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# Employment Support Policies in Response to COVID-19 : Current Status and Areas for Improvement

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## I. Introduction

Employment and income have been negatively impacted by the COVID-19 outbreak. This article reviews government policies aimed to minimize decrease in employment and to support income protection. Although the main focus taken by the government is to temporarily expand and strengthen existing schemes, but it is also to introduce emergency policies to reach those outside the existing schemes for protection.

The government measures can be divided into two categories. The first is designed to encourage employment retention, that is, to help employers maintain employment relations without dismissing workers by providing them with a subsidy to alleviate their burden of labor costs. The second is aimed at providing income support for workers and their families who have been put on unpaid leave, laid off and unable to find jobs due to COVID-19.

Significant financial resources are being directed towards business support measures, and not only employment support measures. Although the viability of businesses are essential for employment retention, due to restrictions it will not be included in the scope of this research. The same applies to household income support measures. Household income support measures which do not have a direct impact on employment were excluded from review.

## II. Employment Retention Measures

### 1. Expanding the Existing Institutions

#### Employment Retention Subsidy

The Employment Retention Subsidy scheme, which is funded by the Employment Insurance Fund, has been in operation since 1995. Designed to help employers who

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find it inevitable to adjust employment to overcome temporary business crisis, the scheme subsidizes part of labor costs (business suspension or leave benefits) paid by employers if they decide to place employees on paid suspension or paid leave. Inevitability of employment adjustment should be proven by supporting documents showing an increase in inventory or a decrease in sales.

The scheme has been expanded in two ways in order to deal with business downturn as a result of COVID-19. First, the government has eased requirements to prove business downturn in order to benefit more employers. Employers can now apply for the subsidies even if their inventory has not increased by more than 50% or their sales have not fallen by more than 10%. Second, the amount of the subsidies have increased up to 90%. In other words, employers can provide workers with paid suspension or paid leave while paying only 10% of the labor costs. However, these two changes will only apply for a temporary period. With the two rounds of increase, decisions on the amount of the subsidies have become somewhat complicated (see Table 1). As of March 27, 2020, the number of business establishments that have applied for the subsidy have already reached

22,360, a 15-fold increase from 1,514 applications in 2019.<sup>11</sup>

Since the Employment Retention Subsidy is a statutory scheme, than a special program it is provided to all those subject to receive benefits-even if their number increases-as long as they meet the requirements regardless of the initial budget. However it should be noted that the temporary increase in subsidy amount will apply only until June or July. Since it seems to be unlikely that the current employment crisis will be resolved by then, it is expected that the increase in subsidy amount will be maintained for the time being.

### Job Stabilization Funds

The Job Stabilization Fund is aimed at promoting employment security for low-income workers by easing the cost burden for small enterprises. The fund was introduced in 2018 to prevent the minimum wage hike from putting excessive cost pressure on small businesses, thereby leading to unemployment of low-income workers. Subsidies are provided to businesses with less than 30 workers, and wage subsidies are provided for workers earning 2.15 million KRW or less per month. It is estimated that a total of 2.3 million workers will benefit from this arrangement. The subsidy amount was initially set at 90,000-

Table 1. Employment Retention Subsidy: Proportion of Subsidy to Total Labor Costs

	Other Months	February, March, July	April, May, June
Firms eligible for priority support	2/3	3/4	9/10
Other Firms	1/2	2/3	2/3~3/4

Note: 1) The government determines if a firm is eligible for priority support according to its size, but the standard varies by industry. To be deemed eligible, the total number of employees should be 500 or less in the manufacturing industry, 300 or less in the construction and some service industries, 200 or less in the wholesale/retail and accommodation/food service industries, and 100 or less in other industries.

2) Travel agencies, tourist accommodation services, and performance-related businesses are designated "special employment support sectors," and eligible to receive support from March 15 to September 15.

3) The Employment Retention Subsidy is up to 66,000 KRW per person per day (up to 1.98 million KRW per month).

Source: The author reorganized the contents of the following website: [http://www.moel.go.kr/news/enews/report/enewsView.do?news\\_seq=10841](http://www.moel.go.kr/news/enews/report/enewsView.do?news_seq=10841)

Table 2. Additional Subsidy Amount in the Job Stabilization Fund Program

(Unit : ten thousand KRW)		
	Initial Subsidy Amount	Additional Subsidy Amount
Firms hiring less than 5 persons	11	+7 (18)
Firms hiring 5 to 9 persons	9	+7 (16)
Firms hiring 10 persons or more	9	+4 (13)
Budget Amount	2.16 trillion KRW	+496.4 billion KRW

Note: For employees that work 40 hours or more per week, the subsidy amount varies depending on working hours.

Source: [http://www.moel.go.kr/news/enews/report/enewsView.do?news\\_seq=10839](http://www.moel.go.kr/news/enews/report/enewsView.do?news_seq=10839)

1) [http://www.moel.go.kr/news/enews/report/enewsView.do?news\\_seq=10841](http://www.moel.go.kr/news/enews/report/enewsView.do?news_seq=10841)

110,000 KRW per worker, but it has been raised through a supplementary budget.

## 2. Improvement Challenges

The Employment Retention Subsidy scheme is not as necessary during ordinary times, but in times of crisis, are effective. Likewise, it has proved to be effective during the COVID-19 crisis. The Job Stabilization Fund scheme is also playing a crucial role in supporting microenterprises and small firms with less than 30 employees. However, the problem with these schemes is that the additional subsidies are only available from June to July 2020. The employment crisis caused by the COVID-19 outbreak will not be resolved immediately even after the number of infected people decrease in Korea. The pandemic has already developed into a global economic crisis, and although it is difficult to tell when the employment crisis will be over, it is expected that the crisis will continue until the end of this year. Therefore, in the meanwhile, it is necessary to continue with the active measures of lowering eligibility criteria for the Employment Retention Subsidy scheme and the Job Stabilization Fund scheme and increasing subsidy amounts.

Meanwhile, apart from helping employers retain employment, a tremendous amount of financial resources are being put into business support measures in response to the economic crisis caused by the COVID-19 outbreak. However, there are hardly any cases where employment retention conditions were imposed. In the United States, there are several conditions imposed on firms when the government provides support. This is a result from reflection on the 2008 global financial crisis, when after the crisis companies were criticized for paying executive bonuses and stock dividends with subsidies granted by the government.

Recently, the IMF pointed out that the post-crisis recovery will occur sooner and more smoothly only when employment is retained. It is also added that, there should be two preconditions ① employment retention and ② limits in CEO compensation in dividends and stock repurchases<sup>2)</sup> in order for firms to receive bailout. Likewise in Korea, closer examination should be taken on whether companies that dismiss workers in the face of business downturn, instead of taking advantage of government schemes that subsidize labor costs when placing employees on paid suspension or paid leave should receive management subsidies. In order to support the temporary increase in the amount of employment retention support, the budget for Employee Retention Subsidy has been raised from the original 100 billion KRW to 500 billion KRW. However given that the employment crisis is expected to be prolonged, and with European countries also planning to spend a large amount on employment retention support, Korea will also need to increase budgets for Employee Retention Subsidies by largely increasing the supplementary budget.

## III. Income Protection Measures

### 1. Basic Schemes

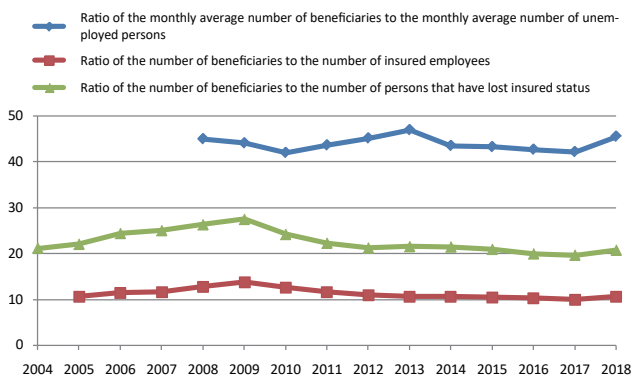
#### Unemployment Benefits

Unemployment insurance is the most basic scheme in response to the employment crisis. In Korea, unemployed wage workers who have been insured under the scheme for a certain period of time are eligible to receive 60% of the average wage before job loss. The unemployment benefit cap is set at 66,000 KRW a day, and the lower limit at 80% of the hourly minimum wage stipulated by law.<sup>3)</sup> As of 2018, the ratio of total unemployed workers to the

2) <https://blogs.imf.org/2020/04/01/economic-policies-for-the-covid-19-war/>

3) Based on the amendment to the Employment Insurance Act, from October 1, 2019, the amount of job-seeking benefits was raised from 50% of the average wage before job loss to 60%, and the period during which job-seeking benefits are payable was extended by 30 days from 90~240 days to 120~270 days.

Figure 1. Ratio of Beneficiaries of Unemployment Benefits to the Number of Unemployed Persons (2004~2018)  
(Unit: case, 1,000 days)



Note: 1) Ratio of the monthly average number of benefit recipients to the monthly average number of unemployed persons =  $\{((\text{number of actual benefit recipients for the relevant year} \times \text{average number of days receiving benefits} \div 365) \div \text{monthly average number of unemployed persons}) \times 100\}$ .

2) Ratio of the number of benefit recipients to the number of insured employees =  $\{(\text{number of benefit recipients for the relevant year} \div (\text{average of the number of insured employees at the end of the previous year and the number of insured employees at the end of this year})) \times 100\}$ .

3) Ratio of the number of benefit recipients to the number of persons who have lost insured status =  $(\text{number of benefit recipients for the relevant year} \div \text{number of persons who have lost insured status for the relevant year}) \times 100\}$ .

Source : Korea Employment Information Service, 2018 Yearly Statistics of Employment Insurance, 2019; Statistics Korea, Economically Active Population Survey, yearly data (post-adjusted time series).

number of those actually received unemployment benefits was 45.6% (Figure 1). This means that the number of those unable to receive unemployment benefits is more than half of all jobseekers.

Although the above statistics reflect the period before the employment crisis caused by COVID-19, the number of new recipients of job-seeking benefits in February was 124,000 which was an increase of 54% from the previous year.<sup>4)</sup> However such an increase in Korea does not appear to be steep, compared to the 12-fold increase in the number of applications for unemployment benefits since the start of the COVID-19 crisis in the U.S.<sup>5)</sup> However, it would be hasty to conclude that Korea's employment

crisis is less severe than that of the U.S. A plausible explanation would be that Korea has many individuals who are practically unemployed, and seeking for jobs but classified statistically as part of the economically inactive population. A supporting evidence of this fact would be that in uniquely in Korea, there are many newly employed workers that were previously part of the economically inactive population. Therefore, it is difficult to say that unemployment insurance is fulfilling its role as an income security scheme for the unemployed.

The primary reason for the low ratio of unemployment benefit recipients in Korea is due to the large number of employees that were previously not covered under employment insurance before unemployment. As of August 2019, 65.8% of all wage workers were insured under the employment insurance scheme (Table 3). Public officials and teachers (15.8%) are exempt from the insurance scheme by law; and 18.4% are eligible to receive unemployment benefits but uninsured—are in welfare blind spots. Among all eligible workers specified in the Employment Insurance Act, 78.2% are actually insured under the employment insurance scheme. The greater problem is that, among all workers including self-employed persons, only 49.4% are insured under employment insurance.

It is evident that the unemployment insurance scheme is playing an important role in responding to the employment crisis caused by COVID-19. It seems to be timely that measures were taken to increase income replacement rates and the duration of the payable period since January this year. However considering that the number of beneficiaries are less than half of the total unemployed population, means that further urgent measures should be implemented as soon as possible.

4) Because eligibility criteria were eased for short-hours part-time workers and daily workers, caution is needed when directly comparing with the previous year. Source: Korea Employment Information Service, Employment Insurance Statistics, <https://www.keis.or.kr/user/bbs/main/302/2117/bbsDataView/45737.do?page=1&column=&search=&searchSDate=&searchEDate=&bbsDataCategory>

5) <https://www.nytimes.com/2020/04/02/world/coronavirus-live-news-updates.html#link-27204eca> On April 2, 2020, the U.S. Labor Department reported the loss of 10 million jobs in only two weeks.

6) To support working parents who use family care leave--originally non-paid--to take care of children amid the coronavirus outbreak, the government has introduced a daily allowance of 50,000 KRW per person for up to five days under the name "Emergency Allowance for Family Care." Also, the government is also

Table 3. Employment Insurance: Application and Blind Spots (2019)

	Employed Persons			
	Non-wage Workers	Wage Workers		
		Exempt	Uninsured	Insured
	Legal Blind Spot		Actual Blind Spot	
Number of Workers (Thousand Persons)	6,799	3,249	3,781	13,528
Percentage among Employed Persons (%)	24.9	11.9	13.8	49.4
Percentage among Wage Workers (%)		15.8	18.4	65.8
Percentage among Eligible Workers (%)			21.8	78.2

Note: 1) Those exempt from unemployment insurance coverage include public officials, teachers, employees of special post offices, those who are uninsured and in agricultural/forestry/fishery businesses with less than 5 employees, domestic service workers, persons aged more than 65 years, part-time employees whose weekly working hours are normally less than 15 hours (excluding those who have worked for at least three consecutive months), and workers in special types of employment.

Source: Statistics Korea, *Supplementary Results of the Economically Active Population Survey by Employment type*, August 2019 (post-adjusted time series)

## 2. Expansion or Re-introduction of Existing Schemes<sup>6)</sup>

### Job Search Allowance under the Employment Success Package Program (ESPP)

The Employment Success Package Program (ESPP) is an employment service policy rather than an income support policy. The main purpose of the program is to provide employment services. Until 2019, a Job Search Allowance of 300,000 KRW a month was provided for up to three months for people in the low income bracket, participating in the ESPP after reviewing their job searching activities. Later this year, a new scheme called the National Employment Support System will be introduced and implemented.<sup>7)</sup> Under this system, those with low-in-

come will be able to receive a Job Search Allowance of 500,000 KRW a month for up to six months during their job searching period.

In other words, due to the COVID-19 crisis, the government has decided to temporarily re-introduce the Job Search Allowance scheme which had been abolished in the past. As the amount of allowance is small and its main purpose is to encourage the unemployed to find jobs, it is difficult to classify the Job Search Allowance scheme as part of an income security policy. However in the current situation where there is fundamentally a lack of jobs, the government has decided to adjust the scheme by easing requirements for verification<sup>8)</sup> while providing income support. Therefore, the scheme provides an allowance of 500,000 KRW a month for a maximum of three months. With the supplementary budget worth of 50.8 billion KRW, a total of 282.5 billion KRW will be expected to be spent. The scheme will support 70,000 people with low income and 80,000 young people.

## 3. Temporary Measures

Employment Security Subsidy for Workers on Unpaid Leave, and Emergency Livelihood Aid for the Dependent Self-employed Contractors and Freelancers.<sup>9)</sup>

In order to support the livelihood of those ineligible for unemployment benefits, including the dependent self-employed, freelancers and workers on unpaid leave—often referred to as vulnerable groups outside of the employment safety net, the government will implement the “COVID-19 Special Regional Employment Support Aid” project. A total of KRW 234.6 billion KRW is invested in the project, combining the national subsidies of 200 bil-

implementing a measure to increase the amount of “working hour reduction subsidy” in case workers apply for a reduction of working hours to take care of family. However, these policies are not discussed in this section.

7) When the National Employment Support System is implemented, low-income people can receive a Job Search Allowance of 500,000 KRW a month for up to six months during their job search period.

8) 1) If it is difficult to proceed with Step 2 (vocational training), Step 3 (payment of allowance) can be taken first; 2) Job search verification can be done by visit, online or by fax; 3) Expanding the scope of “job search” recognized by the government: taking into account not only wage workers but also the dependent self-employed and freelancers, any efforts to enhance expertise in one’s career field or to secure customers are also counted as job search efforts.

9) See [http://www.moel.go.kr/news/enews/report/enewsView.do?news\\_seq=10844](http://www.moel.go.kr/news/enews/report/enewsView.do?news_seq=10844)

lion KRW secured as a supplementary budget and local subsidies of 34.6 billion KRW. The project will benefit 118,000 million workers on unpaid leave and 142,000 million dependent self-employed contract workers and freelancers. A monthly subsidy of 500,000 KRW is provided per person for up to two months. It is necessary to submit proof of unpaid leave or a contract proving the status as a dependent self-employed person or a freelancer.

Although additional measures must be devised for those not covered by the unemployment benefits scheme, the current scheme still has several problems. First, the size of target beneficiaries is smaller than the size of the population in need of support. It is difficult to predict at this point how many workers will be placed on unpaid leave. However, according to a survey conducted by the Korea Labor Institute and the Ministry of Employment and Labor in 2018, the number of dependent self-employed contract workers are approximately 2.2 million (Heung-jun Jung, 2019). Among them, the number of workers that will apply for support is expected to exceed 142,000. Second, a monthly subsidy of 500,000 KRW for two months is far from enough to endure the employment crisis caused by COVID-19. Additional funds should be secured through a second supplementary budget, and the support system should be extended and operated at least until the end of this year.

Finally, it is worth noting that many precarious workers who are uninsured despite not being explicitly excluded under the employment insurance scheme are again being excluded from receiving benefits. Of all wage workers eligible for employment insurance, only up to 75% are actually covered by employment insurance. The remaining 25% are workers of small firms or non-regular workers exposed to precarious employment conditions and uncovered by employment insurance. In short, this support policy should expand target beneficiaries beyond dependent self-employed contractors and freelancers. This is because in principle, among wage workers who are sub-

ject to employment insurance some are unable to receive unemployment benefits and there are also a number of self-employed workers who have become unemployed due to closure of business.

#### 4. Recommendations for Improvement

The following two recommendations are made for improvement. First, although the “COVID-19 Special Regional Employment Support Aid” policy is temporarily in place, it would be desirable to expand target beneficiaries and extend duration of support to be systematically operated as an ‘Emergency Unemployment Benefit’. Second, institutional improvements should be made to compensate for weakness in the current unemployment benefits scheme.

The first recommendation is the introduction of the Emergency Unemployment Benefit. It is natural for the government to urgently develop income support policies for the dependent self-employed contractors and freelancers who are excluded from receiving these benefits. However, the problem is that although these support policies do not exclude these vulnerable groups institutionally, in actuality they are uncovered by the unemployment benefit scheme. Employees of small firms and non-regular workers who are in actuality unable to receive unemployment benefits, are threatened by job insecurity and declining income. The ‘Special Regional Employment Support Aid’ should expand its target beneficiaries to all those who have seen income decline due to the COVID-19 outbreak but were excluded from receiving unemployment benefits. Also a sufficient budget should be secured to provide support until the end of the year. Although the question remains on how to prove and determine decline in income. The following method is recommended: the National Tax Service provides the previous year’s income data to be used as a reference point to the front-line support teams; payment is made to an eligible recipient upon their appli-



cation with explanation; and any unlawful receipt of subsidies may be settled when processing next year's Earned Income Tax Credit (EITC) and filing the Aggregate Income Tax returns.

Second, it is necessary to systematically improve the weaknesses of the unemployment benefit scheme while examining situations in which the Emergency Unemployment Benefit must be complementarily promoted. The "Special Regional Employment Support Aid" project and the re-introduced Job Search Allowance scheme are temporary policies that compensate for the weaknesses of current unemployment benefit systems in Korea. Therefore there are limitations of these urgently developed policy programs. It is noteworthy that legislation prepared for the institutionalization of these two policies is currently pending at the National Assembly. Regrettably, if the bill had timely passed these legislations it would have been a great help in overcoming the current crisis.

The "Special Regional Employment Support Aid" includes income support for the dependent self-employed contractors and freelancers. They are not covered by employment insurance under the Employment Insurance Act. According to <Table 3>, they are non-wage workers who are placed within the legal blind spot. Among non-wage workers, legal amendments are underway to include dependent self-employed contractors to be included as eligible recipients of employment insurance.<sup>10)</sup>

The Job Search Allowance under the ESPP is becoming developed and institutionalized into a Korean unemployment assistant scheme (i.e. National Employment Support System). In most countries, the unemployment assistance scheme functions as an income security system for the low-income class, complementing the unemployment insurance system. The bill is entitled "Legislative Bill on Employment Promotion and the Support of Livelihood Stability for Job Seekers" (Bill No. 22464) and is now

pending at the Environment & Labor Committee at the National Assembly. This bill proposes that low-income job seekers earning below 60% of the standard median income be provided with employment support services and a subsidy for living costs for up to six months. The two bills should be passed at the National Assembly as soon as possible so that they can contribute to overcoming the employment crisis caused by the COVID-19 outbreak and prepare for any future employment crisis.

## IV. Conclusion

In order to overcome the employment crisis caused by the COVID-19 pandemic, the government has announced several employment retention measures and income support measures. As for employment retention measures, the existing Employee Retention Subsidy scheme and the Job Stability Funds program are temporarily expanded and strengthened. However, the inclusion of more beneficiaries and the increase in subsidy amount planned for the first half of this year are expected to be largely insufficient. It will be necessary to extend the support period to the end of this year and to ease eligibility requirements in order to receive support so that all businesses needing assistance can benefit. Also, apart from supporting employers to retain employment, a tremendous amount of financial resources are being put into business support measures in response to the economic crisis caused by the COVID-19 outbreak. However, these measures should be conditional on preserving jobs.

In regard to supporting the unemployed, the following two recommendations are made for improvement. First, although the "COVID-19 Special Regional Employment Support Aid" policy is temporary, it should be operated systematically as the "Emergency Unemployment

10) "Partial Amendment to the Employment Insurance Act" (Bill No. 16373, Proposed by National Assembly Member Han Jeong-ae); includes not only the dependent self-employed contractors but also artists.

Compensation by expanding the target beneficiaries and extending duration of support. The “Special Regional Employment Support Aid” should be expanded in target to all beneficiaries who have seen income decline due to the COVID-19 outbreak, and to those who could not receive unemployment benefits. Also a sufficient budget should be secured to provide support until the end of the year. Second, there should be an examination of reality where there is no choice but to resort to temporary policy measures under current situations, and it is necessary to systematically improve weaknesses of the existing system. There is a need to pass the bill that expands target beneficiaries of employment insurance and to introduce the National Employment Support System which supports low-income job seekers.

Apart from these measures, the COVID-19 outbreak has revealed additional areas that should be improved in our

systems from a more fundamental perspective. First, even if the revision of the Employment Insurance Act includes dependent self-employed contractors as beneficiaries, the Act will not include all self-employed workers including freelancers. In Korea, the self-employed are far from the image of businessmen who take on risks in exchange for lucrative opportunities. Including those self-employed and employed as eligible for benefits of unemployment insurance, and reforming towards an income security system while imposing contributions based on income should be considered. Secondly, there is an absence of sickness benefits in Korea. According to a policy brief on dealing with COVID-19, published by the OECD (2020), it states the importance of ensuring continuous income for workers unable to work due to being diagnosed with the virus. Korea and the U.S are the only countries that do not provide sickness benefits.

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