

*Labor reform is all about jobs*

# Labor Reform Implementation Plan

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# Background

# What is labor reform?

## Why?

- ▶ In the short-term: 370 thousand jobs can be created through labor market reform
  - ▶ In the mid-term
    - 1) Can encourage business investment discouraged by uncertainty
    - 2) Can increase employment output of investment and growth (increased employment elasticity)
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## How?

- ▶ To prepare for global competition such as technological innovation and the 4th industrial revolution
  - ▶ To address chronic problems unique in the Korean labor market
  - ▶ To address uncertainties in regulations relating to core labor standards such as wage, working hours, and employment contract
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## Effects

- ▶ More jobs for youths, settlement of the retirement age of 60
  - ▶ Addressing gaps between regular- and non-regular workers and between large-sized companies and SMEs
  - ▶ Enhanced business competitiveness
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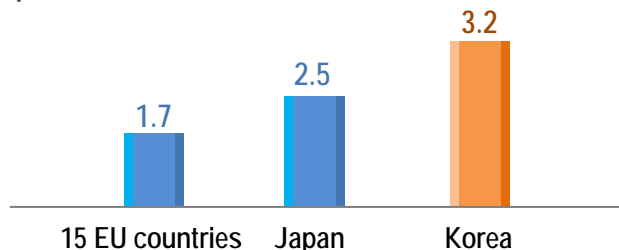


# Outdated labor market systems and practices

## Seniority-based wage system

- The wage gap caused by seniority is the widest in the world.

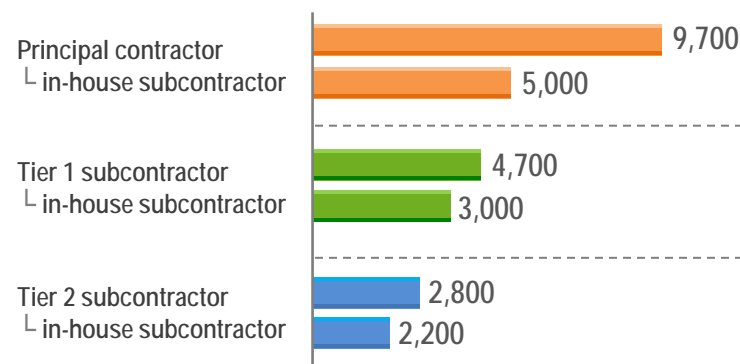
\* in terms of wage level of workers with 30 years of service compared to that of new recruits across industries



\* source: international comparison of wage and productivity (2015, Korea Labor Institute)

## collusion between labor-management in large companies

- Wage differences in main contractors and subcontractors of K automobile



\* Aug. 2015, Korea Labor Institute, 10 thousand won

## Legal and systematic uncertainties regarding wage, working hours, employment contracts

- Dispute over ordinary wage, working hours
- Excessive working hours
  - \* 2,057hrs in Korea vs. OECD 1,706hrs on average in the OECD, 2014
- Dispute over dismissals (13,000 cases in 2014)

## Problems in regulations on fixed-term contracts and temporary agency workers

- Uniformly limiting contract period for fixed-term workers to 2years and business types allowed for temporary agency work brings about balloon effect
- More than 90% of fixed term workers aged between 35-54 are not turned into regular status and experience employment precariousness

# Outcomes: employment structure in Korea

## Worsen employment structure

- Less possibility to directly hire regular workers
- Increase employment uncertainty
- Multi-level subcontracting and outsourcing
- Employment instability uncertainty and inequality among fixed-term workers and temporary agency workers

➔ The current structure is difficult to create jobs with decent protection.

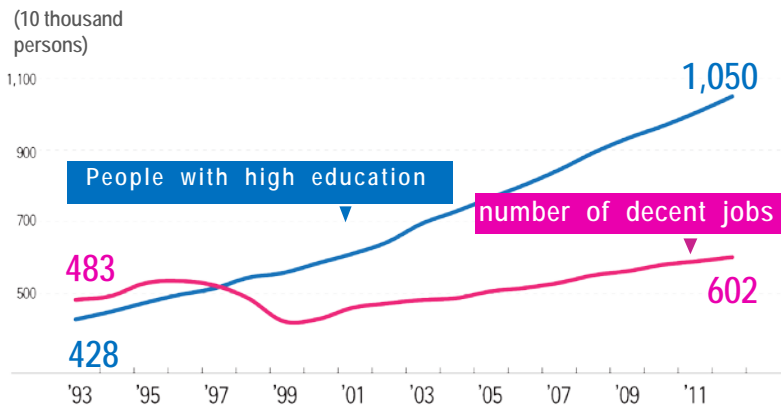
## Worsen inequality among workers

large companies,  
Public firms(10%)

SMEs(90%)

wage gap is 4.7 times between workers in 10% of top and bottom bracket  
(4<sup>th</sup> place in the OECD / 33 countries in total)

## Jobs for youth is scarce



## Concerns over youth unemployment due to mandatory retirement age of 60

Retirement age of 60 starts from this year

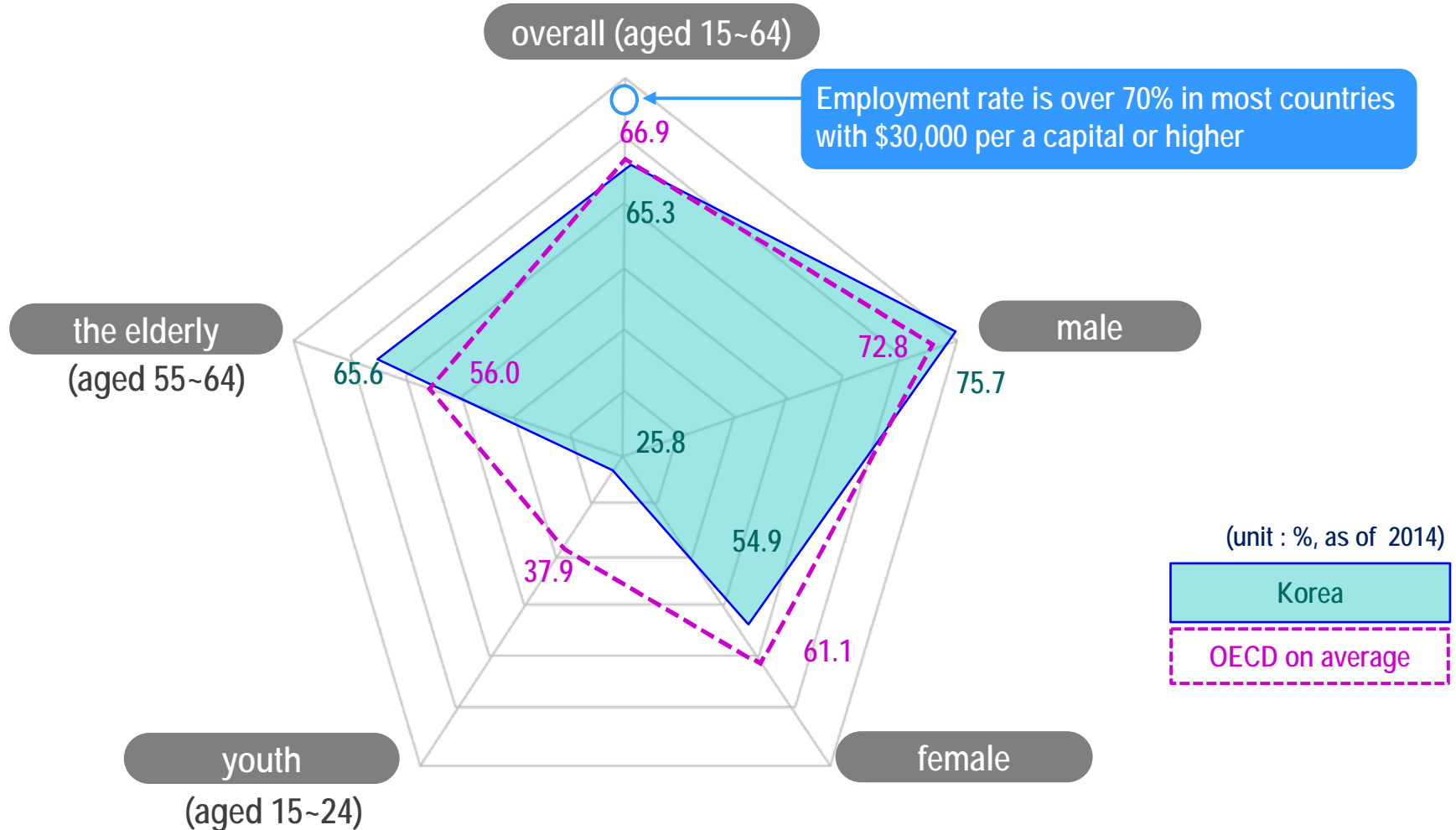
The Echo-Boom Generation is entering the labor market

For the next three years (2016-2018), 300 thousand persons will remain in workforce.  
(the Korean Labor Economic Association, Oct, 2013)

BY 2018, the number of persons in their 20s will increase by 100 thousand

Youth unemployment rate is 12.5% in Feb. 2016  
(The record high since the Asian financial crisis)

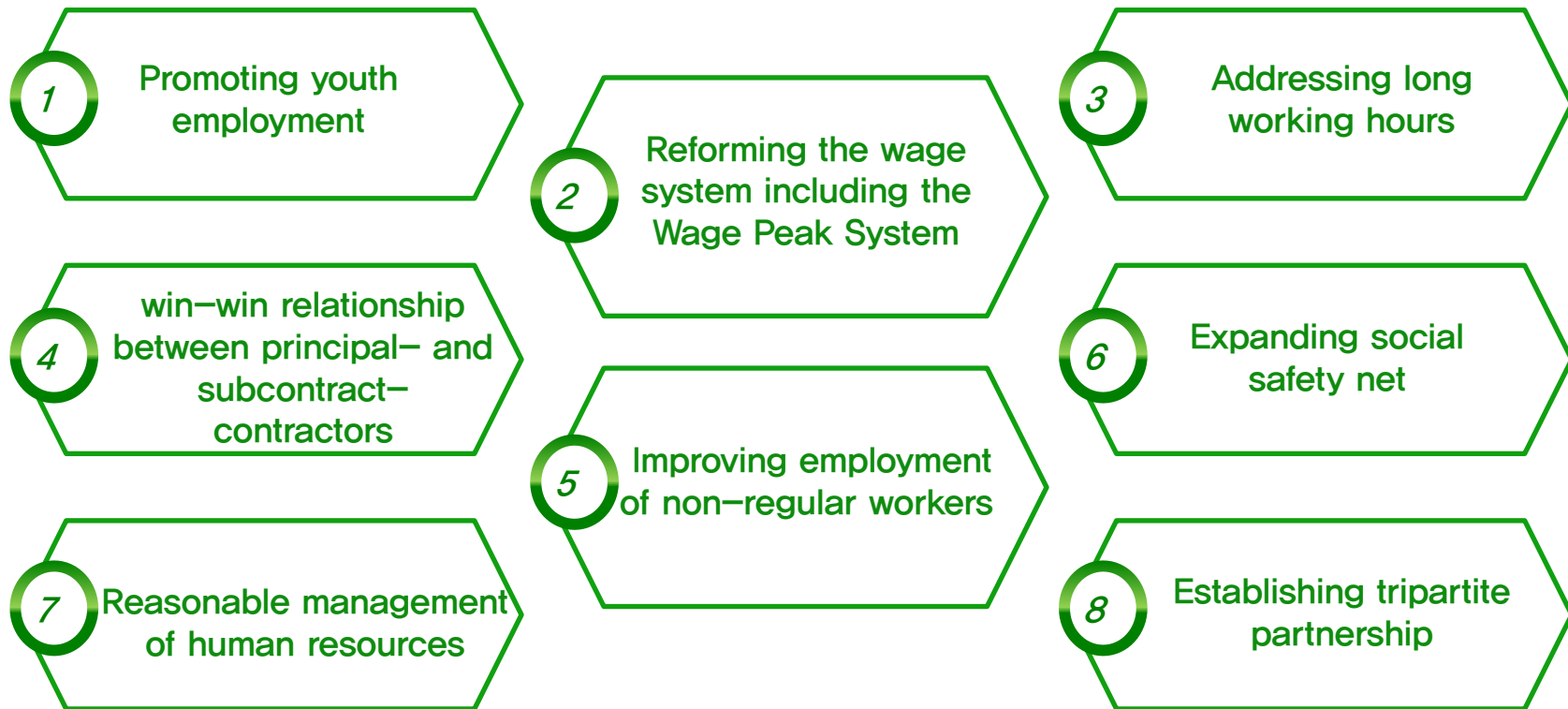
# Outcomes: low employment rate



# Carrying out labor reform based on tripartite agreement

(15 September 2015)

## 65 tasks in 8 sectors for improving labor market structure



“The tripartite agreement was systematic and comprehensive, and remarkable”

– President of The Dutch Social and Economic Council (October 2015)

# Proposing 5 labor bills for labor reform

(16 September 2015)



## Labor Standards Act

Clarifying ordinary wage, reducing working hours stage by stage + taking complementary measures

## Employment Insurance Act

Expanding coverage of unemployment benefit system by increasing the payment amount and duration, and enhancing efficiency of the system

## Industrial Accident Compensation Insurance Act

Introducing compensation system for accidents during commute (by walk, public transportation 2017, automobile 2020)

## Act on the Protection, etc. of Temporary Agency Workers

Prohibiting the use of temporary agency workers for duty related to life and safety, specifying job duty and costs for temporary agency work, alleviating regulations on temporary agency work for the aged 55 and over, high-income professions, the root industry

## Act on the Protection, etc. of Fixed-term and Part-time Workers

Prohibiting the use of temporary agency workers for duty related to life and safety, limiting repeated short-term contracts, paying retirement benefit and allowance for changing jobs, allowing limited extension of contracts(2+2)

# II

## Labor reform and major policies in 2016

- Completion of amendments to labor laws for labor reform
- Make the two guidelines take root
- Enhancement of win-win cooperation between large-sized companies and SMEs and expansion of implementing guidelines at workplaces



# Completion of reform of labor laws



- Liking Korea-China FTA and laws to revitalized economy to job creation
  - Making more and better jobs to improve employment structure

Reform labor laws for youth, non-regular workers, SMEs workers

companies	non-regular workers	workers	youth
<ul style="list-style-type: none"> <li>• Improved environment for investment</li> <li>• Enhanced productivity</li> <li>• Better competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced non-regular workers</li> <li>• Conversion into regular status</li> <li>• Improved treatment</li> </ul>	<ul style="list-style-type: none"> <li>• Evening time for 2.86million workers and their families</li> <li>• Seamless changing of jobs and career</li> <li>• Unemployment benefit payments to additional more than 1.25million people or more per year</li> <li>• Compensation for accidents during commute</li> </ul>	<ul style="list-style-type: none"> <li>• Creating more than 150,000 jobs for youth</li> </ul>

# 1. Wage payment in accordance with duties and performance

## Mandatory retirement age of 60 and wage system reform

Labor reform depends on application of renewed system to wages and collective bargaining in large-sized companies in sectors such as automobile, shipbuilding, public, financial, chemical and metal

### Wage Peak System

- ▶ Close supervision on 1,150 companies
- ▶ Expand subsidy  
: Extending period by 3 years (2015 → 2018), Less requirements
- ▶ Wage Peak System consulting  
: maximum of 40million won per company, 60 companies in total
- ▶ Expand coverage of subsidy for reducing working hours  
: Increase payment level

### Promoting wage payment in accordance with duties and performance

#### public sector

Expand performance-based wage system

#### private sector

Led by large-sized companies(in manufacturing sector) and financial sector

- ▶ Provide guidance on wage bargaining to alleviate seniority-based wage system
- ▶ Develop models and accumulate information on wage by occupation type and by occupation group
- ▶ Consulting service customized to demand and conditions of companies

### Solidifying guidelines on changing employment rules

- ▶ Factors to determine rationality
  - All of the below factors are taken into consideration comprehensively.
    - ✓ Degree of worker's disadvantage
    - ✓ The necessity for employers to changing the rules
    - ✓ Validity of changed contents in employment rules
    - ✓ Whether or not to improve other working conditions
    - ✓ General domestic conditions
    - ✓ Efforts to consult with trade unions
- ▶ Led by the wage & job duty center (in KLI), supporters will be composed by region.

Restraining wage increase of top 10% of executives + contribution of businesses  
=> expanding youth employment

# 2. Gradual reduction of working hours and gaining flexibility

## Flexible working hours

### Flexible working hours

#### ▶ Expand flexible working hour system

\* Upon agreement between employers and workers: 3 months ⇒ 6 months

\* Introducing working hour account system



#### ▶ Promote flexible working hour system

• Newly introduce subsidy for flexible work arrangements (300 thousand won per person)

• Teleworking, remote working: maximum 200 thousand won per month (1,800 persons)

#### ▶ Expanding flexible working time jobs

• Expanding flexible working time jobs (170 thousand persons, 2016)

• Package program of 'maternity leave+childcare leave + flexible working time jobs (switchable)' is applied to the public sector.

### Addressing long working hours

#### ▶ Reduce working hours

2,057 hours → 1,800 hours (by 2020)

- Include holiday work and extended work(gradually)
- Provide incentives for reducing working hours before system implementation

The total working hours per week is gradually reduced (including holiday and extended work)

Exemption is narrowed



68 hours



52 hours



26 Sectors



10 Sectors

#### ▶ Encourage voluntary management

- Support voluntary reduction plan of employers and trade unions and of sector councils
- Facilitate reduction of working hours by concluding an agreement with business on the target



New jobs can be created for 140~150 thousand person by amending the Labor Standard Act (Employment Impact Assessment in 2014, Ministry of Employment and Labor)

# 3. Human resources management based on job competency

## Solidify guidelines on fair human resources management

The guidelines will serve as safety measure against dismissal and guiding principle in employment in the face of extended retirement age

### Human resources management based on job competency



Guidelines on fair human Resources management

**Recruitment** NCS-based recruitment focused on competency

**Assessment training** Fair assessment system  
Development of workers' capability

**Retirement** Transparent employment adjustment procedures  
Retirees management

### Enhance efforts to improve human resources management

Establishing fair assessment system

Linking assessment with reward

Enhancing customized education and training

Enhancing efforts to improve human resources management to be focused on job competency and achievement

### Guidelines and procedures for termination of employment contract

In the case of ordinary dismissal due to workers' lack of job competency, legitimacy of the dismissal is recognized only when the dismissal complied with standards and procedures in the guidelines

clarification of reasons and grounds behind dismissal

objective and fair assessment

efforts to maintain employment

determination of candidates for dismissal- in case when employment relationship is unable to be maintained by social norm



(Exemplary case) change of employment rules in ooo Investment and Securities

# 4. Stabilize employment of non-regular workers and addressing discrimination

## Improving laws and systems

- ▶ Act on jobs for the middle-aged
  - \* Expanding temporary agency work of, (the elderly and high-income professionals)
  - \* Allowing temporary agency work in root industries
- ▶ Act on stabilization of non-regular workers
  - \* 2+2 years(over 35, voluntarily), allowance for separation
  - \* Eradicate conclusion of short-term contracts

## Addressing discrimination

### Guidelines on protecting non-regular workers

- \* Fixed-term, in-house subcontract, and special employment type workers
- ▶ Enhance preventive guidance and inspection
  - \* Necessary inspection on discrimination against non-regular workers
- ▶ Guidance on addressing discrimination for example employee welfare program
  - \* Workers who are conducting work similar to or same as regular workers'
- ▶ Analyze employment status of non-regular workers in major industrial complexes
  - ⇒ Establish improvement measures

## Stabilizing employment practice of hiring regular workers

### Establish a roadmap to manage goals for non-regular workers

- ▶ Public sector taking the lead
  - \* Establishing two-stage(2016~2017) plan for conversion of non-regular workers to regular status
- ▶ Employment type announcement system ⇒ Encourage voluntary improvement
- ▶ Subsidy for conversion to regular workers(24.4billion won, 2016)
  - consulting
- \* Reviewing expansion of subsidy recipients (in-house subcontractors, etc.)

# 5. Establishing win-win cooperation and fair trade practice between large companies and SMEs

## Win-win cooperation

### Welfare and training

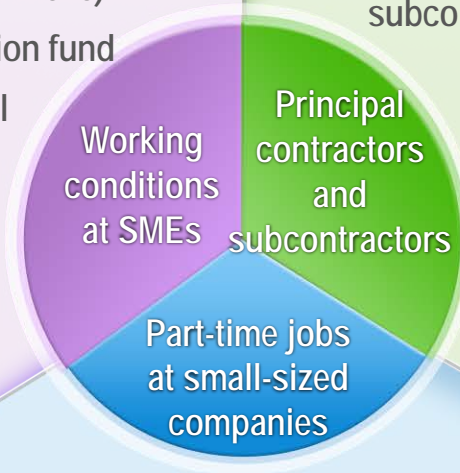
Encourage investment of principal contractors

- \* Enforcement of joint work welfare fund (Jan. 2016)
- \* Tax deduction for raising win-win cooperation fund
- \* Safety and health responsibility of principal contractors: 20 ⇒ all

### Sharing achievements

Improve working conditions of subcontractors

- \* Develop models for sharing achievement, tax deduction(Nov. 2015)
- \* Reflect in win-win growth index assessment (Sept. 2015)



## Fair trade

▶ Implementation of comprehensive audit bidding system in construction sector (Jan. 2016)

- \* Reflect improvement of working conditions of subcontracting workers in social responsibility indicator
- \* Upon unfair trade practice, public purchasing bidding restriction period is extended (3 → 6months, Feb. 2016)

▶ Seamless payment of purchase price to SMEs

- \* tier-2 and tier-3 subcontractors of SMEs can encash payment on security of large-sized companies, tax deduction for some of namely win-win payment (Jan. 2016)

## Eradication of namely Passion Pay

▶ Guidelines to protect interns

- \* Matters that employers need to respect, for example, abolition of harmful, dangerous work, apprenticeship period

▶ Respect basic employment order

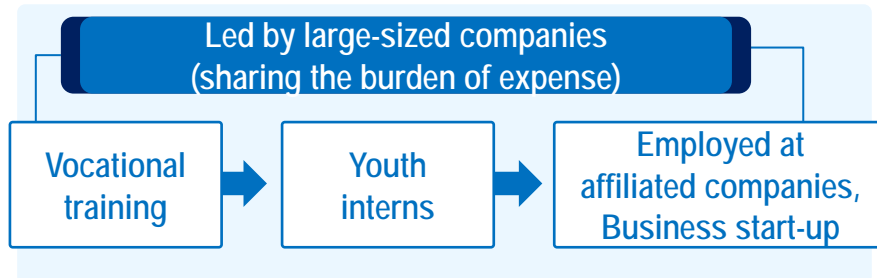
- \* Digitization of paper labor contract to electronic document
- \* Enhancing sanctions on violation of the minimum wage and wage delay



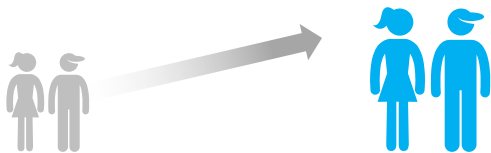
# 6. Enhance policy support for expanding youth employment

## Expanding jobs for youth in the private sector

- ▶ Establishing new projects as steppingstone for employment (Exemplary models for youth employment led by large-sized companies)
- Utilizing excellent facilities and programs in large-sized companies and public organizations, provide training for promising occupations, support recruitment and business start-up (10thousand persons, 2016)



- ▶ Expand youth interns in medium-sized companies



15thousand persons in 2015

30thousand persons in 2016

## Provide tax benefit and financial support to employ youth as regular workers

- ▶ Expand support for inter-generational win-win employment policy
  - 10.8million won is provided for one newly recruited youth up to 2 years (5.4million won for large-sized companies)
  - 6thousand persons in the second half of 2015 → 10thousand persons in 2016 applied

**Reforming the wage system**  
(introducing the Wage Peak System, restraining wage increase)



**Newly recruiting youth as regular workers**

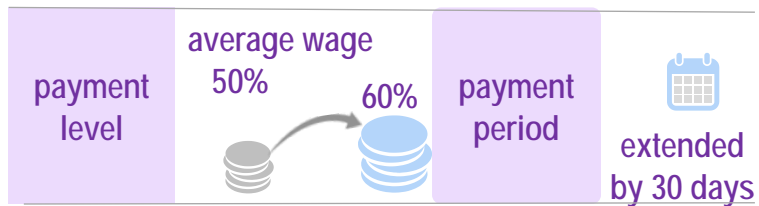
- ▶ Tax benefits for expanding youth employment

- Tax benefit of 5million won per newly recruited youth regular worker (2million won for large-sized companies)

# 7. Stronger employment safety net

## Unemployment benefits, compensation for industrial accidents

- ▶ Enhance coverage of unemployment benefits (Amendments to the Employment Insurance Act)



- ▶ Ordinary accidents during commute are recognized as industrial accidents. (Amendments to the Industrial Accident Compensation Insurance Act)
- \* Commute by walk and public transportations will be included from 2017, commute by automobile will be included after 2020.

## Employment Welfare Plus Center

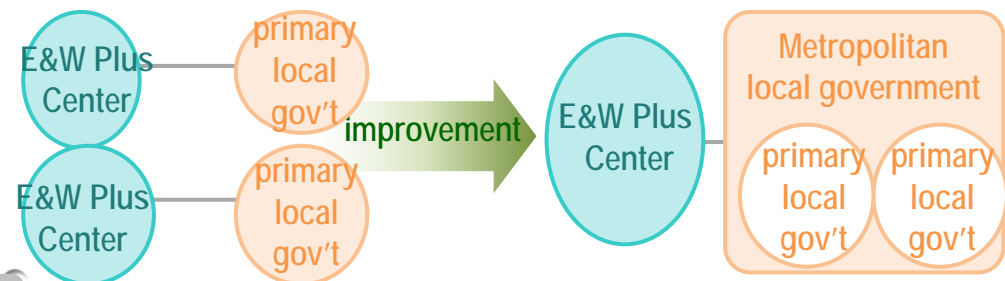
- ▶ Combination of employment and welfare

\* It is mandatory for all unemployment benefit recipients with ability to work (240 thousand persons) to attend employment programs after counseling.

- ▶ Connecting with private employment service

\* Enhancing employment and welfare service, for example, daily work in construction, caring and domestic service

- ▶ Providing employment welfare service at the metropolitan level



# Many of foreign-invested companies are expecting for implementation of labor reform, investment + employment expansion

As the current generation of youth is the best and the brightest in Korea, businesses need to be confident that they will be leading their businesses in the future.

\* The best social responsibility of businesses is to hire youth (Howard Schultz, Starbucks CEO)

## Youth recruitment

### ▶ Recruiting youth as much as possible as investment for the future

- Career in youth brings big impact on career throughout life.
- Carrying out labor reform for win-win employment of youth and the middle-aged and the elderly

## Win-win employment

### ▶ Making concessions and considerations for youth, non-regular workers, and SMEs

- Restraining wage increase of top 10% executives + additional contribution of businesses
- Improving working conditions of subcontracting workers by expanding a sharing of achievements

## Employment structure

### ▶ Securing wage fairness, working hours flexibility, employment contract transparency

- Reforming the wage system focused on job duty and achievements
- Reducing working hours, using working hours flexibly
- Hiring regular workers as much as possible for constant and continued work

차 례

**Thank you**