, an employee contribution subsidy is considered preferable to an employer subsidy.

110. In terms of targeting, if the verification of income for low-income workers were to be improved with the introduction of the EITC, employees below a certain level of income or minimum wage could be prospective target groups. If this is not plausible within the near future, the workers in workplaces with less than 5 employees could be an alternative target group, considering that the coverage dead zone is concentrated in small businesses and Korean social insurances have already expanded coverage to further workplaces based on the number of employees.

111. The total social costs for the contribution subsidy program may not be so large since low-income earners find themselves in a marginal situation where they are more likely to claim public assistance if they are not employed. Work incentive programs are at an infancy stage in Korea, but it seems that with the adoption of the EITC in 2008, now is the time to implement a contribution subsidy program as a way to combat the chronic low coverage of the social insurances and also as a work-incentive measure.

ANNEX 1. SOCIAL INSURANCE CONTRIBUTION COLLECTION SYSTEMS IN SELECTED OECD COUNTRIES¹⁵

1. General trends

112. The case studies of other countries here focus on two questions: 1) what kind of wage base is used for social insurance contributions; and 2) which organization collects the contributions. The general trend seems to be that either taxable income or wages are used as the wage base for imposing social insurance contributions, and either the tax authority or the social insurance agency collects the contributions and distributes them to each insurance system. In most countries, the wage base and means of collection are unified. In general, which organization collects the contributions depends on whether social insurance contributions are considered as a tax or social insurance contribution in the country. If social insurance contributions are considered taxes, the government takes overall responsibility for the operation of social insurance systems and the tax authorities collect the contributions. While if contributions are regarded as social insurance contributions, the government maintains a monitoring role only, and the collection agency and related organizations are responsible for the different social insurances.

113. According to OECD (2004a, p. 9), 17 countries have parallel systems with a collection agency separate from the tax authorities, while 11 countries have integrated systems where the tax authorities collect social insurance contributions as well as income and some other taxes. By and large, Anglo-Saxon countries belong to the latter type.

Table A1.1. Type of collection system in OECD countries

Collection by social insurance agency* (17 countries)	Collection by tax authorities* (11 countries)
Austria, Belgium, Czech Republic, France, Germany, Greece, Italy, Korea, Japan, Luxembourg, Mexico, Poland, Portugal, Slovak Republic, Spain, Switzerland, and Turkey	Canada, Denmark, Finland, Hungary, Iceland, Ireland, the Netherlands, Sweden, Norway, the United Kingdom, and the United States.

* Not applicable for Australia and New Zealand, which have no or only specific (employer pension) compulsory social insurance contributions.

Source: OECD (2004a), "Tax Administration in OECD Countries", Centre for Tax Policy and Administration

114. For the last two decades, however, there has been a trend towards integration of the collection of social insurance contributions and taxes. Sweden is one such example, having integrated the two in 1975. In 1999, the United Kingdom transferred the collection of social insurance from a Contribution Agency within the Department of Social Security to Inland Revenue. Since early 2000, transition economies such as Albania, Romania, and Bulgaria have been trying to integrate all or some aspects of the collection of taxes and social insurance contributions.

115. Barrand *et al.* (2004, pp. 13-16) suggest the following rationales supporting the full integration of the collection of taxes and social insurance contributions:

15. Note that sources for the country case studies are listed by country in the bibliography of this paper.

- First, there is a commonality of core processes. Requirements that are common to taxes and social insurance contributions include: 1) to identify and register contributors and taxpayers using a unique registration number; 2) to have an established system to collect information in the form of returns from employers and the self-employed, usually based on similar definitions of income; 3) for employers to withhold taxes and contributions from the income of their employees and pay this to the agencies (usually through the banking system); 4) to have effective systems for follow-up of employers who do not file or do not account for payments; and 5) to verify the accuracy of the information shown on returns using modern risk-based audit methods. Though there are differences according to the taxpayers covered, data needs, record retained, and other related aspects of core processes, the IMF authors consider these to be manageable.
- The second rationale is that integration uses resources more efficiently and lowers government administration costs by eliminating duplication of core functions in the areas of processing, enforcement of returns and payments, and audits of employers. The cost of integrating social insurance contribution collection activities with tax administrations has been found to be minor in some countries. If tax administrations are well-organized, collection costs may even fall while collection rates for the individual social insurances are improved.
- Thirdly, taxpayer and contributor compliance costs can be lowered. Paperwork is reduced by using common forms and record-keeping systems and a common audit program covering VAT, income and payroll taxes, and social insurance contributions. The increasing use of internet-based electronic filing and payment systems within the tax administration also lowers taxpayer and contributor compliance costs. This simplification can help improve the accuracy of the calculations made by employers, and therefore compliance levels.
- Finally, it is worth noting that the OECD treats social insurance contributions as “taxes” and includes them in its compilation of tax burden statistics. Though public perceptions of tax and social insurance contributions may differ, general attitudes to payment and non-compliance are likely to be similar if social insurance contributions are compulsory.

2. Countries using social insurance agencies

A. Germany

116. In general, social insurances are managed by central government, but multiple trade, regional and industrial associations are responsible for implementation. Among insurance-related organizations, the Bundesagentur für Arbeit (BA) in charge of unemployment benefits and job placement is the only national organization.

117. A Medical Insurance Association is responsible for collecting and distributing contributions for pensions, medical insurance, unemployment insurance and long-term care. Medical Insurance was the first social insurance to be implemented and this Association has numerous local offices throughout Germany. Thanks to these offices, there has been a trend for the other social insurance organizations to delegate collection to the Medical Insurance Association. The Association receives 2% of total contributions as service fees from other organizations in return for its collection service. But the Pension Insurance Authority is responsible for monitoring workplaces and issuing social insurance cards. Industrial accident insurance contributions are collected by industrial accident insurance organizations and managed by various trade associations. This originated in the strong autonomy of the various trades and their tradition of insurance management.

118. Employers pay social insurance contributions to Medical Insurance Associations every month after withholding a certain percentage from the employee's salary. Then the Associations distribute the contribution to each of the social insurances. The wage base used for collecting social insurance contributions is exactly the same as that used for taxable income.

B. France

119. The French social insurance system features a variety of professional or sector-based schemes that are very complex, making the delivery system difficult to understand. In essence, there are two types of social security, the general scheme (*Régime Général*) and special schemes (*Régimes Spéciaux*). The former is the main social insurance scheme which generates more than half of total social security expenditure and is operated by State. The latter are operated by many trades. The Ministry of Social Solidarity and Housing monitors Pension, Medical Insurance and Industrial Accident Insurance, but the operation of these is handled by central, regional and local level *caisses* (funds). The three major central *caisses* are the CNAM, the CNAF and the CNAV. The CNAM deals with diseases, childbirth, disability, industrial accidents, while the CNAF handles family allowances and minimum income (RMI) benefits, which are not contribution-based. The CNAV is in charge of old-age pension and various activities for the elderly.

120. Despite the complex delivery system, all social insurance contributions except for unemployment insurance are collected by URSSAF, which is a quasi-governmental Social Security Collection Agency. Contributions are calculated according to gross salary. Another organization called the ACOSS acts as a social insurance treasury, distributing the contributions as well as government subsidies to particular funds.

121. It is notable that unemployment insurance in France is managed separately from the rest of the social security system by the *Union nationale interprofessionnelle pour l'emploi dans l'industrie et le commerce* (UNEDIC) at central level and the *Associations pour l'emploi dans l'industrie et le commerce* (ASSEDIC) at local level, which are joint associations of labour and management. The ASSEDIC at local level collect unemployment insurance contributions and pay unemployment benefits. This arrangement has its origin in the adoption of unemployment insurance through labour-management collective agreements in 1958. At the same time, labour and management are responsible for implementing and revising the unemployment insurance system, with the government only monitoring its operation. Despite the huge deficits which have arisen at times in the unemployment insurance fund, it receives no regular government subsidies.¹⁶

122. With the deduction of the employee's portion of the contribution from his or her salary, employers are expected to pay social insurance contributions every quarter and to report wages and the amount of contributions to URSSAF and ASSEDIC. Social insurance contributions are calculated based on the current year's income. The tax authorities and URSSAF use the same wage base for collecting taxes and social insurance contributions. However, the ASSEDIC only receive information on an employer's total wage bill and number of employees, but not the identity of individual employees. And also they do not receive this information from the other records of the other social insurance systems. This lack of information has facilitated unemployment insurance fraud, leading recently to calls for reform.

16. The state provided a subsidy of three billion euros to the unemployment insurance fund in the 1990s but this was repaid in 2001 and 2002. Some further benefits (notably the *Allocation de Solidarité Spécifique*, an unemployment assistance benefit) are managed by UNEDIC/ASSEDIC but financed by the state.

C. Japan

123. The structure of Japanese social insurance is complex as different systems were introduced one by one from the 1920s to after World War II. In case of health care insurance and pension insurance for salaried workers, there are Employee Health Insurance (government-managed type and the society-managed type) and Employee Pension Insurance. Employment Insurance and industrial accident insurance systems for workers were adopted in 1947. Self-employed workers and non-employed people are covered by the National Health Insurance and the National Pension. One characteristic of Japanese social insurance is that self-employed people are insured separately from employees.

124. Japan maintains a 2:2 insurance management systems, that is, Medical Insurance and Pension contributions are collected together, and Employment and Industrial Accident Insurance contributions are also collected together. This arrangement reflects a former division between two government ministries, the Welfare Ministry and Labour Ministry, respectively.¹⁷ The Medical Insurance and Pension systems are handled by the Social Insurance Agency which has 47 Regional Social Insurance Bureaus in the prefectures and 265 Social Insurance Offices under these Regional Bureaus. Under the jurisdiction of Ministry of Health, Welfare and Labour, Employment Insurance is operated by Job centres and Industrial Accident Insurance by municipalities.

125. The collection method is very similar to Korea's. Contributions from the latter two labour insurances are collected once a year from employers according to estimates for the current year plus end-year adjustments which settle the final payment for the previous year. The wage bases used for the collection of each insurance and for that of taxable income are different. Labour insurances are using total wage, but Medical Insurance and Pension are using their own wage criteria called Standard Income/Wage. Currently there is no plan to integrate the collection of social insurance contributions, let alone taxes.

3. Countries using the tax authorities

A. United Kingdom

126. Under the influence of the 1942 Beveridge Report, all of the social insurances were integrated into one system called National Insurance. The National Insurance Act and the National Health Act provide universal insurance service from the cradle to the grave. Pensions, unemployment benefits, medical benefits, disability benefits, childbirth allowance, and injury benefits take the form of both insurance benefits (funded by the National Insurance Fund) and non-contributory benefits (funded from general taxation), all currently managed by the Department of Work and Pensions.

127. People aged from 16 years to pension age (65 for males, 60 for females) pay National Insurance Contributions (NICs) in three classes: Class 1 for employees and employers, Class II for the self-employed and Class III for the voluntarily insured. Employees and their employers share employee contributions with a weekly maximum and minimum earnings threshold. For the year 2006-2007, for example, the weekly earnings threshold is 84 pounds and if the weekly income is below the threshold, employees do not have to pay into National Insurance. The Class I contribution rate for the 2006-2007 tax year is 11% for employees and 12.8% for employers (total 23.8%). NICs are collected every tax month and employers pay NICs after the employees' contributions have been withheld. The wage base for NICs is the same as that for taxable income.

17. The Welfare Ministry and the Labour Ministry were merged into the Ministry of Welfare and Labour in 2001.

128. The United Kingdom's social insurance contribution collection agency has undergone many recent changes. The tax authority, the Inland Revenue, for many years collected most (95%) NICs on behalf of the Contribution Agency within the Department of Social Security (Demarco and Rofman, 1999). In 1999 this Agency was merged with Inland Revenue. In 2005, HM Revenue and Customs was established through the merger of Her Majesty's Customs, the Excise Department and the Inland Revenue. A collection agency within HM Revenue and Customs, called the "National Insurance Contributions Office" (NICO), is responsible for collecting NICs and maintaining over 65 million National Insurance Accounts. The NICO employs over 4 600 staff members. It has been said that the creation of a single revenue administration has lessened both companies' and taxpayers' burdens, with the collection compliance level increasing overall.

B. Sweden

129. In Sweden, social insurance has been divided into two categories by the National Insurance Act (1999). The first is a residence-based insurance scheme providing basic protection and benefits such as state guaranteed pensions and state child benefits. The second is a work-based insurance scheme protecting against the loss of income, which includes sickness benefits and earnings-related retirement pensions. Roughly half of expenditures go to pensions, about one third to sickness and disability benefits, and about 14% to families with children. Unemployment insurance is autonomously managed by unemployment insurance funds (formerly affiliated with trade unions, but now independent). Social insurance is administered by a new authority created on 1 January 2005, the Swedish Social Insurance Agency, which replaces the National Social Insurance Board (NSIB). Social insurance is mainly funded by employer contributions and contributions paid by the self-employed. Employer contributions amount to 33% of the employees' pay.

130. Responsibility for collecting social insurance contributions was transferred from the NSIB to the tax authority gradually between 1975 and 1985 (Demarco and Rofman, 1999).¹⁸ Income taxes and social insurance contributions are now collected together. It is known that in order to integrate tax and social insurance contributions, wage bases were unified and a simpler calculation method for contributions was developed. The tax authority sends contribution collection information to the Social Insurance Agency every week.

C. The Netherlands

131. In the Netherlands, the collection of employee insurance contributions has been simplified first in the 1990s by unifying multiple industry-based insurance agencies, and then in the 2000s by unifying the collection of employee insurance contributions and taxes.

132. Industrial Insurance Associations (IIAs) were established as bipartite bodies without government involvement in their management in 1921. Through most of the postwar period, the IIAs managed unemployment, sickness and disability insurance as well as some associated active measures. But benefits and contributions were set by national legislation at uniform rates, unrelated to the sector-specific risks in different industrial branches. This encouraged collusion between the social partners in each industry to solve its labour market problems, such as the need for restructuring less-profitable activities, at the expense of the benefit funds. Largely due to lax administration of access to disability insurance, the Netherlands throughout the 1980s had probably the highest level of dependency on these benefits among OECD countries. This in particular became the subject of national political attention and debate, provoking a wide range of reforms.

18. NSIB (2001) states that the transfer occurred in 1984.

133. By the early 1990s there were 19 IIAs, 13 of which were leaving administration to a joint body called the Joint Administration Office (GAK) while another 3 were leaving administration to joint body called the Joint Implementation Office (GUO), so 5 main agencies were administering the employee insurance schemes. In 1995, aiming to replace the “primacy of industrial self-organisation” in the management of social insurance with the “primacy of politics”, the government created a Social Security Supervisory Board (CTSV) consisting of three independent government-appointed members having no ties to employers or trade union interests. In 1997 an additional tripartite supervisory body, the National Social Insurance Institute (LISV), was created and the Industrial Insurance Associations were abolished, although at the administrative level they mainly continued with a formal status as “social insurance implementation” bodies (UVIs) working under contract to LISV. Between 2000 and 2002 the five UVIs and LISV were merged into a single Employee Insurance Implementing Body (UWV), still responsible for the collection of employee insurance contributions (OECD, 1993; Visser and Hemerijck, 1997; Hartog, 1999; Dykstra and De Koning, 2004).

134. Driven by a continuing government wish to reduce the administrative burden on employers and simplify the operation of social insurance schemes, preparations for the integration of the collection of employee insurance contributions and taxes began in 2004. About 800 UWV staff responsible for the work on contribution collection were transferred to the Tax and Customs Administration and from 1 January 2006, employers have no longer been required to file separate returns for social insurance contributions and taxes.

D. United States

135. The Social Security Act of 1935 laid the foundation for current social insurance systems, which include Old-age and Survivors, Disability Insurance (OASDI), Medicare, Medicaid, and Unemployment Insurance.

136. A Social Security Tax (SST) is collected for the OASDI. The SST is paid equally by the employer and employees and is collected by Internal Revenue Service (IRS) in line with the Federal Insurance Contribution Act (FICA). The upper wage threshold in 2006 for the SST is \$94 200. Hospital insurance is financed by a Medicare tax. Federal income taxes, the SST and Medicare contributions are collected together through the IRS 941 Form. The SST, Medicare tax and unemployment tax are called “employment taxes” by the IRS.

137. Each quarter, any employer who pays wages which are subject to income tax, or social security and Medicare taxes, must voluntarily file an Employer’s Quarterly Federal Tax Return by the last day of the month which follows the end of the quarter. However, the employer is required to pay any withheld taxes to the bank every month or every two weeks according to their own tax schedules. On the other hand, unemployment insurance tax is collected according to the Federal Unemployment Tax Act, and thus a separate IRS 940 Form is used. Employers are required to submit the form only once a year no later than January 31st.

138. Employers who pay wages are subject to income taxes or social security and Medicare taxes. Wages subject to federal employment taxes generally include all pay that employers supply to an employee for services performed. The pay may be in cash or in another form. This includes salaries, vacation allowances, bonuses, commissions and fringe benefits. The wage base is the current year’s income.

139. age base is the current year’s income.

140. In order to report employment taxes, employers are required to use a 9-digit number or Employer Identification Number (EIN) that the IRS has issued. For employees, the Social Security Number (SSN) is issued by the Social Security Agency.

ANNEX 2. TABLES OF STANDARD MONTHLY INCOME FOR THE MIS AND STANDARD MONTHLY WAGE FOR THE NPS

Table A2.1. Standard Monthly Income grades for the MIS insured

Grade	Monthly wages (thousand KRW)	Standard Monthly Income	Grade	Monthly wages (thousand KRW)	Standard Monthly Income
1	30	28	51	775 - 805	790
2	30 - 35	33	52	805 - 835	820
3	35 - 40	38	53	835 - 865	850
4	40 - 45	43	54	865 - 895	880
5	45 - 50	48	55	895 - 925	910
6	50 - 55	53	56	925 - 955	940
7	55 - 60	58	57	955 - 985	970
8	60 - 65	63	58	985 - 1 015	1 000
9	65 - 70	68	59	1 015 - 1 045	1 030
10	70 - 75	73	60	1 045 - 1 075	1 060
11	75 - 85	80	61	1 075 - 1 120	1 098
12	85 - 95	90	62	1 120 - 1 160	1 140
13	95 - 105	100	63	1 160 - 1 210	1 185
14	105 - 115	110	64	1 210 - 1 260	1 235
15	115 - 125	120	65	1 260 - 1 310	1 285
16	125 - 135	130	66	1 310 - 1 360	1 335
17	135 - 145	140	67	1 360 - 1 420	1 390
18	145 - 155	150	68	1 420 - 1 470	1 445
19	155 - 165	160	69	1 470 - 1 530	1 500
20	165 - 175	170	70	1 530 - 1 590	1 560
21	175 - 190	183	71	1 590 - 1 660	1 625
22	190 - 205	198	72	1 660 - 1 720	1 690
23	205 - 220	213	73	1 720 - 1 790	1 755
24	220 - 235	228	74	1 790 - 1 860	1 825
25	235 - 250	243	75	1 860 - 1 940	1 900
26	250 - 265	258	76	1 940 - 2 020	1 980
27	265 - 280	273	77	2 020 - 2 100	2 060
28	280 - 295	288	78	2 100 - 2 180	2 140
29	295 - 310	303	79	2 180 - 2 270	2 225
30	310 - 325	318	80	2 270 - 2 360	2 315
31	325 - 345	335	81	2 360 - 2 450	2 405
32	345 - 365	355	82	2 450 - 2 550	2 500
33	365 - 385	375	83	2 550 - 2 660	2 605
34	385 - 405	395	84	2 660 - 2 760	2 710
35	405 - 425	415	85	2 760 - 2 870	2 815
36	425 - 445	435	86	2 870 - 2 990	2 930
37	445 - 465	455	87	2 990 - 3 110	3 050
38	465 - 485	475	88	3 110 - 3 230	3 170
39	485 - 505	495	89	3 230 - 3 360	3 295
40	505 - 525	515	90	3 360 - 3 500	3 430
41	525 - 550	538	91	3 500 - 3 640	3 570
42	550 - 575	563	92	3 640 - 3 780	3 710
43	575 - 600	588	93	3 780 - 3 930	3 855
44	600 - 625	613	94	3 930 - 4 090	4 010
45	625 - 650	638	95	4 090 - 4 260	4 175
46	650 - 675	663	96	4 260 - 4 430	4 345
47	675 - 700	688	97	4 430 - 4 600	4 515
48	700 - 725	713	98	4 600 - 4 790	4 695
49	725 - 750	738	99	4 790 - 4 980	4 885
50	750 - 775	763	100	4 980 -	5 080

Table A2.2. Standard Monthly Wage grades for the NPS insured

Grade	Income Range (KRW)	Standard Monthly Wage (KRW)	Contribution amounts (9% for either Region-based or Workplace insurance) (KRW)
1	Below 225 000	220 000	19 800
2	225 000 - 235 000	230 000	20 700
3	235 000 - 245 000	240 000	21 600
4	245 000 - 255 000	250 000	22 500
5	255 000 - 265 000	260 000	23 400
6	265 000 - 280 000	270 000	24 300
7	280 000 - 300 000	290 000	26 100
8	300 000 - 325 000	310 000	27 900
9	325 000 - 355 000	340 000	30 600
10	355 000 - 385 000	370 000	33 300
11	385 000 - 420 000	400 000	36 000
12	420 000 - 460 000	440 000	39 600
13	460 000 - 500 000	480 000	43 200
14	500 000 - 545 000	520 000	46 800
15	545 000 - 595 000	570 000	51 300
16	595 000 - 645 000	620 000	55 800
17	645 000 - 700 000	670 000	60 300
18	700 000 - 760 000	730 000	65 700
19	760 000 - 820 000	790 000	71 100
20	820 000 - 885 000	850 000	76 500
21	885 000 - 955 000	920 000	82 800
22	955 000 - 1 025 000	990 000	89 100
23	1 025 000 - 1 095 000	1 060 000	95 400
24	1 095 000 - 1 170 000	1 130 000	101 700
25	1 170 000 - 1 250 000	1 210 000	108 900
26	1 250 000 - 1 335 000	1 290 000	116 100
27	1 335 000 - 1 425 000	1 380 000	124 200
28	1 425 000 - 1 515 000	1 470 000	132 300
29	1 515 000 - 1 610 000	1 560 000	140 400
30	1 610 000 - 1 710 000	1 660 000	149 400
31	1 710 000 - 1 810 000	1 760 000	158 400
32	1 810 000 - 1 915 000	1 860 000	167 400
33	1 915 000 - 2 030 000	1 970 000	177 300
34	2 030 000 - 2 135 000	2 080 000	187 200
35	2 135 000 - 2 245 000	2 190 000	197 100
36	2 245 000 - 2 360 000	2 300 000	207 000
37	2 360 000 - 2 475 000	2 420 000	217 800
38	2 475 000 - 2 600 000	2 540 000	228 600
39	2 600 000 - 2 730 000	2 670 000	240 300
40	2 730 000 - 2 870 000	2 800 000	252 000
41	2 870 000 - 3 010 000	2 940 000	264 600
42	3 010 000 - 3 150 000	3 080 000	277 200
43	3 150 000 - 3 310 000	3 230 000	290 700
44	3 310 000 - 3 450 000	3 380 000	304 200
45	3 450 000 -	3 600 000	324 000

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UK

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