

Pay in Korea

- An Introductory Guide -

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1. Introduction

Pay in Korea has traditionally developed based on seniority, but the percentage of pay systems that are based on skills and performance, such as skill-based pay, job-based pay, and annual pay, is increasing.

- Until the 1970s, there were attempts to introduce job-based pay in order to supplement seniority-based pay.
- In the late 1980s, bonus systems that were differentiated according to individual abilities and performance were introduced along with skill-based pay, which was paid based on evaluations of the abilities of individual employees.
- Since the mid-1990s, annual-pay systems that pay differently according to abilities and performance have been introduced.

This booklet presents an overview of the levels and composition of pay in Korea, and the relevant legal institutions.

2. Legal Regulations on Pay in Korea

In Korea, the basic details concerning pay, such as definitions and forms of pay, are prescribed by various laws.

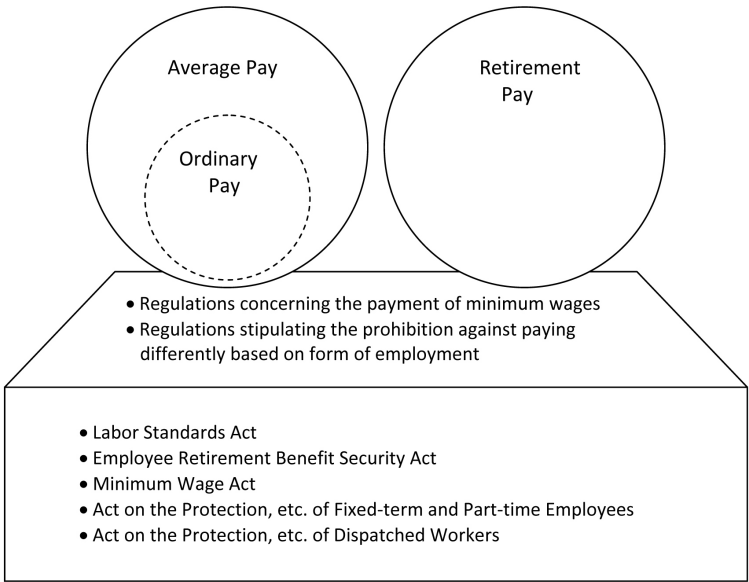


Figure 1. The Legal Structure of Pay in Korea.

The Labor Standards Act defines pay as “wages, salaries, and any other money and valuable goods an employer pays to a worker for his or her work, regardless of what such payments are called,” and pay is classified as either ordinary pay or average pay, depending on the case.

- Ordinary pay is the basis for payments such as regular work.
- Average pay is the basis for calculations of other forms of pay, such as retirement pay.

- The Labor Standards Act stipulates all matters related to the working conditions of workers, such as working hours and leaves, in addition to pay.

The Employee Retirement Benefit Security Act stipulates the payment of a certain amount of benefits upon retirement for workers who have been working for a certain period of time or longer.

The Minimum Wage Act prescribes the minimum wage to be paid to workers per hour, and stipulates payment of the minimum wage or above.

The Act on the Protection, etc. of Fixed-term and Part-time Employees and the Act on the Protection, etc. of Dispatched Workers prohibit employers from paying non-regular workers, such as fixed-term workers, part-time workers, or dispatch workers, less than regular workers without justifiable reasons.

In Korea, violations of the above result in legal sanctions.

A. Legal Scope of Pay

The legal conditions for pay is *payment for one's work, money and valuable goods, and regardless of what such payments are called.*

However, the judgment on pay is not that simple, because a payment may or may not fall within the scope of pay depending on the situation.

Payment for one's work

The purpose of the payment of pay should be in return for work performed within a subordinate labor relationship under the instruction and supervision of an employer. Therefore, payment as a favor, payment as an act of kindness, or compensation for actual costs are not considered pay.

Money and valuable goods

Pay is money and valuable goods paid by an employer, and therefore should be money and valuable goods that an employer, whose duties for payment are recognized, pays directly to an individual worker. The grounds for the duties for payment may be collective agreements, employment rules, regulations on pay, policies of the employer such as labor contracts, or labor practices if relations have been built to take for granted the payment of money or valuable goods between labor and management according to practice.

Regardless of what such payments are called

If payment has been made by an employer with duties for payment to a worker for his or her work, this is considered pay regardless of whether it is called a benefit or a commission. Goods such as meals provided in accordance with employment regulations or collective agreements are also considered to be pay, and even in cases where tips from customers are the only form of payment in return for work, the benefit of using the facilities of the employer in order to receive tips is in itself considered to be pay.

B. Ordinary Pay

Definition

Ordinary pay refers to “the hourly, daily, weekly, or monthly pay, or contracted pay that is to be paid regularly and uniformly in return for contractual labor or total labor” (Article 6 of the Enforcement Decrees of the Labor Standards Act).

The following Supreme Court ruling elaborates on the concept of *regularly and uniformly*, which is a crucial condition for pay to be considered ordinary pay.

Money or valuable goods paid to workers for contractual or total labor is considered ordinary pay in principle if it is paid regularly and uniformly, but if pay is to be considered ordinary pay based on the purpose of the Labor Standards Act and the functions and necessity of ordinary pay, it should be a part of fixed pay paid regularly and uniformly. Therefore, if it is not paid regularly and uniformly, or if it is not fixed pay, such as pay that is paid according to merits or the amount of which differs according to merit, it is not considered to be ordinary pay (Supreme Court 2003 Da 10650).

Case

Ordinary pay serves as the basis for calculating payment of the following types of pay according to the Labor Standards Act.

- Allowances for the lack of advance notice of dismissal (Article 26): A worker shall be given advance notice at least 30 days prior to dismissal, and if not, should receive at least 30 days of ordinary pay.
- Allowances for the suspension of business (Article 46): Allowances equivalent to at least 70% of the average pay shall be paid to workers during the period of suspension of business, but if the amount equivalent to 70% of the average pay exceeds the ordinary pay, ordinary pay is paid.
- Allowances for extended work, night work, and holiday work (Article 56): Workers shall be paid at least 50% of ordinary pay additionally for extended work, night work (work from 10:00 pm to 6:00 am), or holiday work.
- Allowances for annual paid leaves (Article 60): A worker who is unable to use the leave time designated for the year shall be paid ordinary pay or average pay for the number of days of unused leave.

C. Average Pay

Definition

Average pay refers to “the amount calculated by dividing the total amount of pay paid to the relevant worker during three calendar months prior to the date on which the event necessitating such calculation occurs by the total number of calendar days during those three calendar months” (Article 2 of the Labor Standards Act). However, if the calculated average pay is lower than ordinary pay, ordinary pay is deemed average pay (Article 2, Paragraph 2 of the Labor Standards Act).

Average pay is a concept encompassing ordinary pay, and therefore is equal to or exceeds ordinary pay. Average pay is the total amount of cash paid to a worker among the money and valuable goods included in the pay.

Case

Average pay is the basis for calculating payment of the following, according to the Labor Standards Act, the Employee Retirement Benefit Security Act, and the Industrial Accident Compensation and Insurance Act.

- Allowances for the suspension of business (Article 46 of the Labor Standards Act): Allowances equivalent to at least 70% of the average pay shall be paid to workers during the period of suspension of business, but if the amount equivalent to 70% of the average pay exceeds the ordinary pay, ordinary pay may be paid.
- Allowances for annual paid leaves (Article 60 of the Labor Standards Act): A worker who is unable to use the leave time designated for the year shall be paid ordinary pay or average pay for the number of days of unused leave.
- Compensation for suspension of work (Article 79 of the Labor Standards Act): An employer shall pay 60% of the average pay

to a worker if he or she suffers from a work-related injury or disease and needs to recuperate.

- Compensation for disability (Article 80 of the Labor Standards Act): If a worker incurs a disability from a work-related injury or disease, the employer shall provide compensation for the disability in an amount equivalent to the average pay multiplied by the number of days set according to the grade of disability.
- Compensation for survivors (Article 82 of the Labor Standards Act): If a worker dies on duty, the employer shall provide compensation equivalent to 1,000 days of the average pay to the bereaved.
- Funeral expenses (Article 83 of the Labor Standards Act): If a worker dies on duty, the employer shall provide funeral expenses equivalent to 90 days of the average pay.
- Pay cuts as punitive measures for workers (Article 95 of the Labor Standards Act): If a punitive reduction in pay for a worker is stipulated in the employment rules, the amount to be reduced for each infraction should not exceed half of the average wage per day, and the total reduction shall not exceed one-tenth the total amount of the pay during each period of payment.
- Retirement pay and defined-benefit retirement pension (Article 11 and 12 of the Employee Retirement Benefit Security Act): When a worker retires, an amount equivalent to 30 days of the average pay for each year of continued service is paid in a lump sum or in the form of a pension.

D. Pay upon Retirement

In Korea, pay upon retirement takes the form of either a lump-sum payment or a pension. The former is called retirement pay and the latter is called a retirement pension.

An employer must operate either a retirement pay scheme or a retirement pension scheme.

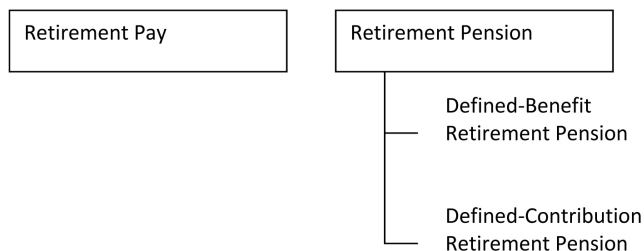


Figure 2. Pay Structure in Korea upon Retirement.

Retirement pay

Most establishments use a system that provides a lump-sum payment equivalent to 30 days of the average pay for each year of continued service to a worker upon retirement.

For example, if a worker works for 10 consecutive years at an average pay of 5 million won, his or her retirement pay will be 50 million won.

As of the end of October 2010, 425,320 establishments, or 83.2% of those with five or more employees, were subject to the retirement-pay system covering 5,787,329 workers, or 74.9% of the regular workers employed at establishments with five or more employees (Ministry of Employment and Labor).

Retirement pension

A retirement pension scheme is a form of payment that invests the pay to be received by a worker upon retirement in a financial institution before retirement and provides a pension (or a lump-sum payment) to the worker after retirement.

There are two types of retirement-pension schemes: defined-benefit retirement pensions and defined-contribution retirement pensions.

Defined-benefit retirement pension

- According to this scheme, the benefit to be received by a worker upon retirement is predetermined (30 days of the average pay for each year of continued service) and the employer invests the benefit to be paid to the worker in a financial institution; therefore, the amount to be shouldered by the employer may vary according to the return on investment.

Defined-contribution retirement pension

- According to this scheme, the benefit to be paid by an employer upon the retirement of a worker is predetermined (30 days of average pay for each year of continued service), and the employer pays the benefits to be paid to the worker to the financial institution of the worker's choice; therefore, the benefits to be received by the worker upon retirement may vary according to the return on investment.

As of the end of October 2010, 85,882 establishments, or 16.8% of those with five or more employees, had subscribed to the retirement pension covering 1,939,412 workers, or 25.1% of the regular workers employed at establishments with five or more employees (Ministry of Employment and Labor).

Table 1. Adoption of Retirement Pensions by Establishment Size
(as of the end of October 2010)

(Unit: Number of establishments, %)

	Number of employees					
	Fewer than 10	10 to 29	30 to 99	100 to 299	300 to 499	500 or more
Establishments with retirement pensions	46,260	24,627	11,323	2,763	429	480
Total number of establishments	1,204,919	157,952	47,529	9,460	1,330	1,071
Adoption rate	3.8	15.6	23.8	29.2	32.3	44.8

Note. Data from Ministry of Employment and Labor, retirement pension website (<http://www.moel.go.kr/pension/index.jsp>).

E. Minimum Wage per Hour

The Minimum Wage Act stipulates the lower wage limit in order to protect low-wage workers.

Determination process and effect

The minimum wage is determined and publicly announced by the Minister of Employment and Labor after deliberation by the Minimum Wage Council each August for the following year.

The established minimum wage is valid for all workplaces in Korea from January 1 to December 31 of the following year.

Determination standards and units

The minimum wage is determined by industry or for all industries, taking into consideration of the living expenses of workers, comparable workers' wages, labor productivity, and labor's relative share.

The minimum wage is established in terms of units of hours, days, weeks, or months, and the hourly minimum wage is indicated.

The level of the minimum wage

For the period January 1 to December 31, 2011, the hourly minimum wage is 4,320 won, an increase of 5.1% from 2010.

Table 2. The Minimum Wage (2007 to 2011)

Wage type	(Unit: Won)				
	2007	2008	2009	2010	2011
Hourly wage	3,480	3,770	4,000	4,110	4,320
Daily wage (8 hours)	27,840	30,160	32,000	32,880	34,560

Note. Data from Minimum Wage Council website (<http://www.minimumwage.go.kr>).

The minimum wage per month for establishments with a 40-hour work week (209 hours per month) is 902,880 won, and for those with a 44-hour work week, 976,320 won.

F. Prohibition Against Pay Discrimination With Regard to Non-regular Employees

Employers are prohibited by law from discriminating against non-regular workers (including fixed-term workers, part-time workers, and dispatch workers) on the basis of their employment status by paying them differently than regular workers with open-ended labor contracts who perform the same or similar jobs.

Requirements for proving the existence of discrimination

Proving the existence of pay discrimination requires that the conditions listed in Table 3 be met.

Table 3. Conditions for Proving the Existence of Discrimination

Category	Contents of conditions
The status of being a fixed-term, part-time, or dispatch worker	A worker should be employed as a fixed-term, part-time, or dispatch worker as prescribed by law at the point in time when discrimination in terms of pay has occurred.
The existence of a comparable regular worker	There should be a regular worker performing the same or similar job within the same workplace.
The lack of justifiable reasons	There should be <i>disadvantageous treatment without justifiable reasons</i> .

Cases in which reasons are deemed justifiable

- Cases in which the pay is applied in proportion to the employment period for fixed-term workers (when the proportional payment according to employment periods is possible based on justifiable reasons)
- Cases in which the pay for part-time workers is applied in proportion to the number of working hours (the principle of protecting the time proportion of part-time workers)
- Cases in which the conditions and requirements for employment are different (such as experiences or licenses), and where such conditions and requirements are factors for determining pay
- Cases in which the pay is different according to differences in factors for determining the pay (such as jobs, skills, functions, techniques, experiences, education, years of service, duties, and job performance)

3. Pay Levels in Korea

The average monthly pay for regular workers employed at establishments with five or more employees was 2,795,000 won in 2009 (see Figure 3).

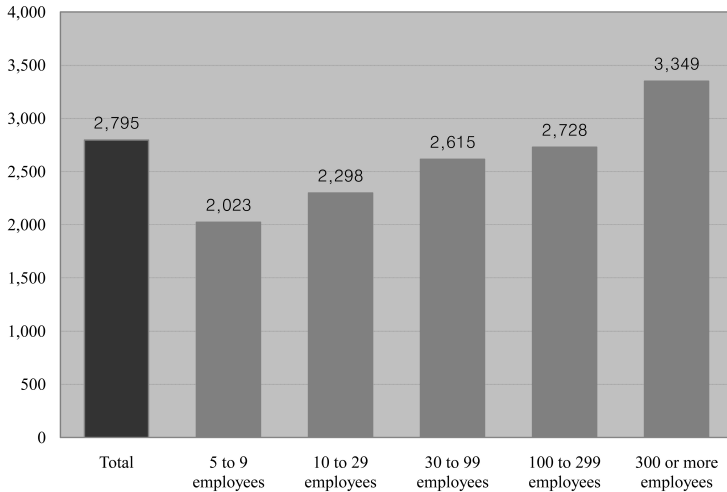


Figure 3. Average Monthly Pay of Regular Workers by Establishment Size (2009; Unit: 1,000 won).

Statistics are for regular employees at establishments with five or more employees. Data from Ministry of Employment and Labor, employment and labor statistics website, survey of pay and working hours at establishments (<http://laborstat.molab.go.kr>).

A. Pay Level by Characteristic

Pay Level by Establishment Size (Monthly Average)

The larger the establishment, the higher the pay, and the average pay of establishments excluding those with 300 or more employees is lower than the average pay of all establishments.

The average pay of establishments with 5 to 9 employees is the lowest, at 2,022,521 won, and the average pay of establishments with 300 or more employees is the highest, at 3,349,102 won.

Pay level by industry (monthly average)

Average monthly pay is highest for workers employed in electricity, gas, and water supply, at 4,062,085 won, and is lowest for workers employed in real estate, renting, and leasing, at 1,890,946 won (see Figure 4).

The industries with higher pay levels than the overall average include electricity, gas, and water supply, wholesale and retail trade, telecommunications, finance and insurance, education, and those related to recreational, cultural, and sports services. Pay levels in other industries are lower than the overall average.

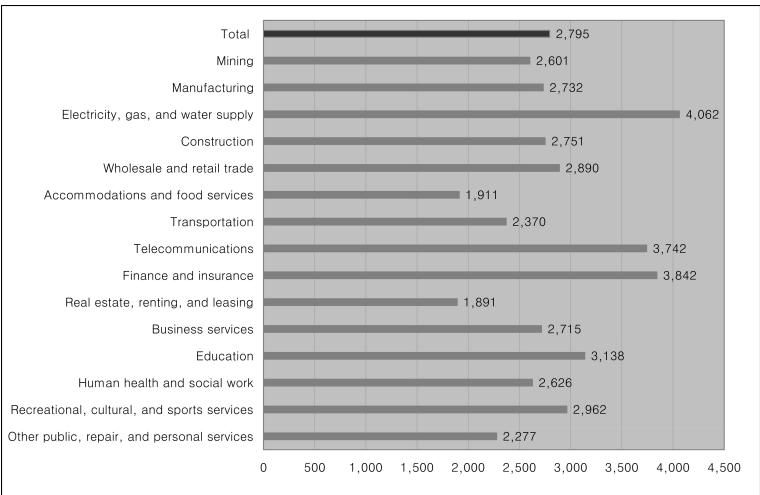


Figure 4. Level of Average Monthly Pay for Regular Workers by Industry (2009; Unit: 1,000 won). Statistics are for regular employees employed at establishments with five or more employees. Data from Ministry of Employment and Labor, employment and labor statistics website, survey of wage and working hours at establishments (<http://laborstat.molab.go.kr>).

Pay level by industry and establishment size (monthly average)

A review of the combination of industry and establishment size reveals that the pay level is relatively high in establishments with 300 or more employees in finance and insurance, and highest in establishments with 300 or more employees in electricity, gas, and water supply (see Table 4).

The pay level is relatively low in accommodations and food services.

The industry with the highest level of pay among establishments with 5 to 29 employees is finance and insurance, and the lowest, accommodations and food services.

- At establishments with 5 to 9 employees, the monthly average pay is 3,218,303 won for finance and insurance, and 1,208,014 won for accommodations and food services
- At establishments with 10 to 29 employees, the monthly average pay is 3,783,463 won in finance and insurance, and 1,637,385 won for accommodations and food services

The industry with the highest pay level among establishments with 30 to 99 employees is telecommunications, with a monthly average of 3,905,823 won, and the lowest is real estate, renting, and leasing, with a monthly average of 1,695,815 won.

The industry with the highest level of pay among establishments with 100 to 299 employees is finance and insurance, with a monthly average of 4,729,111 won, and the lowest is accommodations and food services, with a monthly average of 1,993,771 won.

Table 4. Level of Average Monthly Pay for Regular Workers by Industry and Establishment Size (2009)

(Unit: Won)

Industry	Establishment size					
	All establishments	5 to 9 employees	10 to 29 employees	30 to 99 employees	100 to 299 employees	300 or more employees
All industries	2,795,053	2,022,521	2,297,786	2,614,718	2,728,300	3,349,102
Mining and quarrying	2,601,120	2,017,000	2,566,692	2,370,964	2,522,808	2,986,528
Manufacturing	2,732,458	2,052,973	2,003,120	2,292,332	2,577,264	3,337,082
Electricity, gas, and water supply	4,062,085	2,758,235	2,729,769	3,918,366	4,246,994	4,833,791
Construction	2,750,700	1,717,690	2,149,487	2,972,067	3,384,651	4,174,434
Wholesale and retail trade	2,889,562	2,394,600	2,687,408	2,757,688	3,106,448	3,246,693
Accommodations and food services	1,910,911	1,208,014	1,637,385	1,722,623	1,993,771	2,513,519
Transportation	2,370,167	2,287,669	2,276,575	2,242,305	2,181,129	2,790,605
Telecommunications	3,742,063	2,616,165	3,357,299	3,905,823	3,936,589	3,909,242
Finance and insurance	3,842,360	3,218,303	3,783,463	3,899,136	4,729,111	4,155,086
Real estate, renting, and leasing	1,890,946	1,558,735	1,671,819	1,695,815	2,259,870	2,795,238
Business services	2,714,987	2,075,428	2,382,524	2,933,992	2,461,676	2,834,467
Education	3,137,752	1,553,017	2,062,291	3,244,964	3,566,700	4,212,302
Human health and social work	2,626,267	2,006,740	1,903,087	2,462,210	2,632,534	3,180,967
Recreational, cultural, and sports services	2,962,427	2,093,899	2,150,523	2,573,788	2,974,081	4,171,211
Other public, repair, and personal services	2,276,863	1,766,190	2,111,258	2,158,412	3,375,034	3,255,358

Note. Statistics cover regular employees employed at establishments with five employees or more. Data from the Ministry of Employment and Labor, employment and labor statistics website, survey of pay and working hours at establishments (<http://laborstat.molab.go.kr>).

The industry with the highest level of pay among establishments with 300 or more employees is electricity, gas, and water supply, with a monthly average of 4,833,791 won, and the lowest is accommodations and food services, with a monthly average of 2,513,519 won.

Trends in pay level (monthly average) by establishment size

During the last 3 years (from 2007 to 2009), the average pay level increased by an average of 1.4% per year. The average monthly pay level rose by 3.4% from 2007 to 2008, but fell by 0.5% from 2008 to 2009. This decrease is due to the decrease in bonuses during the global economic recession of 2009.

A review of the changes in the average monthly pay level by establishment size from 2007 to 2009 shows that the pay level of establishments with 30 to 39 employees increased most, with an average annual increase of 4.5%, and the lowest increase occurred in establishments with 300 or more employees, with an average annual increase of 1.1%.

Most average monthly pay levels decreased from 2008 to 2009 because of the global economic recession, but establishments with 30 to 39 employees showed the opposite trend. This is due to the increase in demand for education and for human health and social work regardless of the economic recession, especially in small private academies and clinics.

Table 5. Trends in the Average Monthly Pay Level of Regular Workers by Establishment Size (2007 to 2009)

(Unit: Won, %)

Establishment size	2007	2008	2009	Average annual rate of increase
All establishments	2,716,193	2,809,894 (3.4)	2,795,053 (-0.5)	1.4
5 to 9 employees	1,910,828	2,035,279 (6.5)	2,022,521 (-0.6)	2.9
10 to 29 employees	2,188,833	2,273,486 (3.9)	2,297,786 (1.1)	2.5
30 to 99 employees	2,393,913	2,535,663 (5.9)	2,614,718 (3.1)	4.5
100 to 299 employees	2,627,841	2,734,177 (4.0)	2,728,300 (-0.2)	1.9
300 or more employees	3,275,823	3,371,491 (2.9)	3,349,102 (-0.7)	1.1

Note. Statistics cover regular employees employed at establishments with five employees or more. Figures in parentheses are year-to-year rates of increase. Data from Ministry of Employment and Labor, employment and labor statistics website, survey of pay and working hours at establishments (<http://laborstat.molab.go.kr>).

Table 6. Trends in the Average Monthly Pay Level of Regular Workers by Industry (2007 to 2009)

(Unit: Won, %)

Industry	2007	2008	2009	Average annual rate of increase
All industries	2,716,193	2,809,894 (3.4)	2,795,053 (-0.5)	1.4
Mining and quarrying	2,713,821	2,640,025 (-2.7)	2,601,120 (-1.5)	-2.1
Manufacturing	2,733,471	2,758,726 (0.9)	2,732,458 (-1.0)	0.0
Electricity, gas, and water supply	3,964,900	4,017,120 (1.3)	4,062,085 (1.1)	1.2
Construction	2,627,593	2,875,421 (9.4)	2,750,700 (-4.3)	2.3
Wholesale and retail trade	2,702,937	2,889,392 (6.9)	2,889,562 (0.0)	3.4
Accommodations and food services	1,829,954	1,929,140 (5.4)	1,910,911 (-0.9)	2.2
Transportation	2,245,649	2,367,986 (5.4)	2,370,167 (0.1)	2.7
Telecommunications	3,759,030	3,741,126 (-0.5)	3,742,063 (0.0)	-0.2
Finance and insurance	3,863,371	3,906,708 (1.1)	3,842,360 (-1.6)	-0.3
Real estate, renting, and leasing	1,756,895	1,911,657 (8.8)	1,890,946 (-1.1)	3.7
Business services	2,553,863	2,737,244 (7.2)	2,714,987 (-0.8)	3.1
Education	3,156,015	3,182,670 (0.8)	3,137,752 (-1.4)	-0.3
Human health and social work	2,550,318	2,597,007 (1.8)	2,626,267 (1.1)	1.5
Recreational, cultural, and sports services	2,921,106	2,968,125 (1.6)	2,962,427 (-0.2)	0.7
Other public, repair, and personal services	2,202,125	2,273,583 (3.2)	2,276,863 (0.1)	1.7

Note. Statistics cover regular employees employed at establishments with five employees or more. Figures in parentheses are year-to-year rates of increase. Data from Ministry of Employment and Labor, employment and labor statistics website, survey of pay and working hours at establishments (<http://laborstat.molab.go.kr>).

Trends in pay level (monthly average) by industry

A review of the changes in the average monthly pay level by industry during the last 3 years (2007 to 2009) shows that the highest increase occurred in real estate, renting, and leasing, with an annual average increase of 3.7%. The smallest increase occurred in mining and quarrying, with an annual average decrease of 2.1% (see Table 6).

B. Pay Information System

The Korea Employment Information Service operates an online pay-information system to provide accurate, reliable, and objective information on pay levels.

Website

<http://www.wage.go.kr>

Information provision

The pay-information system provides data on HR management such as pay systems and HR assessment, and news related to pay as well as pay-level information.

Methods of providing pay-level information

Pay-level information is provided for five conditions—industry, establishment size, job, age, and education—and the system is designed to enable users to retrieve pay-level information for a combination of conditions.

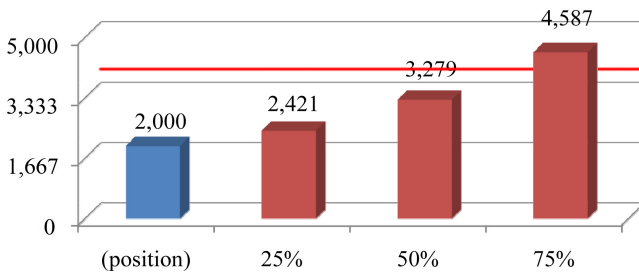
- Industry: Large and middle classification of the Korean Standard Industrial Classification
- Establishment size: 5 to 99 employees, 100 to 299 employees, and 300 or more employees
- Job: Job classification by business size, as large, middle, and small
- Age: 5-year units from ages 20 to 60

- Education: High school graduates and under, 2-year college graduates, and 4-year college graduates and above

Contents of the provided pay-level information

Information such as the average, mean, top 25%, monthly pay, annual pay, estimated number of workers, relative standard error, and the position of the pay of a worker (establishment) in the distribution of pay is included.

■ My (My Establishment's) Pay Level



■ Pay Statistics

	Monthly Pay	Annual Pay
Upper 25% percentile	3.82 million won	45.87 million won
Median	2.73 million won	32.79 million won
Lower 25% percentile	2.01 million won	24.21 million won
Mean	2.99 million won	35.92 million won

■ Selected Search Conditions

Industry	■ Manufacture of Basic Metal Products		
Job	■ Professionals and Related Workers		
Age	■ Not Selected		
Education	■ Four-Year College Graduates and Above		
Establishment Size	■ Not Selected		
Estimated Number of Workers	11,249	Relative Standard Error	1.29%

Figure 5. Result of a Pay-Level Search.

4. Pay System in Korea

A. Pay Mix

Pay in Korea is generally composed of base pay, bonus pay, and allowances.

- Base pay is fixed pay.
- Bonus pay is paid according to performance assessments, with some exceptions.
- Allowances are pay such as job-related allowances paid according to job and position, allowances paid to supplement the living expenses of workers or for the welfare of workers, and allowances for extended work that must be paid in accordance with the law.

Base pay makes up the largest portion of total pay, followed by allowances and bonuses.

As of 2008, base pay made up 54.1% of total pay, allowances, 27.5%, and bonuses, 18.4%.

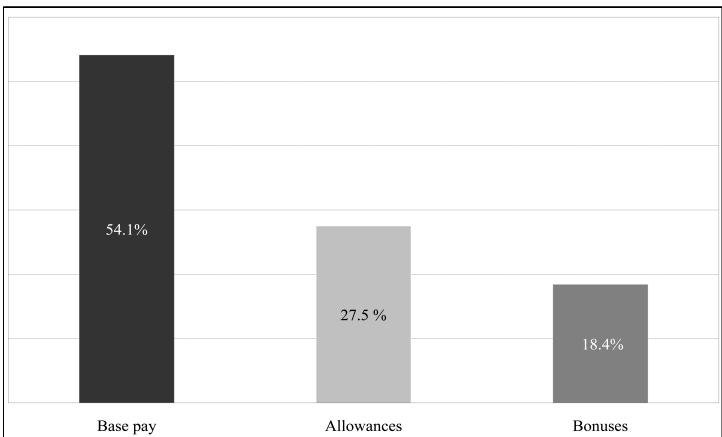


Figure 6. Percentage of Pay Mix within Total Pay (2008). Data from Korea Labor Institute, *2008 Survey of Pay Systems*, Ministry of Employment and Labor, 2008.

B. Base Pay

Types

The types of base pay in Korea according to pay-determination methods commonly include seniority-based pay, skill-based pay, and job-based pay.

- Seniority-based pay: Pay levels are generally determined according to the characteristics of individual employees such as age, education, and experience, and pay is increased according to years of service. This system is based on the premise that an increase in years of service corresponds to increases in skills and living expenses.
- Skill-based pay: The skills necessary for performing individual jobs, in other words, the skills required of a worker to perform his or her job, form the basis for determining base pay, and pay is increased according to the assessment of job skills.
- Job-based pay: The base pay is determined and increased according to the relative value of the job performed based on the assessment of all elements such as knowledge, skills, efforts, responsibilities, working conditions, and the difficulty and importance of the job.

Percentage by Type

In Korea, the most commonly used type of base-pay system is seniority-based pay, followed by a combination of different types.

- Limited to cases that use only a single type of base-pay system, such as seniority-based pay, skill-based pay, or job-based pay, seniority-based pay systems make up of 86.1% of all base-pay systems.

Table 7. Distribution of Types of Base-Pay Systems (2008)

Total	Cases in which a single type of base-pay system is applied to all workers			Combination of base-pay systems
	Seniority-based pay	Skill-based pay	Job-based pay	
100.0%	52.2%	5.0%	3.5%	39.4%

Note. Data from *2008 Survey of Pay Systems*, by Korea Labor Institute, 2008, Gwacheon: Ministry of Employment and Labor.

- Establishments that use a combination of base-pay systems according to job category, job, position, or rank of workers make up approximately 40% of all base-pay systems.

Criteria for Pay Increases

The criteria for increasing base pay generally reflect the basic concept of the base-pay system, but other methods may also be used.

- For seniority-based pay, years of service is the most important criterion, but skills, capabilities, achievements, and performance are also important.
- For skill-based pay, years of service, achievements, and performance are also important, along with skills and capabilities, the basic concept of the skill-based pay system.
- For job-based pay, years of service, skills, capabilities, achievements, and performance are also important, as well as the value of the job performed, the basic concept of the job-based pay system.

As a criterion for increasing base pay, years of service is important regardless of the type of pay system (seniority-based, skill-based, or job-based; see Table 8).

Table 8. Criteria for Increasing Base Pay (2008)

Criterion	Seniority-based pay	Skill-based pay	Job-based pay
Years of service	63.2	27.0	33.9
Skills and capabilities	14.3	25.7	17.2
Value of job performed	6.8	14.8	31.3
Achievements and performance	15.9	32.5	17.5

Note. Data from *2008 Survey of Pay Systems*, by Korea Labor Institute, 2008, Gwacheon: Ministry of Employment and Labor.

Table 9. Base-Pay Systems and Pay Levels by Years of Service (2008)

Pay system	Differences in pay by years of service when pay of new recruits (4-year college graduates) is set equal to 100	
	Fifth year after employment	Tenth year after employment
All pay systems	128.2	161.5
Seniority-based pay	127.8	159.7
Skill-based pay	131.0	167.5
Job-based pay	130.7	166.1

Note. Data from *2008 Survey of Pay Systems*, by Korea Labor Institute, 2008, Gwacheon: Ministry of Employment and Labor.

C. Bonuses

Types

In Korea, there are two types of bonuses: fixed bonuses and variable bonuses.

- Fixed bonuses: Paid in connection with base pay or in fixed amounts, without performance assessments
- Variable bonuses: Paid according to the results of performance assessments

Percentages by Type

Bonuses make up 18.4% of total pay, of which fixed bonuses contribute 15.1% and variable bonuses 3.3% (see Table 10).

- The industry with the highest percentage of fixed bonuses out of total pay is electricity, gas, and water supply, at 22.5%, followed by finance and insurance, at 21.6%; the lowest is business activities.
- The industry with the highest percentage of merit-based bonuses is again electricity, gas, and water supply, at 12.3%, and the lowest is education.

Table 10. Percentage of Bonuses out of Total Pay, by Type and Industry (2008)

Industry	Fixed bonuses (%)	Variable bonuses (%)
All industries	15.1	3.3
Mining and quarrying	17.6	2.3
Manufacturing	17.5	3.7
Electricity, gas, and water supply	22.5	12.3
Construction	17.1	6.7
Wholesale and retail trade	15.0	4.4
Accommodations and food services	11.0	2.3
Transportation	16.0	0.8
Finance and insurance	21.6	7.6
Real estate, renting, and leasing	12.4	2.4
Business services	8.3	2.6
Education	11.6	0.7
Human health and social work	12.8	1.1

Note. Data from *2008 Survey of Pay Systems*, by Korea Labor Institute, 2008, Gwacheon: Ministry of Employment and Labor.

Table 11. Percentage of Bonuses out of Total Pay by Establishment Size (2008)

Establishment size	Fixed bonuses (%)	Variable bonuses (%)
All establishments	15.1	3.3
Fewer than 300 employees	13.9	2.7
300 to 999 employees	17.6	4.0
1000 or more employees	20.1	6.9

Note. Data from *2008 Survey of Pay Systems*, by Korea Labor Institute, 2008, Gwacheon: Ministry of Employment and Labor.

- Establishments with 1,000 or more employees had the highest percentage of fixed bonuses out of total pay, at 20.1%, and establishments with fewer than 300 employees had the lowest, at 13.9%.
- Establishments with 1,000 or more employees also had the highest percentage of merit-based bonuses out of total pay, at 12.3%, and establishments with fewer than 300 employees again had the lowest, at 2.7%.

Differentiated Fixed Bonuses

Fixed bonuses are generally paid in connection with base pay or in fixed amounts without performance assessments, but in some cases fixed bonuses are paid differently based on assessments of the performance or capabilities of individuals.

- Of the establishments that pay fixed bonuses, 8.8% pay workers differently based on assessments of performance or capabilities, and the remaining 91.8% do not pay differentiated fixed bonuses.
- By industry, the percentage of differentiated fixed bonuses paid based on assessments of performance or capabilities was highest in real estate, renting, and leasing, at 47.9%, and there were no cases of differentiated fixed bonuses in the construction industry.

Table 12. Cases of Differentiated Fixed Bonuses by Industry (2008)

Industry	Payment of fixed bonuses(%)		
	Total	Differentiated	Non-differentiated
All industries	100.0	8.8	91.2
Mining and quarrying	100.0	0.0	100.0
Manufacturing	100.0	7.2	92.8
Electricity, gas, and water supply	100.0	3.5	96.5
Construction	100.0	0.0	100.0
Wholesale and retail trade	100.0	16.4	83.6
Accommodations and food services	100.0	0.0	100.0
Transportation	100.0	10.1	89.9
Finance and insurance	100.0	16.6	83.4
Real estate, renting, and leasing	100.0	47.9	52.1
Business services	100.0	9.7	90.3
Education	100.0	14.9	85.1
Human health and social work	100.0	14.3	85.7

Note. Data from *2008 Survey of Pay Systems*, by Korea Labor Institute, 2008, Gwacheon: Ministry of Employment and Labor.

- By establishment size, the percentage of differentiated fixed bonuses based on assessments of performance or capabilities was approximately 10% regardless of the establishment size, and the percentage of cases in which fixed bonuses were not differentiated was also approximately 90% regardless of establishment size.

Table 13. Cases of Differentiated Fixed Bonuses by Establishment Size (2008)

Establishment size	Payment of fixed bonuses(%)		
	Total	Differentiated	Non-differentiated
All establishments	100.0	8.8	91.2
Fewer than 300 employees	100.0	8.3	91.7
300 to 999 employees	100.0	9.2	90.8
1000 or more employees	100.0	10.9	89.1

Note. Data from *2008 Survey of Pay Systems*, by Korea Labor Institute, 2008, Gwacheon: Ministry of Employment and Labor.

D. Allowances

Allowances include scheduled and nonscheduled compensation for additional labor of individual workers and terms for fringe benefits.

Types

In Korea, a wide variety of allowances are paid for different purposes with varying contents, which can be categorized into allowances stipulated by the Labor Standards Act and other allowances (see Table 14).

- Allowances stipulated by the Labor Standards Act refer to allowances paid according to requirements related to working conditions as prescribed by the Act, including allowances for the lack of advance notice for dismissal, retirement allowances, allowances for the suspension of business, allowances for night work, allowances for work on paid holidays, allowances for extended work, allowances for paid monthly leaves, allowances for paid annual leaves, allowances for menstruation, and maternity allowances.

Table 14. Types of Allowances (Prime Examples)

Allowances stipulated by the Labor Standards Act	Allowances for extended work Allowances for the suspension of business Allowances for holiday work, etc.	
Other allowances	Job-based allowances	Position-based allowances, job-based allowances, rank-based allowances, qualification-based allowances, function-based allowances, etc.
	Work-based allowances	Allowances for shift work, allowances for work outside the workplace, allowances for special work, etc.
	Incentive allowances	Allowances for long service, allowances for good attendance, allowances for promoting production, etc.
	Allowances for living expenses	Family allowances, inflation allowances, clothing allowances, housing allowances, commuting allowances, etc.
	Other allowances for adjustments	Allowances for adjustments, temporary allowances, etc.

Note. Data from Joon-Sung Park, *Theory and Practice of Pay Management*, Myeung-Kyeong, 2004.

- Other allowances are those designated and paid by establishments for specific purposes including job-based allowances, work-based allowances, incentive allowances, allowances for living costs, and other allowances for adjustments.

Job-based allowances

- Job-based allowances are paid to supplement and adjust compensation for work and reflect the value of the job performed by a worker at establishments that apply seniority-based pay.
- Such allowances include job-based allowances, rank-based allowances, qualification-based allowances, allowances for treasurers, and allowances based on various job groups and functions.

Work-based allowances

- Work-based allowances are paid as compensation for workers who perform additional or special work according to the characteristics and difficulty of working conditions such as working hours, working days, place of work, and the pattern of shift work.
- Such allowances include allowances stipulated by the Labor Standards Act including allowances for business trips, allowances for working abroad, allowances for shift work, allowances for work outside the workplace, allowances for special work, allowances for extended work, allowances for night work, allowances for holiday work, and allowances for paid monthly and annual leaves.

Incentive allowances

- Incentive allowances are additional and variable allowances paid to encourage and promote contributions to the establishment such as lengthy service, high-quality time management, higher productivity, enhancement of quality, or guarantee of labor-management cooperation.
- Such allowances include allowances for lengthy service, allowances for good attendance, allowances for promoting production, allowances to maintain satisfactory time management, and suggested maintenance expenses.

Allowances for living expenses

- Allowances for living expenses are variable allowances paid according to the situation of individual workers in order to improve quality of life related to their clothing, food, and housing.
- Such allowances include family allowances, housing allowances, commuting allowances, allowances for living costs, meal allowances, clothing allowances, and allowances for various holidays.

Allowances for adjustments

- Allowances for adjustments are temporary allowances paid to reflect changes in the base-pay system or that are due to temporary reasons.
- Such allowances include various allowances for adjustments and temporary allowances.

E. Annual-Pay Systems

Definition

In Korea, annual-pay systems determine the annual pay of individuals based on assessments of their abilities, performance, and contributions.

Annual-pay systems are a combination of merit pay that adjusts base pay according to the abilities and performance of individuals, and lump-sum bonuses with differentiated bonuses according to the abilities and performance of individuals.

Types

Annual-pay systems are categorized into four types based on the composition of the pay mix and methods for determining pay increases (Table 15).

Table 15. Types of Annual-Pay Systems

Methods for calculating pay increases	Pay mix	
	Single type	Mixed type
Cumulative type	Single cumulative annual-pay systems	Mixed cumulative annual-pay systems
Noncumulative type	Single noncumulative annual-pay systems	Mixed noncumulative annual-pay systems

Based on the composition of the pay mix, annual-pay systems are categorized as either single annual-pay systems or mixed annual-pay systems.

- Single annual-pay systems are systems that operate all pay-mix items, namely base pay, bonuses, and allowances, as a seniority based annual pay.
- Mixed annual-pay systems are systems that operate pay mix separately, distinguishing between seniority based annual pay and merit based annual pay. The seniority based annual pay commonly includes base pay, bonuses, and allowances, which are fixed, and the merit based annual pay includes a pay mix that is variable pay for performance such as merit pay or incentive pay. Therefore, combined annual-pay systems commonly have different pay for performances added to seniority based annual pay. Based on the method for determining pay increases, annual-pay systems are categorized as either cumulative annual-pay systems or noncumulative annual-pay systems.
- Cumulative annual-pay systems are systems in which the pay level increased in a given year becomes the base pay for the following year, cumulating the pay level each year.
- Noncumulative annual-pay systems are systems that determine the pay level each year based on performance for the year concerned without cumulating previous yearly pay increases.
- Mixed annual-pay systems commonly couple cumulative annual base pay with noncumulative annual bonus pay.

5. Pay Bargaining in Korea

In Korea, trade unions or workers' representatives have the legal right to request negotiations with employers or employer groups about working conditions such as pay, working hours, places of work, breaks, holidays, leaves, retirement, standards for dismissal, compensation for accidents, and the welfare of workers, and employers or employer groups may not reject requests for negotiations or avoid or delay negotiations without justifiable grounds.

- When an employer does not accept a just request for collective bargaining by a trade union or a workers' representative, the trade union or workers may exercise the right to claim for damages, and strikes are justified based on unfair labor practices.
- Trade unions and workers' representatives may request collective bargaining only within the limits stipulated by law.

Therefore, changes or adjustments related to pay such as pay systems, pay levels, and payment methods are determined through pay-bargaining between the trade union or workers' representative and the employer. Especially in cases where disadvantages concerning pay are inflicted on workers, the agreement of the union or workers' representative is needed.

As of 2009, 1.64 million workers were union members, and the rate of unionization was 10.1%.

Union density in the private sector was 8.9%, and in the public sector was 20.6% for teachers and 56.8% for civil servants (Table 16).

Table 16. Union Density (2009)

Unionization rate	Private sector	Public sector	
		Teachers	Civil servants
10.1%	8.9%	20.6%	56.8%

Note. Data from Ministry of Employment and Labor, 2009 *Union Density*, 2010.

Trade unions in Korea are mostly enterprise unions organized within each establishment or are industrial or regional unions that group together establishments within the same industry or region.

The umbrella groups of unions are the Federation of Korean Trade Unions (FKTU) and the Korean Confederation of Trade Unions (KCTU).

Of all union members, 45.1% belong to the FKTU, 35.9% belong to the KCTU, and 19.0% do not belong to any umbrella group (Table 17).

Table 17. Union Organization, by Umbrella Group or Form of Organization (2009)

(Unit: Number of persons, %)

		Federation of Korean Trade Unions members		Korean Confederation of Trade Unions members		Nonmembers	
		N	%	N	%	N	%
Total number of union members (%)	1,640,334 (100.0)	740,335 (45.1)	100.0	588,394 (35.9)	100.0	311,605 (19.0)	100.0
Number of enterprise union members (%)	771,867 (100.0)	442,673 (57.30)	59.8	114,577 (14.9)	19.5	214,617 (27.8)	68.9
Number of non-enterprise level trade union members (%)	868,467 (100.0)	297,662 (34.30)	40.2	473,817 (54.6)	80.5	96,988 (11.1)	31.1

Note. Data from Ministry of Employment and Labor, 2009 *Union Density*, 2010.

6. Conclusion

Various forms and types of pay exist in Korea to accommodate the particular circumstances of an organization.

Various legal constraints exist with regard to pay, which is true for all advanced nations in order to guarantee that such legal constraints apply fairly to both workers and employers without favoring any one side.

A unique aspect of pay in Korea compared with other countries is the importance of seniority, which is a reflection of Korea's history and culture. However, since the 1990s issues have been raised about the relationship between seniority and performance, leading to an increase in the introduction of pay systems that are based on individual abilities and performance.

It is a mistake to expect to reach set objectives based on the introduction of a certain pay system alone considering pay to be the absolute alternatives for performance. Systems should suit the organization concerned, and HR management in all areas, including pay systems, should suit the organization and members within the organization in order to achieve the expected results.

Hopefully, this paper contributes to the literature on pay in Korea and an understanding of the topic and, furthermore, proves to be informative to foreign companies looking to enter the Korean market.