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# Abstract

This study explores the future direction of social security reform in Korea, including the introduction of universal basic income. It considers three options: (1) strengthening of the existing social security system, (2) implementation of a full basic income at the level of 25% of GDP, and (3) introduction of a partial basic income at the level of 10% to 15% of GDP and reform of the existing social security system.

We examine the possible effects of various policies to guarantee minimum income to all, such as make-up minimum income guarantee, individual-based and household-based versions of negative income tax, and basic income. A make-up minimum income guarantee scheme will produce work disincentives and encourage moral hazards, leading to negative growth. A household-based negative income tax scheme, or 'safety income', will encourage disintegration of families. An individual-based negative income tax scheme, or 'fair income', will be unfair because it will make middle-class workers subsidize economically inactive individuals of rich families. A universal basic income scheme is better than other policies in terms of absence of work disincentives and neutrality regarding household formation. Also, UBI can enjoy broad political support because more than 80 per cent of the population will gain.

With regard to social insurances such as employment insurance and public pensions, we propose to reform them into 'universal income insurance' rather than replacing them with basic income. In order to solve the problem of limited coverage of social insurances based on standard employment relationship and prevent moral hazard from the insured, we propose that flat-rate contributions should be collected from all sources of earned income and that the benefits should be proportional

to one's earnings and contributions. Thus, we envision a two-tiered social security system composed of partial basic income and contributions-proportional income insurance.

We show how the 'paradox of redistribution' works in the case of national pension in Korea. The supposedly 'equal benefits' that were designed to play a redistributive role are actually unequal, because the pension benefits based on 'A-value,' or the average income of the insured population, are proportional to the period in which the insured individuals have paid contributions. Since most of the poor are unable to build up adequate contribution records, they do not get those 'equal benefits' at all or receive only small amounts of benefits. Hence, introducing a basic income scheme that makes the 'equal benefits' truly equal to everyone regardless of contribution records, in parallel with a contributions-proportional public pension scheme can be a better solution.

We propose that the next administration should make a long-term plan for social security reform, or Vision 2060, which includes partial basic income and contributions-proportional income insurance. Gyeonggi-do can play an active role in the process of long-term planning with its experiences of implementing various basic income schemes. It can conduct evaluation studies of the basic income programs, run new pilot basic income programs such as rural basic income, and implement randomized controlled experiments of contributions-proportional income insurance in collaboration with the central government.

**Keyword** Basic Income, Negative Income Tax, Social Security, Income Insurance