

# A Study on the Reform of Social Security System for "Quality of Life"

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## I. Introduction

Recently, after the President's initiative action for "globalization of quality of life" by promulgating the ideal goal for coming 21th century, the Korean Government has established the 「National Welfare Planning Board」 which has a historical duty to work out a long & medium-term blueprint for social security system in Korea. The matter of the promotion of national welfare is viewed as a difficult task to deal with, since it is very hard to tackle the matter by only a single government department, Ministry of Health & Welfare. Last year, with renaming the government department by Ministry of Health & Welfare, which was, in the past, named Ministry of Health & Social Affairs, the Government declared that the year of 1995 should be a launching year for advancing national health & welfare. In this respect, it has significant implications that 「National Welfare Planning Board」 has been established, not in a sole department level but in the government inter-department level, and that the Board is co-headed by both the minister of Health & Welfare and the president of Korea Development Institute(KDI). The Board is very similar to 「the Inter-department Committee on Social Insurance and Allied Service」 of the United Kingdom in 1941, which was appointed to undertake, with special reference to the inter-relation of the schemes, a survey of the existing national schemes of social insurance and allied services in the country, and which, at last, produced the famous Beveridge Report serving as a foundational basis for the Welfare State of the United Kingdom.

At the time when the inter-department committee was appointed, there were urgent needs for national solidarity of the United Kingdom since it was being engulfed in all-out war with Germany at World War II. In response to the situation, the Cabinet established the inter-department committee headed by Sir William Beveridge to build up national cohesion of the whole population and to present a new vision for the coming post-war era, and the Cabinet declared that it would be starting point to construct a welfare state for the coming new era.

Also at that time, just like the case of our present situation concerning social security system, the U.K was confronted with serious problems resulted from its impertinent social security system which was revealing incoherence and, in turn, undermining social solidarity.

Today, with enjoying more democracy and freedom, ever than before, after civilian president was elected, the Korean people has been increasingly expecting to get the fruits from brilliant economic development in the form of national welfare. At present time, we are surrounded by favorable conditions in many respects, and so we could work out a long & medium-term welfare vision for 21st century and, in the course of the welfare planning process, many difficult problems, particularly related to welfare budget, which has been kind of neglected so far, would be somewhat easily resolved.

This study is to review the present welfare system of Korea, to analyze current problems and to contemplate new approaches for better development, especially with an emphasis on considerations with recent trends in reforms of social security system, and with globalization and unification of Korea which is one of the currently pending questions in Korea.

## **II. Outline of the Social Security System in Korea**

It was only after early 1960s that social security programs were introduced in Korea. Most kinds of social security programs except for family allowance have been introduced during the last 30 years since we instituted the government employees' pension program in 1960. In 1960s, particularly between 1961 and 1963, several kinds of acts for social programs were enacted. These include Social Protection Act(1961), Disaster Relief Act(1961), Children's Welfare Act(1961), and National Compensation and Support Law for War Victims(1961), Industrial Injuries Compensation Act(1963), Military Service Pension Act(1963), Act on Social Security(1963), National Welfare Pension Act(1963) and Health(Medical) Insurance Act(1963). As a result, these social acts have paved the way for the better development of our social security system, though some of the Acts like National Welfare Pension Act and Health(Medical) Insurance Act could not implemented then, mainly due to unfavorable socio-economic situation.

From the 1970s, our priorities of social security policy have been diverted to preventive measures against public poverty from curative measures, and to institutional models with a purpose to put the whole population under the social welfare protection from residual welfare models intended to protect some vulnerable social stratum.

Also, in such major industrialized countries as U.K, Japan, France and Germany before 1945, their social policies were orientated to only some weak social stratum, but since World War II, their policies have been changed to cover their entire population under the safety net of social security systems.

Although our social security system lags behind by 30 years in many aspects being compared with the cases of the advanced countries above, we have increasingly come to have our firm confidence that we could come up with the countries by virtue of our economic success.

Currently, in fact, our social security programs contain multidimensional measures which are intended to resolve the problems derived from industrialization.

The social security programs of Korea could be divided into three categories, that is to say, social insurance programs, social assistance programs and social welfare services. Social insurance is to protect the public against social risks using insurance skills, social assistance to support certain qualified social groups, especially like the destitute by using government budget, and social welfare services to give various personal social services for vulnerable population like the old-age, children and women.

As for Social insurance, we have pension insurance schemes, health (medical) insurance schemes, Industrial Injuries Compensation insurance scheme and unemployment insurance scheme. And social assistance programs, which are normally subject to means test, include livelihood protection programs, health protection programs, national merit compensation undertakings, disaster relief undertakings, etc, and social welfare services consist of many personal social services programs related to children's welfare, welfare for the aged, welfare for the disabled, women's welfare and parent & child's welfare. Although these welfare services are provided mainly by private sectors, government subsidies are playing an important role for their financial viability.

### **III. New Approaches to the Reforms of Social Security System**

#### **1. Basic concepts for our new reforms**

In our current situation, What could be relevant and feasible approaches to reforms of our social security system? The basic concepts for new approaches to the reform

could be summarized as follows

- ① securing quality of life commensurate to economic development level.
- ② strengthening national competitiveness in globalized circumstances.
- ③ constructing social solidarity of Korean people for making preparation for the future unification of Korean peninsula.

Firstly, with respect to Korean economy, we have experienced an unprecedented economic success since we started the first 5-year Economic Development Plan in early 1960s. Also, GNP per capita has been surged up to about \$10,000 in 1995 which was merely around \$87 in 1960 and Korea has become a big economic power in the world market, marking 11th stage in its total economic volume.

As a result, generally the standards of living of the public have been dramatically improved and their expectations for better and more national welfare protection have been increased. But also in another side, there are isolated social strata who are suffering loss or catastrophic decline of their income by old-age, sickness, invalidity, death or unemployment. It is nothing

to say that national economic volume of a country and its GNP per capita are very important for the quality of life of the people. It is, however, still more important, with a view to make society healthy and promising and to make our country competitive in an international society, that we should minimize the number of people who are dropping out of national economic development process.

Evaluating our current social security system, we cannot feel satisfactory since our system falls much short of the standards required, especially in comparison with those of many advanced countries. And, furthermore, some programs like family allowance are not yet introduced, and others which have been already introduced does not meet the needs of the public, since the benefits covered are insufficient.

So, It is necessary that we should put an emphasis of our welfare policy on the various measures to improve the quality of life of the public, suitable to our developed national economy, and that we should review the entire social security programs which were, in a sense, not introduced systematically, and streamline the overall system to make them more efficient and convenient for the public.

Secondly, for fulfillment of the government catch phrase, "Globalization", which comes to become a major pending question, the fundamental reform of social security system is urgently needed and important.

Our impending tasks for globalization are considered to be directly related to the questions about how to grow up national capacity for taking the leading role in an international society, as well as the questions about securing national competitiveness. To undertake the tasks successfully, it is really needed that we should switchover our current policy orientation and philosophy and reorganize them. Accordingly, the

globalization could be successful only through fundamental policy reform of domestic institutions in the various levels. Also, the globalization will be meaningful on the premise that the quality of life should be substantially secured for the public.

Today, running parallel with internationalization, which is being used, in Korea, as a little different concept with globalization, localization is also becoming recent trends in a major majority of counties in the world. The localization trends have also important implications for social welfare reform.

With entering an era of localization, local governments should give serious attention to the development of new models for social welfare services relevant to each jurisdictional area. Also, there are some prerequisites needed for the localization of welfare services. Namely, we need to establish substantial income security programs equitable throughout the country so as to facilitate nation building for solidarity through reasonable redistribution by the programs and then to achieve our national goals of social and economic development.

Reviewing the results of the last local election and the candidates' pledges, we could feel that the public have deep interests in such matters as environments, housing, day nursery of their children and aging problems, those of which have been already handled by public welfare programs in most of advanced countries. Consequently, it has been identified that the public are paying special attentions to welfare problems in general.

Thirdly, national welfare system should be substantial and adequate since it is one of the critical factors in preparation for unification of South and North Korea.

We could notice, through the experiences of Germany, that it is hard to obtain social solidarity at a time when two ideologically heterogeneous entities come together into one national body. So, to escape from possible disorders after national unification, needed is the public's consensus on social security policy as a national institution and ideology.

German government could manage to fix its social security system into east German area without any serious disorder, mainly because West Germany had successfully established substantial social security programs before its unification. So, in this respect, we have to secure national minimum for the whole population as soon as possible before our unification. And to minimize possible value frictions among people by the unification of heterogeneous societies, we should exert our efforts to make economic growth and social welfare mutually reinforced and to achieve social justice. And also, we should spread political values for welfare policy to every people in order to induce strong public supports.

**2. Evaluation of current welfare systems in Korea**

The level of social security in Korea is relatively low in taking the economic level into account. According to the report from the World Bank in 1994, the GNP of Korea in 1992 is 15th high among 159 countries, the GNP per capita 31th high, the rate of literacy 29th high, the level of education 26th high, average life expectancy 63th high, and infant mortality 43th high. Even though the educational level is higher in ranking than economic level, the welfare level is lower in ranking than both the economic and the literate level. In general, social security programs can be divided into five parts ;

- old age, disability, and survivor's pension ;
- health insurance(sickness, maternity) ;
- occupational accidents ;
- unemployment(employment) ;
- family allowance.

Even though we have introduced major social security schemes including pension insurance, health insurance, and occupational accidents insurance, the coverage and the level of benefits are relatively low compared with the advanced countries. And the schemes lack some other key programs such as sickness allowance, maternity allowance, and maternity expenses, those of which have been implemented in so many other countries. As the health insurance in Korea does not include the sickness allowance, Korea is regarded as the country that does not operate the health insurance scheme.

<Table> The number of the countries by type of social security program - selected year

Old age, Disability, Survivor	Sickness, Maternity	Occupational accidents	Unemployment (Employment)	Family allowance
158	105	159	63	81

Sources ; Social Security Programs Throughout the World-1995, U.S. Department of Health and Human Services, 1995

This classification ignore the peculiarities of welfare system in Korea. Most of the large industrial companies in Korea are paying wages equivalent to sickness allowances for a certain period of time to their employees who are temporarily out of work by sickness or injury. Although social security system of Korea is sorted into a category of countries that lack any programs related to family allowance and old-age

pension, in fact, many industrial companies are paying a certain amount of concerning allowances through their existing wage systems. But those workers who are employed in small industrial companies can't get such benefits, since not all of the employers are paying such benefits to their employees. In general, small & medium sized firms are suffering from weak financial stability, and as a result, they can afford to give their employees various and sufficient fringe benefits.

### **3. Ways and Means to reform : Korean Model of Social Welfare**

Without reviewing detailed and specific problems of each social programs, followed are some proposals to reform which examine our social programs as a system and present feasible alternatives

#### **(1) The necessity of long-term conception on social security system**

Korea has been doing well economic-wise during the past 30 years, but there still remains so much leakages in social equity and solidarity. With rapid industrialization and urbanization of our society, socio-cultural demands are drastically being increased. Today, Korean society is facing many social problems including environmental pollution, industrial disasters, housing problems, problems of the urban poor, criminals etc, and all of these problems are affecting social solidarity. And also, the public expectation and needs concerning social welfare are exploring. This phenomenon is resulted mainly from aging population and the change of family structures. Much of their welfare demands are non-monetary ones such as pursuit of a sense of stability, social solidarity, human love etc., even though economic benefits are still important. These movements have meaningful implications for us in making relaxant proposals for the reforms of our social security system.

Putting an emphasis on social security schemes, we should immediately reinforce our welfare policy so that we can move toward welfare country and welfare society as soon as possible. The social security system plays an important part as a safety net for the public who have serious difficulties in adapting themselves to market economy. And it is an very important social mechanism that could decrease redistributive distortion and opportunity inequity which could inevitably appear in market economy. So social security system must be continuously renovated and developed so that it could have an positive effect on the integration of our society.

#### **(2) The establishment of social security system with efficiency and systematization**

Reviewing our current social security system with the standpoints of organizational and administrative aspects, as already pointed out, our social security programs have

been administered by so many individual organizations without systematization and coherence among them. For example, health insurance programs have been operated by about 400 health insurers which have been established as independent legal bodies respectively in different population groups. As previously mentioned, there is not intimate connection mechanism among similar programs by which same social risks are protected, and also there are discrepancies in some aspects such as benefit covered among the same programs, since the same programs are separately operated by numerous independent organizations. Also in pension schemes, there is no adequate totaling mechanism of pension account needed when beneficiaries change their occupations.

Another inefficient aspect of management could be pointed out concerning the fact that similar records of the same insured person are managed, in our social security system, by several individual organizations which operate health insurance, pension insurance, industrial injuries compensation insurance and unemployment insurance program, respectively. Also the electronic data processing systems have been developed and operated only within each branch of social insurance programs, so there are no comparability among them, required for management efficiency. In addition, the supervision systems of each program are revealing incoherence and overlapping, since several government departments have responsibilities for supervision of social security programs. For example, as for pension insurance programs, pension program for government employees is under the supervision of Ministry of General Affairs, pension program for private school employees under the supervision of Ministry of Education, national pension program under Ministry of Health & Welfare, and military pension program under Ministry of National Defense, respectively.

Any attempt to design and implement a general development plan of social security system would result in failing, unless we resolve such a prevalent problems as incoherence among social programs and administrative overlapping. Many problems, currently coming up in our social security programs stem from the historical fact that we had introduced major social security programs from Japan without any empirical verification. Stickly speaking, social security programs of Korea is at the starting point. So we have to systematize and unite our scattered programs into single or limited number of programs as soon as possible to prevent further disorder in the future.

What can be the best alternative to settle current problems prevalent in social security system of Korea? First of all, the supervisory function of social programs should be converged to Ministry of Health & Welfare for better adjustment among programs. And all kinds of concerning organizations should be unified into one organization which could be tentatively called "Social Insurance Management Corporation". This process could arise some confusion in the first step. So the merger



process can be implemented step by step to minimize possible disorder. If the complete merger of all of the programs is impossible, another feasible alternative can be taken into consideration. Namely, we could unify the programs by categories of social risks, putting the same kind of programs together into one administrative organization, and as a result, establishing only four organizations for pension insurance, health insurance, industrial injuries compensation insurance and unemployment insurance, respectively.

It is desirable that all of the major social insurance programs should be operated by one organization with integration in the long run. But any abrupt change could inevitably give rise to confusion. So it can be the first step toward the merger of all organization concerning social insurance programs that we integrate the collection system of contributions for 4 major programs by issuing a integrated contribution bill to the insured who are covered by the programs. This improvement can be realized through the standardization of electronic processing system operated independently by each program.

Generally, social security programs in the developing countries are operated without systematic integration among the programs, especially when they are at introductory stages. But it can be easily found out in the cases of advanced countries that individual social programs are increasingly managed by integrated operation mechanism with expansion of their coverage.

Although the way of levying contribution of social insurance is very similar to taxation, some parts of wages which must be included in the standard of levying are omitted. Therefore, we can unify the basis of imposition as well as integrate collection institution and the tax administration agency execute as proxy or assessment organization of medical insurance whole sale act for in compensation for same commission. By this way, social insurance contribution imposition is converted current quasi-taxation into taxation and controlled by the government finance. We can levy contribution more correctly and efficiently and the risk pooling, income redistribution must be carried out deliberately.

### (3) Securing of national minimum

The social security system in Korea consists of major social security programs which we can find easily in the developed countries, although some cash benefits such as sickness allowance and family allowance are not yet available. As mentioned above, comprehensive health insurance program has been established since 1989. But, as for pension insurance program, there are several divided programs which were introduced at different time. Although special occupational groups like government employees and military personnel, have been covered by their own pension programs since 1960 and

1963 respectively, the national pension program introduced for general public in 1988, does not cover entire population. Excluded from the national pension program are those people who are employees of small workplaces, unemployed persons, the urban self-employed and housekeepers.

Industrial injuries compensation insurance was relatively early introduced compared with other social insurance systems, but there are so many industrial workplaces which are not covered by the system yet. So, it is necessary to enlarge the coverage of the national pension program, to broaden the coverage of industrial injuries compensation insurance, and to include sickness allowance in the health insurance programs as a health insurance benefit.

The most urgent matter is to enlarge the benefit coverage of health insurance programs. Reasonable recommendations for it are as follows ; reduction of the patient' cost sharing, enlargement of reimbursing system for those patients who are charged with excessive medical expenses, abolition of limitation of benefit duration, providing benefit covering for the high-technology medical equipment like CT(computer tomography), and MRI(magnetic Resonance Imaging), improving benefits for Korean medicine, pharmaceuticals and dental treatment, abolition of patient's cost sharing for child delivery, and providing benefit for prenatal examination for pregnant woman. But also it is expected that all of these improvement of health insurance benefits will entail much financial resources.

Up to date, our welfare policy has been based on the principle of " low financial burden and low level of benefit" , putting the low-income brackets out of adequate access to welfare protection. Now, it is high time that the principle were converted to the new principle of "affordable-burden and reasonable-benefit" .

#### (4) Strengthening of the government's responsibility

When it comes to the welfare financing of Korea, the ratio of social welfare expenditure to the general budget in Korea stands very low. The financial resources for social security programs depend mainly on the contributions by employers and employees. Comparing with other countries which are at the similar economic development, the government expenditure for social welfare is relatively low. For example, the expenditure rate for social welfare to the total government budget in Korea is lower than the rate in Argentina of which GNP per capita almost equals to the one of Korea. And the rate is much lower than the advanced countries like Germany and Sweden. Accordingly, the social security policy of Korea has been focused on those who can afford to the social insurance contribution, leaving the most vulnerable social stratum like the poor and the old-aged out of insurance coverage. In fact, the coverage problems have been gradually resolved in many respects, particularly

in the health insurance programs. Anyway, the government liability to the social programs should be strengthened through more financial burden.

As the social security scheme has ignored the low income level and the workers who work in agricultural and sea villages, the gap between the income levels has more exaggerated even if the number of the insured is increased by transforming the focus on social insurance. To solve this problem, the government should strengthen the financial support synthetically and continuously. Also, to solve the problems caused by urbanization, the government should put in operation the income redistribution policy positively. Above all, the government should change the reluctant attitude toward the social security scheme. So the government should regard the social policy as the national role not as a benevolent charity. The resources should be financed by the increase in revenue through bringing out the underground economy into the open, and imposing taxes upon the income from speculative investment and high income bracket.

Concerning the support from general revenue, the efficient allotment of the government subsidy is as much important as the growth of government subsidy.

The self-employed (such as physician and lawyer etc.) in Japan are in the special association separated from Regional Health Insurance and government do not subsidize to them. Also the Health Insurance funds covering the big company's employees are financed self-reliantly without any governmental subsidy. However, the workers in small and medium scale enterprises are directly managed and subsidized by government. As the more industrialization in Korea is progressed, the more relative importance of the tertiary industry is increased. It is expected that the number of self-employed in urban be increased. It is not appropriate that government subsidize to the self-employed with high income in urban area. Furthermore, through the financial adjustment project (a sort of risk adjustment mechanism), financial help from the work to the self-employed (including the self-employed with high income) is not reasonable too. It may be helpful to refer that the Health Insurance managed by Government in Japan that is applicable to the Occupational Medical Insurance in Korea is subsidized by government in consideration of its small scale. On the other hand in German, the high-income bracket is excluded from the compulsory health insurance.

The method of financing social security is closely related to administration system. After classifying the social group by income classes and the designated target class should be supported concentrated. The benefit should be focused on the low-income stratum. Also management scheme should be reformed. It is desirable to introduce the Assessment Standard on Total Income to balance the burden of all the employee's social insurance contribution.

And it is necessary to levy the social insurance contribution on the basis of the total income. The effects of the assessment standard on total income are as follows ;

first, as the total income, not the Standard Income by Month, is the standard of assessment, not only the basis of imposition is unified between the Occupational Medical Insurance and KMIC, but the basis of imposition within an association can be unified. Second, through the standardization of the assessment basis for the evaluating income, the reasonable basement of the financial adjustment project can be made. Third, as the revenue is increased, the benefit can be enlarged. The contribution rate in Korea is about 3% of the Standard Income by Month, and that in Taiwan, whose all the economic situation is much the same with Korea, is 4.25% in total income. But, as the rate of Taiwan is based on the total income, the benefit level is considered twice as much as in Korea. If the assessment standard on total income is accepted in Korea and the standard of assessment is unified, collecting the contributions on social insurance should be unified for the efficient management.

#### (5) Democratization of organization and management

Today, Social welfare benefit is considered to be a right of the public, so it should respond to the people's desire and needs. In this respect, the democratism in the delivery system of the social welfare services must be emphasized not only in order to aggregate the people's desire by the democratic principles, but also to reflect the people's needs in government policy of social welfare.

Under the present social welfare system, the democratic principles of the delivery system are particularly important in the branch of social insurance. The contribution of social insurance programs has a characteristic of quasi-taxation, but it remains out of the general account of government budget. It is clear that social insurance fund which was made by the insured's contribution must be used only for the devolvement of the people's welfare, coinciding with its original purpose.

In this respect, it is natural that the insured as contributors of the social insurance programs should participate in the operation of the finance and should have a monitoring power to check out the financial status. However, the insured's participation procedure is not sufficiently established in the operation of social insurance funds. So democratic participation mechanism is essential to guarantee the insured's participation to the decision and execution of welfare policy, as well as to put the operation of social insurance funds under the insured's observation.

Especially with entering an age of localization in every sector, the delivery system of social welfare services should be reorganized in accordance with the trends of decentralization and localization.

#### IV. Conclusions

Evaluating our current social security system in general, there are important evidences that our social security system have been continuously developed due to our economic development and our sustained efforts to introduce a variety of social programs. Thus, today, a vast number of people have been protected by major social programs which contain various measures against the social problems resulted from rapid industrialization. Also It could be recognized that our social security programs have been playing greatly valuable roles in stabilizing our society.

But we must agree that there remain many shortcomings in our social security system, as we take into consideration the facts that our social security programs dose not cover some kinds of necessary benefits, benefit is not sufficient, cost sharing is too burdensome for patients not to make access to necessary medical care, preventive-focused benefits are not provided sufficiently in comparison with curative-oriented benefits. And the delivery systems of social security benefits is inefficient since there are some overlapped fields in the systems.

Today, there is strong public consensus that we have to take actions for reform of social security system through economic development and investment in social development. So we need to work out a welfare model suitable to Korean case to carry out a fundamental reform in the social welfare fields for meeting the public needs. Our efforts for these reforms could serve as a preparatory work in achieving social development as a normative goal, as well as in getting our new goals that we should establish tight social solidarity and social consensus.

At present, we should make a Korean model of social welfare in order to meet the new social welfare needs of the public and to be ready for the unification of Korean peninsular. Having our future unification in mind, we should persue for a democratic and welfare-oriented nation which is a universal value beyond political ideology.

But, as suggested by several experts in the fields of social welfare, it should be reconsidered that we just follow western models of welfare nations as a model feasible and pertinent to our situation without serious deliberation. Government liability and responsibility is increasingly important. But if we could improve and use our current system of finance efficiently, we would be successful in establishing a dependable welfare system peculiar in Korea, achieving redistributive justice in our society. Taking all things recommended above into consideration, we could sum up the basic approaches to the reform as follows; systematization of social security system itself; establishment and implementation of adequate national minimum through strengthening government financial liability; and improvement of management efficiency.

## Notes

- 1) World Bank, *The World Bank Atlas 1994*, Washington, D.C, 1994.
- 2) Beveridge, William, 1969, *Social Insurance And Allied Services*, Agathon Press, Inc., New York p.35.