

# Social Security of Asia

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# Introduction

Asia draws more and more global attention with each passing year.

In terms of population, Asia has long maintained a significant presence in the world thanks to the existence of China. In 1950, Asia accounted for 55 percent of the total global population of approximately 2.5 billion people. In 2010, Asia accounted for 60% of a total global population consisting of approximately 6.9 billion people. Home to 1.36 billion people, China is ranked first in the world in terms of population, followed by India (second), Indonesia (fourth), Pakistan (sixth), Bangladesh (eighth), and Japan (tenth). Six of the ten most populous countries on earth are located in Asia. Young people comprise a significant segment of the population in these countries with the exception of Japan. However, it is expected that the population in China and these other countries will rapidly age in the years to come, such that the implementation of measures to counter this aging trend has become a societal issue.

In terms of the economy, Japan underwent a period of rapid economic growth in the 1960s, during which time the country raised its profile as an economic powerhouse and came to serve as a linchpin of the world economy as the world's second-largest economy after the United States in terms of GDP (gross domestic product). From the 1980s to the 1990s, economic development in South Korea, Singapore, Taiwan, and Thailand was spectacular. The arrival of the new century saw China pass Japan to become the world's second-largest economy in terms of GDP in 2009 thanks to an extended period of rapid economic growth. In recent years, India and Indonesia have also enjoyed ongoing economic growth. According to the Asian Development Bank, Asia accounted for 27 percent of the global economy (in terms of GDP) as of 2011. If China and India continue to steadily grow at more or less the same pace, the continent will account for 50 percent of the global economy in 2050.

From a political standpoint, many Asian countries managed to go from being the colonial holdings of Western countries to becoming independent one after another in the years after the end of the Second World War. Nevertheless, political chaos persisted through the Korean War, Vietnam War, and other wars, as well as the Cultural Revolution in China, coups d'état, and other incidents of political upheaval. These days, however, China has become a key pole in the global political order and the Association of Southeast Asian Nations (ASEAN) and other such organizations have evolved into formidable forces on the global stage.

As the political chaos comes to an end and the political situation stabilizes, the effectiveness of national economic policies and other factors causes the

economy to constitute the basis of development with the result that domestic political issues in terms of improving the lives of the people come to the fore. The needs of the people rise for the development of social security, such as in terms of welfare policies directed at children, the disabled, and the elderly; for policies for improving lives and ensuring the health of people by enhancing coverage of medical costs and medical services; and for establishing a pension system to provide security to retirees. In hopes of securing the support of the people, the government promotes the development of social security programs to accommodate these needs. Economic growth renders it possible for the people and companies to assume the burden of taxes and insurance premiums. While compared to Western European countries, Asian countries may be less developed in terms of the development of social security; meanwhile, particular initiatives and programs have been deployed in recent years—especially in East Asia—as explained in this book.

When we look back on the history of the development of social security programs in Asian countries, it is interesting to note that these programs have been developing in step with the years in which the summer Olympic Games have been held. In 1964, Tokyo, Japan, hosted Asia's first ever summer Olympic Games. The summer Olympic Games returned to Asia twenty-four years later in 1988 when they were hosted by Seoul, South Korea, and another eighteen years later in 2006 when they were hosted by Beijing, China. The interval of two decades at which these Games have been held in Asia reflects the time lag among these three countries in terms of the development of social and economic foundations and social security programs made possible by economic growth.

In this book, an outline of social security in Asia will be provided (Chapter 1) before scholars and researchers who are knowledgeable about social security on a country-by-country basis discuss the current state of politics, the economy, population matters, and other topics; the history of the development of social security programs; and the current state of and future issues concerning social welfare, healthcare security, and pension security in five different countries: China (Chapter 2), South Korea (Chapter 3), Taiwan (Chapter 4), Thailand (Chapter 5), and Japan (Chapter 6).

This book is notable for explaining in detail the history and current state of social security in Asian countries, particularly in East Asian countries. While there are many books that discuss social security in the West, there are few that examine social security in Asian countries. However, economic growth in recent years has given rise to remarkable progress in terms of the development of social security programs in Asian countries.

In Chapter 1, the features of the development of social security programs

in Asian countries are explored from such standpoints as population, economics, politics, and historical changes. The *theory of the recently emerged welfare state*, which has been discussed as a type of social security in East Asian countries, will also be covered. Chapter 2 explores the state of the development of social security programs in China, the most populous country in the world, in the context of a process that has seen this socialist country become transformed into the second largest economic powerhouse in the world through the adoption of a market economy. Chapter 3 depicts social security in South Korea, a country where universal healthcare insurance and pension schemes have been established and where social security programs are evolving in new ways thanks in part to the centralization of a healthcare insurance system and the creation of a nursing-care insurance system. Chapter 4 examines social security programs in Taiwan, where social security programs are being developed and where foreign laborers referred to as *foreign nursing workers* are fulfilling certain roles in the fields of nursing care and childcare. Chapter 5 looks at social security programs in Thailand, where the development of a healthcare security system has been promoted by combining social assistance techniques with social insurance. Chapter 6 focuses on social security programs in Japan, a country that managed to achieve economic growth most quickly among Asian countries and that has become an *aging, developed country* due to a declining birthrate and a growing segment of elderly people.

This book has been written to enable readers to gain an understanding of the social security programs in these five countries and examine the characteristics of each of these countries from the standpoint of international comparisons. For example, if we look at security in terms of healthcare, we see that social insurance-based universal healthcare for the people is offered in Japan, South Korea, and Taiwan. In contrast, Thailand approaches this issue through a tax-based social assistance framework known as the *thirty-baht healthcare program*. Declining birthrates and an aging population are concerns affecting not just Japan but also South Korea, Taiwan, and China such that policies on children and families and the response to the question of how the elderly will be taken care of are becoming issues that need to be urgently addressed. In connection with the question of how the elderly are to be taken care of, a nursing-care insurance system was set up in Japan (in 2000). A similar system was subsequently set up in South Korea (in 2008) and is now being studied in Taiwan. Understandable global attention is being drawn to what these three East Asian countries are doing with nursing-care insurance to deal with this matter.

As the authors of this book, we would be delighted if readers expanded their base of knowledge on social security in these five Asian countries,

considered the ways in which social security ought to be implemented in the future in countries across Asia, and used the contents of this book as reference material for promoting international exchanges with various Asian countries as a result of reading what we have written. Finally, we wish to express our sincerest gratitude to Horitsu Bunka Sha for giving us the opportunity to publish this book and to Hidenaka Konishi for taking the time to carefully edit our submission.

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# Chapter 1: Social Security of Asia

## Masanobu Masuda

### 1. Diverse Asia

According to the Kōjien dictionary, *Asia* is “one of the six (inhabited) continents of earth.<sup>1</sup> Occupying the northeast part of the eastern hemisphere, Asia combines with Europe to constitute Eurasia. Asia covers approximately 44 million square kilometers and accounts for approximately one-third of the total land mass of the globe. The continent is home to approximately 3,460 million people (1995), which is equal to more than half of the global population. Asia extends to Japan in the east, Siberia in the north, Indonesia in the south, and Turkey and Arabia in the west.”

In this way, Asia is a massive region accounting for about a third of the total land mass of the globe and approximately sixty percent of the global population (2013). The continent generally extends from 30 degrees east to 150 degrees east and from 50 degrees north to 10 degrees south and is home to forty-odd countries. The continent is exposed to an arctic climate, temperate climate, tropical climate, and arid climate. A geographically diverse place, Asia comprises continental land, islands, plains, mountainous zones, deserts, and more.

Likewise on a smaller scale, the natural environment in Asian countries differs in various ways in terms of area, climate, and geography. Significant differences can also be discerned in such terms as population size, political system, economic system, religion, and culture.

Geographically, Asia is generally divided into the following regions: East Asia (which includes China, Japan, and South Korea), Southeast Asia (which includes Indonesia, Malaysia, and Thailand), South Asia (which includes India and Pakistan), and West Asia (which includes Turkey and Saudi Arabia).

Table 1-1 presents figures corresponding to area, population, population density, gross national income<sup>2</sup>, per capita gross national income, average lifespan, aging rate<sup>3</sup>, and total fertility rate<sup>4</sup> for each of thirteen of twenty-two countries situated in East Asia, Southeast Asia, and South Asia for comparative purposes. These figures also underscore the diversity of Asian countries.

In terms of area, China is the fourth largest country in the world after Russia, Canada, and the United States. If we disregard India for a moment, then China’s size—at 9.6 million square kilometers—is unrivaled by any other Asian countries.

Table 1-1. Current state of Asian countries

	Area (x 10,000 km <sup>2</sup> )	Population (x 10,000 persons)	Population density (persons/km <sup>2</sup> )	Gross national income (GNI) (x 100 million USD)	Per capita GNI (USD)	Average lifespan (years)	Aging rate (%)	Total fertili- ty rate
Japan	37.8	12,639	334	57,395	44,900	82.6	24.8	1.4
China	959.7	138,557	210	66,432	4,940	73.5	9.4	1.6
India	328.7	125,214	381	17,662	1,420	65.5	5.7	2.6
South Korea	10.0	4,926	493	10,390	20,870	80.9	12.3	1.2
Taiwan	3.6	2,335	649	4,772	20,574	79.2	11.6	0.9
Thailand	51.3	6,701	131	3,083	4,440	74.1	9.8	1.6
Philippines	30.0	9,839	328	2,097	2,210	68.8	4.4	3.1
Indonesia	191.1	24,987	131	7,127	2,940	69.3	6.4	2.1
Vietnam	34.9	9,168	253	1,111	1,270	75.1	5.6	1.8
Malaysia	33.1	2,972	90	2,530	8,770	74.3	5.3	2.6
Singapore	0.07	541	7,577	2,226	42,930	81.9	8.1	1.2
Myanmar	67.7	5,326	93	553	1,144	65.2	5.2	2.0
Cambodia	18.1	1,514	84	117	820	63.0	3.9	2.5

Note: Economy-related figures are generally presented as of 2011. Population-related figures are generally presented as of 2013.

Source: Produced by the authors based on *Data Book of the World 2014* (Ninomiya Shoten 2014).

China and India rank first and second in terms of population, at 1,385.77 million people and 1,252.14 million people, respectively. These two countries together account for a bit more than a third of all the people on earth. Indonesia ranks fourth with 249.87 million people and Japan ranks tenth with 126.39 million people. With Pakistan ranking sixth and Bangladesh ranking eighth, Asia has six countries that come in the top ten most populous countries in the world. Indeed, Asia is an exceedingly populous region.

In looking to economics, there were many countries outside of Japan that were regarded as lesser-developed countries given their status as colonies of the Great Powers of the West from the nineteenth century to the Second World War in the middle of the twentieth century. From the middle of the twentieth century, however, Asian countries drew much attention with the emergence of rapidly developing economies.

After the Second World War, Japan experienced spectacular economic growth primarily during the 1960s. In 1968, Japan's gross national product (GNP) surpassed the GNP of Germany. Japan thus became the second largest

Western<sup>5</sup> economy in the world after the United States and came to be referred to as an economic powerhouse. From the 1980s to the 1990s, four countries and regions—South Korea, Taiwan, Hong Kong, and Singapore—underwent a remarkable process of economic development and came to be described in an OECD report as *newly industrializing economies* (NIES). These four countries were also known as the *Four Asian Tigers* and garnered the attention of the entire world. Among them, South Korea became the second Asian country after Japan to join the OECD. The country is now a leading developed country.

In the 2000s, China's economic growth has been breathtaking. In 2009, China overtook Japan in terms of gross domestic product (GDP) to claim the mantle as the second-largest economy in the world after the United States. The growth rate of India's economy is also large. China and India—together with Brazil, Russia, and South Africa—are referred to as BRICS, a collective label attached to these five major national economies. The economic growth rates in the countries of the Association of Southeast Asian Nations (ASEAN)<sup>6</sup>—led by Thailand and Indonesia—are also notable.

In looking at per capita income, however, we see that per capita income in China is presently about 5,000 dollars, a tenth of per capita income in Japan and half of the 10,000 dollars per capita income level that must be met for a country to be described as an economically developed country. Per capita income in India is even lower at approximately 1,400 dollars. The countries in the above list that are classified as economically developed countries for having per capita income exceed this 10,000 dollar level consist of Japan, Singapore, South Korea, and Taiwan. On the other hand, the country on this list that is classified by the United Nations as a least developed country for having per capita annual income fall short of 1,000 dollars is Cambodia (Table 1-1). Other unlisted Asian countries that come under this classification include Bangladesh and Nepal. In this way, the economic gap among Asian countries is huge.

## **2. Asian countries and social security programs**

A social security program is defined as a program that “guarantees that people can lead healthy lives with peace of mind by broadly providing benefits through public bodies to the people to cover situations that individuals find difficult to cover on their own through accountability and independent efforts (risks).”<sup>7</sup>

In breaking down the framework of a social security program, we see that such a program is one by which a local government or other such public body provides benefits in terms of services or cash to the people or residents according to an applicable legal system with funding derived from taxes or

social insurance premiums. Specific examples of such programs include the following: pensions; social insurance to cover medical treatments, unemployment, industrial accidents, and other such contingencies; public assistance to guarantee a minimum standard of living; and social welfare to support the lives of the elderly, physically handicapped persons, children, and other vulnerable persons.

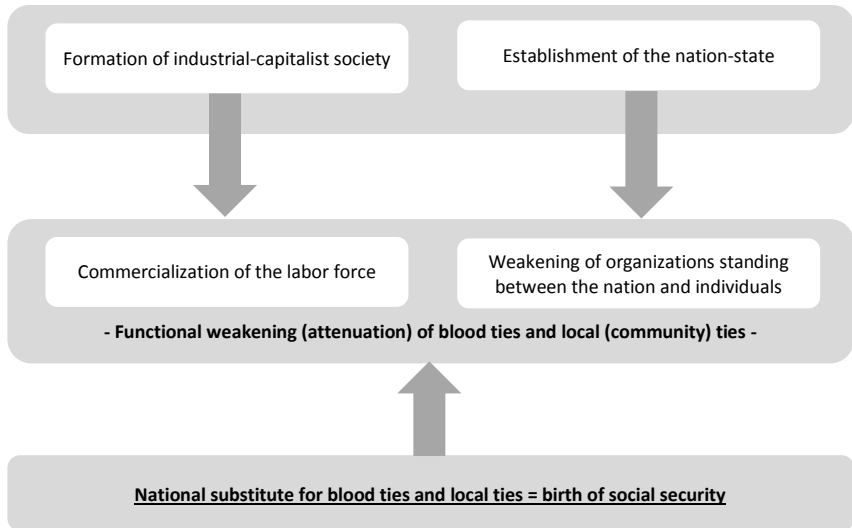
As explained in the 2012 edition of the *White Paper on Labor and the Economy* in Japan,<sup>8</sup> social security from an individual's point of view functions as a *social safety net* with a view to providing stability to people's lives and peace of mind whenever people fall ill, become unemployed, grow old, or otherwise are deprived of the conditions that allow them to live independently. From a society's point of view, the transferring of income between individuals and generations allows for the elimination of wealth disparities, enables *income redistribution* that serves to stabilize the lives of low-income people, and functions to *distribute risks* in a way that permits society as a whole to provide for situations that cannot be dealt with by individuals on their own through accountability and efforts. Social security also functions to *stabilize society and promote the stability and growth of the economy* by way of the promotion of social consolidation and the promotion of economic stabilization and job creation.

The provision of benefits by social security programs through public bodies refers to the development of legal systems concerning social security by the nation (government).

In examining world history, the development of social security programs in the form of public-assistance programs by nations began with measures to help low-income people through the enactment of the English Poor Laws between the seventeenth and nineteenth centuries. The development of social security programs in the form of social-insurance schemes began with social-insurance schemes set up under health insurance laws developed under the guidance of Otto von Bismarck in Germany in the second half of the nineteenth century.

In accordance with the 2012 edition of the *White Paper on Labor and the Economy*, we put together Figure 1-1 to provide an overview of the backdrop against which the development of social security programs was promoted in the Western European countries of Great Britain and Germany. The formation of an industrial-capitalist society that grew out of the Industrial Revolution in Great Britain in the second half of the eighteenth century and the transformation in families and local communities that sprung from this formation are closely tied to the development of social security programs at a national government level.

Figure 1-1. The relationship between the formation of modern society/industrial capitalism and social security



Source: 2012 edition of the *White Paper on Labor and the Economy*

In an industrial-capitalist society, people earned a livelihood by working for a company as a worker. At the same time, the function of mutual assistance based on blood ties among family members and relatives and local ties within a community weakened with the emergence of such a society. For this reason, there was an increase in demands to cope with risks posed to the lives of individuals, namely the risk of unemployment brought about by recession-caused corporate bankruptcies and layoffs, the risk of becoming incapacitated for work purposes due to an illness, and the risk to lifestyles suffered in old age emerging in line with increased longevity. In order to accommodate these needs, the *nation-state* (the idea of a sovereign state that is based on the unity of the nation and that came to the fore from around the nineteenth century) came to promote the development of social security programs funded by taxes and insurance premiums obtained from the people. If the development of social security programs was looked upon favorably by the people, then this would help to stabilize political power. The functions of social security as described above; the functions of social security in terms of providing a social safety net at an individual level; and the functions of social security in terms of reallocating income, redistributing risks, and promoting social integration and the stability and growth of the economy at a societal level were recognized as meaningful for both the state and for individuals.

When considered in this manner, the formation of an industrial-capitalist

society and the establishment of a nation-state are prerequisites for the development of social security programs. Moreover, economic development and improvements in the income level of the nation in an industrial-capitalist society enable the assumption of taxes and social insurance premiums required to support the provision of social security programs for the people.

In Asia, we see the formation of an industrial-capitalist society in the first half of the twentieth century after Japan embarked on a process of modernization that was sparked by the Meiji Restoration in the second half of the nineteenth century, at which time the shogunate ruling system that had prevailed during the Edo Period was abandoned in favor of a policy of industrial development. The form of a nation-state gradually came into being thanks to such developments as the enactment of the Meiji Constitution, the establishment of a national legislature, and democratic elections. With the exception of countries like Thailand that managed to hold onto their independence; however, other Asian countries would have to wait until the second half of the twentieth century to establish their own nation-states and form their own industrial-capitalist societies.

Until the first half of the twentieth century, many Asian countries had been subjugated by Western European countries. India, Malaysia, Myanmar, Singapore, and other places were colonies of Great Britain; Vietnam, Cambodia, and other places on the Indonesian peninsula were colonies of France; the Philippines were a colony of the United States; and South Korea and Taiwan were ruled by Japan. While China was nominally independent, many Great Power countries at the time were provided with leased territories.

After the Second World War, many countries managed to secure their independence from the suzerains that had been in control of colonial lands. Examples include such countries that managed to gain their independence from Great Britain as India, Pakistan, Malaysia, and Myanmar; such countries that managed to gain their independence from France as Vietnam, Cambodia, and Laos; the Philippines, a country that gained its independence from the United States; Indonesia, a country that gained its independence from Holland; and South Korea and Taiwan, countries that were no longer ruled by Japan. In addition, there have also been countries that newly emerged through civil war (People's Republic of China) and countries that came together after having been divided into north and south (Vietnam emerged when North Vietnam took over South Vietnam). After Japan became a defeated nation in the Second World War, it remained under the control of the General Headquarters of the Allied Forces (GHQ) from September 1945 to April 1952. On April 28, 1952, sovereignty was restored to Japan.

There were no countries that managed to be politically stable and embark on a path of steady economic development subsequent to achieving independence. On the Korean peninsula, the Korean War raged from 1951 to

1954. In China, a civil war was fought between the forces loyal to the Communist Party and the Chinese Nationalist Party (Kuomintang) in the aftermath of the Second World War. The People's Republic of China was born under the leadership of the Communist Party in 1949, at which time the government of the Kuomintang fled to Taiwan. Political and social disarray swept across China during the Cultural Revolution during the 1960s. In India, the country may have secured its independence from Great Britain but religious differences caused Pakistan to break away (1956), an action that was emulated by Bangladesh in the 1970s (1972). Despite gaining independence from France in the 1950s, Vietnam was divided into North and South Vietnam. The Vietnam War, fueled by American intervention, continued until the 1970s. Civil war was also the order of the day in Cambodia and Laos.

In countries where such political instability was ongoing, social security programs were simply not developed until stable political rule could be instituted and the country as a whole could reach a certain economic level through economic growth and other positive changes.

### **3. Economic development and the development of social security programs**

In order to promote the development of social security programs, the integrity of the nation-state and the stability of the government are essential elements. At the same time, expansion of GDP and other measures of the economy—in other words, economic development—is necessary. The growth of a country's economy enables the tax resources to be allocated to creating and operating public-assistance programs and other social-welfare programs to be secured and the insurance premiums required to set up and operate social-insurance schemes to be assumed by business operators and insured persons. If the development of social security programs can help stabilize people's lives, this will in turn constitute the basis for further economic development.

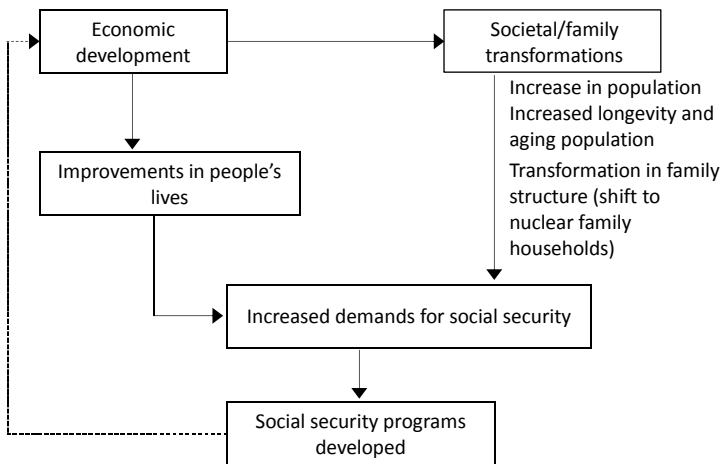
A rising level of people's living standards attributed to economic development will cause an increase in people's demands for income security and healthcare security. In political circles, political pressure towards developing domestic social security programs that reflect the state of social security programs in advanced countries will rise. The government will then engage in initiatives with a view to building a welfare state designed to stabilize employment and enrich social security (Figure 1-2).

This correlation between economic growth and the development of social security programs clearly exists if we trace the history of the development of social security programs in Japan and South Korea.

Among Asian countries, Japan was the first to satisfy the economic conditions for developing social security programs subsequent to the Second

World War. The White Paper on the Economy issued in 1956 famously declared the end of the post-war era. As if to prove this statement correct, the gross domestic product in 1955 surpassed the peak value of this economic measure as recorded during the pre-World War II era. Subsequently, Japan began to ride the wave of rapid economic growth. In 1961, a system of universal healthcare insurance and universal pensions was introduced. In 1965, social welfare laws were developed under a framework known as the Six Welfare Laws.<sup>9</sup> 1973 came to be referred to as the First Year of Welfare in Japan thanks to the implementation of such measures as those designed to provide healthcare to elderly patients for free and those that enabled pension levels to rise.

Figure 1-2. Process of developing social security programs



Produced by the authors.

In South Korea, the domestic economic infrastructure was essentially destroyed in the Korean War that raged for three continuous years beginning in 1950. However, national economic policies put forth under the rule of Park Chung-hee, which began in 1961, sparked economic growth known as the Miracle on the Han River. In this connection, a public-pension scheme was introduced in the 1960s and a public healthcare-insurance scheme was adopted in the 1970s. Amid ongoing economic growth, a system of universal healthcare insurance and universal pensions was established in the 1990s.

Similar developments took place in Thailand. Beginning in the 1950s, social insurance came to be provided to civil servants, military personnel, employees at state-owned enterprises, and other public-sector workers. Economic growth really started to noticeably pick up in the 1990s. In March



1991, a social-insurance scheme mandating membership by public-sector workers was launched with the provision of insurance benefits for illnesses, childbirth, disabilities, and death. This program was later expanded to provide allowances for the elderly and children as well as coverage for unemployment. Funding for social insurance was provided not just by contributions of premiums by labor and management but also notably by the government itself. In the 2000s, the Thaksin administration set up the *thirty-baht healthcare program*, which was designed to allow farmers, low-income persons, and anyone else who had not previously been covered by social insurance and other public social security programs to obtain healthcare simply by paying thirty baht. Whereas Japan, South Korea, and Taiwan had set up healthcare-security systems based on healthcare insurance, Thailand was notable for having developed a healthcare-security system according to a social-assistance model. This too was made possible by the expansion of national finances attributed to economic development in Thailand that began in the 1990s.

Since China emerged as a socialist nation after the Second World War, it took a different path from those taken by Japan and South Korea. State-owned enterprises were set up in cities and people's communes were set up in agricultural communities as entities offering subsistence guarantees and healthcare security for workers and income security for retirees. This was a system of social security that was fully financed by state-owned enterprises and people's communes. However, the rate of economic growth was low due to the poor productivity of state-owned enterprises and people's communes and other factors, which in turn caused the standard of living to remain low. In the first half of the 1990s, China transitioned to a socialist market economy under the direction of Deng Xiaoping and began to undergo a rapid process of economic development. However, the gap between urban areas and agricultural communities grew while such problems as the worsening of the financial administration of state-owned enterprises emerged at this time. In this connection, the nation came to develop new social security programs out of necessity. The expansion of state finances made possible by the rapid economic growth of the 2000s was a possible condition for facilitating the development of a foundation for social security programs.

When we examine the history of the development of social security programs in Japan, South Korea, and China, it is a highly interesting point to note that this history appears to have unfolded in step with the hosting of the summer Olympic Games by each of these three countries.

Tokyo, Japan, hosted the (eighteenth) summer Olympic Games in 1964, the first time the summer games were held in Asia. Seoul, South Korea, hosted the (twenty-fourth) summer Olympic Games in 1988. Beijing, China, hosted the (twenty-ninth) summer Olympic Games in 2008. All three of these countries—Japan, South Korea, and China—are able to say that they hosted the summer

Olympic Games while they were undergoing a process of economic growth. That they can say that they were able to host the summer Olympic Games can also mean that they were internationally recognized for having increased their national strength and successfully laid down a socioeconomic foundation for hosting the Olympics. Just as Beijing, China, hosted the Games twenty years after Seoul, South Korea, did the same and just as Seoul, Korea hosted the Games twenty-four years after Tokyo, Japan, did the same, there is a clear time lag that can be traced in line with the development of the socioeconomic foundation in each of these countries as made possible by economic growth.

The pace of the development of social security programs is also tied to the expansion of national finances and the development of social infrastructure through economic growth. For example, universal healthcare insurance and pension schemes were introduced at the beginning of the 1960s in Japan during a period of rapid economic growth, a topic that we will cover in greater detail in Chapter 6. The so-called Six Welfare Laws were also fully implemented in the middle of the same decade. Around this time, the summer Olympic Games were held in Tokyo. In the case of South Korea, a public health insurance scheme was adopted around the time the summer Olympic Games were held in Seoul, which later evolved into a system of universal healthcare insurance and pension plans in the 1990s. This topic will be covered in greater detail in Chapter 3. In the case of China, the development of social security programs by the government was accelerated in the 2000s. We will elaborate on this topic in Chapter 2.

#### **4. Asian welfare state theory**

While the welfare state can be defined in numerous ways, the Kōjien dictionary defines this term as follows: “a state system that aims to secure a minimum standard of living for everyone and expand physical welfare through full employment and social security policies.”

According to Hideyuki Takechi, the welfare state is a “state that directs a majority of government spending towards income security and social services (healthcare security, nursing care, services for disabled persons, housing, education, and more) and redistributes income to the people through social spending and taxes with the aim of guaranteeing a right to life and promoting full employment for the people.”<sup>10</sup>

That full employment and the enhancement of social security appear as two pillars in the definition of the welfare state is due to the influence of the methodology—known as the Keynes-Beveridge system—that underpinned Britain’s post-Second World War welfare state. The Keynes-Beveridge system is a blending of Keynesianism with Beveridge’s theory on social security. British economist Keynes argued that effective demand can be created through

government fiscal and monetary policies to induce production by companies and thereby increase employment and promote economic growth. Beveridge submitted the Beveridge Report, a document that proposed the establishment of a national insurance scheme and other measures to reach and maintain a national minimum and that set forth guidelines for the development of social security programs in Britain after the Second World War. The concepts behind the Keynes-Beveridge system influenced the establishment of welfare states in numerous other countries in the post-war era.

The paths taken by different Western countries in establishing a welfare state and the specific contents of each differ according to the historical background of each country, socioeconomic differences, cultural factors, and other variables. Esping-Andersen's seminal work in the area of research on models of welfare states is *Welfare Regimes—Three Worlds of Welfare Capitalism*. In thinking about social security, Esping-Andersen looked not only at social security as provided by the state (government) but also at the market and families as welfare producers and suppliers. He referred to their roles as well as the interrelationships among the state, the market, and families as elements shaping *welfare regimes* and undertook a comparative study of welfare regimes in different countries.

Welfare regimes are categorized into the following three types of welfare regimes<sup>11</sup> by making measurements in terms of 1) the extent to which individuals and families can maintain a certain socially accepted standard of living irrespective of their participation in the market (labor) (measure of participation support or measure of de-commodification), 2) the extent to which there are differences in benefits and services received according to occupation or social class (measure of equalization or measure of stratification), and 3) the extent to which the amount of the burden for welfare to be assumed by families is reduced (the extent to which family support has been enhanced) (measure of family support or measure of de-familiarization).

Welfare regimes are specifically categorized into the following three types:

- 1) Liberal welfare regime (United States, Canada, and other Anglo-Saxon countries);
- 2) Social-democratic welfare regime (Sweden, Denmark, and other Northern European countries);
- 3) Conservative welfare regime (Germany, France, and other Continental European countries).

In countries with a liberal welfare regime, equality of opportunity and individual responsibility are emphasized and importance is attached to the role of the market. Social security tends to entail the provision of minimally required benefits to poor people and other limited persons on a minimally required basis, as a result of which the provision of social security and the burden for providing social security correspond to low levels. Thus, social

security consists of *low benefits for a low burden*. The measure of participation support, the measure of equalization, and the measure of family support are all low.

In countries with a social-democratic welfare regime, universalism has been adopted as the basic philosophy underpinning their social security programs. Everyone possesses the same rights irrespective of income level and is entitled to receive the same benefits. Families and the market are tasked with a small role while the state assumes a large role in fulfilling welfare needs. Thus, social security consists of *high benefits for a high burden*. The measure of participation support, the measure of equalization, and the measure of family support are all high.

Countries with a conservative welfare regime are oriented towards the shared assumption of risks (solidarity) and familism. Welfare policies are rooted in blood ties, occupational organizations, the Catholic Church, and other such bonding elements. The role of the state is less than that of the state in countries with a social-democratic welfare regime while the role of families and jobs is significant. This type of welfare regime is also known as the corporatist welfare regime. While the measure for participation support is high, the measure for equalization is low since social-insurance schemes are developed on a job-by-job basis and since differences according to occupational status are maintained. Social security programs are put in place to provide for those times when family members are unable to fulfill their responsibility to care for dependents, such that the measure for family support is also low. This type of welfare regime stands in the middle of the three types of welfare regimes in terms of the scale to which social security benefits are provided and the scale to which a burden for providing social welfare is assumed.

In comparing these three types of welfare regimes, the following points can be made<sup>12</sup>:

- In looking at the scale of income redistribution, we see that countries with a liberal welfare regime are small scale (small government), countries with a social-democratic welfare regime are large scale (large government), and countries with a conservative welfare regime are medium to large scale;
- In looking at the recipients of social security benefits (payments), we see that benefits are largely given to needy persons in countries with a liberal welfare regime. In countries with a social-democratic welfare regime, benefits for both generations still working and elderly generations have been enhanced. In countries with a conservative welfare regime, benefits are largely given to the elderly as a way to supplement retirement income.
- In looking at differences in the attributes of social security benefits, we see that countries with a liberal welfare regime are characterized by *selectism*, whereby benefits are specifically targeted to needy persons and other

limited groups of recipients. Countries with a social-democratic welfare regime are characterized by *universalism*, whereby benefits are provided equally to everyone. In countries with a conservative welfare regime, social insurance may be universal but public assistance and other social welfare benefits are subject to *selectism*.

Under what category of welfare regime does Japan belong?

In the context of Esping-Andersen's theory of three welfare regimes, the form of Japan's welfare state has come under criticism for exhibiting "bad posture."<sup>13</sup> Until around the 1980s, social security benefit expenses in Japan accounted for a significantly smaller portion of national income than in Western European countries and social security spending also constituted a smaller percentage of the budgets of the national government. Back then, it was generally understood that families and companies were taking on much of the social security functions normally carried out by the state in the area of social security for the purpose of stabilizing the lives of the people even as full employment had been achieved. It was as if the tone of this liberal welfare regime had taken on a deep color. At the same time, however, universal national healthcare insurance and pension schemes were established in the 1960s while broad-ranging welfare policies were being deployed under the Six Welfare Laws in the area of social welfare and social security programs that could cause the country to be categorized as a conservative welfare regime were being developed.

In the foreword to the Japanese-language edition of *The Three Worlds of Welfare Capitalism*, Esping-Andersen wrote that the Japanese welfare system, despite conforming to a hybrid form combining the key elements of liberal welfare regimes and conservative welfare regimes in equal measure, was still evolving. He chose to withhold his final conclusion on this topic.

Esping-Andersen's assessment of Japan was based on the state of social security programs in Japan up to the middle of the 1990s. However, Japan's social security programs underwent changes from the second half of the 1990s to the 2000s. On the whole, spending on social security benefits rose dramatically in a short period of time from 64 trillion yen (17.5 percent of national income) in fiscal year 1995 to 103 trillion yen (29.6 percent of national income) in fiscal year 2010. In 2000, a nursing-care insurance scheme was launched to create a universal elderly care security system for elderly persons aged sixty-five years and older. Through the establishment of a children's allowance program, the scope of children covered by this allowance and the level of benefits paid out to recipients expanded significantly in comparison to the 1990s. In response to the prolonged economic slump at the time, the employment-insurance scheme was reviewed and labor-support measures were enhanced.

In light of these points, Esping-Andersen's assessment of Japan would

likely differ today. According to the authors of this book, Japan may formally constitute a country with a conservative welfare regime but it has been selecting universalistic policies since it first began to construct a welfare state, as can be seen in the establishment of a universal national healthcare insurance and pension system in the 1960s. As explained in the 2011 edition of the *White Paper on Labor and the Economy*, Japan ranks fourth in the world with respect to universal healthcare insurance and twelfth in the world with respect to universal pensions. Even compared to Western European countries, Japan was very early to the game in terms of building a system for the provision of healthcare cost security for everyone and income security for all elderly persons.

The use of different means—namely, the universal national healthcare insurance and pension system—of achieving universality from those used in the United Kingdom and other Northern European countries can be described as a feature unique to Japan. If social insurance is established with a focus on jobs as is the case in Germany, then it would be difficult to provide social insurance coverage to self-employed or unemployed persons. In fact, self-employed and unemployed persons are dealt with through voluntary enrolment in Germany's healthcare-insurance scheme. Healthcare security in the United Kingdom and Northern Europe, where universalistic social security programs have been set up, is based not on social insurance but on a framework that is essentially funded by taxes, as is the case with the National Health Service (NHS). Under this framework, even people who are not employed and people who are incapable of assuming insurance premiums can be provided with healthcare security. In contrast, a national health insurance scheme that provides coverage to self-employed persons; people working in the agricultural, forestry, and fishery industries; unemployed persons; and other persons not constituting salaried workers was established in Japan. By mandating enrolment in this program, a system was adopted whereby this program could provide healthcare security to everyone in conjunction with insurance for employed persons. Administrative organs consisting of municipal governments were called upon to take on the role of insurers for this national health insurance scheme. Compared to the healthcare insurance schemes in other advanced countries, the national health insurance scheme in Japan is highly unique in that it provides coverage even to unemployed persons and in that administrative organs consisting of municipal governments serve as the insurers for this program.

With respect to the pension system, the establishment of a national pension scheme covering self-employed persons; people working in the agricultural, forestry, and fishery industries; unemployed persons; and other persons not constituting salaried workers allowed income security for the elderly to be provided on a universal basis. The pension system in Japan is also unique in

that it provides coverage even to unemployed persons. Revisions to the pension system in 1985 extended coverage to the spouses of covered persons (i.e., primarily targeting homemakers) and students in an effort to more thoroughly ensure the universality of the national pension system.

In this way, universal national healthcare insurance and pension schemes are the chief feature of Japan's social security programs. Even now, it is regarded as a system that should be protected by Japanese society.<sup>14</sup>

At the same time, pressure is frequently applied by some in government and financial circles to undertake a reconsideration of social security programs that are based on concepts tied to a liberal welfare regime. An example of this is the reformation of social security programs undertaken by the Second Ad Hoc Commission on Administrative Reform in the 1980s. During the Koizumi administration in the 2000s, discussions were held from time to time on reducing the scope of social security functions with a view to making social security spending more efficient and containing such spending at the same time in accordance with the expanded scope of social security. However, there was a strong desire on the part of the people to see overall enhancements of social security carried out and systemic enhancements carried out in the areas of pensions, healthcare, and nursing care in particular in the face of a dwindling birthrate, aging population, shrinking families, and other changes in household structures. Consequently, policies to further universalize coverage and maintain and enhance benefit levels were adopted. In the mid-1990s, a nursing-care insurance scheme—a system for the provision of nursing-care security to elderly persons—was established. Accordingly, the form of Japan's welfare state today is arguably better described as a hybrid form combining a conservative welfare regime with a social-democratic welfare regime than as a hybrid form combining a liberal welfare regime with a conservative welfare regime.

On the other hand, while Esping-Andersen's theory on the welfare state was applicable to advanced countries in the West, discussions on the typification of welfare states encompassing Japan and other East Asian countries have been raging in recent years thanks to the rapid development of social security programs in South Korea, Taiwan, and other East-Asian countries. These discussions are focused on the question of whether an East Asian model will emerge. For example, some assert that such a model will emphasize the impact of Asian Confucianism while others endorse a production-based model under which welfare policies will be made subordinate to the prioritization of economic policies.

Against this backdrop, there are those who suggest that we should study this topic by incorporating a time base into the comparative theory of welfare states. An approach that regards characteristics of the establishment of social security programs in South Korea and Taiwan as elements of a *developing*

*welfare state* has emerged. Some argue that Japan should also be regarded as a *developing welfare state* when comparing it to Western countries. In this connection, Japan is viewed as a country that tops the list of developing welfare states.<sup>15</sup>

However, given the significant time differences that would affect any attempt at making comparisons between South Korea or Taiwan and the welfare states of Western countries, it is impossible to include Japan in a list of *developing welfare states* that would cause the country to be regarded as being on the same level as South Korea and Taiwan even if we could treat Japan as coming within the scope of the definition of a *developing welfare state*.

Table 1-2 provides an overview of the history of the welfare state in Western countries as well as in Japan and South Korea. The timing of the development of social security programs in Japan does not differ too much from the timing at which Western European countries first began to transform into welfare states after the end of the Second World War. As the backbone of Japan's social security programs, the universal national healthcare insurance and pension system was established in 1961, sixteen years after the Second World War came to an end. This is much earlier than the establishment of such a system in South Korea (1990) or Taiwan (1995). As noted above, universal healthcare insurance and universal pension schemes were introduced early by global standards and social security programs were administered equally to everyone during the early stages of economic growth.

Furthermore, we cannot overlook the fact that Japan has been developing social insurance since before the Second World War, as can be seen in the enactment of the Health Insurance Act in 1922, the enactment of the National Health Insurance Act in 1938, and the enactment of the Workers' Pension Insurance Act in 1941. Since there were periods of discontinuity before and after the Second World War—namely during the period of war between the Sino-Japanese War and the Pacific War, the time of the country's loss in World War Two, and the approximately seven-year-long period of occupation by GHQ—the overwhelming impression is that Japan's social security programs were developed after the Second World War. However, social security programs were in fact being developed from the Meiji Period through to the Taishō Period and the early years of the Shōwa Period in the twentieth century. The national health insurance scheme today has been organized with municipal governments taking on the role of insurers. While this aspect has been pointed out as a feature of Japan's social security programs that sets this program apart from the healthcare insurance schemes that have been set up in Western countries, it should be noted that municipalities were made to serve as insurers for the national health insurance scheme that was established in the 1930s. This arrangement was reflected in the form of the national health insurance scheme that was set up after the Second World War.



Table 1-2. History of welfare states after the Second World War

Decade	Trends in Western countries	Trends in Japan	Trends in South Korea
1940s	<p>39: WWII</p> <p>42: Beveridge Report (UK)</p> <p>45: End of WWII</p> <p>45: Laroque Plan (France)</p> <p>46: National Insurance Act (UK) National Health Service Act (UK)</p> <p>46: National pension, child allowance (Sweden)</p>	<p>38: National Health Insurance Act</p> <p>41: Workers' Pension Insurance Act</p> <p>41: Pacific War</p> <p>44: Employees' Pension Insurance Act</p> <p>45: End of WWII</p> <p>46: Constitution of Japan promulgated</p> <p>50: Framework of three welfare laws</p> <p>50: Report of the Council on Social Security Programs</p> <p>52: San Francisco Peace Treaty comes into effect (end of GHQ occupation)</p>	<p>45: End of WWII</p> <p>48: Republic of Korea established</p> <p>51-53: Korean War</p> <p>60: Student revolution (president Syngman Rhee resigns)</p> <p>61: Military coup</p> <p>63: Park Chung-hee elected president</p>
	Formation of welfare state	Emergency support and development of infrastructure	
	Evolution and expansion	Formation, evolution, and expansion of the welfare state	
	<p>61: Kennedy administration (US)</p> <p>63: Johnson administration (US) Medicare and Medicaid established</p> <p>73: Oil crisis</p> <p>79: Thatcher administration (UK)</p> <p>80: OECD: Welfare State Crisis</p> <p>81: Reagan administration (US)</p>	<p>61: Universal national insurance and pension schemes implemented</p> <p>64: Framework of six welfare laws</p> <p>64: Tokyo Olympics held</p> <p>72: Sapporo Olympics held</p> <p>73: First Year of Welfare</p> <p>73: Oil crisis</p>	<p>60: Student revolution (president Syngman Rhee resigns)</p> <p>61: Military coup</p> <p>63: Park Chung-hee elected president</p> <p>77: Workplace health insurance</p> <p>80: Gwangju Democratization Movement</p>
	Period of reconsideration	Period of reconsideration	Development of infrastructure
	New reforms	New reforms	Formation, evolution, and expansion of the welfare state
	<p>92: Clinton administration (US)</p> <p>97: Blair administration (UK): Third Way</p> <p>02: Merkel administration (Germany)</p>	<p>82: Nakasone cabinet</p> <p>82: Health and Medical Services for the Elderly Act</p> <p>87: Japan National Railways privatized (JR established)</p> <p>89: Consumption tax introduced</p> <p>97: Nursing Care Insurance Act</p> <p>98: Nagano Olympics held</p> <p>00: Nursing Care Insurance Act comes into effect</p> <p>09: Children's allowance implemented</p> <p>12: Comprehensive Support for Persons With Disabilities Act</p>	<p>86: National Pension Act</p> <p>88: Seoul Olympics</p> <p>89: Universal national insurance scheme</p> <p>99: Universal national pension scheme</p> <p>00: Consolidation of health insurance schemes (national health insurance)</p> <p>08: Long-Term Medical Treatment Insurance for Elderly Persons Act</p>

Produced by the authors.

In terms of the contents of social security programs, many programs in Japan were formulated based on programs instituted in Western European countries. For example, Japan's pension scheme and healthcare insurance scheme are similar to those established in Germany and France in that they were established to provide coverage according to occupation. In contrast, healthcare insurance schemes in South Korea and Taiwan are operated with a single insurer nationwide or by the state. The schemes adopted in Japan bear a greater resemblance to schemes adopted in Western European countries.

While the formation of the welfare state in Japan is such that Japan may be described as a latecomer in comparison to Western Europe, Japan is a forerunner when compared to South Korea or Taiwan. In fact, social security programs in South Korea and Taiwan are being designed with reference made to Japanese programs. For example, South Korea has set up a long-term medical treatment insurance scheme for the elderly that is based on the Japanese nursing-care insurance scheme and other such programs while Taiwan is studying the implementation of a nursing-care insurance scheme based on the nursing care insurance schemes and other such programs being operated in Japan and South Korea. Thus, we wish to object to the characterization of Japan as a *developing welfare state* akin to that of South Korea and Taiwan.

In any case, verification work will continue to be needed to determine whether the Japanese welfare state conforms to a hybrid form that combines a conservative welfare regime with a social-democratic welfare regime, whether the Japanese welfare state conforms to a form of a welfare state that is unique to East Asia and that is shared in common with the likes of South Korea and Taiwan, or whether the Japanese welfare state can be defined as a developing welfare state.

## **5. Aging populations and the future of social security in Asia**

With respect to social security programs in Asian countries, the process of basic development has been completed in Japan, South Korea, and Taiwan, such as in terms of the attainment of universal national healthcare insurance and pension schemes and the establishment of public-assistance programs and social-welfare programs. In other countries, one can presently find either a world that is progressive in terms of ongoing development efforts or a world that is futuristic in terms of development efforts that are expected to be undertaken henceforth. With the twenty-first century being proclaimed an Asian century, economic growth is expected to continue with China and India leading the way forward. On the other hand, it is very likely that political instability—of the sort we saw in the army-led coup-d'état in Thailand in May 2014—will occasionally rear its ugly head. Uncertainties arise if we

acknowledge that economic growth and the parallel development of social security programs depend on the political and social conditions in each country.

Against this backdrop, what can be predicted with a certain degree of probability as to outcome is the progression of population aging in Asian countries.

Figure 1-3 depicts the state of the progression of population aging in Asian countries.

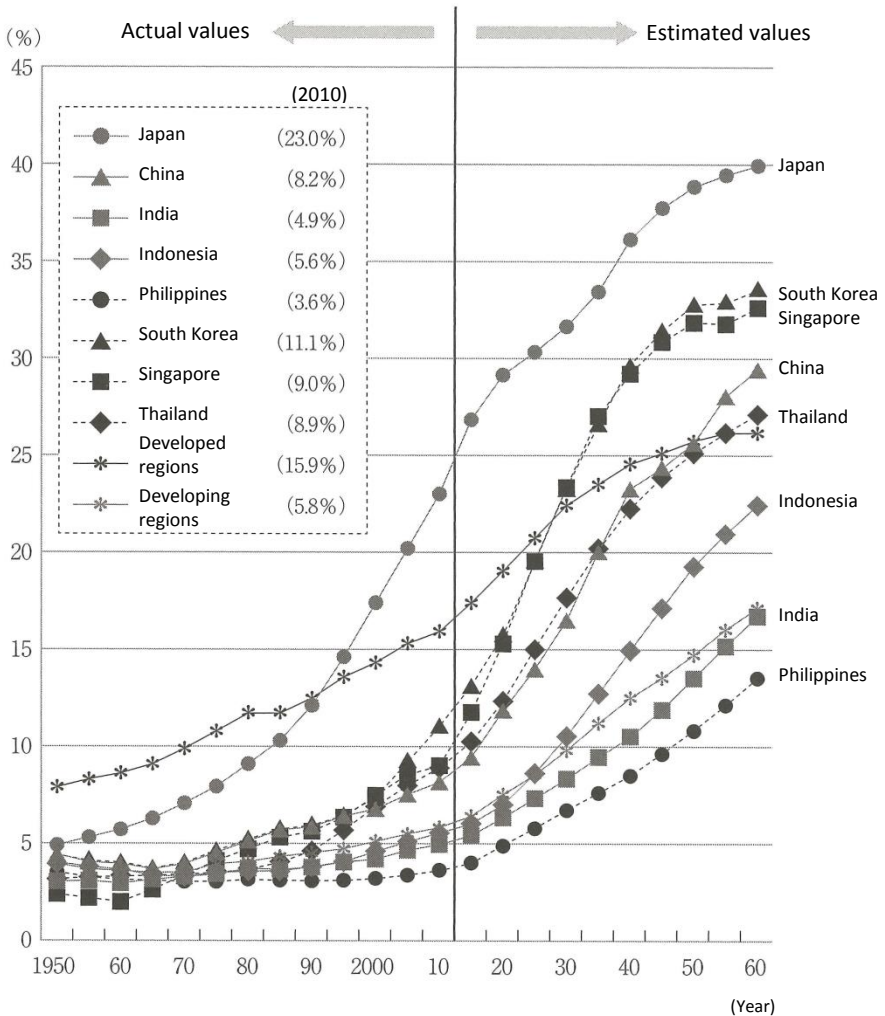
The current rate of aging in Asian countries, excluding Japan, is lower than the world average. Other than Japan, no country exceeds a 14 percent rate of aging. However, as people live longer and bear fewer children, it is projected that aging will rapidly occur in the future.

The progression of population aging will be a factor promoting the development of pension schemes to provide income security to the elderly, the development of healthcare insurance schemes or healthcare programs that provide healthcare security, and the development of nursing-care security and other forms of welfare schemes for the elderly as the proportion of the population consisting of elderly persons increases. It is projected that the shrinking of the working-age population, labor-force population, and total population occurring at the same time that the population of elderly persons is increasing will have a huge impact on the economic conditions of the country in which such demographic changes are occurring.

As we can see in Table 1-1, the progression of population aging in Japan relative to all other Asian countries is quite notable. Not only is a 25 percent aging rate the highest level by far in Asia, but it is also one of the highest in the world. If we trace the progression of aging and the history of the development of social security programs in Japan, we see that 1970, which was the year in which Japan became an aging society as the rate of aging surpassed 7 percent, coincided with the continuation of rapid economic growth and the development of one social security program after another. In 1970, the Child Allowance Act was enacted. Known as the First Year of Welfare, fiscal year 1972 saw the launch of a scheme to provide gratuitous medical care to elderly persons and the implementation of such measures as those that broadly increased pension levels. In 1994, which was the year in which Japan became an aged society as the rate of aging surpassed 14 percent, studies on creating a nursing-care insurance scheme were commenced. The Nursing Care Insurance Act was enacted in 1997.

Among Asian countries, the countries in which the rate of aging is high after Japan consist of South Korea (12.3 percent) and Taiwan (11.6 percent), as indicated in Table 1-1. However, in neither case is the 14 percent level that is regarded as the benchmark level for an aged society reached. Compared to Western European countries, Asian countries, with the exception of Japan, comprise many countries in which the population makeup is young.

Figure 1-3. Population aging in Asian countries



Source: 2013 version of the White Paper on Aged Societies

As indicated in Figure 1-3, however, population aging will proceed rapidly in many Asian countries as the average lifespan rises and fertility rate goes down. The period between the time the aging rate hits 7 percent and the time it hits 14 percent is known as the *doubling time* and is used as a measure for indicating the speed at which the population ages. When we examine Western European countries where aging happened earlier, the doubling time was 115 years for France, 70 years for Great Britain, and 50 years for Germany. Aging

occurred over an extended period of time. On the other hand, the aging rate in Japan doubled in a mere 24 years from 1970 to 1994. The aging rate in South Korea surpassed 7 percent in 2000, thirty years after this threshold was passed by Japan. The country is expected to surpass 14 percent in 2017. At just 17 years, the doubling time in South Korea will be even less than it was for Japan. This figure is expected to be about the same for Taiwan and China as it was for Japan, such that the pace of aging in Taiwan and China is also very high.

Table 1-3 is a figure that appears in *The Aging of Society and Asia*. The “time at which the total fertility rate dips below 2.1” as mentioned in the table refers to a total fertility rate that is less than the 2.1 that is required to maintain the population and indicates a declining birthrate that will eventually lead to a reduction in the population. As stated in the same book, Japan is a step ahead of other countries in experiencing a decline in their overall population. In other words, the total fertility rate in Japan dipped below the population replacement level of 2.1 in the first half of the 1960s. In around the middle of the 1990s, the country became an aged society with an aging rate exceeding 14%. In the first half of the 2000s, the labor-force population shifted from growth to contraction, as did the total population of Japan in the second half of the same decade. These demographic changes are also regarded as a factor behind the prolonged economic slump that has plagued Japan since the 1990s. Japan has undergone population changes ahead of other Asian countries according to the following pattern: progression of declining birthrate → transition to an aged society → reduction in the labor-force population → reduction in the total population.

Demographically speaking, the period when a country’s working-age population as a percentage of the total population is increasing and the population of dependents—including children and the elderly—as a percentage of the total population is decreasing is known as *population bonus*. Conversely, the period when a country’s working-age population as a percentage of the total population is decreasing and the population of dependents as a percentage of the total population is increasing is known as *population onus*. In general, positive economic growth will persist during a population bonus while negative economic growth will take place during a population onus. From the 1960s to the 1980s, Japan found itself in a population bonus during a period when rapid economic growth was the order of the day. Since the 1990s, Japan has remained mired in a population onus to this day.

According to Table 1-3, China and South Korea are expected to enter a population onus in around 2020. A situation in which economic growth will decelerate even as demands for the development of social security programs for the elderly are being made awaits. In China today, the concern is that the country will get old before it gets rich. As the birthrate declines and elderly persons come to comprise a greater proportion of the population, China is faced with the urgent need to develop social security programs.

Table 1-3. Demographic changes in Asian countries

Period	Period when total fertility rate falls below 2.1	Period when the population of elderly persons reaches 14 percent of the total population	Period when the labor-force population shifts from growth to contraction	Period when the total population shifts from growth to contraction
1950-1955				
1955-1960				
1960-1965	Japan			
1965-1970				
1970-1975				
1975-1980	Singapore			
1980-1985	Hong Kong			
1985-1990	South Korea			
1990-1995	China	Japan		
1995-2000	Thailand			
2000-2005			Japan	
2005-2010	Vietnam			Japan
2010-2015		Hong Kong		
2015-2020	Indonesia	South Korea, Singapore	China, Hong Kong	South Korea
2020-2025	Malaysia		South Korea, Singapore	
2025-2030		China, Thailand		China
2030-2035	India			
2035-2040	Philippines	Vietnam	Thailand, Vietnam	Singapore
2040-2045		Malaysia, Indonesia		Thailand, Vietnam
2045-2050				

Note: The total fertility rate and the rate of increase/decrease in the labor-force population/total population were measured based on the use of 5-year averages. The population of elderly persons as a percentage of the total population is based on figures taken at 5-year intervals. For example, 1995 was categorized under 1990-1995. Source: Takao Komine (2012).

Among Asian countries, Japan is leading the pack both in terms of the progression of a dwindling birthrate coupled with an aging population and the countermeasures it has been taking to deal with this situation. It is vitally important to share Japan's experiences—such as with respect to the implementation of countermeasures to deal with a dwindling birthrate and countermeasures to deal with an aging population and the development of social security programs designed to address a dwindling birthrate coupled with an aging population—with other Asian countries. Each Asian country will need to promote the development of social security programs attuned to its own historical circumstances, national character, socioeconomic situation, and other factors in response to the progression of aging.

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- <sup>1</sup> The “six (inhabited) continents of earth” is a term referring to the continents of Asia, Europe, North America, South America, Africa, and Oceania.
- <sup>2</sup> “Gross national income (GNI)” is equal to gross domestic product (GDP) plus income from overseas sources.
- <sup>3</sup> The “aging rate” is an expression of the population of persons aged 65 years and older as a percentage of the total population. A society with an aging rate exceeding 7 percent is known as an *aging society* while a society with an aging rate exceeding 14 percent is known as an *aged society*.
- <sup>4</sup> The “total fertility rate” is equal to the sum of the single-year age-specific rates of women between the ages of 15 and 49 years at a given time.
- <sup>5</sup> “Western countries” in this context is a term referring to the United States, the United Kingdom, and other countries operating under capitalism during the era in which the United States and the Soviet Union acted as opposing superpowers. In contrast, “Eastern countries” is a term referring to the Soviet Union, eastern European countries, and other socialist countries.
- <sup>6</sup> As of May 2014, ASEAN is composed of 10 member countries: Thailand, Indonesia, Philippines, Singapore, Malaysia, Vietnam, Cambodia, Laos, Myanmar, and Brunei.
- <sup>7</sup> *Certified Social Workers Training Lectures Editing Committee Compilation* (2012), p 12.
- <sup>8</sup> Ministry of Health, Labour and Welfare. *White Paper on Labor and the Economy* (2012), p 12.
- <sup>9</sup> The “Six Welfare Laws” is a collective term encompassing the following 6 statutes: Public Assistance Act (enacted in 1950), Child Welfare Act (enacted in 1947), Act on the Welfare of Persons With Physical Disabilities (enacted in 1948), Act on Social Welfare for the Elderly (enacted in 1963), Act on the Welfare of Persons With Intellectual Disabilities (enacted in 1960), and Act on the Welfare of Mothers with Dependents and Widows (enacted in 1965).
- <sup>10</sup> Hideyuki Takechi (2012), p 9.
- <sup>11</sup> References made in this paragraph from this point forth concerning Espin-Andersen’s theory of welfare regimes refer to the contents of the 2012 edition of the *White Paper on Labor and the Economy*.
- <sup>12</sup> *White Paper on Labor and the Economy* (2012), p 84.
- <sup>13</sup> For example, Tarō Miyamoto (2003).
- <sup>14</sup> In a report issued by the government’s National Council on the Reformation of Social-Security Programs as compiled in August 2013, it is stated that “universal national insurance and pension” schemes have supported the lives of the people as a core feature of social security in Japan and that they constitute “world-leading collective properties of the nation”.
- <sup>15</sup> Tarō Miyamoto (2003).

## **Chapter 2: China**

### **Min Bao**

#### **1. Overview of China**

##### **Location**

The People's Republic of China (hereinafter referred to as "China") is located in the eastern part of the Eurasian continent and on the western coast of the Pacific Ocean. With 9.60 million square kilometers of land, China abuts 14 different countries, including Pakistan and Russia. The northernmost point in the country, Mohe county in Heilongjiang province (53.5 degrees North), and the southernmost point in the country, Zengmu Reef in the Spratly Islands of the South China Sea (3.9 degrees North), are separated by approximately 50 degrees of latitude and 5,500 kilometers. At the same time, the westernmost point in the country, the eastern border of the Pamir Mountains on the western side of Ulugqat County, Kizilsu Kirghiz Autonomous Prefecture, Xinjiang Uyghur Autonomous Region (near 73 degrees East), and the easternmost point in the country, where the Ussuri River in Fuyuan County, Heilongjiang, meets the Amur River (near 135 degrees East), are separated by approximately 62 degrees of longitude and 5,200 kilometers. Provincial-level administrative units comprise 4 municipalities, 23 provinces, 5 autonomous regions, and 2 special administrative regions. The capital of China is Beijing.

##### **Population**

The aging rate hit 7 percent in 1999 and the country has become an aging society. According to the National Bureau of Statistics, there were 131.61 million elderly persons aged 65 years or older for an aging rate of 9.7 percent as of the end of 2013<sup>1</sup> (Table 2-1). China has become the world's most populous country both in terms of total population and population of elderly persons, trends that are expected to become further entrenched in the years to come.

According to the China National Committee on Aging, it is possible to divide Chinese aging for the years between 2001 and 2100 into 3 stages as follows<sup>2</sup>:

- 1) Rapid aging stage (2001 to 2020): It is projected that the number of elderly persons aged 60 years or older will increase by 5.96 million each year, such that the population of elderly persons will hit 248 million and the aging rate will reach 17.17 percent in 2020. The population of elderly persons aged 80 years or older will hit 30.67 million and account for 12.37 percent of the total population of elderly persons.



Table 2-1. 2013 year-end population figures and a breakdown of these figures

		(Unit: x 10,000 persons)	
Index		Year-end population figure	Percentage of total population (%)
Total nationwide population		136,072	100.0
Area	Urban	73,111	53.73
	Agricultural	62,961	46.27
Sex	Male	69,728	51.2
	Female	66,344	48.8
Age bracket	0-15 years	23,875	17.5
	16-59 years	91,954	67.6
	60 years or older	20,243	14.9
	65 years or older	13,161	9.7

Source: Produced by the authors based on data provided by the National Bureau of Statistics (2014).

- 2) Accelerated aging stage (2021 to 2050): Those born in the baby-boom generation will enter old age, such that the population of elderly persons and the population of young people will become equal in 2023. The population of elderly persons will surpass 400 million in 2050, at which time the aging rate will reach 30 percent. Of this number, the population of elderly persons aged 80 years or older will hit 94.48 million and account for 21.8 percent of the total population of elderly persons (Table 2-2).
- 3) Severe aging stage (2051 to 2100): It is projected that the population of elderly persons will reach 437 million in 2051, double the proportion of the total population expected to consist of young persons. The aging rate will be maintained at around 31 percent and the population of elderly persons aged 80 years or older will account for 25 to 30 percent of the total population of elderly persons.

The features of aging in China are as follows:

- 1) The population is huge. As stated above, the population of elderly persons 65 years of age or older stood at 131 million and accounted for 9.7 percent of the total population as of the end of 2013. In 2030, the population of elderly persons aged 65 years or older is expected to reach 240 million.
- 2) “China will get old before it gets rich”: While the country has attracted much attention for its economy, it has become an aging society at a difficult stage. The development of social security programs is not yet completed. Per capita GDP reached 1,000 dollars in 2001 and surpassed 6,000 dollars in 2012 but social security has not been enhanced.
- 3) Changes in the composition of the working-age population: Among the working-age population of persons between the ages of 15 years and 59 years (one becomes an elderly person at the age of 60 years), the median age in 1980 was 30 years and will be 40 years in 2025. Rapid aging and the shrinking of the working-age population will place a heavier burden on the

working-age population.

- 4) Nursing care, pensions, and other social security programs, including with respect to the provision of support for elderly persons, are undeveloped, such that the burden of supporting elderly persons as borne by their children will become heavier. The increase in the migration of persons from agricultural communities to urban areas attributed to the implementation of the reform and opening-up policy and the maintenance of the one-child policy since the 1980s have resulted in households with a 4:2:1 structure (4 represents both sets of parents of a couple; 2 represents the couple, each of whom is an only child; and 1 represents the only child of the couple). The provision of nursing care for elderly parents by an only child is difficult indeed.

Table 2-2. Projections of population aging in China

Year	Total population	Population of persons aged 60 years or older	Percentage of total population	Population of persons aged 65 years or older	Percentage of total population	Population of persons aged 80 years or older	Percentage of population of persons aged 60 years or older
	(x 100 million persons)	(x 100 million persons)	(%)	(x 100 million persons)	(%)	(x 100 million persons)	(%)
2001	12.73	1.33	10.42	0.91	7.14	0.126	9.50
2005	13.14	1.47	11.19	1.03	7.86	0.164	11.16
2010	13.6	1.74	12.78	1.17	8.59	0.213	12.24
2015	14.08	2.15	15.28	1.39	9.85	0.264	12.28
2020	14.44	2.48	17.17	1.74	12.04	0.307	12.38
2025	14.61	2.93	20.06	2.00	13.69	0.341	11.64
2030	14.65	3.51	23.92	2.38	16.23	0.424	12.08
2035	14.61	3.94	26.96	2.86	19.55	0.567	14.39
2040	14.51	4.04	27.88	3.19	21.96	0.637	15.77
2045	14.32	4.13	28.84	3.21	22.40	0.772	18.69
2050	14.02	4.34	30.95	3.23	23.07	0.945	21.77

Source: Bengong Li (2007).

- 5) Differences between regions are large. Population aging is described in terms of a weather-related analogy: “low pressure in the west and high pressure in the east.” In other words, the aging rate is higher in the coastal areas of the east, where the economy is booming, than in western areas that are economically lagging. Whereas Shanghai became an aging society in 1979, the Ningxia Hui Autonomous Region became an aging society in 2011. While the aging rate in agricultural communities is 1.24 percentage points higher than in urban areas, this relationship is expected to become inverted after 2040.

## State of the economy

Gross domestic product (GDP) increased at an average rate of 9.8 percent per year from 1979 to 2012, such that the total amount of GDP surged from 364.5 billion renminbi yuan in 1978 to 51,894.2 billion renminbi yuan in 2012. China became the second-largest country in the world in terms of GDP in 2010 but per capita GDP stood at 38,420 renminbi yuan in 2012 (Table 2-3).

Table 2-3. Changes in GDP in China (1978 to 2012)

Year	1978	1980	1985	1990	1995	2000	2005	2010	2011	2012
GDP (x 100 million renminbi)	3,645	4,546	9,016	18,668	60,794	99,215	184,937	401,513	473,104	518,942
Per capita (GDP in renminbi/number of persons)	381	463	858	1,644	5,046	7,858	14,185	30,015	35,198	38,420

Source: Produced by the authors based on data included in the China Statistical Yearbook.

In China, income disparity is growing. The Gini coefficient was estimated to be 0.412 in 2000 according to the National Bureau of Statistics but it is believed that this figure is too low. The National Bureau of Statistics indicates that the Gini coefficient hit 0.479 in 2003, peaked at 0.491 in 2008, and has been gradually going down since then. It was reported to be 0.474 in 2012. The Chinese government has officially acknowledged that income disparity is worsening<sup>3</sup>.

## Politics and administrative affairs

On October 1, 1949, the People's Republic of China was born. China is a socialist country operating under one-party rule with the Chinese Communist Party in firm control. Under this ruling system, the party is superior to the nation. This superiority of the party over the nation has also been realized in local governing structures. In other words, the party system exists alongside the structure of the state at all levels from the central government to local governments, such that party committees and other party organizations exercise command over the structure of the state.

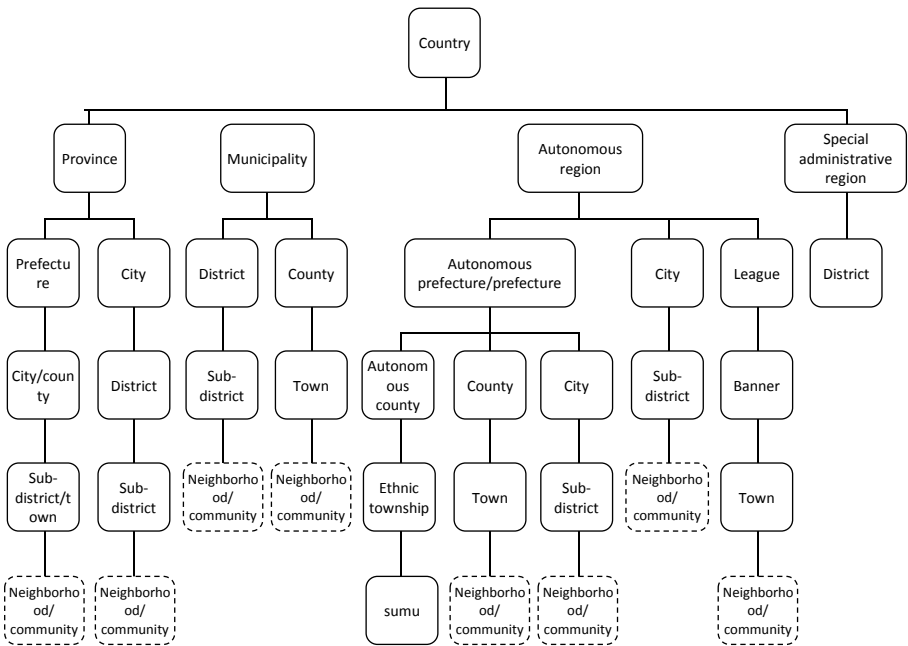
The structure of the state in China consists of the following: the National People's Congress, the legislative branch (corresponding to the Diet in Japan); the State Council, an administrative organ (Central People's Government); the Supreme People's Court, a judicial organ; the Supreme People's Procuratorate, a prosecutorial organ; the President, which corresponds to the head of the central state; and the Central Military Commission, a military organ (same as the Central Military Commission of the Communist Party of China).

Since 1997, the four administrative divisions of China have consisted of the

following: the province (first administrative division), prefecture (second administrative division), county (third administrative division), and township (fourth administrative division). Nationwide, there are provinces, autonomous regions, and municipalities. Municipalities and comparatively large cities have districts and counties while autonomous prefectures have counties, autonomous counties, and cities. Autonomous regions, autonomous prefectures, and autonomous counties constitute minority autonomous regions (Figure 2-1). Presently, the country is home to 23 provinces, 5 autonomous regions, 4 municipalities, and 2 special administrative regions.

There have been a number of generations of Chinese leadership of the three powers of China—party, state, and military—as follows: the first generation, as headed by Mao Zedong (1949 to 1976), the second generation, as headed by Deng Xiaoping (1976 to 1989), the third generation, as headed by Jiang Zemin (1989 to 2002), the fourth generation, as headed by Hu Jintao (2002 to 2012), and the current fifth generation, as headed by Xi Jinping. The government of Xi Jinping will remain at the helm of the country for the next ten years.

Figure 2-1. Chinese administrative divisions



Source: Produced by the authors based on the administrative divisions of China, Regulations Governing the Organization of Street Administrative Offices, and the PRC Law Governing the Organization of Urban Residents' Committees.

## Reforming social security programs and the current framework of social security

Social security programs are divided into five broad categories: 1) social insurance, 2) social welfare, 3) security for military personnel, 4) social assistance (livelihood protection and other forms of poverty relief), and 5) housing security<sup>4</sup> (Table 2-4).

With the founding of the People’s Republic of China on October 1, 1949, the state became the party ultimately responsible for pension security. Regulations governing the family register system began to be enacted in 1958. In 1964, the Regulations of the Department of Public Security Governing the Transferring of Family Registers were promulgated. In principle, the transferring of family registers from agricultural communities to urban areas was banned and the family register system was established. Family registers were divided into two categories: family registers for agricultural communities and family registers for urban areas. In this way, China became a binary society<sup>5</sup>. Social security programs for urban areas and social security programs for agricultural communities differed, such that social security had been designed to correspond to company wage earners, state institutions, and businesses in urban areas but was dependent on family support in agricultural communities.

Table 2-4. Breakdown of social security programs in China

Social security	{	Social insurance:	Pension insurance, unemployment insurance, healthcare insurance, workers’ accident insurance, childbirth insurance
		Social welfare:	Welfare for the elderly, welfare for children, welfare for the disabled, welfare for women
		Security for military personnel:	Special preferential treatment for active-duty military personnel and family members, compensation for the families of wounded and deceased military personnel, livelihood compensation for professional soldiers, job placements for retired soldiers
		Social assistance:	Accident relief, minimum subsistence guarantee, homeless relief, mutual social assistance, social relief in agricultural communities
		Housing security:	Housing reserve scheme, low-cost housing rental scheme

Source: Based on data provided by the PRC State Council Information Office (2004); partially revised by the authors.

In urban areas, the Labor Insurance Regulations of the PRC were promulgated in 1951, as a result of which social security programs for workers came to consist of a number of schemes, including those for pensions, healthcare, and workers’ compensation. Unitary welfare (where the “unit” constituted the workplace) emerged to provide workers belonging to units and their families with the benefits of a “cradle-to-the-grave” security system designed to do everything from assigning daycare spots for children to allocating housing. At the time, social relief under the jurisdiction of the Department of Civil Affairs primarily targeted the so-called three-“no” persons

(三无人员) (persons with no relatives, no ability to work, and no source of earnings) in urban areas. Orphans, disabled persons, and others were protected by social welfare institutes and other such types of facilities.

Social security in agricultural communities is shouldered by agricultural community organizations and families. Group security consists only of collaborative agricultural community healthcare and a program of “five guarantees” for agricultural communities (whereby security in terms of clothing, food, housing, medicine, and funerals is provided to persons without labor skills or subsistence guarantees in agricultural communities; elderly persons receiving these “five guarantees” as described hereunder consist of elderly persons to whom this program applies).

The shifting of the country to a socialist market economy and the adoption of reforms to state-owned enterprises after the reform and opening-up policy was implemented saw the promulgation of Provisional Regulations Governing the Implementation of a Labor Contracting System at State-owned enterprises in 1986, whereupon layoffs and restructuring occurred at state-owned enterprises. In 1993, the framework for a market economy was laid out in more concrete terms by including elements consisting of social insurance, social assistance, social welfare, preferential placements, social mutual help, and “security based on individual savings.” For pension insurance, test operations of social pooled funds and individual accounts began in 1995. In 1997, the amounts to be paid by companies and individuals for a basic old-age pension insurance scheme were determined. In March 1988, the Ministry of Labor and Social Security was established to consolidate the system by which social security was being managed. With respect to the basic pension insurance scheme for company employees, contributions into individual accounts were reduced from 11 percent to 8 percent of wages in December 2005. All contributions are paid by the individual, such that no contributions by units are added to these individual accounts.

In the area of health insurance, a healthcare security scheme for employees was set up nationwide in 1996 through the merging of social pooled funds and individual accounts. In 1998, a basic healthcare insurance scheme for urban employees was promulgated with healthcare insurance premiums to be contributed by both individuals and companies. Companies were required to contribute 6 percent of the wages of employees while individuals were required to contribute 2 percent of their own wages. In 2007, a test for a basic healthcare insurance scheme for urban residents was promulgated, whereby healthcare insurance for unemployed urban residents was implemented on a test basis for the benefit of primary and middle school students, the elderly, disabled persons, and others.

Since the 1990s, huge numbers of laid-off and unemployed workers emerged as a result of reforms undertaken at state-owned enterprises and

collective enterprises. In 1997, a State Council Notice on Establishing Minimum Subsistence Guaranteeing Schemes in Urban Areas Nationwide was promulgated. The Regulations Governing Minimum Living Standard Guarantees for Urban Residents were put forth in September 1999 and went into effect in October. In 2007, a minimum living standard guarantee (MLSG) scheme was implemented in agricultural communities based on the implementation of the MLSG system in urban areas. In January 2013, there were 21,343,029 persons covered by the MLSG for urban residents nationwide and 53,476,080 persons covered by the MLSG for residents in agricultural communities nationwide.

The PRC Social Insurance Law was passed in October 2010 and went into effect in July 2011.

## **2. Current state of social welfare**

Since the 1950s, the social welfare system has consisted of welfare schemes operated on a fragmentary and closed basis primarily for company employees in urban areas. The government also extended social security to persons dealing with difficult living conditions, including eligible elderly persons, orphans, and disabled persons. This system also included special welfare services provided under the charge of the Department of Civil Affairs, benefits provided to employees by business units, and community welfare services provided by residents' committees. In other words, this system offers typical social welfare of a residual nature. There is a state of inequality between urban areas and agricultural communities, such that the residents of urban areas are provided with services on par with those provided by welfare states while the residents of agricultural communities are essentially given nothing. With the arrival of the 1980s, economic reforms were promoted. In 1986, China issued a five-year plan for civil affairs covering the years between 1986 and 1990 during which time the country would be transformed from a country engaging simply in the deployment of welfare-service programs to a country in which three parties—the state, civilian organizations, and individuals—would be permitted to join forces to carry out three basic transformations of facilities and services. These three transformations refer to the transformation from a closed type to an open type, from relief to welfare, and from detention to detention and rehabilitation. Beginning in the 1990s, Resolutions on Deepening Reforms of the Residential System in Urban Areas; the Opinion on Accelerating the Realization of the Socialization of Social Welfare; laws on protecting the rights and interests of the elderly, women, and the disabled; and Regulations on the Provision and Operations of Five Guarantees in Agricultural Communities were promulgated one after another. In October 2006, Resolutions of the CCP Central Committee on Major Issues Regarding the Building of a Harmonious

Socialist Society were adopted to form the foundation for the development of social welfare.

An overview of welfare for elderly persons, welfare for children, and welfare for the disabled is provided below.

## **Welfare for elderly persons**

### **(1) Development of laws**

Since the 1980s, nuclear families have been on the rise in China due to the transformation of socioeconomic systems, the progression of aging, and the implementation of the one-child policy. The traditional family support provided to elderly persons continues to undergo functional weakening. The legal foundation for welfare for elderly persons lies in the Constitution and the PRC Law on Securing the Rights and Interests of Elderly Persons. Article 45 of the Constitution reads as follows: *Citizens of the People's Republic of China have the right to material assistance from the state and society when they are old, ill or disabled [lose the ability to work]. The state develops the social insurance, social relief and medical and health services that are required to enable citizens to enjoy this right....*

In 1994, the Regulations on the Provision and Operations of Five Guarantees in Agricultural Communities were put into effect, thereby enabling the provision of security to eligible persons dealing with difficult living conditions in agricultural communities. While the 1996 PRC Law on Protecting the Rights and Interests of the Elderly contains provisions for the protection of the rights of the elderly and the maintenance of social security and elderly services and programs, the job of supporting the elderly remained primarily the responsibility of families. As the numbers of elderly persons and elderly persons requiring nursing care rose rapidly, the same law was subsequently amended to reflect the introduction of various services to support elderly persons in local communities and facilities for elderly persons in place of the family as prompted by a declining birthrate, migrant labor, and other factors<sup>6</sup>. The revised PRC Law on Protecting the Rights and Interests of the Elderly was put into force in July 2013. The key policies and laws relating to elderly persons as put forth by the government from the 1990s to the end of 2013 are as outlined in Table 2-5.

### **(2) Facility services and community services**

Services for the elderly include facility services and community services. Urban institutions where services are provided to elderly persons who are admitted include social welfare institutions for the aged, homes for the aged (special homes for the aged), and hostels for the elderly (homes for the elderly provided for reduced fees). Home services include services provided by centers of service for the elderly and services provided by nurseries for the elderly.



These services are included in community services that are provided in urban areas. In agricultural communities, there are institutes for the elderly that admit the so-called three-“no” persons (三无人员) (persons with no relatives, no ability to work, and no source of earnings) (Table 2-6). Home services are being developed with a focus on community services.

Table 2-5. Legislation related to welfare programs for the elderly

Year	Name
January 1994	Regulations on the Provision and Operations of Five Guarantees in Agricultural Communities
December	Outline of the Seven-Year Development of Programs for the Elderly (1994-2000)
October 1996	PRC Law on Protecting the Rights and Interests of the Elderly comes into force
March 1997	Provisional Method for Managing Homes for the Elderly in Rural Areas
May 1999	Template for Architectural Designs for the Aged
December	Provisional Method for Managing Social Welfare Institutions
February 2000	Opinion on the Socialization of Social Welfare Programs
August	Decision on Fortifying Programs for the Elderly
February 2001	Basic Template for Social Welfare Institutions for the Aged
May	Proposal for the Implementation of the Starlight Plan Concerning Community-Based Welfare Services for the Aged
July	Outline of the Tenth Five-Year Plan for Developing Senior Programs in China (2001-2005)
August 2005	Outline of a Plan for Developing a Nursing-Care Program (2005-2010)
February 2006	Opinion on the Accelerated Development of Service Programs for the Aged
September	Outline of the Eleventh Five-Year Plan for Developing Senior Programs in China (2006-2010)
January 2008	Opinion on the Comprehensive Promotion of At-Home Service Programs for the Elderly
September 2011	Outline of the Twelfth Five-Year Plan for Developing Senior Programs in China (2011-2015)
December	Plan for Creating a Social Service System for the Elderly (2011-2015)
July 2013	Revised PRC Law on Protecting the Rights and Interests of the Elderly comes into force
August	Some Opinions by the State Council on Accelerating the Development of Service Programs for the Aged (services for the aged: services for the elderly)

Source: Produced by the authors based on official documents issued by the Chinese government, the Ministry of Civil Affairs, and other such sources.

According to the 2012 Statistical Bulletin on the Development of Social Services, there were 44,304 facilities of all types for the elderly nationwide in that year, an increase of 3,436 over the preceding year. These facilities house enough beds to accommodate 2.15 percent of all elderly persons nationwide, an increase of 7.5 percent on a year-on-year basis. The number of elderly persons admitted to these facilities was 2,936,000, an increase of 12.7 percent over the preceding year, of which 198,000 persons had been admitted to community accommodations or day-service facilities.

Table 2-6. Classification of welfare services for the elderly in China

Facility type	Entitled persons	Services
Social welfare institution for the aged	Three-“no” persons (三无人员) (persons with no relatives, no ability to work, and no source of earnings), independent elderly persons, elderly persons requiring assistance, elderly persons requiring nursing care	Daily living, culture and recreation, rehabilitation, medical health, and more
Home for the aged	Independent elderly persons, elderly persons requiring assistance, elderly persons requiring nursing care	Daily living, culture and recreation, rehabilitation, medical health, and more
Hostel for the elderly	Independent elderly persons	Meals, cleaning and sanitation, culture and recreation, medical health, and more
Home for the device-aided elderly	Elderly persons requiring assistance	Daily living, culture and recreation, rehabilitation, medical health, and more
Nursing home	Elderly persons requiring nursing care	Daily living, culture and recreation, rehabilitation, medical health, and more
Home for the elderly in a rural area	Three-“no” persons (三无人员) (persons with no relatives, no ability to work, and no source of earnings), aged persons entitled to any of the five guarantees, other elderly persons	Daily living, culture and recreation, rehabilitation, medical health, and more
Nursery for the elderly	All elderly persons	Daily living, culture and recreation, rehabilitation, medical health, and more
Center of service for the elderly	All elderly persons	Culture and recreation, rehabilitation, medical health, visiting services, and more

Source: Produced by the authors based on material provided by the PRC Ministry of Civil Affairs (2001).

Local welfare policies began to be enacted and efforts to reform welfare services commenced in the second half of the 1980s, a time when the demand for welfare had increased due to the progression of aging.

In 1989, it was decided that community services would be developed across the nation. In 1993, the Opinion on Accelerating the Development of Community Service Programs was issued throughout the country. From 2001 to 2004, the Starlight Plan on Old-Age Welfare Services in Communities Nationwide (Starlight Plan on Welfare Services for the Elderly in Communities

Nationwide) was implemented, resulting in the establishment of 32,000 Starlight Senior Centers across China. Community services consist of poverty-relief and welfare services for the elderly, children, the disabled, poor households, and persons entitled to preferential treatment measures; services of convenience provided to community residents; re-employment services for unemployed persons; and services for the socialization of social security. Services for the elderly include homes for the elderly in rural areas, nurseries for the elderly, hostels for the elderly, universities for the elderly, activity centers for the elderly, elderly care groups (contract services for the elderly), legal advice for the elderly, psychological counseling, and health counseling.

In 2013, Some Opinions on Accelerating the Development of Programs Providing Services for the Elderly were promulgated. In order to enable the elderly to live at home, the goal is to develop a service system by 2020 that would entail the provision of support by facilities primarily at a community level and that would make it possible for the elderly in urban areas and agricultural communities to receive care with the given functions and scale of each facility. By creating a service network for at-home elderly persons and having companies participate in the provision of home services, services tailored to individual needs will be provided, such as by facilitating the provision of delivered meals, baths administered by visiting caregivers, cleaning services carried out by visiting staff members, examinations carried out by visiting physicians, and first-aid administered by visiting caregivers.

### (3) Moves to impose qualification requirements on social welfare facilities in China

In order to appropriately set job standards for nursing-care workers and provide occupational education and training on a scientific and normative basis, state occupational standards applicable to elderly care workers (state qualifications for care workers) were enacted and, in 2002, put into force to signify the launch of a program for imposing qualification requirements on workers. These were the first occupational standards imposed on nursing-care jobs at facilities for the elderly (primarily social welfare institutions).

Care workers at welfare facilities in the past were accorded a low social standing and their job was seen as being dirty and hard and was associated with poor working conditions. Facilities tended to be staffed by migrant workers comprising middle-aged women from agricultural communities who were engaged in the provision of nursing care on a part-time basis. Nursing-care workers were generally lacking in expert knowledge since they did not receive education on nursing care. Conventional welfare facilities for the elderly were mainly targeted at the so-called three-“no” persons (三无人员) (persons with no relatives, no ability to work, and no source of earnings) and provided services free of charge. In the 1980s, the one-child policy and the reform and opening-

up policy were put into effect, which led to the transformation of families into nuclear families, the aging of society, and changes in the nature of the demand for nursing care provided by facilities. In urban areas, the number of elderly persons other than the so-called three-“no” persons (三无人员) (persons with no relatives, no ability to work, and no source of earnings) who wished to be admitted to facilities rose with each passing year. Against the backdrop of these societal conditions, the quality of nursing care provided by facility staff members needed to be improved. The Ministry of Civil Affairs sought to charge for expenses incurred by persons admitted to facilities and implemented other such measures according to a slogan calling for the socialization of social welfare.

These days, nursing-care workers require nursing-care qualifications. Specifically, these qualifications comprise 1) general conditions of the occupation, 2) basic requirements, 3) work requirements, and 4) a weighting table. In 2011, the State Occupational Standards Applicable to Elderly Care Workers—which are part of the State Standards on Occupational Skills—were revised.

**System of elderly care workers**

Job grade: grade 4; introductory level (state occupation qualifications level 5), intermediate (state occupational qualifications level 4), advanced (state occupational qualifications level 3), technical expert (state occupational qualifications level 2)

Educational history: equivalent to graduation from junior high school

Training hours: introductory 180 hours or more; intermediate 150 hours or more; advanced 120 hours or more; technical expert 90 hours or more

**Welfare for children**

Welfare for children shall be explained by dividing this topic into the following categories: (1) protection of the rights and interests of children, (2) education of children, (3) welfare facilities for children, and (4) programs for rescuing and protecting juvenile vagrants.

(1) Protection of the rights and interests of children

In 1991, the PRC Law on the Protection of Minors was passed, thereby enabling such measures as those that protect minors in the home, those that protect minors at school, those that protect minors in society, and those that protect minors in the judicial system. In 1992, China became the one hundred tenth country to ratify the United Nations Convention on the Rights of the Child. In 1999, the PRC Law on Preventing Crimes by Minors and the PRC Law on Adoptions were passed, thereby securing the rights of children. Laws relating to children that have been enacted since the 1980s are as outlined in Table 2-7.

## (2) Education of children

With the promulgation of the Regulations on the Operations of Urban Kindergartens (enforcement draft) in 1979, the Opinion Concerning the Development of Early Childhood Education in Agricultural Communities in 1983, and the Regulations on the Management of Kindergartens in 1989, initiatives affecting early childhood education in urban areas and agricultural communities were proactively undertaken. Persons entitled to receive preschool education consist of infants and toddlers between the ages of zero and two years. There are daycare centers (admission facilities) and kindergartens (operated under the jurisdiction of the Ministry of Education), the latter, which are intended for young children from the age of three years up to the age at which such children are enrolled in primary school. As of 2012, there were 181,000 kindergarten establishments nationwide attended by 36,858,000 children<sup>7</sup>. In 2006, the Law on Compulsory Education was amended, with the contents of amendments including exemptions from paying tuition and miscellaneous fees, the free provision of textbooks to children facing difficult economic conditions, and the subsidization of boarding costs. The PRC Law on the Protection of Minors also stipulates that the government shall provide compulsory education to minors belonging to economically disadvantaged households, disabled minors, and minors who are members of the floating population.

## (3) Welfare facilities for children

Welfare facilities for children fall under the jurisdiction of the Ministry of Civil Affairs and constitute admission facilities primarily operated for orphans. In urban areas, these facilities are operated for the so-called three-“no” children (children with no relatives, no ability to work, and no source of earnings). In agricultural communities, these facilities are operated for children requiring any of the five guarantees.

Welfare facilities for children include welfare institutions for children, the children’s section in social welfare institutions, orphan schools, rehabilitation centers for disabled children, and special education classes held at a community level. In 2006, the Opinion on Fortifying Programs for Rescuing Orphans was issued with stipulations that provided for the specific responsibilities to be fulfilled in rescuing orphans and the contents of protection. In 2009, the Notice Concerning the Enactment of Minimum Standards for Bringing Up Orphans was promulgated to establish minimum standards for bringing up orphans living in institutions and foster children living with families. According to a statistical bulletin on the development of social services (Chinese name: 2012 Bulletin on the Development of Social Services), there were 570,000 orphans nationwide in 2012, of whom 95,000 were living in facilities and 475,000 were foster children.

Table 2-7. Child welfare-related laws

April	1986	PRC Law on Compulsory Education passed at the National People's Congress (amended PRC Law on Compulsory Education came into effect in June 2006)
September	1989	Regulations on the Management of Kindergartens promulgated by the State Education Commission
April	1991	Regulations Banning the Use of Child Labor promulgated by the State Council
September		PRC Law on the Protection of Minors promulgated (amended PRC Law on the Protection of Minors came into effect in January 2013 after this law was amended for the first time in December 2006 and the second time in October 2012)
December		Convention on the Rights of the Child ratified by the Chinese government
February	1992	Outline of a Plan for the 1990s for the Development of Children in China promulgated by the State Council
		Implementation Bylaws for the PRC Law on Compulsory Education passed at the National People's Congress
July	1994	Enforcement Method Concerning the Development of Programs for the Classroom Integration of Disabled Children promulgated by the State Education Commission
October		PRC Law on Maternal and Child Health passed at the National People's Congress
November		Some Regulations on the Publishing of Reading Materials for Young Children promulgated by the Newspaper Publishing Office
December		Special Regulations on the Protection of Underage Laborers promulgated by the Ministry of Labor
		Method for Managing Health at Daycare Centers and Kindergartens promulgated by the Ministry of Health and the State Education Commission
March	1995	PRC Law on Education passed at the National People's Congress
August	1996	Method for Supervising the Meals and Health of Student Collectives promulgated by the Ministry of Health
March	1998	Provisional Method Concerning the Attendance of School by Migrant Children promulgated by the State Education Commission and the Ministry of Public Security
June	1999	The PRC Law on the Prevention of Crimes by Minors passed at the National People's Congress
May	2001	Summary of the Growth of Children in China (2001-2010) promulgated by the State Council
October	2002	Regulations Banning the Use of Child Labor promulgated by the State Council and the Regulations Banning the Use of Child Labor as promulgated in 1991 repealed
January	2006	Opinion on Fortifying Programs for Vagrant Minors put into effect by the Ministry of Civil Affairs and the Ministry of Education
December	2007	Basic Template for Facilities for Rescuing and Protecting Vagrant Minors put into effect by the Ministry of Civil Affairs
July	2011	Outline of the Development of Children in China (2011-2020) promulgated by the State Council

Source: Produced by the authors based on official documents issued by the Chinese government.

#### (4) System for rescuing and protecting juvenile vagrants

The release of the Opinion on Fortifying Programs for Vagrant Minors in 2006, the Basic Template for Facilities for Rescuing and Protecting Vagrant

Minors in 2007, and the Opinion on Fortifying and Improving Programs for Rescuing and Protecting Vagrant Minors in 2011 led to the establishment of children's rescue centers where vagrant minors could be provided with the basics of life, education, healthcare, and psychological care. According to a 2012 statistical bulletin on the development of social services as released by the Ministry of Civil Affairs, there were 724 service institutions for detaining and rescuing children nationwide in which a total of 87,000 beds and 54,000 persons were housed as well as 261 centers for rescuing and protecting vagrant children in which a total of 10,000 beds were housed.

### **Welfare for the disabled**

According to the sixth national population census and second national survey on disabled persons, there were 85,020,000 disabled persons as of the end of 2010.<sup>8</sup> In breaking this figure down by type of disability, we can give the following figures: 12,630,000 blind persons; 20,540,000 deaf persons; 1,300,000 persons with language and speech disorders, 24,720,000 physically disabled persons; 5,680,000 intellectually disabled persons; 6,290,000 psychologically disabled persons; and 13,860,000 persons with multiple disabilities. Welfare policies for the disabled began to be deployed in the 1980s.

The current situation surrounding welfare for the disabled is outlined below.

The China Welfare Fund for the Handicapped was established in 1984 and the China Disabled Persons' Federation was founded in 1988. The PRC Act on the Protection of Disabled Persons was passed in 1990 and went into effect the following year. The amended PRC Law on the Protection of Disabled Persons was put into effect in 2008, the contents of which included general provisions and provisions on rehabilitation, education, employment, cultural activities, the environment, legal responsibilities, and the protection of rights and interests. This law came to constitute the basic law on programs concerning disabled persons. Article 14 in the section on general provisions designates that the third Sunday of May each year is the National Day of Assisting Disabled Persons (day on which assistance is provided to disabled persons nationwide). In 2007, the Regulations on Protecting the Employment of Disabled Persons were put into effect.

In 1988, the Five-Year Work Outline for Programs for the Disabled (1988 to 1992) was put into effect and constituted the first plan for developing programs for the disabled. This outline was subsequently revised. In 2011, the Twelfth Five-Year Plan Outline for Programs for the Disabled in China (2011 to 2015) was put into effect. A system of social security and services for the disabled was prepared to systematically guarantee the accommodation of basic needs by 2015, including needs in terms of basic living, healthcare, rehabilitation, education, jobs, culture, and sports. This system aimed to enable

the disabled to participate in social activities as equals.

In the Eleventh Five-Year Plan Outline (2006 to 2010), rehabilitation projects were undertaken to allow 10,370,000 disabled persons to recover to a certain extent. The fact that there were 1,704 special education schools for the disabled that were attended by 426,000 disabled students indicated that compulsory education for disabled children had improved. There were 4,704 job-training institutions for the disabled providing job education and training for 3,765,000 people. There were 3,019 employment service institutions for the disabled helping 1,797,000 people find jobs in urban areas and 6,184,000 people become economically independent in agricultural communities. 16,237,000 disabled people and 42,376,000 disabled persons in urban areas and agricultural communities, respectively, were provided with various forms of social security. Legal service institutions for the disabled came to number 3,231 and were used by 579,000 people. One hundred cities across China became models for barrier-free living to help usher in improvements in barrier-free environments in urban areas<sup>9</sup>.

2001 saw the promulgation of the Basic Template on Social Welfare Facilities for the Disabled, which set forth specific standards applicable to the operations of and equipment and systems found in welfare facilities for the disabled. According to the 2012 statistical bulletin on the development of social services, there were 257 facilities for intellectual and psychological disabilities operating under the jurisdiction of the Department of Civil Affairs nationwide as well as 156 mental hospitals housing a total of 41,000 beds and 36,000 admitted patients.

### **3. Current state of healthcare security**

The current healthcare insurance scheme in urban areas can be traced back to the labor insurance and healthcare scheme and publicly funded healthcare scheme of the 1950s. For the labor insurance and healthcare scheme, funds were fully assumed by companies, such that laborers assumed nothing and could use what the scheme offered free of charge. The publicly funded healthcare scheme was targeted at public-sector workers belonging to state institutions. Users were not required to contribute funds and were provided with free healthcare security. In agricultural communities, a collaborative healthcare scheme for agricultural communities was put into force in the 1960s. Members of collectives helped one another and assumed all costs in full.

The labor insurance and healthcare scheme and publicly funded healthcare scheme were abolished in 1998 in response to increasing healthcare costs and the increasing fiscal burden being placed on the state as a result of the aging of society and moves to make healthcare costs free of charge. At the same time,



the collaborative healthcare scheme for agricultural communities may have offered measures to reduce the burden of healthcare costs placed on residents. However, this scheme came to be maintained by a mere 10 percent of agricultural regions by the end of the 1980s as the implementation of reforms to the economic structure of agricultural collectives and the economic strength of agricultural collectives weakened significantly since the end of 1970s. From that time forth, no basic healthcare insurance scheme for agricultural workers existed until a new collaborative healthcare insurance scheme for agricultural communities was put into effect.

Table 2-8. Types of healthcare insurance and covered persons

Name	Insured persons	Coverage form	Number of insured persons (2012)
Basic healthcare insurance for urban employees	1) Employees of all enterprises and public institutions in urban areas 2) Employees of township and village enterprises and self-employed persons	1) Compulsory 2) Optional	264.67 million
Basic healthcare insurance for urban residents	Urban residents	Optional	271.22 million
New scheme for providing collaborative healthcare insurance in agricultural communities	Residents of agricultural communities	Optional	805.00 million

Source: Produced by the authors based on the 2013 Summary of Health Statistics in China as issued by the PRC Commission of Health and Family Planning.

From the 1980s to the 1990s, efforts to carry out a series of reform measures on healthcare security schemes for the purpose of offering universal healthcare security were carried out, resulting presently in the establishment of basic healthcare insurance for urban employees, a new scheme for providing collaborative healthcare insurance in agricultural communities, and basic healthcare insurance for urban residents. Such insurance schemes are explained below (Table 2-8).

### Basic healthcare insurance for urban employees

In 1998, the labor insurance and healthcare scheme and publicly funded healthcare scheme were abolished. A basic healthcare insurance scheme for urban employees was established on a nationwide basis through the integration of socially pooled funds and individual accounts.

Insured persons consist of 1) the employees of companies (state-run

enterprises, collective enterprises, foreign-affiliated enterprises, and private-sector enterprises) and public institutions (government institutions, business units, social groups, and private-sector non-profit groups) in urban areas and 2) the employees of township and village enterprises and self-employed persons. Insured persons coming under 1) are insured on a mandated basis while insured persons under 2) are insured on an optional basis.

Insurance premiums are assumed by both labor and management with the employer assuming 6 percent of the total amount of the annual wages of laborers belonging to its workforce in the preceding fiscal year and each individual laborer assuming 2 percent of the annual wages he or she earns. A retiree will not assume basic healthcare insurance premiums. The insurance premiums of a laborer shall be paid into an individual account while 70 percent of the insurance premiums owed by the employer will be paid into a socially pool fund and the remaining 30 percent owing will be deposited into individual accounts.

For payments of healthcare costs, the starting point of payments from the socially pooled fund shall correspond to 10 percent of the average annual wages of an employee and the maximum amount of payments payable from the socially pooled fund shall equal 4 times the average annual wages of the employee as determined accordingly. Payments of healthcare costs equal to or less than the starting point of payments shall be paid out of the individual account of the employee or by the employee directly on an out-of-pocket basis. Payments of healthcare costs greater than the starting point of payments and equal to or less than the maximum amount of payments payable from the socially pooled fund shall be primarily made from the socially pooled fund with a certain percentage to be charged to the employee.

### **New scheme for providing collaborative healthcare insurance in agricultural communities**

In 2002, the Decision Concerning the Further Fortification of Health Programs for Agricultural Communities, which encompassed the development of a scheme for health services in agricultural communities and a scheme for collaborative healthcare in agricultural communities by 2010, was promulgated. An Opinion on the Solidity and Development of a New Scheme for Providing Collaborative Healthcare in Agricultural Communities was promulgated in 2009 and a Notice on Benefiting from the Construction of a New Scheme for Providing Collaborative Healthcare in Agricultural Communities in 2012 was carried out in 2012.

The primary contents of the new scheme for providing collaborative healthcare in agricultural communities are as follows:

- 1) Optional enrolment by farmers on a household basis;

- 2) Financed by insurance premiums paid by individuals and by subsidies provided by the state. Central and regional government financial organs contribute a certain amount of dedicated funds each year. Individuals pay an insurance premium of at least 10 renminbi yuan while the local government pays at least 10 renminbi yuan per insured person. The central government in the central and western parts of the country pays 10 renminbi yuan per regional insured person.
- 3) Insurance covers the costs of treatment for serious illnesses and conditions and partially covers the costs of some forms of outpatient treatment.

### **Basic healthcare insurance for urban residents**

In order to solve the problem of providing healthcare compensation for unemployed persons in urban areas, an Instructive Opinion on the Deployment of Basic Healthcare Insurance for Urban Residents in Test Regions was carried out in 2007. Coverage was extended to junior high school and primary school students not covered under a healthcare insurance plan (including students enrolled at occupational high schools, vocational junior high schools, and technical schools), children, and others with enrolment made optional. This insurance is primarily financed by insurance premiums paid by insured persons and by subsidies extended by the government. Model cities determine insurance premiums according to the level of economic development and ability to pay. The government provided an annual subsidy of 120 renminbi yuan per insured person in 2010.

## **4. Current state of pension security**

Pension schemes in China can be broadly divided into four types: basic pension insurance for the employees of urban enterprises, social pension insurance for urban residents, new scheme for providing social pension insurance in agricultural communities, and pension insurance for public-sector workers (Table 2-9). These insurance schemes are explained below.

### **(1) Basic pension insurance for the employees of urban enterprises**

Basic pension insurance for the employees of urban enterprises was established according to the Decision on the Establishment of a Standardized Basic Pension Insurance Scheme for Enterprise Employees of July 1997 and the Decision on Perfecting the Basic Pension Insurance Scheme for Enterprise Employees of 2005. Covered persons consist of the employees of different types of urban enterprises (including state-run enterprises, collective urban enterprises, foreign-affiliated enterprises, and privately run enterprises), self-employed persons, and irregularly employed workers. For contributions, enterprises pay 20 percent of total enterprise wages and employees pay 8

percent of their wages.

For the socially pooled fund and individual accounts, a social insurance institution will open an individual account for each employee with 11 percent of the individual's wages. The amount to be paid by the individual will be fully deposited into his or her individual account. The remaining portion will be earmarked from the contribution amount paid by the enterprise. An increase in the amount to be paid by individuals led to a reduction in the amount paid into individual accounts by enterprises by 3 percent. Savings accumulated in an individual account shall be used only for the pensions of the employee and cannot be paid out in advance. When an employee leaves his or her job, his or her individual account shall remain with him or her thanks to portability. Upon the death of an employee or retiree, the amount contributed by the individual into his or her individual account shall be conferred on the individual while the amount contributed by the enterprise will be added to the socially pooled fund.

With respect to the receipt of a pension, the statutory mandatory age of retirement is 60 years for men and 55 years for women at enterprises and 50 years for women at plants. When an individual retires upon reaching the mandatory age of retirement after having made pension contributions for at least 15 years, he or she shall be paid a monthly pension. A pension comprises a basic pension and a pension based on an individual account. The amount of the basic pension that can be received is equal to 20 percent of the average wages of wage-based workers in each province, autonomous region, municipality, prefecture, or city while the amount of the individual account-based pension that can be received is the amount that is equal to the amount accumulated in the individual's individual account divided by 120. A person who has made pension contributions for less than 15 years shall not be entitled to receive a basic pension and will be paid only the amount accumulated in his or her individual account on a lump-sum basis.

## (2) Social pension insurance for urban residents

The pension insurance scheme for the employees of urban enterprises covers workers at enterprises, sole proprietors, freelance workers, and farmer mechanics who conclude contracts with employers. Pension security is not available to persons not entitled to obtain coverage under the basic pension insurance scheme for the employees of urban enterprises due to being unemployed or for reasons of employment instability. A new scheme for providing social pension insurance in agricultural communities was established and demands were made from various quarters for the establishment of a social pension insurance scheme for urban residents. A social pension insurance scheme for urban residents was established on a test basis in 2011 in an effort to provide pension coverage to all citizens with the aim of offering a Chinese version of universal pensions.

Table 2-9. Comparing basic pension for urban employees, social pension for urban residents, and a new scheme for providing social pension in agricultural communities

	Basic pension insurance for the employees of urban enterprises	Social pension insurance for urban residents	New scheme for providing social pension insurance in agricultural communities
Relevant policies	Decision on the Establishment of a Standardized Basic Pension Insurance Scheme for Enterprise Employees (issued by the state, no. 26 of 1997) Decision on Perfecting the Basic Pension Insurance Scheme for Enterprise Employees (issued by the state, no. 38 of 2005)	Instructive Opinion of the State Council Concerning the Implementation of Social Pension Insurance for Urban Residents on a Test Basis (issued by the state, no. 18 of 2011)	Instructive Opinion Concerning the Enforcement of a New Scheme for Providing Social Pension Insurance in Agricultural Communities (issued by the state, no. 32 of 2009)
Covered persons	Employees of enterprises (including state-run enterprises, collective enterprises, foreign-affiliated enterprises, and privately-run enterprises), self-employed persons, and irregularly employed workers	Urban residents who are aged 16 years or older and who do not satisfy the conditions for becoming insured under a basic pension insurance scheme for the employees of urban enterprises	Residents of agricultural communities who are aged 16 years or older and who are not insured under a basic pension insurance scheme for the employees of urban enterprises
Compulsory /optional	Compulsory	Optional	
Standards for pension insurance premiums	Enterprise pays 20 percent of total wages and employee pays 8 percent of wages	Between 100 and 1000 renminbi yuan per year; set according to one of 10 different grades with rates at 100 renminbi yuan intervals; can be selected	Between 100 and 500 renminbi yuan per year; set to one of 5 different grades with rates at 100 renminbi yuan intervals; can be selected
Conditions for receiving pension benefits	15 or more years of contributions (male: 60 years of age; female executive: 55 years of age; general female employee: 50 years of age)	15 or more years of contributions (60 years of age or older)	

Source: Chi Hung Kwan (2012); partially revised by the authors.

An unemployed urban resident who is aged 16 years or older (excluding an active student) and who does not satisfy the conditions for being covered under the pension insurance scheme for the employees of urban enterprises has the option of becoming covered under the social pension insurance scheme for urban residents in the place where he or she is legally domiciled.

Funding for the social pension insurance scheme for urban residents comprises insurance premiums and government subsidies. Insurance premiums charged to an insured person are set according to one of 10 different grades

with rates between 100 and 1000 renminbi yuan per year. The number of different grades can be increased by a local government in response to local circumstances. While the grade can be freely selected, the higher the insurance premiums paid the higher the pension amount that can be received. A local government will provide a subsidy of at least 30 renminbi yuan per person each year. A pension comprises a basic pension and individual account-based pension and will be paid to the end of the individual's life. The standard amount of the basic pension as determined by the central government is 55 renminbi yuan per month per person and will be paid to a pension contributor from the age of 60 years. A person who is not covered under the pension insurance scheme for the employees of urban enterprises or another pension scheme and who is 60 years of age at the time this scheme is implemented shall be paid a monthly pension without having to pay insurance premiums. If there is less than 15 years to go until a person reaches the age at which he or she can receive pension payments at the time this scheme is implemented, then the shortfall in insurance premiums will be paid according to the number of years in question. If there is at least 15 years to go until a person reaches the age at which he or she can receive pension payments at the time this scheme is implemented, then at least 15 years of insurance premiums shall be paid according to the number of years in question.

### (3) New scheme for providing social pension insurance in agricultural communities

It used to go without saying that elderly persons in agricultural communities were supported economically by their families. In accordance with the Decision of the Central Committee of the Chinese Communist Party Concerning Some Issues with the Completion of the Socialist Market Economic System in 2003, a pension insurance scheme for agricultural communities was instituted with a focus on households that became a basic policy for pension insurance in agricultural communities. After this new scheme for providing social welfare pension insurance in agricultural communities was implemented on a test basis in Shandong Province and elsewhere, three parties—individuals, collectives, and the government—came to assume the burden of providing pension funds. The promulgation of the Instructive Opinion Concerning the Enforcement of a New Scheme for Providing Social Pension Insurance in Agricultural Communities in 2009 led to the full-scale implementation of this new scheme for providing social pension insurance in agricultural communities (hereinafter referred to as “new agricultural pension insurance scheme”).

A resident of an agricultural community who is aged 16 years or older (excluding an active student) and who is not covered under the pension insurance scheme for the employees of urban enterprises shall have the option

of obtaining coverage. Insurance premiums consist of payments made by the individual and the collective (village or a township or village enterprise) as well as subsidies provided by the government. Insurance premiums charged to an insured person are set according to one of five different grades with rates between 100 and 500 renminbi yuan per year at 100 renminbi yuan intervals. The insurance premium can be freely selected by the covered person. The central government pays 55 renminbi yuan per month per person while the local government pays at least 30 renminbi yuan per month per person. The new agricultural pension insurance scheme conforms to the same form as the framework for the basic pension insurance scheme for urban employees (socially pooled fund and individual accounts). Covered persons are entitled to receive a pension from the age of 60 years and even elderly persons in agricultural communities who are not entitled to receive a pension for the employees of urban enterprises are entitled to receive a pension under this scheme. An elderly person in an agricultural community who is not eligible to be covered under the pension insurance scheme for the employees of urban enterprises and who is 60 years of age or older at the time this new scheme for providing social pension insurance in agricultural communities is implemented shall be paid a monthly basic pension without having to pay insurance premiums. If there is less than 15 years to go until a person reaches the age at which he or she can receive pension payments at the time this scheme is implemented, then the shortfall in insurance premiums will be paid according to the number of years in question. If there is at least 15 years to go until a person reaches the age at which he or she can receive pension payments at the time this scheme is implemented, then at least 15 years of insurance premiums shall be paid according to the number of years in question.

#### (4) Pension insurance for public-sector workers

In response to the promulgation of the Method for Processing Resignations of Staff Members of Each Level of the People's Government (provisional) in 1952 as well as the Method for Processing Resignations of Staff Members of State Institutions (provisional) and the Method for Processing Compulsory Resignations of Staff Members of State Institutions Who Reach the Age of Retirement (provisional) in 1955, a pension insurance scheme for employees at national institutions and other business units was launched. Retirement money for public-sector workers is paid by the state and managed by the Department of Labor. To be entitled to receive this money, male workers must be aged 60 years or older and have worked continuously for 25 years or more while female workers must be aged 55 years or older and have worked continuously for 20 years or more. The pension amount equals between 50 and 70 percent of wages. The financing of pensions is assumed by the government. Thus was established a pension-based preferential treatment scheme for public-sector workers,

thereby giving rise to a dual-track system of pension schemes<sup>10</sup>. After the Cultural Revolution, the pension scheme that had been in place since 1958 was abolished in June 1978 and underwent a separation between enterprises on the one hand and state institutions and business units on the other. Pensions for enterprise laborers are paid by the enterprise while pensions for public-sector workers belonging to state institutions and business units are assumed by the state. Conditions applicable to the mandatory age-limit retirement of enterprise laborers were adjusted under this same scheme and the pension amounts receivable for mandatory age-limit retirement were raised.

## **5. Future issues concerning social security programs**

### **Differences among social security programs**

As explained above, the Chinese government has been developing policies and laws for social security programs since the 1990s. In 2010, a basic framework for social security programs was completed. While there are many social security elements and comparatively favorable benefits offered to certain people within this framework, however, the opposite can be said for certain other people. For example, although public officials (such as public-sector workers) at public institutions and business units do not pay pension insurance premiums, the employees of general enterprises, farmers, and unemployed persons in urban areas are required to pay pension insurance premiums. The ratio of pension-benefit levels is as follows: 1:1:20:41, which corresponds to [elderly farmers]:[elderly urban residents]:[enterprise retirees]:[retired public-sector workers]. The ratio of insurance premiums for healthcare security is as follows: 1:1:8:12, which corresponds to [farmers]:[elderly urban residents]:[enterprise retirees]:[public-sector workers]. While government institutions, enterprises, and business units offer childcare insurance for childbirth, farmers are not covered. While workers' accident compensation insurance is provided to the staff members of state institutions, business units, and enterprises, farmers lack this form of insurance and are thus placed in an unfavorable position. Although social-insurance programs need to reduce economic disparities, improvements in this area are not happening. The new scheme for providing social pension insurance in agricultural communities was integrated with the social pension insurance scheme for urban residents in 2014 with the aim of ameliorating economic disparities. China is beset by inter-regional gaps in development and disparities between urban areas and agricultural communities. These issues are not just blocking balanced development of the economy and society in general but are also important elements impeding the process of urbanization.



### **Threats to which the financial administration of social security is exposed**

The current financial administration of social security is faced with a number of problems.

- 1) The aging of insured persons is proceeding apace. Aging results in a greater amount of benefits being paid out than insurance premiums being paid in, such that this issue is tied to the design and operations of social-insurance schemes.
- 2) The system by which social-insurance premiums are paid is not fully developed. There are inconsistencies in terms of the insurance premiums being paid by business operators and enterprises that under-report total wages in order to evade their obligation to pay insurance premiums.
- 3) The yield on investments of social-insurance funds is poor. While social-insurance funds are primarily managed by banks, the yield obtained is poor since these funds are being invested through the acquisition of government bonds.

### **Issues concerning the system for managing and operating social security**

The government aims to establish universal healthcare insurance and pensions in order to eliminate societal disparities in accordance with the slogan of *creating a harmonized society*. Social-insurance programs have evolved dramatically in recent years. Since the founding of the People's Republic of China in October 1949, however, a dual-track social system has been in place in urban areas and agricultural communities and a system of family registers in urban areas and family registers in agricultural communities continues to be maintained to this day. Most social security programs today are closely tied to family registers, such that healthcare insurance, social relief, social welfare, public services, and other programs have not been developed for the migrant population even as people migrate from agricultural communities to urban areas in search of migrant work.

### **Issues concerning the ability to take charge of social security affairs**

While there are many service items and while the scope of applicable services is expanding in terms of social security affairs, there just are not enough persons in charge of these affairs. In particular, the cultivation of persons with high levels of expertise is inadequate. The development of social security experts with specialized knowledge is vital for designing and operating sustainable social security programs. Given the fluid nature of persons covered by social security and the ease with which personal circumstances can change, computerized networks need to be built and a system for managing social security information on a standardized basis nationwide should be developed.

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- <sup>1</sup> PRC National Bureau of Statistics (2014).
  - <sup>2</sup> Written and edited by Wang Wenliang (2008), pp 82-83.
  - <sup>3</sup> Ke Long (2013).
  - <sup>4</sup> PRC State Council Information Office (2004).
  - <sup>5</sup> China's system of family registers can be traced back to the enactment of regulations governing the registration of family registers in 1958. The State Council promulgated Regulations of the Department of Public Security Governing the Transferring of Family Registers in 1964. These regulations essentially banned the transferring of family registers from agricultural communities to urban areas. This caused the system of family registers for the citizens of China to become divided into family registers for urban areas and family registers for agricultural communities. All citizens had to register their family registers in the place of their permanent domicile, such that someone with a parent whose family register is based in an agricultural community would inevitably be unable to move away from his or her land and would be deprived of his or her freedom to choose an occupation. After the implementation of the reform and opening-up policy, economic growth led to a reduction in the large flows of migrant workers from agricultural communities to urban areas. Calls for reforms to the family register system are also on the rise and are yielding results in the form of reviews.
  - <sup>6</sup> Megumi Miyao (2013).
  - <sup>7</sup> Website of the PRC Ministry of Education.
  - <sup>8</sup> Classroom integration: An approach to educating disabled children that involves having disabled students educated in classes at a normal school.
  - <sup>9</sup> Website of the China Disabled Persons' Federation.
  - <sup>10</sup> This reference to a dual-track system of pension schemes is made by comparing pension schemes to multiple rail lines. In other words, the system of pensions in China operates on a dual basis with differences existing in terms of *government* and *private*. An urban employee pays insurance premiums and receives low pension amounts whereas public-sector workers and other public officials do not pay any insurance premiums out of their own pockets and receive high pension amounts. Given this disparity in pension amounts, the *government* scheme is more favorable.

## **Chapter 3: South Korea**

### **Jung-Nim Kim**

#### **1. Overview of South Korea**

##### **Location**

The Republic of Korea (hereinafter referred to as “South Korea”) consists of the peninsula that juts out towards the southeast from the northeastern edge of the Asian continental landmass and more than 3,200 islands of various sizes. Korea (North and South) measures 99,600 square kilometers (45 percent of the total area of the Korean Peninsula) in area, abuts China and Primorsky Krai (Russia) in the north, and faces Japan across the Korea Strait in the south. Korea (North and South) sits between 33 and 43 degrees north latitude and between 124 and 132 degrees east longitude. The center of the peninsula sits at 127 degrees, 30 minutes east and 38 degrees north.

##### **Population and aging rate**

The total population of South Korea was 49,410,000 in 2010. As of 2010, the average lifespan of males was 77 years while the average lifespan of females was 83 years. It is expected that these figures will continue to go up in the future. However, the total fertility rate—in other words, the number of children a woman will give birth to in her life—declined from 4.53 in 1970 to 1.21 in 2010 (Table 3-1). While the population of elderly persons is going up with each passing year, the population of young people—in other words, the population of people who are expected to support the elderly population in the future—is going down from year to year. The elderly and the young are each expected to account for about the same percentage of the total population in 2020. After peaking at 52,160,000 people in 2030, the total population is projected to shift gears and shrink from that point forth.

South Korea became an aging society (where the elderly population accounts for 7 percent or more and less than 14 percent of the total population) in 2000. It is expected that South Korea will become an aged society (where the elderly population accounts for 14 percent or more of the total population) in 2017, which means that the country will transform from an aging society into an aged society at a faster pace than that of other advanced countries. Thus, the reduction in the total fertility rate has been causing only the elderly population to rise as a percentage of the total population and more questions to be asked with respect to the way in which social security is being provided. The development of social security measures has become an urgent matter.

Table 3-1. Demographic changes

Fiscal year	1970	1980	1990	2000	2010
Total population (thousands of people)	31,224	38,124	42,869	47,275	49,410
Average lifespan					
Male	58.7	61.8	67.3	72.3	77.0
Female	65.5	70.0	75.5	79.6	83.3
Total fertility rate	4.53	2.83	1.59	1.47	1.21
Rate of dependent population					
Population of the young (0-14 years of age)	77.2	54.3	37.0	29.2	16.1
Elderly population (65 years of age or older)	6.1	6.2	7.2	10.2	11.0

Source: Comprehensive Population and Housing Survey, Future Population Estimates as released by the National Statistical Office for each fiscal year.

Table 3-2. Household constitutive form and average number of household members

Fiscal year	Single-person households	Households consisting of married couple only	2-generation households	3-generation households	Average number of household members	4-generation households
1975	4.2	6.7	68.9	19.2	5.1	1.0
1985	6.9	9.6	67.0	14.8	4.1	0.5
1995	12.7	12.7	63.3	10.0	3.3	0.2
2005	16.2	16.2	55.4	7.0	2.9	0.1
2010	17.5	17.5	51.3	6.2	2.7	

Note: Two-generation households are households consisting of married couple + children, grandparents + grandchildren, and married couple + parents.

Source: Population and Household Comprehensive Survey Report as released by the National Statistical Office for each fiscal year.

The numbers of three-generation households and two-generation households continue to decline, which means that the average number of household members can also be seen to be undergoing a constant decline (Table 3-2). Safety checks and other measures carried out from the standpoint of local networks will become more and more important in order to keep physically weak elderly people at ease and prevent them from becoming isolated from their communities.

### State of the economy and politics

While Korea gained its independence from Japan in 1945, the country was split into North and South, with the South becoming democratic and the North becoming communist. The tension between North and South remains ongoing today. The historical context behind South Korea's current economic and political situation is outlined below in simplified form.

First, the era of the Syngman Rhee administration (1948-1961) took place after the founding of the Republic of Korea. The standard of living of the people in such terms as lack of infrastructure development and food shortages was wretched, such that the country relied on food aid provided by the United States. Politically, political and economic confusion persisted after the Korean War (June 1950 to July 1953). Defense costs and spending on domestic public security accounted for 42 percent—about half—of the national budget in 1954. Domestic industry consisted primarily of primary industries. Economic development accounted for just 15 percent of the budget in the same year.

Second, the administration of Park Chung-hee (1962-1979) began with the coup d'état of May Sixteenth in 1961. In the 1971 election, Park Chung-hee, feeling the heat of the opposition party nominee for the presidency, called for support by leveraging local sentiment and deployed measures through a combination of the unfair distribution of benefits to local areas and support for the administration. As a result, regional discrimination against Jeolla Province remains in effect. Economically speaking, a five-year medium-term economic development plan was put into effect in 1962 and other structural economic reforms were proactively pursued. Exports surpassed 10 billion dollars in 1977 and per-capita income rose above 1000 dollars in 1978. Fiscally speaking, the government posted a 7 percent budgetary surplus for the first time in 1979. The rapid growth of the economy at this time was also referred to as the Miracle on the Han River (a waterway that flows through the downtown core of Seoul). However, Park was assassinated on October 26, 1979, an event that marked the end of the era of the Park administration.

Third, the era of the administration of Chun Doo-hwan (1980-1987) began with a bloody crackdown in the Gwangju democratization movement of May 18, 1980. Subsequently, Chun Doo-hwan was elected as president in an authoritarian election and was thereafter limited to a single 8-year term as president. Pressure was applied to those who opposed his administration and conflicts with university students and workers did not cease. In the economic realm, policies that prioritized the economy gave rise to a budgetary surplus in 1984. Although measures to stabilize consumer prices were taken, the cozy ties characterizing the interdependent relationship between the conglomerates and the government became a worsening problem.

Fourth, the era of the administration of Roh Tae-woo (1988-1992) saw Roh Tae-woo become president in the first direct, free and fair election to be held since the founding of the country for a single term that lasted 5 years. The duration of a single term of a presidency remains unchanged to this day. Disparities between urban areas and agricultural communities and between the rich and poor emerged as social issues and the cozy ties characterizing the interdependent relationship between the conglomerates and the government were exposed. At 31 percent, defense costs accounted for the largest share of government spending in fiscal year 1988, followed by education, at 21 percent,

and economic development, at 15 percent. At the same time, the Seoul Olympics were held in 1988 to showcase the country to the world at large. In the same year, South Korea joined the United Nations along with North Korea and otherwise began to engage in diplomatic relations with communist countries.

Fifth, the era of the administration of Kim Young-sam (1993-1997) broke with convention by having a leader who did not have a previous military background. Thus, a civilian government headed by a civilian emerged for the first time in the history of South Korea. In order to eradicate the cozy ties between politicians and economic groups, the administration introduced a real-name financial system to render the flow of financial assets more transparent. South Korea joined the Organization for Economic Co-operation and Development (OECD) in 1993, surpassed 10,000 dollars in per-capita income and 100 billion dollars in exports in 1995, and achieved a 5-year average economic growth rate of 7 percent. However, the Asian currency crisis (IMF crisis) occurred in 1997 and caused serious economic damage to the country. In addition, local fiscal grants were distributed and attempts were made to decentralize power.

Sixth, the era of the administration of Kim Dae-jung (1998-2002) began with the first change of government between opposing parties since the founding of the country and is also known as the era of the *people's government*. A policy of *productive welfare* was deployed to overcome the effects of the Asian currency crisis (IMF crisis). Productive welfare consists of 1) the guaranteeing of a minimum standard of living, 2) welfare that focuses on human development through investments in human resources, and 3) the participation of workers, employers, their representative organizations, governments, elements of civil society, and various other actors. While the real GDP in 1998 was negative 7 percent, efforts were undertaken to achieve an economic recovery, such as by endeavoring to achieve a 5-year average economic growth rate of 5 percent. A policy of reconciliation towards North Korea—referred to as the Sunshine Policy—was launched.

Seventh, the era of the administration of Roh Moo-hyun (2003-2007) introduced the concept of *participatory welfare* (involving a government operating through the participation of the people). The economy began to grow again in 2004 and stabilized with a 5-year average economic growth rate of 4 percent and an average consumer price index of 3 percent. The Sunshine Policy continued to define South Korea's dealings with North Korea. After leaving office, Roh Moo-hyun was subject to an investigation that looked into allegations that he, along with his aides and family members, had accepted bribes. In May 2009, he committed suicide.

Eighth, the era of the administration of Lee Myung-bak (2008-2012) implemented a policy of repression against forces critical of the current administration. Economically speaking, this administration proclaimed the 747

Plan (a policy for achieving a 7 percent rate of economic growth) for which 22 trillion won were invested in the Four Major Rivers Project. This project, however, was heavily criticized for failing to produce any significant results. The 4-year average economic growth rate between fiscal years 2008 and 2011 was 3.1 percent but average consumer prices rose by 3.6 percent and average gasoline prices increased by 6.3 percent. The cozy ties between the government and conglomerates became a societal concern as did social disparities as revealed in figures showing that the middle class was shrinking (71.7 percent in 2000, 69.2 percent in 2005, and 67.5 percent in 2010) and that the ranks of the poor were growing (9.2 percent in 2000, 11.9 percent in 2005, and 12.5 percent in 2010).

### **Local governments**

While South Korea had been subject to an extended period of central government rule since the time of the administration of Park Chung-hee, the heads of local governments and members of local assemblies began to be elected into office during the administration of Kim Young-sam. Local governments were created under a framework of constraints placed on administrative roles and fiscal resources in the area of general administration.

In connection with the administration of Kim Dae-jung, a pledge was made during the presidential election to transfer functions of the central government to local authorities. The Law on Promoting Devolution to Local Authorities was enacted in 1999 after Kim Dae-jung took office. This had the effect of giving greater precedence to local governments over the state. While the Commission on Devolution Promotion to Local Authorities was set up under the direct control of the president, greater emphasis was placed on the balanced development of the state than on decentralization, such that economic support for low-developed regions was given greater weight.

In connection with the administration of Roh Moo-hyun, a pledge was also made during the presidential election to engage in the sustained transferring of central administrative affairs to local authorities. After Roh Moo-hyun took office, efforts were carried out in hopes of achieving decentralization, as can be seen in the establishment of the Commission on Government Innovation and Decentralization, the formulation of a roadmap on government innovation and decentralization, the enactment of the Decentralization Special Law, and the formulation of a 5-year comprehensive plan for the implementation of decentralization. In 2004, Incheon, Busan/Jinhae, and Gwangyang were designated as free economic zones (FEZ) for the primary purpose of attracting foreign capital and stimulating local economies in designated areas through tax cuts, deregulation, and other forms of preferential measures. In this and other ways, many decentralization concerns were identified and solutions for these concerns were accordingly promoted.

The administration of Lee Myung-bak enforced the Special Law on

Decentralization Promotion and established the Decentralization Promotion Commission in 2008 and formulated a comprehensive plan for the implementation of decentralization in 2009. A basic comprehensive plan on reorganizing the system of local administration was also formulated in 2012. In seeking to widen the area under the jurisdiction of local governments and integrate local governments, the central government unilaterally pursued a course for the reorganization of the system of local administration. As the core element of regional policies, the concept of “5+2 wide-area economic zones” was promoted, such that the 16 nationwide wide-area local self-governing bodies in existence at the time (nine provinces, the special city of Seoul, and six metropolitan cities) were reorganized into five wide-area economic zones and two special wide-area economic zones. By promoting a wide-area regional strategy that went beyond the existing administrative framework, the global competitiveness of local industrial economies was reinforced.

### **Features of social security**

Social security in South Korea is rooted in neo-liberalism, which endorses the view that the state only needs to be responsible for the poor and the unemployed. Neo-liberalism essentially protects the freedom and assets of individuals and emphasizes the remediation of any unfairness tied to market competition as well as the equality of market competition.

Social security in South Korea was codified through the stipulation of Efforts Concerning Social Security for the State in the fourth constitutional amendment of 1960 and the enactment of the Law on Social Security in 1963. The term “social security” has been in use since the constitutional amendment of 1980. Social security consists of *social insurance, public assistance, social welfare services, and other relevant welfare schemes provided to protect all citizens from such social risks as illness, disability, old age, unemployment, and death; solve the problem of poverty; and improve the quality of the lives of the people.*<sup>1</sup>

South Korea’s first social-insurance scheme was the Law on Industrial Accident Insurance (industrial accident insurance) that was enacted in 1963 and went into force in 1964. The industrial-accident insurance scheme was an insurance scheme designed to protect the livelihood of workers who sustain a disaster-caused injury or harm resulting from an occupational injury, illness, physical disability, or death and their families. A national health insurance scheme was enacted in 1963 but was put into force for business sites with large workforces in 1976 before it was gradually expanded to provide health insurance coverage to everyone in the nation. The National Pension Law was enacted in 1973 to provide for citizens who are unable to earn an income due to old age, disability, death, or other such circumstances but was put into force in fiscal year 1988. An employment insurance scheme was put into force in 1995 as part of an integrated set of policies in conjunction with an unemployment



insurance scheme, employment stability scheme, job skills development scheme, and other such programs. A nursing care insurance scheme (Law on Long-Term Medical Treatment Insurance for the Aged) was put into force in July 2008 in response to the recognition of nursing-care issues affecting the elderly as the biggest factor for insecurity in the lives of the elderly in their post-retirement years.

Social security insurance premiums used to be collected by 3 different public insurance corporations (National Health Insurance Corporation, National Pension Corporation, and Labor Welfare Corporation). Since fiscal year 2011, however, the insurance premiums for 5 different social security schemes (health insurance, long-term medical treatment insurance for the aged, pension insurance, industrial accident insurance, and employment insurance) have been collected solely by the National Health Insurance Corporation.

The provision of social insurance in South Korea is behind that of Japan and other advanced countries. Spending on social security is relatively small in terms of scope and amount. For these reasons, the burden of insurance premiums has also been kept in check. In other words, social security programs in South Korea are characterized by 1) an assumption that elderly parents will be economically supported by their children and 2) a reliance on family members to rear children and provide elderly nursing care. (The degree of reliance on wives and daughters-in-law is especially high (Table 3-3).)

Table 3-3. Benefits to be obtained from and the financial administration of the five big social insurance schemes

Classification	Health insurance	Long-term medical treatment insurance for the aged	National pension	Industrial-accident insurance	Employment insurance
Ministry in charge	Ministry of Health and Welfare			Ministry of Labor	
Insurer	National Health Insurance Corporation		National Pension Corporation	Labor Welfare Corporation	Ministry of Labor
Date enforced	July 1997	July 2008	January 1988	July 1964	July 1995
Insured persons	All citizens	Persons enrolled in health insurance	All citizens	Places of business with at least one full-time worker	
Disparity in benefits	Equal benefits	Equal benefits	Tied to income	Tied to income	Tied to income
Mode of financial administration	Assessment plan Binary (workplace, local area)	Reserve-financing plan Unitary	Revised reserve-financing plan Unitary	Assessment plan	Revised reserve-financing plan

Source: Social Insurance Information System <http://www.4insure.or.kr/ptl/guid/cntr/SoclltdnLayout.do>

## 2. Current state of social welfare

### Current state of welfare for the elderly

(1) Services prior to the adoption of a nursing-care insurance scheme

a) Facility services: Admission facilities prior to the introduction of a nursing-care insurance scheme were categorized into free facilities, low-cost facilities, and charged facilities according to the extent that each elderly patient could pay for admission. These facilities consist of homes for the aged comprising live-in welfare facilities for the aged and medical treatment and welfare facilities for the aged as well as medical treatment facilities and specialized medical treatment facilities and were differentiated according to the health condition of each admitted patient. Free facilities are used by people on welfare while low-cost facilities were used by income earners earning less than the average income of typical households with urban workers. While homes for the aged admit persons who are 65 years of age or older and who are capable of engaging in independent living in their day-to-day lives, medical treatment facilities admit elderly persons who are aged 65 years or older and who are incapable of living independently in their day-to-day lives. In 1988, a facility in Gyeonggi-do Yudang Village became the first fee-charging facility to open and operates on the premise that admitted persons shall pay costs in full as they would in Japan.

Operators of admission facilities generally consist of the state and local governments. If another person wishes to operate a facility, a declaration needs to be made to the governor, mayor, county magistrate, or district head (head of the local government) (Paragraph (2) of Article 33 of the Law on Welfare for the Aged). Specialized hospitals for the aged are opened under the Medical Treatment Law and require permission to be granted by the mayor or governor with jurisdiction over the relevant location.

b) Housing welfare services: Housing welfare services include home service dispatching services (nursing care provided by visiting care providers), day services (presently consisting of weekly and nighttime services), and short-stay services. 1) Home service dispatching services have been provided by Korean welfare centers for the aged since 1987 but were adopted as official services for the first time by the city of Seoul in 1996. Helpers are referred to as *domi*, a term that means mutual assistance. 2) Visiting services (visiting *domi* services for the provision of housekeeping and nursing-care functions) were first provided to elderly persons on welfare in 2001. Since then, they have been expanded to enable their provision to low-income disabled persons and young persons. The costs of these services are covered by a portion of lottery revenues. 3) Day services were begun in 1992 and 4) short-stay services have been operated since 1994.

At-home facilities are generally operated by the state and local governments. If another person wishes to operate a facility, the establishment

of a location needs to be declared to the governor, mayor, county magistrate, or district head (Article 39 of the Law on Welfare for the Aged).

(2) Current state of the nursing-care insurance scheme

a) Insurers and insured persons: Having been implemented in July 2008, the nursing-care insurance scheme (long-term medical treatment insurance scheme for the aged) is the latest social-insurance scheme to be adopted in Korea. The sole operator of the nursing-care insurance scheme (insurer) for the entire country is the National Health Insurance Corporation. The state and local governments are called upon to support the insurer.

Insured persons enrolled in the nursing-care insurance scheme consist of everyone enrolled in the national health insurance scheme. Insurance premiums are set according to income level.

b) Persons covered by services, procedures to be followed by service users, and classifications for certifying nursing-care need: Persons eligible to receive nursing-care benefits consist of elderly persons aged 65 years or older and persons who are less than 65 years of age and who suffer from dementia, a cerebrovascular disease, or other disease or condition associated with old age.

The procedures for using nursing-care services from application to usage are as follows:

- 1) Submit a written application to be certified as requiring nursing care to the nursing-care insurance office within the Health Insurance Corporation (application). Attach a written opinion provided by the applicant's personal physician.
- 2) An official from the Health Insurance Corporation will pay a direct visit to the applicant's home to conduct an examination of the physical and mental state of the applicant (visit examination).
- 3) A computerized system will conduct a primary assessment according to unified nationwide standards with the examination form completed by the certification examiner (assessment).
- 4) A nursing-care certification review board comprising healthcare, medical, and welfare experts and other informed parties shall grant certification (certification).
- 5) A nursing-care level certificate will be sent by post. A model care plan will also be sent at the same time (certificate sent).
- 6) The person certified as needing nursing care will be entitled to use various services upon concluding an agreement with the service provider (contract concluded and services utilized).

The classifications of levels of nursing-care need certification range from Class 1 to Class 4, where those categorized as Class 1 require the highest level of nursing care and those categorized as Class 4 require the lowest level of nursing care, and Class 5 (dementia). The more serious the need for nursing care, the higher the assigned nursing-care level certification score (which is inversely related to level).

c) Framework of the nursing-care insurance scheme: The structure of finances for nursing-care insurance is such that the state pays 20 percent of the annual nursing-care insurance premiums for each fiscal year while the local government pays nursing-care benefit expenses and the costs tied to written observations and diagnoses prepared by physicians and written instructions provided by visiting nurses. Nursing-care insurance premiums paid by users account for 50 percent of the source of funds for this scheme while co-payment amounts paid by users when using at-home services and facilities account for 15 percent and 20 percent, respectively. While welfare recipients (recipients of a basic national subsistence guarantee) pay nothing out-of-pocket as costs are fully covered by the public, 80 percent of these benefit expenses are paid by the state while the remaining 20 percent are paid by local governments.

Table 3-4. Outline of the nursing-care insurance scheme

Name	Law on Long-Term Medical Treatment Insurance for the Aged
Insurer	National Health Insurance Corporation
Insured persons	Persons enrolled in national health insurance scheme
Persons entitled to benefits	Elderly persons and persons requiring nursing care due to affliction with an illness or condition commonly associated with aging
Service application	Written opinion by personal physician → application → examination for certification → primary assessment by computer → secondary assessment by the nursing-care certification review board
Level of nursing-care need	Class 1, Class 2, Class 3, Class 4, Class 5 (dementia)
Insurance financing	Public funds 20 percent (80 percent state, 20 percent municipality) + municipality (fully free for welfare recipients, low-income persons required to pay 50 percent) Set to 10 percent or less of medical treatment insurance premiums (5.89 percent) Nursing-care insurance premiums (6.55%)
Amount paid by service user	At home 15 percent, facility 20 percent
Collection of premiums	Added to health insurance premiums
Participation of for-profit enterprises	At-home nursing care and admission facilities: entry possible
Care plan production	Produced based on the level of nursing-care need without taking into account the opinions of government corporation staff members and certifying persons
Service usage	Contract concluded with business location (care-plan free)
Service types	
At-home services	Visiting nursing (attendance) care, visiting bath services, visiting nursing care, day services, short-term admission, welfare tools
Facility admission	Medical treatment facilities for the aged (special medical treatment homes for the aged), medical treatment and shared-living homes for the aged (group homes)

Produced by the author.

Users of facility services pay 20 percent of incurred costs (and the costs of food and residence in full) and the users of at-home services pay 15 percent of incurred costs. Low-income earners pay 50 percent of the portion of co-payment while the remaining 50 percent is paid by the state and local governments. A recipient of a subsistence guarantee shall not pay for nursing-care insurance premiums and shall pay nothing for using services.

With respect to the types of nursing-care services that are provided, it should be noted that facility services include special medical treatment homes for the aged (medical treatment facilities for the aged) and group homes (medical treatment and shared-living homes for the aged). Group homes can admit not just elderly persons with dementia but also elderly persons with physical disabilities. At-home services include visiting attendance care (home help), visiting bath services, visiting nursing care, day services, short-term stay-based living care (short stays), and the renting and purchasing of welfare tools.

Cash benefits include special cash benefits to pay for family medical treatment costs, special medical treatment costs, and the costs of hospital attendants for medical treatments. Cash benefits are available to caregivers with care helper qualifications (medical treatment care workers) who care for family members. For family medical treatment costs, 150,000 won per month are paid to caregivers who care for family members in villages that lack care centers in remote mountainous areas or on remote islands. If care services are provided by a family member with care helper qualifications to a person certified as needing nursing care, cash benefits will be provided but the amount of care benefits involved will differ depending on whether the care provider is living together with or separate from the person certified as needing nursing care. For the costs of hospital attendants for medical treatments, the costs of nursing care attendants are supposed to be paid when the person requiring nursing care is admitted to a special hospital for the aged or a medical-treatment hospital but this benefit has not yet been implemented as insurance finances are not up to scratch.

d) Current state of the utilization of nursing-care services: The percentage of elderly persons comprising applicants requiring nursing care increased from 7.4 percent in 2009 to 10.7 percent in 2013. The number of persons certified as requiring nursing care increased from 214,000 in 2009 to approximately 350,000 in 2013. In breaking these figures down by level of nursing-care need, we see that, in the years between 2009 and 2013, there was an increase from 161,000 to 240,000 persons for level 3, no change from 71,000 persons for level 2, and a decrease from 54,000 to 37,000 persons for level 1. The percentage of elderly persons comprising persons certified as requiring nursing care stood at 5.4 percent in 2009 and has remained at 5.7 percent since 2010. Service users accounted for the percentage of persons certified as requiring

nursing care for each of the following years as follows: 82 percent in 2009, 89.9 percent in 2010, 89.1 percent in 2011, and 88.2 percent in 2012. The fact that there is a high rate of service usage necessitates consideration of the high rate of cash benefits paid to family members with care helper qualifications.

**Welfare for the disabled**

(1) Process by which laws for the disabled have evolved

Persons with disabilities are “people with physical disabilities... and psychological disabilities who have suffered substantially in their daily living or social life over many years due to disabilities” (Article 2 of the Law on Welfare for Disabled Persons).

The Law on Welfare for Disabled Persons was enacted for the first time in 1981 as the Law on Welfare for Mentally and Physically Disabled Persons. The name of this law was changed to Law on Welfare for Disabled Persons in 1989. The provision of education and rehabilitation to disabled persons was begun with the enactment of the Law on Promoting the Employment of Disabled Persons in 1990 and the Law on Advancing Special Education in 1993. The Law on Promoting the Accommodation of Disabled Persons, the Aged, Pregnant Women, etc., was enacted and promulgated in 1997, which led to an increase in interest in barrier-free matters (Table 3-5).

Table 3-5. Development of policies for the disabled

Stage at which relief is offered and the introduction of schemes takes place Up to 1987	Policy expansion stage and stage at which schemes are maturing 1988-1997	Stage at which schemes are maturing 1998 to the present
Societal awareness of disabled persons is weak Policy for required protection based on measures and schemes Policy implemented as part of social welfare Enactment of the Law on Welfare for Physically and Psychologically Disabled Persons (1981) →name changed to Law on Welfare for Referrers	Program of registering disabled persons begun (1989) Gasoline costs paid to automobile owners (1990) Law on Promoting the Employment of Disabled Persons enacted (1990) Law on Promoting Convenience for Walking Disabled Persons enacted (1997)	5-year development plan for disabled persons begun (1998) Scope of disabilities expanded Law on Banning Fines to Automobile Owners enacted (2008) Basic pension scheme implemented (2010) Law on Activity Support comes into force (2011)

Source: Produced by the author based on Seunggi Lee (2012), National Rehabilitation Institute.

The Korean Women’s NGO Committee established a new sub-section for disabled persons in 1995 and disabled women’s provisions were added to the Charter on the Population of Disabled Persons and the Law on the Welfare of

Disabled Person in 1999. In these ways, a framework for reinforcing the rights of disabled women was formed. A law on remedying discrimination against disabled persons and violations of the rights of disabled persons was enacted in 2007 and put into force in 2008. A law on pensions for disabled persons was enacted and put into force in July 2010 and a law on providing livelihood support for disabled persons was enacted and put into force in 2011.

The scaling down of facilities with 100 or more admitted persons to smaller facilities with a capacity of less than 30 persons constituted the core of the 2011 amendments to the Law on the Welfare of Disabled Persons. The 2012 amendments to the Law on the Welfare of Disabled Persons caused “living facilities for disabled persons” to be renamed “residential facilities for disabled persons.” Local rehabilitation facilities consisting of short-term protective facilities and shared-living homes that provide housing and living support were renamed “housing facilities for disabled persons.”

(2) Population of disabled persons and measures to promote the employment of disabled persons

a) Population of disabled persons and the types of disabilities: The population of registered disabled persons increased from 1,449,000 persons in 2000 to 2,519,000 persons in 2011 and is rising from year to year. In looking at grades of disabled persons, we see that grade 5 disabled persons, at 531,000 persons, are most numerous followed by grade 3 disabled persons (433,000 persons), grade 2 disabled persons (351,000 persons), and grade 1 disabled persons (210,000 persons).

While the system of registering disabled persons was instituted in 1988, the inadequate development of infrastructure for welfare services and a lack of understanding regarding this national system caused the rate of the registration of disabled persons to stay below 50 percent for about a decade. With the passing of the economic crisis that struck South Korea in 1997, welfare measures for disabled persons were fortified and the rate of registrations rose.

There are presently 15 types of disabilities recognized in the Law on the Welfare of Disabled Persons (disability involving the limbs, brain lesion disability, auditory disability, linguistic disability, intellectual disability, psychological disability, autism, cardiac disability, kidney disability, visual disability, respiratory disability, hepatic disability, facial disability, intestinal/urinary disability, and epilepsy). In breaking disabilities down by type, we see that disability involving the limbs ranked highest in 2010 (53.1 percent), followed by auditory disability (11.9 percent), brain lesions (10.4 percent), visual disability (9.9 percent), and intellectual disability (6.4 percent).

b) Measures to promote the employment of disabled persons: A mandated employment policy exists as a measure to promote the employment of disabled persons by compelling businesses to employ disabled persons. In 1991, the scope of this mandated employment policy was expanded to encompass

business locations with 300 or more full-time workers. The scope of this policy was again expanded to cover business locations with 50 or more full-time workers in 2004. In order to promote the employment of disabled persons, the statutory rate of employment was increased to 3.0 percent at public institutions and 2.3 percent at private-sector enterprises in 2010 from 1.1 percent back in 1991. In terms of the actual rate of employment, public institutions rank highest at 2.2 percent, followed by government institutions at 1.97 percent and general enterprises at 1.84 percent, such that the actual employment rate currently falls short of the statutory employment rate for all categories. According to the Ministry of Employment and Labor, business locations obligated to employ disabled persons numbered 22,209 as of December 2009 but only 11,857 locations were in fact employing disabled persons (53.4 percent).

Also according to the Ministry of Employment and Labor, the employment rate for disabled persons in 2011 was 36 percent, a lower level than the employment rate for the entire country (60 percent). In looking at areas of employment, we see that unskilled labor accounts for 30.1 percent of disabled persons with jobs, a relatively high rate of employment, followed by skilled workers and clerical jobs, which account for relatively low rates of employment of 7.1 percent and 6.5 percent, respectively.

In order to promote the employment of disabled persons, employers are provided financial incentives, subsidies, and assistance to cover employment administrative expenses and facility improvement costs. Facilities that are promoting the development of job skills possessed by disabled persons and that are employing or hiring disabled persons accordingly will be provided free support in terms of the establishment of rehabilitation facilities, assistance, and repair expenses. In addition, financing to establish welfare plants for the disabled; financing to build or make additions to dormitories, obtain work equipment, or build break rooms and rehabilitation treatment rooms; and financing to enable the acquisition of vehicles to transport disabled persons to and from work shall be provided. A business location that has hired new disabled employees shall be provided with a subsidy for the employment of disabled persons for two years.

c) Current state of pensions and income security for disabled persons: Persons entitled to receive a disabled person's allowance formerly consisted of holders of disability certificates for class 1 or class 2 disabled persons (or class 3 for persons with an intellectual disability or with a developmental disability), who are also on welfare (national basic subsistence guarantee). However, this was expanded in 2005 to cover all disabled persons receiving a livelihood protection. The implementation of the Law on Livelihood Protection in 2007 expanded the scope of persons entitled to receive a disability allowance to include low-income earning (less than 120% of minimum living cost)



registered disabled persons under the age of 18 years (disabled persons in security facilities shall be paid only a disability allowance irrespective of age) who constitute persons with a moderate to severe disability (class 1 and 2 disabled persons as well as class 3 intellectually or developmentally disabled persons suffering from another disability at the same time) or persons with a light disability (class 3 to 6).

The disability allowance amounts to 130,000 won per month for a person with a moderate to severe disability and 30,000 won per month for a person with a light disability. The disabled child allowance has been paid since 2007 to children receiving the basic national subsistence guarantee for under 18-year-olds and children in low-income earning households and amounts to 200,000 won per month for a child with a moderate to severe disability. The disability allowance for persons admitted to a disability facility amounts to 70,000 won per month for a person suffering from a moderate to severe disability and 20,000 won per month for a person suffering from a light disability.

A pension scheme for disabled persons was put in place in July 2010. As of June 2011, there were 308,000 recipients of a pension for disabled persons and 55 percent of persons with a moderate to severe disability (total of 559,310 persons with a moderate to severe disability) were receiving a pension for disabled persons. This pension for disabled persons amounts to 91,000 to 151,000 won per month for persons with a moderate to severe disability (class 1 and 2 disabled persons as well as class 3 disabled persons with multiple disabilities).

With respect to the economic circumstances of disabled persons, it should be noted that the average earnings of disabled persons equaled 1,420,000 won per month in 2011, or 45.7 percent of the average earnings of all workers (3,110,000 won). The average earnings of households with a disabled person were 1,980,000 won per month, or a relatively low 53.3 percent of the average earnings of all households (3,710,000 won). With the relative poverty rate in 2009 at 39.8 percent for disabled persons and at 15.7 percent for non-disabled persons, the relative poverty rate for disabled persons was 2.5 times as great as the relative poverty rate for non-disabled persons and higher than the 18 percent income average for OECD countries. The relative poverty rate represents the percentage of people earning less than half the median amount of income in the given country (middle value of all amounts of income ranked in order from lowest to highest in terms of amount earned).

Welfare spending accounted for 0.3 percent of the government budget in 2007. Disability benefits accounted for 0.14 percent of GDP in 2005, which was less than the average of 1.2 percent for OECD countries. Budgeted spending on welfare for disabled persons is trending upwards, with 950 billion won spent in 2008 and 1,948.6 billion won spent in 2012.

### (3) Services for disabled persons

a) Activity-support services: The Law on Supporting Activities by Disabled Persons was enacted in 2011. This law was passed with the aim of providing activity-support services to disabled persons experiencing physical and psychological difficulties in their day-to-day lives and thereby promoting independent living and societal participation on the part of disabled persons.

1) Persons entitled to receive services consist of class 1 (severe) through class 4 disabled persons between the ages of 6 years and under 65 years irrespective of income level. 2) Service types consist of activity assistance (physical care, housekeeping services, support for social activities; accompanying, outings), visiting bath services, and visiting nursing-care services. 3) With respect to the amount to be paid by the service user, a person receiving a subsistence guarantee shall pay nothing, a low-income person shall pay 20,000 won, and all other persons of other levels shall pay between 6 and 15 percent of costs according to income. The amount to be paid for the use of services shall correspond to 5 percent of the national pension for disabled persons and shall range between 51,600 and 91,200 won. 4) The maximum monthly amount of service benefits that can be granted shall be 860,000 won for a class 1 disabled person, 690,000 won for a class 2 disabled person, 520,000 won for a class 3 disabled person, and 350,000 won for a class 4 disabled person. However, benefits will be added to the tune of 166,000 won for a person living on his or her own, 664,000 won for childbirth assistance, 83,000 won for a low-income household, 166,000 won for a person preparing to living on his or her own after he or she is discharged from a facility, and 83,000 won for an active student.

Rehabilitation services, language development support services, and care services shall be provided to a family dealing with a childhood disability in order to lessen the burden on the family of raising a disabled child. The number of users of such services jumped from 32,571 in 2010 to 43,944 in 2011.

b) Admission facilities: Permission to be admitted to a facility for disabled persons can be granted by submitting a request to the head of the local municipality. A facility is unable to refuse to admit a disabled person without a valid reason (Articles 31 and 47 of the Law on Welfare for Disabled Persons).

A disabled person admitted to a facility shall consist of a disabled person receiving a subsistence guarantee, disabled person without a person under a duty to support the disabled person, or disabled person with a person who is under a duty to support the disabled person but who is not mentally competent to fulfill his or her duty. With respect to the amount to be paid by the person admitted to a facility, a person receiving a subsistence guarantee shall pay nothing. 30 percent of the maximum number of persons not receiving a subsistence guarantee to be admitted to any given facility pays less than 167,000 won per month.

In 2011, there were 490 admission facilities to which 25,000 persons had been admitted. Facilities with a capacity of 100 or more persons accounted for 17.8 percent (87 locations) of the total number of locations and 41 percent (10,000 persons) of the total number of admitted persons. In the future, facilities with a capacity of 30 or more persons are expected to gradually transform into smaller-scale facilities with a capacity of less than 30 persons. The implementation of plans for reduction will cause facilities admitting 100 or more persons to account for 12.2 percent of the total number of locations by 2017.

### **Welfare for children**

In South Korea, the two-child policy that had been in place since the 1960s successfully brought the total fertility rate to below the population replacement level of 2.1 in 1983. The birthrate has continued to decline since then, such that the total fertility rate in 2003 went down to 1.19, the lowest in the world at the time. In 2010, it was 1.21. In recent years, the causes of the falling birthrate include not just the tendency to marry later, the tendency to have children later, and the increase in the costs of education required to raise children, but also diminished fertility on the part of couples. The need for couples, including men, to reexamine the way they work and to strike a balance between work and child rearing has come to be stressed.

In South Korea, the first law concerning welfare for children to be enacted was the Law on the Welfare of Children, which was enacted in December 1961. Given the difficulty with which state funding at the time was secured, persons entitled to protection were restricted. This law reflected a policy of providing protection for those who really needed it. Amendments to the Law on the Welfare of Children were later passed by the National Assembly in March 1981 and put into effect in April of the same year. This led to the promulgation of a universal Law on the Welfare of Children that could be applied to all children of the next generation rather than just to children requiring minimum levels of protection. The Law on Child-Care for Infants was enacted in 1991 to enable existing daycares to expand into daycares where protection and education functions could be consolidated.

In recent years, there have been moves to expand the scope of the children's allowance for infants. A childcare allowance for children who do not attend a facility was introduced in July 2009. A childcare allowance for the provision of free childcare and free education to children under the age of two years and children aged five years (within income restrictions on childcare fees and course fees) was begun in March 2012. In March 2013, a revised childcare allowance scheme was implemented to give all households raising children (within income restrictions) money to cover childcare fees and a childcare allowance. The government of South Korea expanded the childcare allowance

with the aim of reducing the economic burden on households raising children and putting the brakes on the declining trend affecting the birthrate at an increasingly rapid pace.

Children’s homes (hereinafter referred to as “day-care centers”) have been increasing in number, such that there were 42,527 centers in 2012, a 2.2-fold increase over fiscal year 2000. However, state and public day-care centers account for a mere 5.2 percent (2,203 centers) of the total number of centers while private-sector day-care centers (including home day-care centers) account for 87.9 percent (40,061 centers) of the total number of centers. The number of children using day-care centers was 686,000 in 2000 and more than doubled to 1,487,000 in 2012, of which the users of private-sector day-care centers numbered 1,140,000. The increase in the number of private-sector day-care centers reflects the social issue of children on waiting lists to be accepted into centers due to the impact of dual-income households and other such factors. The 1998 amendments to the Law on Infant Care loosened standards on setting up day-care centers, such as by moving from a licensing system to a declaration system.

With respect to spending on welfare for families with children, South Korea spent 0.8 percent of their budget for an average of 219.0 dollars spent per family in 2009 while the OECD average was 817.1 dollars per family. If we look at changes in budgetary spending on children’s policies (excluding day-care centers), we see that 69.5 billion won were spent in 2007, 208.4 billion won were spent in 2012, and 2,598.2 billion won were spent in 2013. This clearly shows an upward trend. The children’s allowance increased by more than 8-fold in one year by going from 102.6 billion won in 2012 to 881.0 billion won in 2013. As indicated in the following table (Table 3-6), the children’s allowance is less for children not attending a day-care center or kindergarten than for children attending a day-care center or kindergarten. The older the child, the lower the amount of the children’s allowance.

Table 3-6. Children’s allowance (monthly amount)

(Unit: won)

	0 years of age	1 year of age	2 years of age	3-5 years of age
Where day-care center/kindergarten is used	347,000	286,000	286,000	220,000
Where neither day-care center nor kindergarten is used	200,000	150,000	100,000	100,000

Produced by the author.

Amendments passed in December 2009 stipulated that priority for admission to state and public facilities would be given to families with 3 or more children and children belonging to multicultural families (where one of the parents is a non-Korean).

Policies have been instituted to allow parents to accommodate both work and child-rearing needs. Some of these policies have resulted in the establishment of a system of childcare leaves and fixed rate compensation, a reduction in working hours, the granting of a spousal childbirth leave by employers, the establishment of babysitting classrooms in primary schools, and the establishment of an after-school babysitting service by primary schools.

As a measure for dealing with the low birthrate, the Basic Law for a Low-Birthrate Aging Society has been in effect since 2005. In fiscal year 2012, the supplementation of existing policies was announced as follows. The first policy consisted of a proposal to provide an after-school babysitting service free-of-charge for primary school students. The second policy consisted of a proposal for improved working hours to accommodate pregnancies and child-rearing requirements and the introduction of shorter working hours and child-rearing leaves for spouses. Amendments to 3 laws on maternal protections in 2001 (Law on Labor Standards, Law on Employment Equality for Women, and Law on Employment Insurance) transformed the childbirth leave scheme and child-rearing leave scheme from schemes that did not provide pay into schemes that provided or did not provide pay. Specifically, paid leaves became 60 days in length while unpaid leaves became 30 days in length within the context of the childbirth leave scheme and child-care leaves went from being unpaid to partly paid. In order to encourage men to participate in child-rearing tasks, a spousal childbirth leave scheme was adopted in 2007. Under this scheme, an unpaid leave extended for three days. Revisions undertaken in 2012 caused the unpaid leave to become two days in duration while a paid leave could last for three days. The third policy consisted of a proposal for guaranteeing rights corresponding to a woman's pregnancy and childbirth and included the lowering of medical costs as a way to promote the health of pregnant women and newborns.

The Special Law on Child Abuse was approved by the National Assembly in December 2013. Cases of child abuse had been on the rise every year. In 2012, there were 10,943 child-abuse consultations submitted to child-protection agencies (47 locations) across the country. Suspected cases of child abuse accounted for 8,979 of these consultations. Cases involving protection accounted for 6,050 of these consultations. There were 10 reported cases of death resulting from abuse. Early detection and the fortification of education are among the measures needed to prevent child abuse.

### **3. Current state of healthcare security**

Public healthcare insurance is characterized by mandatory enrolment for everyone and by the obligation placed on everyone to pay insurance premiums. By presenting an insurance card at the reception desk of any healthcare

institution, a person can receive healthcare services with the out-of-pocket payment of a certain percentage of costs incurred. This framework reduces the out-of-pocket amounts to be paid for healthcare services and secures an equal opportunity to access healthcare by way of the spreading of risks across society as a whole.

### **Process by which healthcare insurance schemes evolved**

The national healthcare insurance scheme was enacted as a voluntary insurance scheme in December 1963 but its implementation was delayed due to less-than-ideal domestic socioeconomic conditions. Amendments to the Law on Healthcare Insurance in 1976 gave rise to implementation in 1977 in the form of the Law on Workplace Healthcare Insurance, which applied to business locations with 500 or more employees. Rising national income and other factors led to the expansion of the scope of this law in 1981, such that business locations with at least 100 employees became subject to its provisions. In 1988, this scheme was implemented for the local residents of agricultural and fishing villages. In 1989, the expansion of coverage to include self-employed persons in urban areas resulted in *universal national insurance*. Against the backdrop of these developments, a presidential election was held in 1987 and the implementation of this scheme was seen as a necessary means for achieving political objectives.

Local healthcare insurance was instituted in the 1990s to address a number of issues, including differences in economic strength among different healthcare insurance associations, the weight of the burden of insurance premiums placed on the residents of agricultural and fishing villages, dissatisfaction with restrictions on the scope of services, and increases in state subsidies. In 1996, presidential hopeful Kim Dae-jung (National Assembly) pledged that he would, as president, “consolidate healthcare, eliminate state support for healthcare insurance, and direct state support to the development of education and the fields of science and technology.” The subsequent administration of Kim Dae-jung, who won the election, submitted a bill for a consolidated national health insurance scheme to the National Assembly in 1998. This bill passed an extraordinary session of the National Assembly in February 1999 and healthcare insurance in South Korea underwent consolidation in July 2000. However, the financial administration of healthcare insurance was consolidated in July 2003 due to difficulties encountered in developing a shared system for levying insurance premiums applicable to everyone, a prerequisite for the consolidation of financial administration. This process resulted in the continued maintenance of a dualistic insurance premium-levying system based on job categories and regions for wage earners and non-wage earners. Focus is being directed to the question of how fairness among job categories and regions can be ensured through this dualistic insurance premium-levying system.

Table 3-7. Outline of the healthcare insurance scheme

History of the healthcare insurance scheme	December 1963:	Law on Healthcare Insurance enacted.
	July 1977:	Coverage extended to places of business with 50 or more workers (486 associations).
	January 1979:	Public-sector workers and private school teachers obtain coverage by healthcare insurance.
	January 1981:	Coverage extended to places of business with 100 or more workers.
	January 1988:	Area-based healthcare insurance for agricultural and fishing villages implemented.
	July 1988:	Coverage extended to places of business with five or more workers.
	July 1989:	Coverage extended to self-employed persons in urban areas to herald the establishment of universal healthcare insurance.
	November 1998:	Consolidation of local healthcare insurance associations (227 associations) with a government corporation providing healthcare insurance to public-sector workers and private-school educators takes place.
	February 1999:	Law on National Health Insurance enacted.
	July 2000:	Consolidation of a government corporation on healthcare insurance with local healthcare insurance associations (139 associations) takes place. The National Health Insurance Corporation becomes the insurer for this scheme.
	July 2001:	Workplace enrolment of places of business with fewer than 5 workers undertaken.
	July 2003:	Consolidation of workplace financial administration with area financial administration (real consolidation) takes place.
	July 2004:	Limits on copayment amounts introduced.
July 2006:	Foreign nationals subject to mandate to enroll in healthcare insurance scheme; benefits extended to cover meal costs for admitted patients.	
2011:	Collection of insurance premiums for various social security schemes (national healthcare insurance, national pension, employment insurance, labor accident insurance) undergoes consolidation.	
Organizations	Ministry of Health and Welfare	Determines policies concerning the health insurance scheme, determines standards applicable to insurance premiums and additions to insurance premiums, approves the budget and regulations of the Insurance Corporation.
	National Health Insurance Corporation	Collects and adds to insurance premiums, pays benefit expenses, determines drugs prices in collaboration with pharmaceutical companies, and more.
	Health Insurance Review and Assessment Service	Reviews benefit expenses, evaluates benefit expenses, and more.
	Health Insurance Policy Review Committee	Reviews and determines benefit standards, benefit expenses, insurance premiums, and other elements of health insurance; operates under the jurisdiction of the Minister of Health and Welfare; consists of 25 members, including the Committee Chairperson.
Funding	Insurance premiums	Workplace enrollee 4.21 percent of standard compensation divided evenly between the enrollee and the employer Area enrollee Annual household income of less than 5 million won: grade 30 (sex and age + assets + automobile + taxable income) * 172.7 won Annual household income of 5 million won or more: grade 70 (income + assets + automobile) * 172.7 won
	State funding	35/100 of operating costs of the health-insurance program for the area enrollee.
	National Health Insurance Promotion Fund	15/100 of the area insurance benefit expenses. Used for insurance benefits for workplace enrollees, dependents, and area enrollees who are 65 years of age or older.

Source: Produced by the author based on materials provided by the National Health Insurance Service ([http://www.nhis.or.kr/portal/site/main/MENU\\_WBDAB00](http://www.nhis.or.kr/portal/site/main/MENU_WBDAB00) (2013.6.24)) and Agendanet ([http://www.agendanet.co.kr/zb41pl7/bbs/view.php?id=soc\\_sub3&no=43](http://www.agendanet.co.kr/zb41pl7/bbs/view.php?id=soc_sub3&no=43) (2014.4.3)).

## **Healthcare insurers and insured persons**

The Minister of Health and Welfare oversees and has final responsibility over health insurance. The insurer is the National Health Insurance Corporation, whose operations include managing and maintaining records on insured persons, collecting insurance premiums, paying insurance benefits, operating healthcare facilities, providing education and training on health insurance, and issuing press releases.

The Health Insurance Review and Assessment Service is an institution that operates at arms' length from the National Health Insurance Corporation. Its operations include screening insurance benefit expenses, evaluating the appropriateness of insurance benefits, developing screening standards and evaluation standards, engaging in investigative research, and participating in international cooperative initiatives.

Insured persons include 1) workplace enrollees (workplace workers, public sector workers, and educators) and 2) area enrollees (residents of agricultural/fishing villages and self-employed persons). Enrollment is compulsory. The dependent of a workplace enrollee is a person living with and on the earnings of the insured person. In other words, dependents comprise the spouse, non-income earning children under the age of 19 years, lineal ascendants (parents and grandparents of the insured person and the insured person's spouse), lineal descendants (current children and grandchildren of the insured person and the insured person's spouse), and siblings (not generating any income). While a foreign national residing in South Korea for at least 3 months and his or her dependents will be subject to enrollment, dependents shall consist of the spouse and unmarried children under the age of 20 years.

## **Composition of the financing of healthcare insurance**

(1) Composition of the financing of insurance, premium rates, and calculating premium rates

The national health insurance scheme is financed by insurance premiums (taxes), state funding (subsidies), copayments by insured persons, and other elements. A majority of funding is provided by insurance premiums. State funding is equal to 14 percent of the projected revenues from insurance premiums for a given fiscal year. The financing of healthcare insurance in 2011 can be broken down as follows: insurance premiums accounted for 44.7 percent, amounts paid by insured persons accounted for 32.4 percent, state subsidies accounted for 13.5 percent, and private-sector insurance accounted for 5.2 percent.



Table 3-8. Changes in healthcare insurance benefits provided to insured persons

1997	• Age of eligibility for receiving a marrow transplant allowance raised (from 40 years to 50 years)
2001	• Visiting nursing services to be implemented in 2004
2004	• Implemented maximum copayment amount for examinations (amounts greater than maximum 3 million won over a 6-month period shall be reimbursed)
2005	• MRI benefits / Copayment rate for natural births waived / Copayment rate for outpatient treatments of psychiatric conditions reduced (from between 30 percent and 50 percent to 20 percent) / Premature infant benefit (copayment waived) / Benefit period for therapeutic agent for osteoporosis extended (90 days to 180 days) / Copayment rate for cancer and other conditions reduced (20 percent to 10 percent)
2006	• Copayment for the admission of patients under 6 years of age waived / Organ transplant surgery benefits (heart disease, heart, lungs, pancreas) / Copayment for specific cancer examinations reduced (stomach cancer, breast cancer, colon cancer, liver cancer: 50 percent to 20 percent; cervical cancer: waived)
2006	• PET scans for serious diseases (heart, organ disease) become covered by health insurance / Application of a meal allowance switch carried out (20 percent copayment rate) / Childbirth benefit expenses at institutions other than a medical treatment institution increased (70,000 won to 250,000 won)
2007	• Copayment requirement for outpatient examinations of children under the age of 6 years lessened and changes to the system for having the insured person pay for himself/herself made / Lowered the maximum amount to be assumed by the insured person (3 million won to 2 million won over six months)
2008	• Amount to be assumed by the insured person upon being admitted to the hospital for a child under the age of six years raised from 0 percent to 10 percent (amount to be assumed by the insured person waived for newborns) / Percentage of meal costs for and assumed by admitted patients raised from 20 percent to 50 percent / Benefits to cover funeral expenses eliminated (Article 25 of the current statute) / Examination voucher system for women during pregnancy introduced and put into force (200,000 won support)
2009	• Maximum copayment rates according to income implemented / Copayment rate for treatment of patients with intractable diseases (138 types) on an admitted or outpatient basis reduced (20 percent to 10 percent) / Copayment rate for outpatient treatments at specialized general hospitals raised (50 to 60 percent) / Coverage extended to physical treatments at hospitals providing traditional Chinese medicine / Copayment rate for treatment of cancer patients on an admitted or outpatient basis reduced (10 percent to 5 percent)
2010	• Copayment rate for heart disease and cerebrovascular disease reduced (10 percent to 5 percent) / Copayment rate for tuberculosis reduced (10 percent) / Support funds to cover medical treatment costs of pregnancy and childbirth increased (200,000 won to 300,000 won) / MRI insurance coverage expanded (spine and joints) / Anti-cancer drug benefits introduced / Drugs for the treatment of intractable diseases introduced
2011	• Benefits for the coverage of pregnancy and childbirth examination costs increased (300,000 won to 400,000 won) / Coverage of radiation treatments for childhood cancers introduced / Coverage of radiation operations for lung cancer and backbone tumors introduced

Produced by the author.

Healthcare insurance comprises workplace enrollees and area enrollees. With respect to the standards for calculating healthcare insurance premiums,

premiums are evenly split between the worker and the employer for workplace enrollees and evenly split between the state and the insured person for public-sector workers. For educators at private institutions, the framework is such that the teacher will pay 50 percent, the educational institution will pay 30 percent, and the state or local government will pay 20 percent.

With respect to the standards for calculating insurance premiums, the premium is equal to the number of standard compensation months multiplied by the insurance premium rate for a 1) workplace enrollee. The average insurance premium rate for the portion of premiums paid by an insured person was as follows: 3.57 percent in 1986, 3.03 percent in 1995, 3.13 percent in 1997, 3.27 percent in 1998, and 3.75 percent in 1999. Insurance premiums for workplace enrollees and public-sectors workers/teachers at private educational institutions were consolidated and set to 3.4 percent in 2001. They were increased slightly to 5.64 percent in 2011 and 5.89 percent in 2013.

The insurance premium for a 2) area enrollee is equal to the standard assessed income score (score tallied by household unit) multiplied by a fixed amount. The standard assessed income score is certified each year for each household by the insurer by taking into account the asset situation for each household (including vehicle ownership). The household income score is differentiated between annual income of 5 million won or more and annual income of less than 5 million won and the scope of insurance premiums corresponds to 70 grades for annual income of 5 million won or more and to 30 grades for annual income of less than 5 million won.

(2) Changes in copayments to be paid by insured persons and in types of insurance benefits

While healthcare benefits are obtained by presenting a card tied to the insured person to a hospital or medical care center constituting a healthcare insurance institution, the portion of costs to be paid on an out-of-pocket basis will need to be paid to the given healthcare institution. The copayment amount is a uniform 20 percent nationwide for admission costs but differs according to type of hospital and region for copayments made for outpatient procedures. The bigger the hospital and the bigger the city, the higher the copayment amount. In other words, the copayment amount to be assumed is 60 percent at top-tier general hospitals, 50 percent at neighborhood general hospitals (45 percent in other areas), 40 percent at neighborhood regular hospitals (35 percent in other areas), and 30 percent at all medical clinics and healthcare centers. The copayment amount for pharmaceutical drugs is a uniform 30 percent nationwide.

In other words, the healthcare insurance scheme is fundamentally characterized by low burdens in terms of insurance premiums and low benefits in terms of services provided. 1) The imposition of relatively high copayment amounts for medical care covered by insurance on a patient and 2) the

provision of blended medical care not covered by insurance services are permitted. Blended medical care is an approach to providing medical care that combines a medical treatment covered by health insurance with a medical treatment not covered by health insurance. For this reason, the rate of enrolment by persons in private insurance plans is exceptionally high. According to the OECD (2007), private medical costs accounted for 47.4 percent of national medical costs in 2004, far exceeding the 18.3 percent figure corresponding to Japan.

In recent years, the types of insurance benefits offered to insured persons have been gradually expanding. Notably, copayments for children under 6 years of age were eliminated in 2006, copayment requirements for 138 types of intractable conditions were lightened in 2009, and radiation treatments for pediatric cancers became eligible for benefits in 2011.

(3) Current state of the health insurance program (state of insured persons and insurance finances)

As indicated in Table 3-9, the number of insured persons reached 48.90 million in 2010, an increase of approximately 3 million in a decade. The number of dependents of workplace enrollees also increased to 19.86 million in 2011. The increase in the number of dependents of workplace enrollees is tied to the fact that low income-earning cohabiting and non-cohabiting parents, parents-in-law, and siblings have also become dependents in addition to spouses. In 2011, the ratio of workplace enrollees to area enrollees was 67.5 to 32.5, such that workplace enrolled insured persons are accounting for an increasing percentage of enrollees. This is in part the result of having area enrollees at places of business with less than 5 employees become treated as workplace enrollees.

Table 3-9. Numbers of insured persons and dependents covered by health insurance

Fiscal year	2000	2005	2010	2011
Total number	45,895,749	47,392,052	48,906,795	49,299,165
Workplace insured persons	22,403,872	27,233,298	32,383,526	33,256,574
Dependents	15,135,900	17,487,701	19,619,797	19,859,861
Local insured persons	23,491,877	20,158,754	16,523,269	16,042,591
Households	8,215,282	8,384,173	7,940,227	7,887,563
Persons entitled to receive healthcare benefits	1,570,009	1,761,565	1,674,396	1,609,481
Workplace insured persons: local insured persons	48.5:51.2	57.5:42.5	66.2:33.8	67.5:32.5

Source: 2011 Annual Statistical Report on National Health Insurance as issued by the National Health Insurance Corporation in 2012.

With respect to the financing of healthcare insurance, insurance premiums rose by a factor of 9 over a 16-year period to 329.2 billion won in 2011. Per capita insurance premiums also increased to 404,000 won in 2011. State funding also rose to 50.3 billion won in 2011. Insurance benefit expenses increased to 358.33 billion won in 2011. Per capita insurance benefit expenses also went up to 729,000 won in 2011 (Table 3-10). In other words, insurance premiums and insurance benefit expenses have both climbed higher but insurance premiums have been rising at a greater rate than the increase in insurance benefit expenses. This increase in insurance benefit expenses can be attributed to a number of factors, including 1) an expansion in the types of insurance benefits, 2) a sustained increase in the number of insured persons' dependents, and 3) a high rate of the utilization of healthcare institutions as elderly persons live longer lives on average.

At the same time, healthcare benefit expenses in South Korea as a percentage of GDP rose from 3.8 percent in 1995 to 6.9 percent in 2009 (compared to an average 9.6 percent in OECD countries). The country ranks thirty-fifth among all (41) OECD countries.

Table 3-10. Changes in insurance premiums and insurance benefit expenses (1995-2011)

	1995	2000	2002	2004	2005
Insurance premiums (1 million won)	3,600,700	7,228,817	10,927,688	15,614,223	16,927,714
State subsidies (1 million won)	755,319	1,552,746	3,103,934	3,482,965	3,694,802
Total amount (insurance premiums + state subsidies)	4,356,019	8,781,563	13,941,622	19,097,188	20,622,516
Insurance benefit expenses (1 million won)	4,067,617	9,285,605	13,823,665	16,265,350	18,393,587
Per capita insurance amount per year (won)	56,340	112,428	161,100	215,820	229,248
Per capita insurance benefit expenses (won)	93,077	202,144	297,261	344,151	388,017

	2006	2007	2009	2010	2011
Insurance premiums (1 million won)	18,810,579	21,728,700	26,166,081	28,457,726	32,922,110
State subsidies (1 million won)	3,836,190	3,671,794	4,682,831	4,861,447	5,036,198
Total amount (insurance premiums + state subsidies)	22,646,769	25,400,494	30,848,912	33,319,173	37,958,308
Insurance benefit expenses (1 million won)	21,587,980	24,560,092	30,040,871	33,749,303	35,830,249
Per capita insurance amount per year (won)	250,212	284,277	331,441	357,185	404,039
Per capita insurance benefit expenses (won)	455,360	515,096	620,467	692,159	729,262

Source: National Health Insurance Statistics as released each year by the National Health Insurance Corporation.

Table 3-11. Changes in the per capita average number of days of healthcare institution usage and number of days of pharmacy usage

	2000	2002	2003	2005	2007	2009	2010	2011
Healthcare institution	11.63	13.94	14.68	15.32	16.58	17.98	18.57	18.82
Admitted	0.88	0.97	1.09	1.9	1.57	1.91	2.12	2.21
Outpatient	10.76	12.97	13.58	14.13	15.01	16.07	16.44	16.62
Pharmacy	3.76	8.32	8.10	8.43	8.83	9.41	9.54	9.64

Source: National Health Insurance Statistics as released each year by the National Health Insurance Corporation.

In terms of the average number of days healthcare institutions are used, the number of days of admission per person stood at 2.21 in 2011 and the number of days of outpatient care equaled 16.62 in 2011. The per capita number of days pharmacies were used in 2011 also rose to 9.64. The number of days of outpatient care ranked highest in terms of the per capita number of days healthcare institutions are used, followed by the number of days of pharmacy usage and the number of days of admission. That the number of days of pharmacy usage was less than the number of days of outpatient care is tied to the fact that there are many people using pharmacies by assuming costs fully on an out-of-pocket basis (Table 3-11).

The number of healthcare institutions rose from 53,510 in 1995 to 82,983 in 2011. By type of healthcare institution, the rate of increase in the number of hospitals ranked highest, followed by medical clinics, hospitals where traditional Chinese medicine is practiced, and dental clinics. In contrast, maternity centers are on the decline (Table 3-12).

Table 3-12. Changes in the number of healthcare facilities by type of healthcare facility (hospital, clinic)

Fiscal year	Total	High-grade general hospitals	General hospitals	Hospitals	Clinics	Dental hospitals	Dental clinics	Hospitals based on traditional Chinese medicine	Clinics based on traditional Chinese medicine	Health organization	Maternity centers	Pharmacies
1995	53,510	39	227	460	14,472	14	8,327	69	5,716	3,588	183	20,415
2000	61,776	43	245	681	19,688	60	10,592	141	7,243	3,427	126	19,530
2005	72,921	42	249	1,112	25,166	124	12,548	149	9,761	3,422	52	20,296
2010	81,681	44	274	2,182	27,469	191	14,681	168	12,061	3,469	46	21,096
2011	82,983	44	275	2,369	27,851	199	15,059	184	12,405	3,468	40	21,089

Source: National Health Insurance Statistics as released each year by the National Health Insurance Corporation.

#### **4. Current state of pension security**

The national pension scheme aims to contribute to the stabilization of livelihoods and the promotion of national welfare by providing pension benefits in case of old age, disability, or death to insured persons (Article 1 of the National Pension Law).

##### **Types of public pensions, process of evolution, insured persons and insurance premiums, and qualifications for receiving benefits**

Public pension insurance schemes in South Korea include the national pension scheme and special occupational pension schemes, which in turn include pensions for public-sector workers, pensions for military personnel, and pensions for private school educators. Indexation has been adopted for the national pension scheme, which is a modified funded system that nevertheless resembles a pay-as-you-go system. Special occupational pension schemes are based on a pay-as-you-go system. A funded system is one that accumulates the expenses required for future pension benefits during the period of enrolment of the enrolled person with benefits to be obtained in the future. One advantage is that complications between elderly persons and younger generations are less likely to arise. The fact that it is difficult to accommodate inflation and the fact that the system is susceptible to interest rate fluctuations are disadvantageous points. A pay-as-you-go system is a system whereby the generation still working pays insurance premiums for pension recipients and pension benefit expenses are covered by contributions made by enrolled persons belonging to the generation still working. A shortcoming of this system is the ease with which complications between the generation still working and pension recipients can arise. On the other hand, this system is advantageous for making it possible to maintain the value of pension amounts despite inflation.

As for special occupational pension schemes, a pension for public-sector workers set up in 1960 was the first public pension in the country. A pension for military personnel was established in 1963 and a pension for private school educators was established in 1975. While the national pension scheme was enacted in 1973, it was finally put into effect in 1988 after undergoing modifications in 1986.

This delay in the implementation of a public pension scheme was tied to 1) the pursuit of economic and developmental streamlining through the minimization of the burden of providing social security placed on the state in accordance with a policy of “economic growth before distribution” and 2) the persistence of the traditional belief that children are required to financially support their elders.

While places of business with 10 or more workers were subject to the

national pension scheme in 1988, this scheme was expanded to encompass places of business with five or more workers in 1992, to the residents of agricultural and fishing villages in 1995, and to self-employed persons in urban areas in 1999 to ultimately bring about a universal national pension scheme.

Insured persons under the national pension scheme consist of Korean residents between the ages of 18 years and under 60 years. This scheme covers workers at places of business, self-employed persons, and unemployed persons but not persons enrolled in a special occupational pension scheme, persons receiving a subsistence guarantee, and persons receiving a disability pension. Insured persons under a special occupational pension scheme can be broken down as follows: military personnel receive a pension for military personnel, public-sector workers receive a pension for public-sector workers (including national-level school educators and postal workers in special services), and private-school educators receive a pension for private-school educators. The dependents of insured persons consist of spouses (in other words, homemaking wives), children (under the age of 18 years or children with a grade 2 disability or higher), and parents (age 60 years or older or parents with a grade 2 disability or higher). If a dependent is a recipient of a national pension, however, he or she will be excluded from the scope of dependents for this purpose.

Insurance premiums for company employees are equal to 9 percent of compensation and their payment is evenly divided between the insured person and the employer. National pension insurance premiums were set at 3 percent up until June 2000. This rate was increased by 1 percentage point each subsequent year and then set to 9 percent in August 2005. Insurance premiums are fully paid by the insured person and differ according to income. Insurance premiums for the residents of agricultural and fishing villages are covered by the insured person and the state. The amount paid by the state went up in 2012 from one-third to one-half of the minimum amount of compensation. For the enrollees of a special occupational insurance scheme, insurance premiums equal 17 percent of the compensation paid to a public-sector worker or military personnel service member and their payment is evenly divided between the insured person and the state. For a private-school educator, 8.5 percent of insurance premiums are paid by the insured person, 5 percent are paid by the employer, and 3.5 percent are paid by the state. Insurance premiums for staff members at a private school are equal to 17 percent of compensation and their payment is evenly divided between the insured person and the employer.

The eligibility to receive a public pension differs depending on whether the pension is a national pension or a special occupational pension. For the national pension, at least 10 years of insurance premium payments are required and the full amount of the pension will be paid to persons who have paid

insurance premiums for at least 20 years. The actual amount of benefits paid will differ according to the number of years that insurance premiums were paid and the amounts of the insurance premiums that were paid. At least 20 years of insurance premium payments will be necessary to receive a special occupational pension for public-sector workers or private-school educators.

Table 3-13. Outline of public-pension schemes

Category (fiscal year of introduction)	Insured persons	Insurance premium rate	Start of the receipt of benefits	Income replacement rate	Financing approach	Fund management
National pension (1988)	1988: places of business with 10 or more workers; 1995: residents of agricultural and fishing villages; 1999: self-employed persons in urban areas	9 percent (occupational: split evenly between employer and employee; area: fully paid by the insured person; agricultural and fishing villages: state pays half of minimum compensation)	20 years (10 or more years of payments)	50 percent in 2008 → 40 percent in 2028 (40 years of payments)	Modified funded system	National Pension Service
Pension for public-sector workers (1960)	Public-sector workers, postal workers in special services, national school educators	17 percent (split evenly between insured person and the state)	20 years	76 percent (33 years of payments)	Pay-as-you-go system	Pension Service for Public-Sector Employees
Pension for military personnel (1963)	Military personnel	17 percent (split evenly between insured person and the state)	20 years	50 percent (20 years of payments) 76 percent (33 years of payments)	Pay-as-you-go system	Ministry of National Defense
Private-school pensions (1975)	Private-school educators and staff members	17 percent (educator: 8.5 percent by educator, 5 percent by juridical person, and 3.5 percent by the state; staff member: split evenly between the insured person and the juridical person)	20 years	76 percent (33 years of payments)	Pay-as-you-go system	Pension Service for Private-School Educators

Produced by the author.



Persons born in 1969 can begin to receive a pension at the age of 65 years, those born between 1965 and 1968 can begin to receive a pension at the age of 64 years, and those born between 1953 and 1956 can begin to receive a pension at the age of 61 years. While a payer of premiums for over 20 years could previously begin to receive a special occupational pension upon retiring, the age at which a newly hired person can begin to receive a pension was set to 60 years in 1996.

The amount of the national pension that can be received was 70 percent of compensation in 1998 and 60 percent of compensation between 1999 and 2007, is 50 percent of compensation for the years between 2008 and 2027, and is slated to be reduced to 40% of compensation from 2028 onwards. The amount of special occupational pension benefits receivable by a public-sector worker or a private-school educator is 76 percent of compensation for a person who has paid insurance premiums for 33 years and by military personnel is 50 percent of compensation for a person who has paid 20 years of insurance premiums. For any public pension, the higher the income, the higher the pension amount. For a low-income person, however, the lower the income, the greater is the magnitude by which the amount of pension benefits exceeds the amount of insurance premiums paid. This is clear when one takes into account the income-redistribution effect.

With a conjugal pension division system having been adopted for the national pension scheme, the portion of pensions to which an insured person becomes entitled during the marriage is to be divided and granted to the ex-wife in case of a divorce (Table 3-13).

### **Current state of public pension revenues and benefits**

The public pension fund consisted of 391,968 billion won in 2012, at which time the amount of benefits had risen to 82,528 billion won. National pension benefit expenses accounted for an exceedingly low 0.91 percent of GDP in 2012.

While there were 20 million persons enrolled in the national pension scheme in 2012 (88 percent), payers account for 61 percent of enrollees, which means that 4 out of 10 enrollees do not pay any insurance premiums. The payment rate among area enrollees is 67 percent, which means that 3.3 out of 10 enrollees do not pay any insurance premiums. The rate of non-payers among area enrollees is due to a lack of confidence in the future of pensions and a high degree of distrust in the pension system, a situation that has been cultivated in part from seeing newspapers, television programming, and magazines putting forth such headlines as “Pension collapse,” “Your pension at risk,” and “No pension after retirement.” Although stories of pension insecurity being told by mass-media outlets and magazines in Japan can be

applied directly to the situation in South Korea, one should be aware that the fiscal years in which pensions first began to be paid out differ between Japan and South Korea. Next, it is more accurate to say that self-employed persons, non-permanent jobholders, and unemployed persons are unable to pay insurance premiums due to the high burden of paying insurance premiums rather than to say that they simply do not pay insurance premiums. Finally, national pension benefits began to be paid out in 2008, such that the people are often lacking in correct knowledge or information about the pension scheme. Thus, education to enable people to obtain accurate pension knowledge is needed.

The recipients of public-sector workers' pension benefits accounted for 33 percent of public pension enrollees in 2012, the highest such figure for this category, followed by 17 percent for the national pension scheme and 14 percent for the private-school mutual-aid pension scheme. The recipients of a public-sector workers' pension and the recipients of a national pension are on the rise both in terms of numbers of persons and percentage of public pension enrollees (Table 3-14).

The average amount of old age pension benefits provided to enrollees who have paid insurance premiums for the national pension scheme for 20 years was approximately 820,000 won in 2012. With respect to the amounts of insurance payments received by dependents, spouses receive 240,000 won a year while children and parents receive 160,000 won a year per person.

## **Other pensions**

### **(1) Basic old-age pension scheme**

a) Persons entitled to receive benefits: Persons who are suffering from economic hardships and who are 70 years of age or older are entitled to receive benefits. An old-age allowance has been paid since 1991. In 1999, a national basic subsistence guarantee scheme was implemented to guarantee a minimum livelihood for everyone. A national basic old-age pension scheme was established in 2008 for which recipients of benefits are required to undergo a means test. This scheme was introduced to provide economic relief to low-income elderly persons who are not entitled to receive a national pension despite the establishment of a national pension scheme in 1988.

As indicated in Table 3-15, there were approximately 2.9 million recipients of the basic old-age pension in 2008, a figure that rose to approximately 3.93 million in 2012. Recipients of the basic old-age pension accounted for 57.2 percent of the total elderly population in 2008. This figure rose to 68.9 percent in 2009 and stood at 65.8 percent in 2012.

**Table 3-14. Persons enrolled in public-pension schemes, benefit rates, and benefit amounts as a percentage of GDP**

(Units: thousands of persons, %, 1 million won)

Year	Employed persons aged 18 years or older (A)	Public pension enrollees (B)	B/A (%)	National pension			Public-sector workers' pension		Private-school pension		Pension for military personnel		Amount of social benefits/GDP
				Enrollees	Payments/enrollment	Benefits/enrollment	Enrollees	Benefits/enrollment	Enrollees	Benefits/enrollment	Persons receiving benefits	Income	
1988	16,728	5,341	31.9	4,433		0.1	767	2.4	141	0.6			
1999	20,246	17,383	85.9	16,262		7.7	914	14.1	208	5.1	53,534	1,001,707	
2001	21,542	17,407	80.8	16,278	52.5	5.9	913	17.6	216	6.8	57,380	1,193,247	0.24
2005	22,832	18,347	80.4	17,124	52.6	10.3	986	22.1	237	9.4	64,557	1,665,777	0.41
2010	23,829	20,548	86.2	19,229	57.1	15.5	1,052	29.6	267	14.0	75,677	2,206,821	0.74
2012	24,682	21,705	87.9	20,329	61.4	17.3	1,064	32.8	312	13.5	80,262	2,545,008	0.91

Note: The amount of the pension for military personnel that was received in 2012 amounted to 2,473,556 million won; 6,259 persons received less than 1.10 million won, 32,994 persons received less than 2.00 million won, 33,171 persons received less than 3.20 million won, and 7,667 persons received 3.20 million won or more.

Source: Produced by the author based on the 2012 National Pension Annual Statistical Report (National Pension Service) and the 2012 Key Statistical Diagrams Corresponding to the Pension for Military Personnel (Ministry of National Defense).

**Table 3-15. Changes in basic old-age pension recipients**

	Basic old-age pension (B)		B/population of elderly persons (%)		National pension/B (%)	
2008	2,897,649		57.2		13.9	
2009	3,630,147		68.9		19.8	
2010	3,727,940		67.7		22.1	
2011	3,818,186		67.0		24.0	
2012	3,933,095		65.8		26.0	

Source: 2012 Material for National Pension Service 2012 (National Pension Service)

Since the current approach, which involves making collective payments of 7 types of basic subsistence guarantee benefits, will be transformed into an approach consisting of making individual payments from October 2014, it is expected that the number of persons entitled to basic subsistence guarantee benefits will increase from 830,000 households to 1,000,000 households.

b) The amount and financing of basic old-age pension benefits to be paid: The amount of the basic old-age pension was 78,000 won per month for elderly persons living alone and 124,000 won for households comprising just a husband-and-wife couple in 2012. The income replacement rate for the basic old age pension was 5 percent in 2008 but is projected to become 10 percent in 2028.

Financing of the basic old-age pension is provided by the state and local governments with the state assuming 40 to 90 percent of costs and each local government making contributions by taking into account the percentage of the local population comprising elderly persons and local fiscal conditions.

## (2) Basic pension

The basic pension is a pension scheme that was implemented as a presidential election pledge for the administration of Park Geun-hye and began to be paid out in July 2014. A person who is entitled to receive this pension is an elderly person aged 65 years or older who receives a national pension of less than 300,000 won per month and whose income and assets add up to less than 870,000 won per month if he or she lives alone or less than 1,392,000 won a month if he or she is part of a household comprising only a husband and wife. While the amount of the basic pension is 200,000 won per month, this amount can be reduced according to the sum of income and assets. In July 2014, 4,060,000 people received approximately 200,000 won and 410,000 people received less than 200,000 won. The amounts received by recipients are controversial for being low.

## (3) Survivor's pension

A person entitled to receive a survivor's pension upon the death of an insured person enrolled in the national pension scheme is a person living with the insured person in the same household. The order of priority for receiving a survivor's pension is as follows: the spouse of the insured person, a child under the age of 19 years or a child with a class 2 or higher disability, a parent aged 60 years or older (could be a parent of the spouse) or a parent with a class 2 or higher disability, a grandchild under the age of 19 years or a disabled grandchild, and a grandparent aged 60 years or older. However, the age at which a survivor's pension can be received is gradually being increased, such that an insured person born in 1969 or later will become a recipient at the age of 65 years.

The amount of the survivor's pension that can be received differs according

to the period of enrolment as follows: 1) the lowest amount is for an enrolment period of less than 10 years (40 percent of the basic pension amount + dependents' pension amount), 2) less than 20 years of enrolment (50 percent of the basic pension amount + dependents' pension amount), 3) 20 or more years of enrolment (60 percent of the basic pension amount + dependents' pension amount). The average amount of the survivor's pension that was paid out in 2012 was 240,000 won.

## **5. Future issues concerning social security programs**

As the decreasing birthrate and aging of the population in South Korea progresses rapidly, the number of elderly persons requiring nursing care, including those suffering from dementia, is on the rise. At the same time, family functions are on the wane and families are finding it more and more difficult to provide economic assistance and nursing care to elderly parents. While the public pension scheme was launched in 1998 with pensions being paid out since fiscal year 2008, elderly persons not eligible to receive a pension account for 40 percent of all elderly persons, such that an approach based on self-responsibility, including by way of a reliance on family, is typically taken. In other words, the scheme is structured in a way that emphasizes self-help. While social security programs have been developed, there is a need to eliminate disparities between the young generation and the elderly generation. A number of issues stand in the way of efforts to enhance the country's social security programs.

### **Nursing-care insurance scheme**

First, the scope of persons covered by nursing-care services needs to be expanded in order to enhance the financial administration of nursing-care insurance. While insured persons presently consist of persons enrolled in the national health insurance scheme, persons covered by nursing-care services are, as a rule, people aged 65 years or older. When nursing-care insurance premiums rise in the future, the nonpayment of insurance premiums by insured persons excluded from the scope of coverage for nursing-care services will become a concern.

Second, there is a need to focus on the quality of nursing-care services. The establishment of nursing-care business establishments is based on a declaration system. For this reason, small-scale business establishments are micro-enterprises that tend to offer poor quality care. Consequently, while there are many hundreds of persons on waiting lists for admission into district-run establishments in Seoul, many empty rooms can be found in private-sector establishments. Efforts to improve the quality of nursing care by small-scale

business establishments will enable the service needs of elderly persons requiring nursing care to be fulfilled and the management of business establishments to be maintained.

Third, care management needs to be proactively undertaken. A model care plan is a unilateral notice. For this reason, elderly persons requiring nursing care and their families tend to ignore model care plans and use services after concluding a contract with the service provider. As a result, service types tend to consist of unitary items, such that it is difficult to ameliorate the physical and mental state of elderly persons requiring nursing care and reduce the burden of nursing care on family caregivers over the long run.

### **Healthcare-insurance scheme**

First, the financing of healthcare insurance needs to be maintained. To this end, policies to promote the maintenance of the health of elderly persons should be put into effect and the tendency of healthcare institutions to carry out unnecessary tests and treatments and other causes of financial deterioration should be analyzed in an effort to find fundamental solutions. Reforms to enable healthcare costs to be reduced in the long run while maintaining the quality of healthcare—in other words, the systematic management of health and measures based on the concept of preventive medicine to prevent illnesses and disorders—are needed.

Second, while differences among insurance associations have disappeared thanks to the consolidation of healthcare insurance—the remediation of differences in terms of the collection of insurance premiums between workplace enrollees and area enrollees is required. While insurance premiums are calculated based on income net of required expenses for self-employed persons, they are calculated based on salary before taxes for workplace enrollees.

Third, copayments by service users should be adjusted and the scope of insurance benefits needs to be expanded. Even among OECD countries, South Korea imposes very high copayment requirements on the use of healthcare services by insured persons and the scope of insurance benefits is relatively narrow. Most South Koreans are currently enrolled in plans offered by private insurance companies. When these facts are taken into account, it is clear that South Korea needs to increase state spending as a percentage of GDP, promote an appropriate approach to collecting insurance premiums from insured persons, and expand the scope of service benefits.

### **Pension-security scheme**

First, relief measures for elderly persons not receiving a national pension are required. Due to age restrictions imposed at the time the public pension

scheme was introduced in 1988, elderly persons not enrolled in the national pension scheme account for approximately 40 percent of all elderly persons aged 65 years or older. The amount received by the recipients of a national pension whose period of receipt is short is exceedingly low. A framework for allowing elderly persons who find it difficult to economically rely on their adult children to live in the local community should be built.

Second, accurate media reporting on the national pension scheme by television stations, newspapers, and magazines and proper school education on this topic are needed to stabilize the financing of pensions for area enrollees and promote economic security for people in their old age. While persons who have paid insurance premiums for 20 years have been entitled to receive a national pension since 2008, many self-employed and non-permanently employed persons do not pay insurance premiums in response to an anxious belief that receiving a pension in the future will be difficult. Newspapers, television stations, and magazines tend to report matters by directly applying the anxiety over the future of pensions as reported in Japan to the situation on the ground in South Korea without being aware of the differences between Japan and Korea in terms of the fiscal years in which pensions first began to be paid out, thereby fostering a sense of distrust over the pension system. If educational institutions and insurers could thoroughly provide education on the importance of the national pension scheme, it may be possible to eliminate anxiety over and distrust in the pension system and thereby lower the extent to which premiums are not paid.

Third, special occupational pensions correspond to lower premiums and higher benefits than pensions based on area enrollments, such that remediation from the standpoint of fairness between special occupational pensions and pensions based on area enrollments is required. Analytical studies have revealed that the amount of received benefits under the pension scheme for public-sector employees is between 209 and 219 percent higher than the amount of benefits received by 100 or more area enrollees, such that the gap between occupations is exceptionally large. At the same time, the financial administration of the public sector workers' pension scheme and pension scheme for military personnel is already in the red. Disbursements are expected to exceed revenues for the mutual-aid pension scheme for private school educators in 2019. While only reductions in the income replacement rate have been indicated under current revisions by candidates playing to the gallery for election purposes, the amounts received by persons receiving high amounts of benefits will need to be corrected.

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<sup>1</sup> Social insurance for social security is designed to grant relief to people who have encountered risks by providing against various life risks, facilitates the payment of insurance premiums based on the ability to pay in accordance with the level of income of the insured person, and is characterized by mandatory enrollment. Public assistance is economic assistance provided to guarantee a minimum standard of living to poor people. Public assistance under the Basic Law on Livelihood Protection was changed to public aid through the amendments of December 1995 and to a “basic subsistence guarantee” through the enactment of the National Basic Livelihood Protection Law in September 1999. Social welfare services comprise a support system to enable everyone requiring state, local government, and private-sector support to lead normal social lives. This is made possible through the provision of counseling, independent-living assistance, job referrals and guidance, social welfare facilities that can be used, and other such services. Related welfare programs include those that deal with insurance, housing, education, and employment.



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