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**Research Report**

## Restoring labor market functions to address job insecurity among middle-aged and older workers

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# KDI FOCUS

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For Inquiry KDI Communications Unit

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Video Report



In the Republic of Korea, middle-aged and older workers experience unusually high job insecurity due to limited labor demand for them. To address this issue, labor market policies and practices must be reformed to make it easier for firms to hire these workers as regular employees. Instead of imposing regulatory mandates, it is crucial to enhance the functioning of labor markets to reduce involuntary early retirements among older workers and prevent career disruptions for middle-aged women. These reforms will also facilitate the gradual extension of the mandatory retirement age, a necessary step in light of Korea's rapidly aging population.

## Restoring Labor Market Functions to Address Job Insecurity among Middle-Aged and Older Workers

Joseph Han, Fellow at KDI

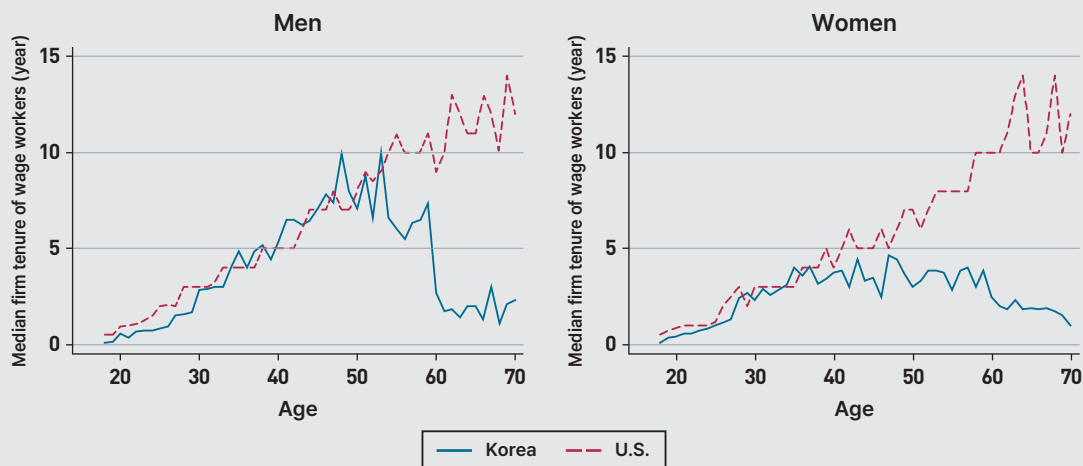


## I. Job Security throughout the Life Cycle: Korea vs. U.S.

Korean workers, particularly older workers and middle-aged women, experience greater job insecurity than their international peers.<sup>1)</sup> This brief explores the employment stability of Korean wage workers throughout their careers, starting with a life cycle comparison between the Republic of Korea (hereafter Korea) and the United States (hereafter U.S.).

The U.S. labor market is widely recognized for its flexibility in terminating employment relationships.<sup>2)</sup> It is widely believed in Korea that the U.S. labor market is more unstable than Korea's. However, this belief is not supported by data. The median firm tenure for both men and women increases steadily with age, suggesting greater stability than is commonly assumed (Figure 1). Although younger individuals do exhibit high labor mobility, the share of those employed for one year or less consistently decreases with age (Figure 2).

Figure 1. Median Firm Tenure of Wage Workers by Age: Korea vs. U.S.



Source: Statistics Korea, "Economically Active Population Survey," 2022; U.S. Bureau of Labor Statistics, "Current Population Survey (CPS)," 2022.

Compared to the U.S., where employment protection is minimal, Korea exhibits greater employment instability among older workers and middle-aged women.

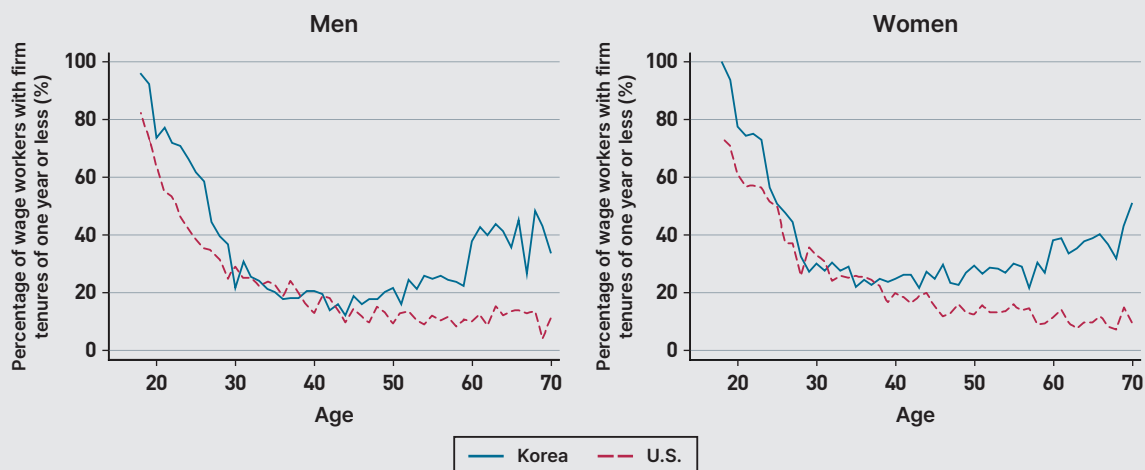
Unlike the U.S., the Korean labor market displays a marked decrease in employment stability for those after middle age. Examining median firm tenure across ages shows that for men, the median tenure ceases to increase after their mid-40s and sharply decreases from their 50s onwards (Figure 1, left). For women, the median firm tenure levels off in their mid-30s, with no further increases thereafter (Figure 1, right).

- 1) As of 2021, Republic of Korea recorded 26.8% for the percentage of male wage workers aged 55–59 with less than one year of tenure, the second highest among OECD countries, following Türkiye.
- 2) In the private sector in the U.S., at-will employment remains the default principle. This means employers can dismiss employees without 'just cause,' as long as the dismissal is not discriminatory.

These contrasts with the U.S. become particularly evident for both men and women after 60, the minimum mandatory retirement age in Korea, highlighting the challenges older workers face in remaining with the same firm in Korea compared to the U.S.

Another measure of employment (in)stability by age shows that the proportion of wage workers with firm tenures of one year or less begins to rise significantly in men's mid-40s and women's mid-30s (Figure 2). This pattern contrasts with the U.S., where the proportion of new employment contracts consistently decreases after middle age. Combined with Figure 1, Figure 2 reveals an increasing incidence of involuntary transitions to other firms as retaining positions becomes more challenging, highlighting the growing employment instability among older workers in Korea.

**Figure 2. Percentage of Wage Workers with Firm Tenures of One Year or Less by Age: Korea vs. U.S.**



Source: Statistics Korea, "Economically Active Population Survey," 2022; U.S. Bureau of Labor Statistics, "Current Population Survey (CPS)," 2022.

In Korea, young workers also exhibit relatively high rates of new employment compared to their U.S. counterparts. However, this is largely due to the country's high college enrollment rate, which delays the age at which individuals enter the labor market. For workers in their 30s, there is no notable difference in the median firm tenure or the ratio of new employment by age between the two countries. The increasing employment instability among men in their 50s and women in their 40s, however, is an exceptional phenomenon.

## II.

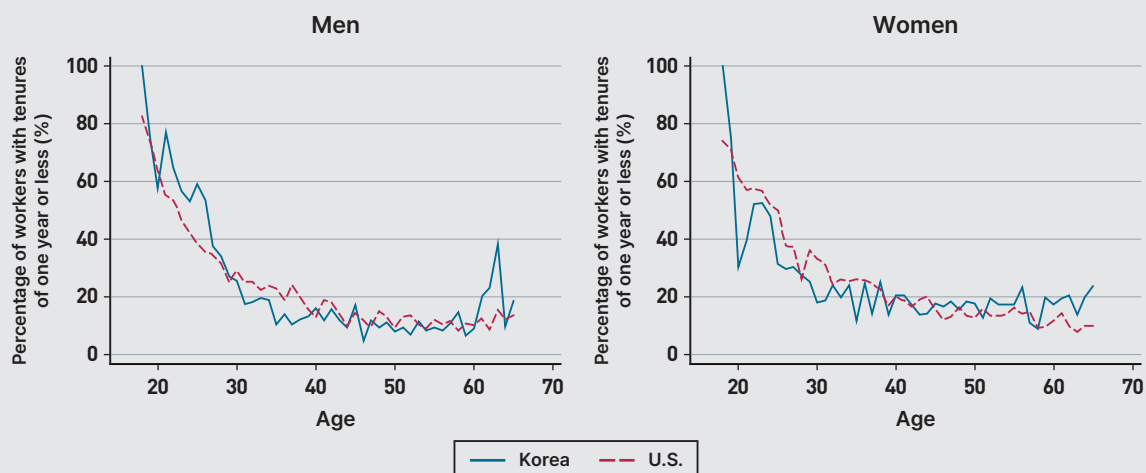
### Causes of Job Insecurity among Middle-aged and Older Workers: Shortage of Regular Employment and Prevalence of Non-regular Employment

On the surface, the cause of job insecurity among middle-aged and older workers appears to be the increasing share of non-regular employment.

What prompts the marked increase in job insecurity among Korean workers past middle age? On the surface, this increase appears linked to the rapidly growing share of non-regular employment in this age group. For example, if we restrict the analysis in Figure 2 to regular employees among wage workers in Korea, the rapid increase in the proportion of employees with one year or less of tenure after middle age does not emerge, at least until the age of 60 (Figure 3).

Considering both Figures 2 and 3, it is clear that the proportion of non-regular workers<sup>3)</sup>, such as those in fixed-term or temporary-help positions with inherently short tenures, increases rapidly with age, leading to higher job insecurity after middle age. The proportion of temporary employment in Korea is among the highest in the world, but the temporary employment rate for workers aged 55~64 is exceptionally high (Figure 4). As of 2022, the proportion of temporary workers among wage workers aged 55~64 is 33.2% for men and 35.9% for women, the highest among OECD countries, surpassing the second-highest country, Japan, by over 10 percentage points. For reference, the OECD average is 8.2% for men and 9.0% for women.<sup>4)</sup>

**Figure 3. Percentage of Employees with Firm Tenures of One Year or Less by Age: Korea's Permanent Workers vs. U.S.' Wage Workers**



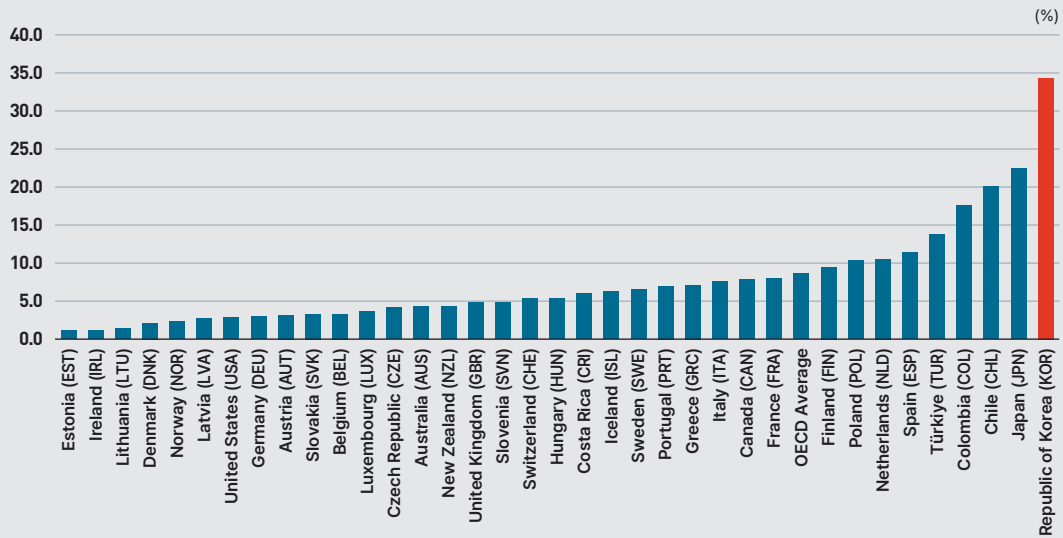
Source: Statistics Korea, "Economically Active Population Survey," 2022; U.S. Bureau of Labor Statistics, "Current Population Survey (CPS)," 2022.

3) In Korea, the definition of non-regular workers includes individuals who fall into one of the following categories: temporary (including fixed-term), part-time, or atypical workers (including dispatched, outsourced, independent, home-based, and daily workers).

4) Temporary employment is a concept used for international comparison, and it is not the same with 'temporary position (less than one year)' based on employment status. Statistics Korea reports an aggregated figure of fixed-term, short-term, dispatched, and daily workers (as of August) to the OECD.



**Figure 4. Percentage of Temporary Workers among Wage Workers Aged 55~64 (2022)**



*Note:* Figures for the U.S. and Canada are as of 2017, as there has been no reporting since 2018.  
*Source:* OECD Statistics (last access: Mar. 14, 2024).

However, a closer examination of labor market conditions for middle-aged and older individuals suggests that the more fundamental cause of their heightened job insecurity is the insufficient demand for permanent positions for workers beyond middle age. As people age, reentering regular employment becomes more challenging, resulting in a higher proportion of discouraged workers and non-regular employment. This shortage of regular employment is salient among older men and middle-aged women. As of 2019, the percentage of workers in permanent employment in Korea was at 32.2% for men aged 55~64 and 43.1% for women aged 25~54, significantly below the OECD averages of 47.2% and 50.3%, respectively.

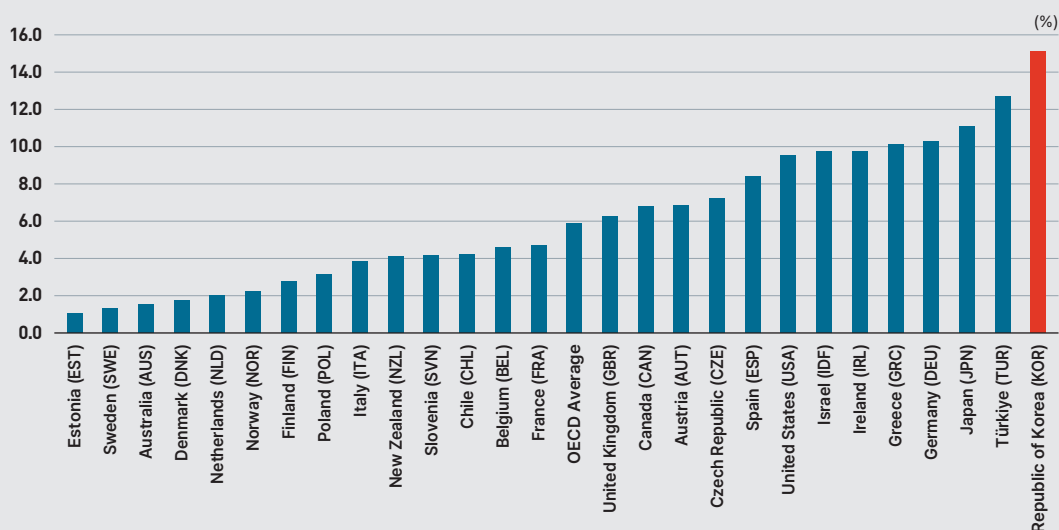
Then why is the demand for regular employment among middle-aged and older workers in Korea low? There may be age discrimination due to some employers' irrational preferences. However, this alone is insufficient to explain the low demand for regular labor of middle-aged and older workers across the labor market. Moreover, it is difficult to explain why Korea faces a uniquely intense demand scarcity for this age group.

However, the more fundamental cause lies in the insufficient demand for middle-aged and older workers in regular employment.

Previous studies suggest that wage rigidity in regular employment, especially the excessive seniority-based wage structure, is a key contributor to job insecurity among middle-aged and older workers. In the case of Korea, wage increases based on years of service are particularly steep in large firms and the public sector. As shown in Figure 5, the average wage growth rate when years of service increase

from 10 to 20 years is the highest among comparable countries, according to the OECD estimates.<sup>5)</sup> Empirical studies confirm that the steeper the wage increase is based on seniority, the more likely firms are to encourage early retirement among middle-aged and older workers (Frimmel *et al.*, 2018).

Figure 5. Wage Growth from Ten to Twenty Years of Tenure



Source: Reconstruction of Figure 4.4. of OECD (2019).

In Korea, wage increase based on seniority is steep, employment protection is strong, and retirement occurs comparatively early.

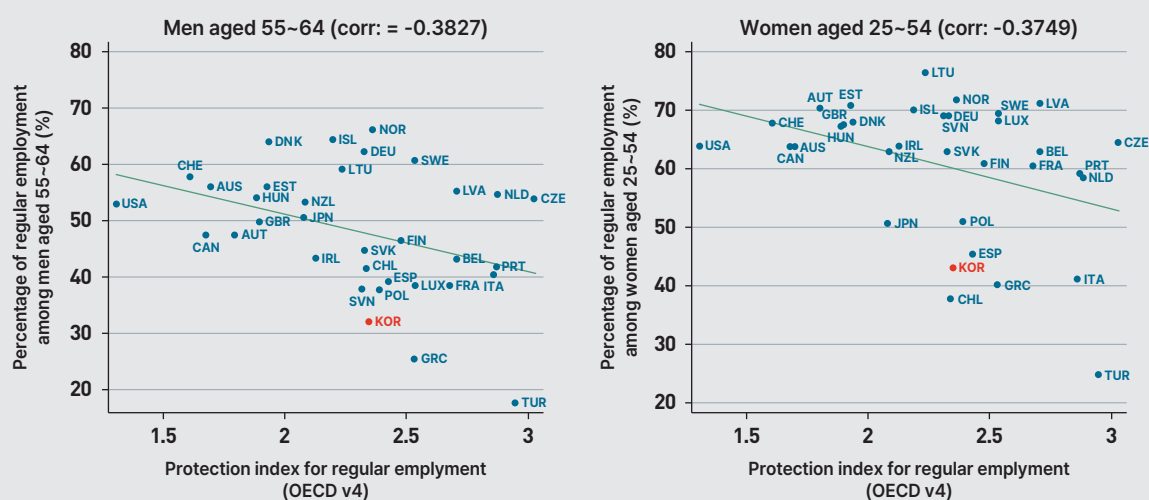
However, the seniority-based wage structure for regular employees does not exist in isolation. The ‘steep’ increase of wages based on seniority is part of a long-term contract that also includes ‘strong’ employment protection and ‘early’ mandatory retirement. In a situation where wages rise rapidly compared to productivity, the incentive for employers to lay off workers increases as the worker’s age advances. Without strong institutional protections, such a wage structure would be difficult to establish or maintain. Furthermore, as the period during which wages exceed productivity cannot last indefinitely, a mandatory retirement age is required as a legitimate reason for contract termination. A long-term contract that pays seniority-based wages, based on employment protection and mandatory retirement age, can reduce employee turnover and

5) In Korea, since wage workers with over ten years of tenure are predominantly in regular employment, wage growth observed from 10 to 20 years of tenure largely reflects wage increases in regular employment. However, since this measure reflects wage increases not only within the same workplace but also across job transitions, it may capture the effect of a higher proportion of employees in large companies as tenure increases, requiring careful interpretation. Despite this limitation, it remains a valid indicator showing the relatively high seniority-based wage structure of regular employment in Korea for international comparisons.

encourage invisible efforts, making it efficient at the firm level (Lazear, 1979).

While strong employment protection and early mandatory retirement paired with steep seniority-based wages, may be efficient at the firm level, they have the side effect of generally reducing the demand for regular employment among middle-aged and older workers in the labor market. In particular, the protection of regular employment works toward lowering the demand for hiring middle-aged and older workers in regular employment. While making layoffs moderately difficult is necessary to account for the social costs of unemployment, excessively restrictive layoff policies can discourage hiring. As a result, the cost of increasing the stability of some incumbent workers (insiders) is borne by the entire pool of job seekers (outsiders). Empirical studies from various countries show that regular employment protection depresses the demand for regular hiring and increases the proportion of temporary employment (Hijzen *et al.*, 2017). Figure 6 also shows that the employment protection legislature (EPL) index (OECD v4) for regular employment has a clear negative correlation not only with the proportion of regular employment to the total population but also with the proportion of regular employment among men aged 55~64 and women aged 25~54 relative to their respective populations.

**Figure 6. Regular Employment Protection and Percentage of Regular Employment Relative to Population (2019)**



*Note:* 1) For 2019 figures of OECD countries, Israel and Mexico are excluded due to data unavailability.  
 2) Data on the number of regular workers is provided only for four age groups: 15~24, 25~54, 55~64, and 65+, hence selecting the groups of men aged 55~64 and women aged 25~54.  
 3) Applying the results to all age groups for each gender yielded similar findings.

*Source:* OECD Statistics (last access: Mar. 14, 2024).



Low demand for regular employment among middle-aged and older workers leads to a dual labor market structure.<sup>6)</sup> Workers who remain in regular employment for a long time enjoy higher wages and job security until retirement. However, middle-aged and older workers who leave their current jobs for any reason face significant difficulties in reemployment. As workers become aware of these challenges and try to avoid job separations, the dual structure becomes increasingly segmented over time. In fact, the proportion of non-regular workers transitioning to regular employment in Korea has shown a clear downward trend since the 2010s (Yoo and Kwon, 2023). This segmented dual structure is not only identified as a key factor in social inequality, but also leads to inefficiencies from an economic perspective, as it prevents labor market reallocation and reduces business dynamism.

### III. The Need for Labor Market Reform: Implications for Extending the Retirement Age and Increasing the Birth Rate

Given the current structure of the labor market, additionally increasing the retirement age threshold is not only unjustified but also unlikely to achieve the intended outcomes.

The current labor market situation not only leads to early retirement among middle-aged workers and career interruptions for women, but also presents significant constraints in addressing macro-level changes, such as population aging and women's increasing participation in the workforce. Given pressing issues associated with the macro-level changes, such as extending the retirement age and increasing the birth rate, the current labor market conditions make meaningful improvements difficult, emphasizing the need for fundamental reforms to the structure of the labor market.

First, Korea's widespread early retirement among middle-aged and older workers raises questions about the justification for further extending the retirement age and the expected effectiveness of the policy. According to the 2023 Economically Active Population Survey's supplement on older workers by Statistics Korea, only 26% among 64-year old men who have ever worked as wage workers had retired at the mandatory retirement age from their lifetime main job, and the figure is even lower for women, at just 7%. Given that the benefits of extending the retirement age would be concentrated among a small fraction of the workforce, the related social dialog lacks merit. Moreover, empirical analyses on the introduction of the minimum

6) Generally, the issue of labor market duality is most pronounced among younger workers, but in Korea, it also appears to be a serious problem among middle-aged and older workers, which is a distinctive feature.

mandatory retirement age of 60 reveal mixed outcomes.<sup>7)</sup> While the policy had some effect in extending the tenure of long-term employees after implementation, a more significant and noticeable trend of early retirement was observed following the policy announcement, before its actual implementation. Under the current labor market structure, extending retirement age by legal mandates is expected to be not very effective in improving labor force utilization efficiency and could result in adverse effects, such as increased early retirement among older female workers and reduced employment opportunities for young people (Han, 2019; 2020).

In the case of the United States, the subject of this comparative analysis, longer firm tenures over the life cycle are observed, despite weaker employment protection regulations compared to Korea. This is likely because wages are based on productivity evaluations rather than seniority, which reduces the incentive to dismiss employees. Furthermore, once a productive employment relationship is established, employers have a strong incentive to maintain it. During business downturns and after recoveries, temporary layoffs or recall practices are common in the U.S., allowing for the reinstatement of employment relationships as business conditions improve, benefiting both parties. The early abolition of the mandatory retirement age in the U.S. can be understood in this context. When employment stability is primarily driven by market forces rather than by institutional mandates, the burden of extending (or abolishing) the mandatory retirement age is much smaller.

Second, the phenomenon of career interruption among women is a serious issue in itself and also acts as a major cause of low fertility

7) The table below extends previous research to analyze changes in the proportion of long-term employees (10+ years of service) among male wage workers. For the birth cohorts most affected by the extension of the retirement age to 60 (born in 1958 and 1961), the proportion of long-term employees significantly decreased compared to the unaffected preceding cohorts (born in 1957 and 1960), following the announcement of the extended mandatory retirement age. This is likely due to the increase in early retirement through honorary retirements or recommended resignations. Although the proportion of long-term employees increased after the new minimum was implemented, it did not fully offset the decline observed following the announcement, and the statistical significance of this increase is not strong.

**Table. Changes in the Proportion of Long-tenured Workers Following the Announcement and Implementation of the Retirement Age Extension to 60**

Dependent variable: An Indicator of tenure of 10 years or more among male wage workers.	Born in 1957 vs. 1958 (Retirement age of 58 → 60)	Born in 1960 vs. 1961 (Retirement age of 55 → 60)
Cohorts eligible for retirement age extensions x After the announcement	-0.042* (0.020)	-0.078** (0.018)
x After the implementation	0.038 (0.027)	0.024 (0.018)
N(Obs.)	81,758	87,359

*Note:* Cohort, final education, and year-by-month fixed effects and a quadratic control of age is controlled for in all specifications. All regressions are weighted by the population weights. \*:  $p < 0.05$  \*\*:  $p < 0.01$ . Standard error in parentheses (clustered at the birth year-by-age level).

*Source:* Statistics Korea, "Economically Active Population Survey," 2000–23.

Today's labor market framework hampers reentry into the job market, serving as one of the primary causes of prolonged career interruptions for women, thereby contributing to low birth rates.

by raising the lifetime expected costs of childbirth and childcare. For women, early retirement begins much earlier than for men, often in their late 30s, which is closely related to childbirth and childcare. Although policies supporting work-life balance, such as maternity and paternity leave, parental leave, and reduced working hours during the child-rearing period, have been introduced and implemented, many workers still face challenges in effectively utilizing these programs (Park, 2023). Once women leave their permanent jobs for childbirth and childcare, it becomes difficult to return or reenter permanent positions, leading to prolonged career interruptions. According to the 2023 first-half Regional Employment Survey by Statistics Korea, among 3.0 million married women aged 15~54 who were not employed, about 1.4 million (46.2%) were found to have experienced career interruptions due to childbirth or childcare. The high opportunity costs associated with long-term career breaks significantly increase the lifetime expected costs of having children, leading many women to delay or forgo having children.

Amid the long-term trend of increasing female labor force participation, it is crucial to dramatically reduce the costs of balancing work and family to prevent career interruptions in the first place. Nonetheless, even if returning to or reentering a regular job after a career break was simply easier, the decline in birth rates would not be as steep as it is today.<sup>8)</sup> In the U.S., while the policies vary by state, the federal government mandates only 12 weeks of unpaid parental leave, meaning that work-family balance policies are fairly limited. However, its flexible labor market, which facilitates reinstatement or reemployment, seems to mitigate the adverse impact on the birth rate.<sup>9)</sup>

#### IV. Labor Market Reform in the Era of Population Aging

To reduce the notably high rates of early retirement among older workers and career interruptions among middle-aged women, and to prepare for the impending wave of rapid population aging by improving workforce utilization and alleviating low fertility rates, labor market reform is both urgent and indispensable. Above all, it

8) The U.S. prescribes only 12 weeks of unpaid parental leave without a separate maternity leave federally mandated, although each state implement their own maternity and parental leave policies. In contrast, Korea mandates three months of paid maternity leave and one year of paid parental leave.

9) As of 2021, the U.S. total fertility rate was 1.66, more than double Korea's rate of 0.81 for the same year. The negative impact of the labor market's dual structure on childbearing decisions has been empirically verified (e.g., Guner *et al.*, 2024).

Korea's labor market urgently needs structural reforms that enhance stability through market forces rather than legal mandates to increase the proportion of individuals with ongoing employment until retirement. Implementing such changes could facilitate further extensions of the mandatory retirement age.

Specifically, key tasks involve lowering the reliance on seniority-based wages for regular employment, reducing uncertainty in the dismissal process, and enhancing protection and the employment safety net for non-regular workers.

is necessary to expand stability driven by market forces rather than legal mandates, to encourage not only long-term employment until mandatory retirement but also the extension of the mandatory retirement age. Broader social discussions are essential for developing more specific measures, but this brief outlines key structural reform initiatives.

First, there is a clear rationale for easing the rigidity of seniority-based wages for regular employees, particularly in large corporations and the public sector. Despite extensive discussions on this matter, the leading role of the public sector remains crucial. In the public sector, wage increases based on seniority should, in principle, be limited after a certain period of rapidly increasing productivity (e.g., after 10 years of experience), with wage growth instead tied to job performance and outcomes. The ongoing changes to expand the use of task-based pay in the public sector should not remain merely formal at the individual firm level, but should be advanced with substantive changes at the industry level through tripartite dialogues among public enterprises with similar characteristics and relevant private firms. This includes the development of infrastructure for job analysis, evaluation, (re)design, and compensation, which can then be extended to private enterprises.<sup>10)</sup>

Second, regarding the protection of regular workers, a shift toward increasing the predictability of the dismissal process is necessary. When breaking down the OECD's EPL index (OECD v4) for regular employment by its components, Korea stands out, particularly in the area of reinstatement following an unfair dismissal (OECD, 2020). In Korea, the principle of reinstatement applies when the Labor Commission rules an unfair dismissal, and monetary compensation can be ordered only if the employee foregoes reinstatement or if restoring the position is deemed impossible (Articles 30(3) and (4), Labor Standards Act). Despite its intention to protect workers, this uniform approach to dispute resolution has led to excessive attempts at reinstatement and prolonged disputes, which in turn have negative social side effects, such as excessively dampening hiring. To address these complexities, employers should be allowed to apply for monetary compensation, and the discretion of the Labor Commission in decision-making should be expanded. This would increase the proportion of disputes resolved through monetary compensation

10) Moreover, in small-scale and non-unionized workplaces where a high proportion lacks a formal wage system, it is essential to pursue continuously systemic improvements to strengthen worker representation and bargaining power. In cases where there are no worker representatives or labor-management negotiations are difficult, it is worth to consider the use of the industry-level tripartite agreements on task-based compensation as the default.

and improve the predictability of the dismissal process.<sup>11)</sup> For cases of unfair dismissal that are not automatically void, monetary compensation could be adjusted proportionally to years of service, within the predefined minimum and maximum limits, as practiced in many countries (for example, 2 months' average wage for each year of service, with a minimum of 4 months and a maximum of 24 months). However, it is necessary to take a gradual reform approach, where the new standards are applied only to employment contracts signed after the implementation of the reform. Although the impact may take time to materialize, this approach can encourage the growth of regular employment by lowering hiring costs without substantially increasing the risk of dismissal. As the new standards spread through employment contracts, there will also likely be greater potential for labor-management agreements on extending the retirement age.

Third, for non-regular workers, it is necessary to strengthen protections to reduce employment instability. This is crucial for easing the dual structure between regular and non-regular workers, and it is also necessary due to the long time required for changes in regular employment protection. Nevertheless, given the limited labor demand for middle-aged and older workers, imposing stricter regulations on fixed-term and dispatched employment is not advisable. Increased restrictions on temporary work arrangements are likely to lower the employment rate for middle-aged and older workers.<sup>12)</sup>

Currently, the contract termination costs for non-regular workers are significantly lower than those for regular workers. Raising these costs is necessary to promote job continuity and encourage the transition to regular employment. For example, introducing severance pay proportional to the length of employment (e.g., one month of average wages for one year of employment, up to 12 months), with an exemption for workers converted to regular employment, could incentivize retention or transition to regular positions. Additionally, given the frequent disputes over the discontinuous severance payment obligation tied to one year of service and the increasing diversity of

11) Among OECD countries, only five—Republic of Korea, Austria, Czech Republic, Latvia, and Türkiye—restrict the right to request monetary compensation to employees alone, in cases of unfair dismissal (OECD, 2020). On the contrary, a significant number of OECD countries prohibit requiring employers to reinstate employees in cases of unfair dismissals that are not deemed automatically void.

12) Among OECD countries, there is a clear negative correlation between the OECD EPL index for temporary employment (v4, 2019) and the employment rate for middle-aged and older demographics. According to the OECD index, Korea scores 2.19, higher than the OECD average of 1.79, indicating stricter regulations on temporary employment compared to the average. More specifically, Korea imposes strict controls on temporary work agency contracts while maintaining relatively lenient regulations on terminations at the conclusion of fixed-term contracts (OECD, 2020).

employment types, it is worth actively considering severance pay or retirement pensions proportional to the duration of employment, even for workers with less than one year of tenure.

Lastly, alongside the gradual reform of employment protection systems, the employment safety net must be further strengthened. Addressing the widespread gaps in unemployment insurance coverage, particularly for non-regular workers, and improving the effectiveness of job search support are critical priorities. Reducing these gaps requires improving the coherence between social insurance programs, strengthening the connection between tax and social insurance administration, and refining income tracking systems. For unemployment benefits, both the benefit amount and duration should be redesigned to enhance coverage and increase job search incentives, including the promotion of reemployment.<sup>13)</sup> Continuous efforts are also needed to strengthen the integration of public employment services and transition toward a demand-driven, lifelong learning system.<sup>14)15)</sup> ■

13) For example, it is necessary to consider redefining the concept of employment to relax restrictions on dual eligibility for insurance coverage and introduce partial unemployment benefits. Additionally, the daily minimum unemployment benefit (63,104 KRW in 2024, 80% of the minimum wage) is excessively high, potentially encouraging intentional unemployment, while the maximum benefit (66,000 KRW) has remained unchanged for a long time, necessitating adjustments to both. Compared to other countries, the duration of benefits in Korea is relatively short and warrants extension. The benefit duration is relatively short compared to international standards and should be extended. However, the appropriateness of eligibility criteria, such as the reference period (18 months) and contribution period (180 days), as well as benefit differentiation criteria, including contributing periods (1, 3, 5, and 10 years) and age (50 years), also requires review. Furthermore, the early reemployment bonus requires a review for potential redesign or reduction, as its current structure discourages individuals from returning to their previous employer.

14) For more details on the directions for improving active labor market policies, see Han et al. (2022).

15) In addition, it is necessary to review options for comprehensively restructuring age-related criteria in labor market policies. These include the minimum on mandatory retirement age (60 years) under the Act on Prohibition of Age Discrimination in Employment and Elderly Employment Promotion (hereinafter the Elderly Employment Act) and the first eligible age for full pensions (65 years from 2033) under the National Pension Act, and many others, such as the differentiated criteria for unemployment benefits (50 years and older), the legal definition of older workers and the exceptions to limits on the use of fixed-term and dispatched workers (55 years and older), the upper age limit for mandatory National Pension contributions (under 60 years), and the exclusion criteria for unemployment benefits (new acquirer at age 65 and older). These age criteria should be reassessed for their appropriateness and systemic consistency in light of changing population structures. Instead of rigid and uniform age criteria, there is a pressing need for more flexible approaches that reflect industry- and occupation-specific circumstances, along with individual work capacity and willingness.



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