

Differing views on company provided welfare

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Background to welfare systems

- Three different approaches: Northern European, British, American
- Mixed welfare system of Johnson (1999) and Powell (2007)



The Korean welfare system

- Atypical model born from Korea's rapid development
- Diminishing company-provided welfare after 1997 Asian financial crisis
- The labor cost in Korea (1994-2011)



Recent developments in Korea

- Government's need for structural change
- The strategy: change perspective, reorganize
- The result: Company-provided Welfare Index



Developing the Company-provided Welfare Index

- Based on pilot standard from 486 representative companies
- Publicizes variance between employee welfare preferences and company provision
- Examined six categories of benefits

Employee benefit categories

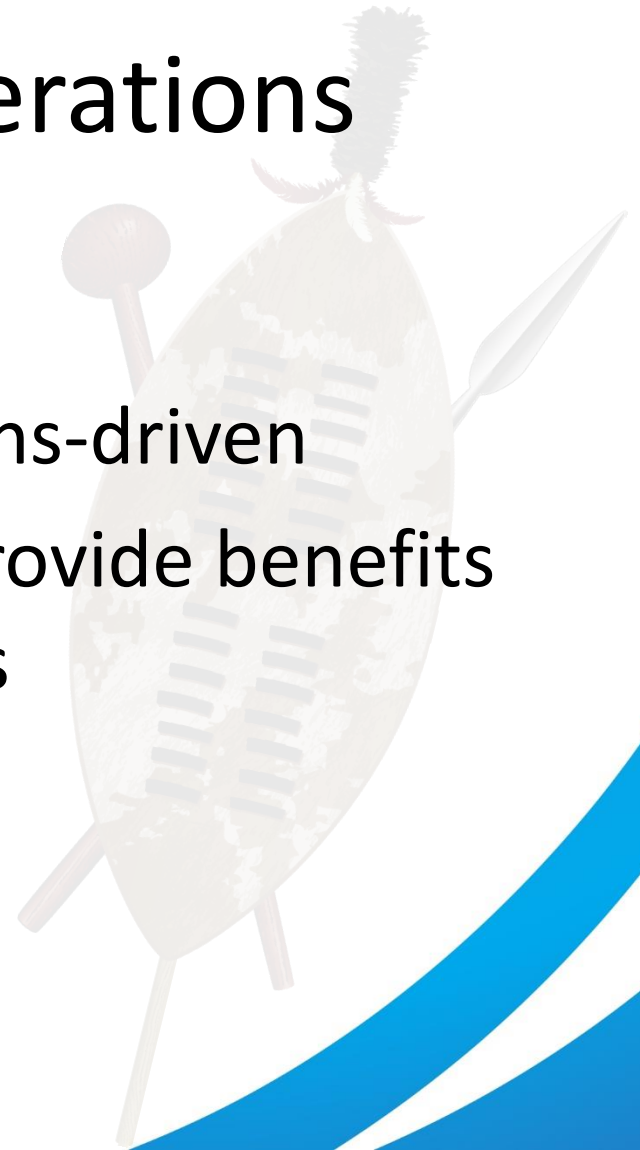
Category	Major Forms
Legally required social insurance programs	social security, unemployment compensation, workers' compensation, and non-occupational disability insurance
Private insurance and retirement plans	life insurance, disability insurance, medical insurance, dental insurance, legal insurance, property and liability insurance, and auto insurance for private use, defined benefit pension plans and defined contribution pension plans for retirement plans
Payments for time not worked	vacations and holidays, sick leave/personal leave, jury duty, rest periods, sabbatical leaves and military duty
Extra cash payments	educational allowances, moving expenses, saving plans, holiday bonuses, and meal expenses
Employee services	subsidized cafeterias, recreational facilities, clothing allowances, car or van pools, retirement counseling, wellness programs, and day care center referrals
Perquisites	employment contracts, liberal vacation time, more disability insurance, personal liability insurance, outplacement assistance, company car and driver, company airplane, yacht, executive home allowance, and tax and financial counsel.

Employee benefits portfolio research

- Framing research: supply and demand aspects
- Limited supply (provision) research
- Demand (preference) research: cafeteria plan produces higher satisfaction

Theoretical considerations

- Cost – benefit dilemma
- Market-driven vs labor relations-driven
- Reluctance of companies to provide benefits post 1997 Asian financial crisis



Employee benefits trends in Korea

Year	Total Labor Costs		Legally Required Benefits Costs(A)		Non-Legally Required Benefit Costs(B)		A/B
	Costs	Change	Costs	Change	Costs	Change	
1994	1,501.9	-	55.1	-	126.4	-	43.6
1995	1,726.7	15.0	64.7	17.4	120.8	-4.4	53.6
2007	3,642.5	7.4	243.6	6.6	224.4	7.9	108.6
2008	3,845.6	5.6	255.5	4.9	184.8	-17.6	138.3
2009	3,866.0	0.5	259.1	1.4	185.1	0.2	140.0
2010	4,021.5	4.0	266.7	2.9	169.3	-8.5	157.5
2011	4,328.5	7.6	280.1	5.0	195.5	15.5	143.3
Accumulated Change (%)		188.2		408.3		54.7	

Note 1) Legally Required Benefits include health insurance, workers' compensation, pension, employment insurance, non-employment cost for the disabled, and other costs.

2) Non-legally required benefits include housing, health-medical service, childcare, insurance premium, education expense allowance, recreation-culture-exercise-entertainment, employee stock ownership, company welfare fund, and other costs.

Goal of empirical analysis

- Define the programs of a standard Korean employee benefit portfolio (survey)
- Describe how providers organize portfolios
- Assess employees' benefits preferences (survey)
- Analyze variance if found

Methodology: 1st survey

- 1st Survey : define the standard portfolio
 - 486 companies, 3,655 programs
 - 9 categories based on 5% threshold
 - Measured by raw frequency and as a ratio of total benefit expense

1st survey results: Program frequency

Category	Family Occasion and Length-of-Service	Culture Activity-Exercise-Entertainment and Discount for Company Product	Medical and Health Expenses	Canteens and Other Food Services, Commuting, and Communication	Housing	Tuition Support for Children	Support for Private Insurance and Loan Program	Relaxation, Recreation, and etc	Financial Support for Self Improvement	Others	Total
Frequency	630 (17.2)	496 (13.6)	482 (13.2)	457 (12.5)	346 (9.5)	312 (8.5)	292 (8.0)	285 (7.8)	192 (5.3)	163 (4.5)	3,666 (100.0)

1st survey results: Share of expense

Canteen	Housing	Private	Family	Recreation	Tuition	Self	Medical	Culture	Total
0.53	0.09	0.09	0.07	0.07	0.05	0.04	0.03	0.03	1.00

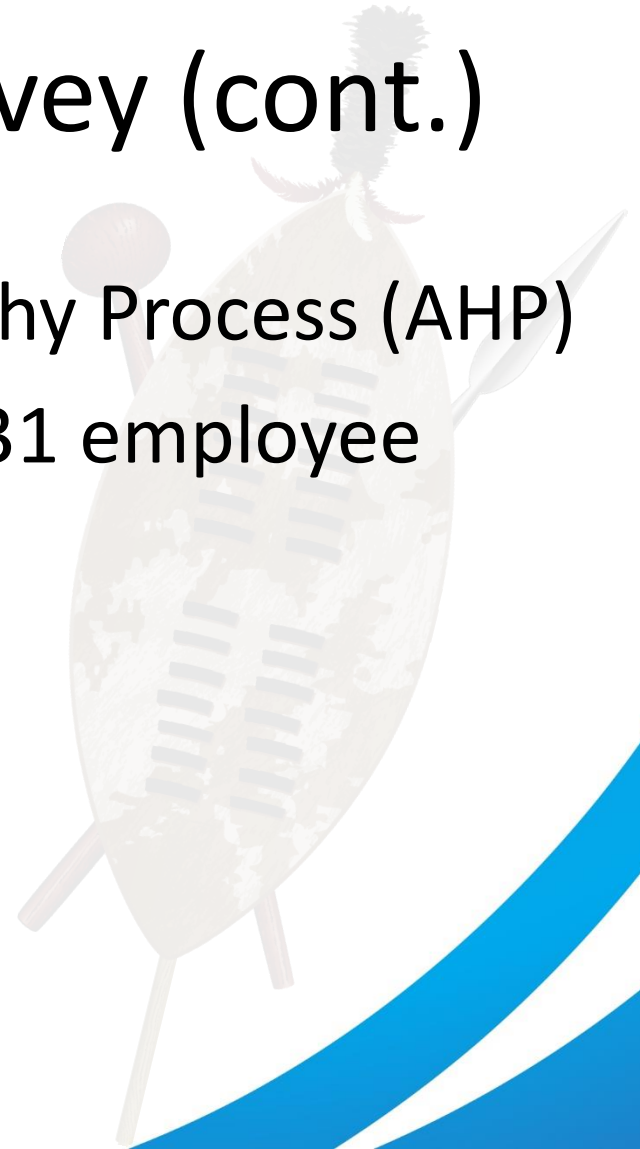
Note: Canteens category is Canteens and Other Food Services, Commuting and Communication; Housing is Housing; Private is Support for Private Insurance and Loan Program; Family Category is Family Occasion and Length-of-Service; Recreation category is Relaxation, Recreation, and etc.; Tuition category is Tuition Support for Children; Self-Improvement category is Financial Support for Self Improvement; Medical category is Medical and Health Expenses; Culture category is Culture Activity·Exercise·Entertainment and Discount for Company Product.

Methodology: 2nd survey

- 2nd Survey : check company provision
 - 302 companies, 869 employees
 - 61.1% manufacturing, M 51.9%, 30s 34.3%
 - Measured by employee preference

Methodology: 2nd survey (cont.)

- Likert scale vs Analytic Hierarchy Process (AHP)
- AHP using Expert Choice on 531 employee sample



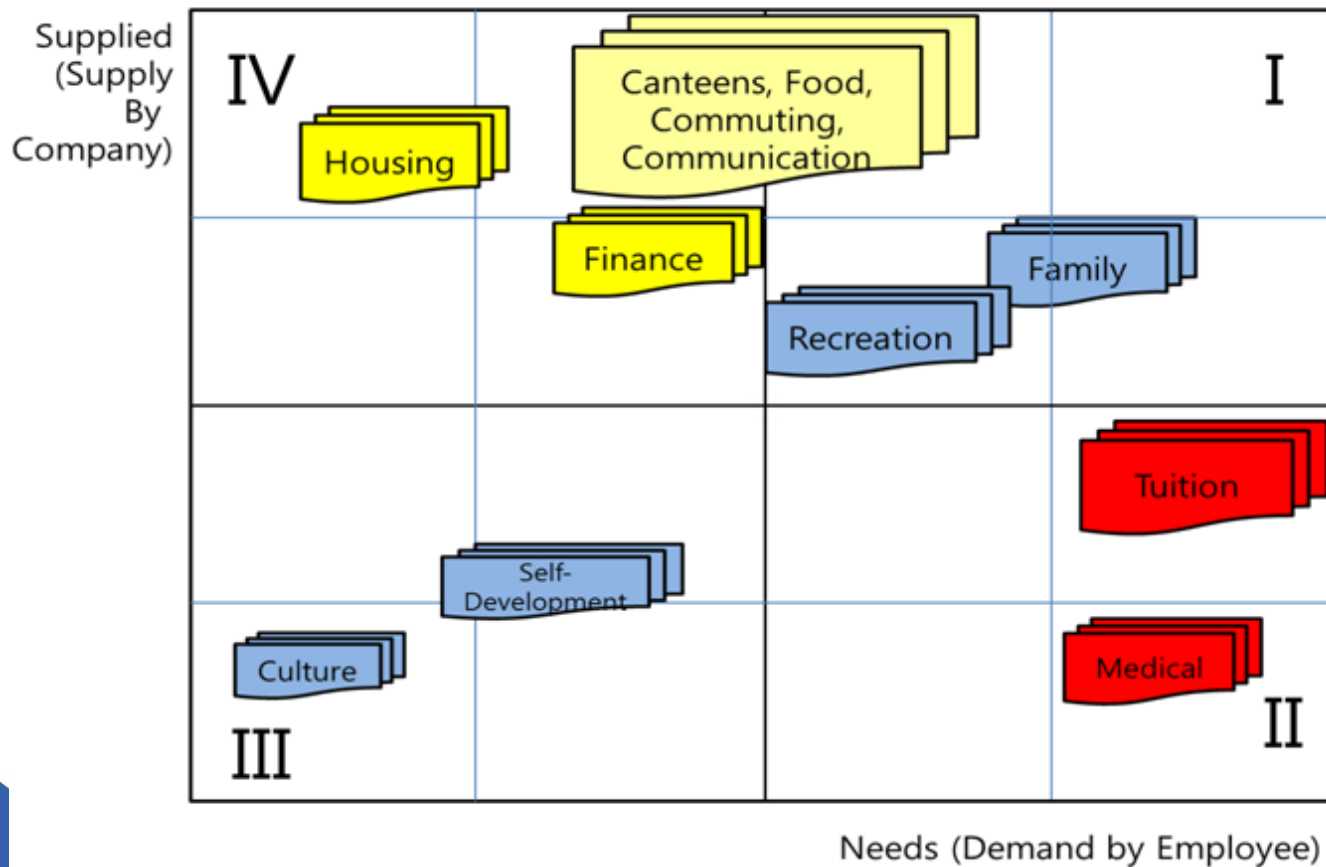
2nd survey results: Employee preferences

Tuition	Medical	Family	Recreation	Canteen	Private	Self	Housing	Culture	Total
0.15	0.12	0.12	0.12	0.11	0.11	0.11	0.09	0.07	1.00

Summary of provision and preference

- Employer Provision:
Canteen>Housing>Private>Family>Recreation>
Tuition>Self>Medical>Culture
- Employee preference :
Tuition>Medical>Family>Recreation>Private>S
elf>Housing>Culture

Provision-preference mismatch

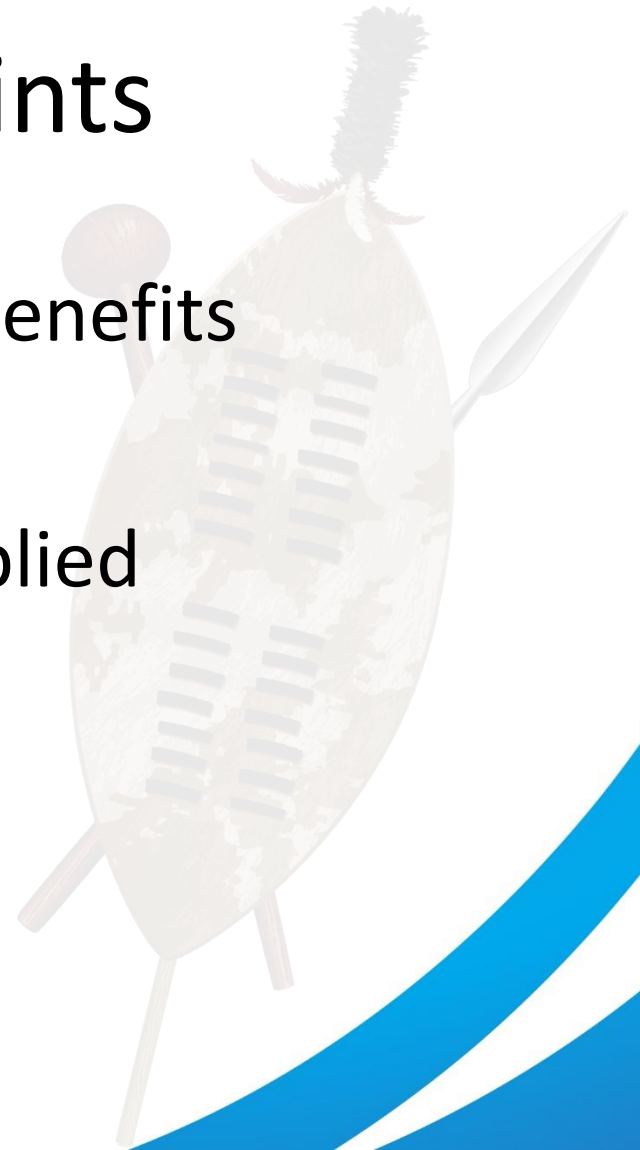


Policy implications

- Benefits “fit” may be source of competitive advantage in recruitment and retention
- Korean government pushes for benefits program information transparency
- Develop a benefits program index

Concluding points

- Differing views on employee benefits
- Measures require verification
- Multi variable analysis not applied



Korean urgency for integrated model

- Aging society and growing income inequality
- Low rate of economic growth
- Employer provision is significant part of state-level welfare system



Thank you

