



issa

INTERNATIONAL SOCIAL SECURITY ASSOCIATION
ASSOCIATION INTERNATIONALE DE LA SÉCURITÉ SOCIALE
ASOCIACIÓN INTERNACIONAL DE LA SEGURIDAD SOCIAL
INTERNATIONALE VEREINIGUNG FÜR SOZIALE SICHERHEIT

Good Practices in Social Security

Good practice in operation since: 1998

Protection of the livelihood of workers with unpaid wages through wage-claim guarantee

Certificate of Merit with Special Mention, ISSA Good Practice Award – Asia and the Pacific competition 2018

Korea Workers' Compensation & Welfare Service
Republic of Korea

Summary

The Korea Workers' Compensation & Welfare Service (COMWEL) administers the following system as a strong shield for the protection of claims for wages of workers:

- *The wage for the last three months and for the last three years of retirement funds shall be protected and given the highest priority over other securities, taxes, and utility bills.*
- *COMWEL provides standard substitute wage within the scope of wages and severance pay with the highest priority right on behalf of the employer for the protection of the livelihood of retired workers who failed to receive wages due to the bankruptcy of the business site.*
- *COMWEL operates the new small substitute wage program to protect the previously unprotected retirees with unpaid wages from currently operating business.*

The issue or challenge

What was the issue or challenge addressed by your good practice? Please provide a short description.

For employees, their wages and severance payments are the only means of livelihood. When workers retire with unpaid wages, they are exposed to serious financial insecurity. This has been a serious issue in the Korean society.

To address this issue and provide workers with the basic means of financial security, the Korean government launched an effort to institutionalize strong protection measures for the wage-claims of socially disadvantaged workers. These measures included according a higher priority to the wage-claims of those who retired with unpaid wages from bankrupt businesses and paying a portion of the unpaid wages in the form of substitute wages. As a result, the standard substitute wage program was launched in July 1998. However, the workers who retired from still operating businesses with unpaid wages were still exposed to financial insecurity because the program covered only the workers retiring from bankrupt businesses.

For this reason, starting in 2013, the government began to consider the adoption of the small substitute wage program to protect the livelihood of workers who retired from still operating businesses with unpaid wages.

Addressing the challenge

What were the main objectives of the plan or strategy to resolve the issue or challenge? List and briefly describe the main elements of the plan or strategy, focusing especially on their innovative feature(s) and expected or intended effects.

In 1996, the government announced a plan to protect workers' livelihood and job security. In 1997, after a series of legislative bills proposed by the government and labour organizations, a social pact among the labour, the employers and the government, and a review and approval by the National Assembly, the 1998 Wage-Claim Guarantee Act finally took effect. The Act introduced Korea's first wage-claims guarantee system, which included substitute wages for

retired workers from bankrupt business establishments up to 18 million of Korean won (KRW), and higher seniority for wage-claims (three months' worth of unpaid wages and three years' worth of unpaid severance payments, implemented beginning July 1, 1998).

The government then added to the list of main policy tasks the small substitute wage program for workers retiring from currently operating businesses. The 2015 revision to the Wage-Claim Guarantee Act set the foundation for achieving the task by launching the program designed to offer timely protection to workers who retired from still operating business establishments with unpaid wages. The workers who retired from currently operating business with unpaid wages can be paid up to KRW 4 million in substitute wages and the standard substitute wages of up to KRW 18 million from COMWEL.

Targets to be achieved

What were the quantitative and/or qualitative targets or key performance indicators that were set for the plan or strategy? Please describe briefly.

COMWEL uses a range of performance indexes to monitor how many workers benefited from the substitute wage program and to what extent the program contributed to resolving the delinquent payments.

The indexes include:

- number of covered workers;
- percentage of resolved delinquent wages; and
- aggregate percentage of recovered substitute wages.

The number of covered workers refers to the number of workers who received small substitute wages. The percentage of resolved delinquent wages refers to the ratio of the delinquent wages covered by COMWEL's substitute wages against the total amount of delinquent wages reported to the government. The aggregate percentage of recovered substitute wages means the percentage of substitute wages paid to workers that COMWEL has recovered from the employers since 1998.

COMWEL manages each index by setting goals calculated by separate formulas based on a number of factors including the amount of substitute wages in the previous year and the amount recovered from employers.

Evaluating the results

Has there been an evaluation of the good practice? Please provide data on the impact and outcomes of the good practice by comparing targets vs actual performance, before-and-after indicators, and/or other types of statistics or measurements.

The national percentage of resolved delinquent wages has been continuously rising, reaching 25.8 per cent in 2016 and 27.0 per cent in 2017. Since the launch of the small substitute wage

program in 2015, in particular, the percentage has been growing at an average rate of 10 per cent per year (see Table below).

	2015	2016	2017	Aggregate (1998-2017)
Number of covered workers	50,152	62,255	95,982	92,700
Amount of substitute wages paid (KRW billion)	297.9	368.7	372.4	3,740.2
Percentage of resolved delinquent wages	22.9	25.8	27.0	
Goals (%)	21.5	23.3	25.2	
Progress (%)	106.5	110.7	107.1	

In addition, COMWEL maintained the soundness of the wage-claim guarantee fund by achieving an aggregate recovery rate of 36.2 per cent. In other words, of the KRW 3,740.2 billion paid by COMWEL in substitute wages, the corporation managed to recover KRW 1,355.2 billion despite the difficulties of seeking recovery from bankrupt or otherwise financially distressed businesses. This was made possible by the high priority given to wage-claims.

From 1998 when the wage-claim guarantee system was introduced to 2017, COMWEL paid a total of KRW 3,740.2 billion (USD 3.4 billion) in substitute wages for 891,518 workers with unpaid wages. These wages played a crucial role in protecting and stabilizing the livelihood of the beneficiaries and their families. These outcomes demonstrate that the wage-claim guarantee system is fulfilling its purpose of protecting the livelihood of workers with unpaid wages and their families.

Lessons learned

Based on the organization's experience, name up to three factors which you consider as indispensable to replicate this good practice. Name up to three risks that arose/could arise in implementing this good practice. Please explain these factors and/or risks briefly.

Key considerations for other institutions benchmarking this case:

- Conduct a comparative analysis on different substitute wage programs under different social and economic conditions.
- Align the program with existing programs, and develop the legal basis for adopting the program.
- Take actions to achieve efficient collaborations with institutions related to the new program.

Possible risks of benchmarking this case:

- Excessive government intervention may result in moral hazard.
- Increased substitute wage payment may undermine the financial stability of the fund.