

MEMORANDUM ON KOREAN SOCIAL SECURITY SCHEMES

July 2020

The following summarizes, for the benefit of foreign companies doing business in Korea, the most recent laws and regulations that collectively make up the Korean social security system.

Under the various Korean social security related laws, companies including foreign invested companies, in Korea with a certain stated number of employees, are required to participate in the various social security programs set forth below and to make contributions for the benefit of their employees. Noncompliant companies may be subject to penalties.

1. National Pension System

Unless the country of a foreigner working in Korea stipulates in its laws that a Korean citizen working within its borders is exempt from a program equivalent to the National Pension (or Social Security) Programs of Korea, that foreigner, under the principle of reciprocity, will be subject to the Korean National Pension System. By the same principle, a foreign employee making mandatory contributions to the Korean National Pension Fund will be prohibited from making withdrawals from that fund, unless a Korean working in that foreign country enjoys the same right.

Currently, foreigners from 22 countries (subject to change, including Armenia, Bangladesh, Belarus, Cambodia, East Timor, Egypt, Fiji, Georgia, Iran, Malaysia, Myanmar, Nepal, Nigeria, Pakistan, Republic of Maldives, Republic of South Africa, Singapore, Saudi Arabia, Swaziland, Tonga, Vietnam, and Ethiopia) are not required to participate in the Korean National Pension System.

A foreigner working in Korea shall not be subject to the Korean pension obligations pursuant to the social security agreement, but shall be required to submit certain exemption documents. The current status of Korea's social security agreements is as follows:

<u>Country</u>	<u>Agreement came into force on</u>
Iran	June 10, 1978
Canada	May 1, 1999
UK	August 1, 2000
USA	April 1, 2001
Germany	January 1, 2003
Netherlands	October 1, 2003
Italy	April 1, 2005

<u>Country</u>	<u>Agreement came into force on</u>
Japan	April 1, 2005
Uzbekistan	May 1, 2006
Mongolia	March 1, 2007
Hungary	March 1, 2007
France	June 1, 2007
Australia	October 1, 2008
Czech Republic	November 1, 2008
Ireland	January 1, 2009
Belgium	July 1, 2009
Poland	March 1, 2010
Slovak Republic	March 1, 2010
Bulgaria	March 1, 2010
Romania	July 1, 2010
Austria	October 1, 2010
Denmark	September 1, 2011
India	November 1, 2011
China	January 16, 2013
Spain	April 1, 2013
Turkey	June 1, 2015
Sweden	June 1, 2015
Switzerland	June 1, 2015
Brazil	November 1, 2015
Republic of Chile	February 1, 2017
Finland	February 1, 2017
Quebec	September 1, 2017
Peru	January 1, 2019
Slovenia	October 1, 2019
Luxembourg	September 1, 2019
Argentina	Signed on November 27, 2018 (not yet come into force)
Croatia	November 1, 2019
Norway	Signed on June 13, 2019 (not yet come into force)
Uruguay	Signed on July 9, 2019 (not yet come into force)
New Zealand	Signed on Oct 9, 2019 (not yet come into force)
Philippines	Signed on Nov 25, 2019 (not yet come into force)

All other foreigners working in Korea must participate in the Korean National Pension System and, for this purpose, are treated the same as Korean nationals. The specifics of such treatment are as follows:

Currently, except for those meeting the conditions outlined above, all foreigners between the ages 18 and 59 working in a Korean company (including a foreign-invested company or a branch office of a foreign company) with one (1) or more employees (including foreigners) are required to participate in the Korean National Pension System.

Foreigners withdrawing from the National Pension System upon their permanent departure from Korea cannot receive a refund of contributions paid except for those from a few selected countries (subject to change), such as Canada, Germany, the U.S., France, Australia, Czech Republic, Hungary and 38

other countries under the principle of reciprocity, social security agreement, or certain visa types (E8, E9, and H2).

Participants in the National Pension System must make a Pension Fund contribution equivalent to a certain percentage of their monthly taxable compensation by the 10th day of the month following the month in which the compensation was earned. Currently, the contribution rates are 4.5% for the employer, and additional 4.5% for the employee through withholding. The maximum contribution limit for each party is Won 226,350 per month. Those who do not work on employment must contribute 9% individually without support from his/her employer (with a ceiling of Won 452,700 per month).

2. National Health Insurance System

Foreigners (defined) working for the companies with one or more employees are required to participate in the Business Health Insurance Program being treated the same as the Korean nationals. However, foreigners can be exempt from participation in the mandatory national health insurance program during their stay in Korea with appropriate supporting documents if they are already covered by insurance programs provided by their home country, foreign insurance carriers, or their respective employer that provides with the medical coverage equivalent to or more than those provided under Article 39 of the National Health Insurance Law of Korea.

The employer and the employee each must pay 3.335% of the employee's monthly taxable salary, total being 6.67%. The maximum contribution limit per month for each party is Won 3,322,170.

The Law of the Long-term Care Security for the Elderly (LCSE) has been implemented from July 1, 2008. Under the LCSE, the employer and the employee each must pay LCSE insurance premium at 10.25% of the National Health Insurance Premium. LCSE insurance premium is imposed together with the National Health Insurance Premium.

3. Employment/unemployment Insurance

Under the Employment Insurance Law, a business with one (1) or more employees (defined part-time workers working less than 60 hours per month may not be counted as employees) must participate in the Employment Insurance. Foreign employees' participation is generally optional. However, foreign employees who have F-2 (resident), F-5 (permanent resident) or F-6 (marriage immigrant) visa are required to participate in the employment insurance. A foreigner with D-7 (supervisory intra-company transfer), D-8 (corporate investment) or D-9 (trade management) visa will be required to participate on a reciprocal basis.

Both the employees and the employer are responsible to pay the applicable insurance premiums. Each employee pays a premium of 0.8% of his wages or salaries. The employer pays a premium ranging from 1.05% to 1.65% depending upon the number of employees on a monthly basis. This premium can be paid based on the previous year's actual gross annual salaries or an estimate of the

current year's gross salaries.

4. Industrial Accident Compensation Insurance (IACI)

The IACI provides for compensation of workers injured in industrial accidents, creation of treatment facilities for those workers, and development of programs to promote industrial safety and welfare of workers. The IACI law requires that any business with one (1) or more employees should participate in the IACI.

The employer is solely responsible for payment of insurance premiums for all its employees including foreigners. The premium amount varies depending on the type of business, but generally ranges from 0.60% to 18.5% of the employees' gross annual wages and salaries.

Wage bond surcharge and asbestos victim relief surcharge of 0.6/1,000 and 0.03/1,000 should be added to IACI rates additionally. Commute related injury surcharge is also assessed additionally at 1.3/1,000 regardless the business type starting from January 1, 2020.

This premium can be paid based on the previous year's actual gross annual salaries or on an estimate of the current year's gross salaries on a monthly basis.

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With any inquiries or comments, please contact specialists of Hanul LLC, a member firm of Crowe Global [Telephone: (82)(2)316-6600, Facsimile:(82)(2)775-5885, or Email: post@crowe.kr].

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