

## Higher Education Finance and Cost-Sharing in Korea

(Updated April 5, 2010)

### I. A Brief Description of the Korean Higher Education System

The Republic of Korea has a population of about 48.5 million (with annual growth rate of 0.266 percent) in 2009. In 2005, Korea spent 2.4 percent of its GDP on tertiary education compared to 1.5 percent for OECD countries in general. This marked a significant increase (35 percent) in tertiary education spending since 2000. Even so, public spending in 2005 accounted for slightly less than a quarter of total tertiary education spending, demonstrating the continued importance of private funding for tertiary education.

In 2006, 28 percent of 20 to 29 year olds were enrolled in some form of education (OECD 2008). More than half of the 25 to 34 year olds have completed tertiary education.

The Korean higher education system is composed of three sectors: (a) colleges and universities; (b) teachers colleges and colleges of education, and (c) junior colleges, plus the Air and Correspondence University and open universities. In 2008, there were 3,562,844 undergraduate students in Korean higher education with 70 percent in universities, 22 percent in junior colleges and 8 percent in graduate schools (see table 1).

**Table 1**  
**Public and Private Higher Education Institutions and Enrollments in Korea**  
**(2009 academic year)**

Sector	Number of institutions <sup>1</sup>	Number of students
Colleges and Universities	211	2,465,462
Junior Colleges	147	771,854
Teachers Colleges/Colleges of Education	11	24,116
Sub-total	368	3,261,432
Graduate Schools	37	5,804
Sub-Total	37	301,412
Total	405	3,562,844

Source: KEDI 2009

<sup>1</sup>As of 2007, 88 percent of colleges and universities were private; 93 percent of junior colleges were private and no teachers colleges/colleges of education were private (Ministry of Education, Science and Technology website: <http://english.mest.go.kr/main.jsp?idx=0401030101>)

## **II Higher Education Administration and Development**

Before Korea opened the door to western culture in the 1890s, higher education was limited to children of the aristocracy who were being raised to become government officials. The influx of western missionaries in the middle 1890s brought with it the expansion of higher educational opportunities, including for women, and created the foundation for modern higher institutions. However, the annexation of Korea by Japan in 1910 suspended the development of higher education. Established higher institutions were downgraded to three-year non-degree granting junior colleges. Until independence from Japan in 1945, education in general was used to obliterate Korean national identity and further Japanese colonialism.

The presence of the U.S. after independence in 1945 and the disastrous Korean War from 1950 to 1953 contributed in many ways to the development of the modern Korean higher education system. Lee (1997) noted American influences in the implementation of the four-year undergraduate system, the establishment of new higher education institutions and the organization of the Korean Association of Colleges and Universities in 1947. The latter organization established standards and accrediting procedures to control the quality of higher educational institutions, even as enrollments and opportunities were expanded. Since the mid 1960s, higher education in Korea has grown dramatically to meet national demand for the human resources needed to rebuild the country from the disastrous war. In addition, the traditional value placed on higher education as a means for social mobility spurred increases in enrollment. The Korean government has been directly involved in the establishment and development of the higher education sector since the mid-1960s with the purpose of supplying qualified manpower to the process of industrialization.

Private higher education, encouraged by government policies, played a critical role in this expansion. More than 80 percent of all higher education institutions are private. Ninety-six percent of students in junior colleges are in private colleges and three-quarters of those in universities are in private universities (Yu 2009). Under the Education Law, all public and private higher education institutions are supervised by the Ministry of Education on such matters as student quotas, qualifications of teaching staff, curriculum and degree requirements, financial allocation and so on. Private higher education institutions rely heavily on tuition and fees and have been able to set their own fee levels since 1989. The government is planning, however, to cap annual tuition fee increases for both private and public tertiary institutions starting in 2010 in response to their significant growth in the past 10 years.

The university-aged population in Korea is expected to grow only until 2012 when it will turn downwards. By 2016, it is anticipated that higher education admission quotas will be higher than the number of high school graduates (Yu 2009). In response to this growth and to regional imbalances in student numbers, the government is promoting mergers and integration among public and private universities and instituting more rigorous requirements for new universities (KEDI 2007).

## **III. Estimated Expenses of Higher Education**

Since the 1950s, the costs of higher education have been shared by the government (taxpayers) and by parents and students except for a few cases where societal needs have

required additional subsidization. The education of primary and secondary school teachers was fully subsidized until 1991, when tuition was introduced. The education of military officers is still fully subsidized including monthly stipends for living expenses. Koreans seem to willingly accept tuition and other elements of higher educational cost-sharing because they appreciate their equal access to higher education, which was once limited to a privileged class, and recognize its value as a means for social mobility.

**Table 2**  
**Higher Education Expenses Borne by Parents and Students in Korea**  
**Academic Year 2009-10**

[National currency converted to \$US by 2005 Purchasing Power Parity \$1=Won 788.92]

		Public Universities			Private Universities	
		Low	Moderate	High	Low	High
	Special "One-Time" or "Up Front" Fees	W 90,000 [\$114]	W 90,000 [\$114]	W 90,000 [\$114]	W 90,000 [\$114]	W 90,000 [\$114]
<i>Instructional Expenses</i>	Tuition	W2,800,000 [\$3,549]	W4,190,000 [\$5,311]	W6,000,000 [\$7,605]	W7,420,000 [\$9,405]	W10,000,000 [\$12,675]
	Other Fees	W1,276,000 [\$1,617]	W1,974,000 [\$2,502]	W2,684,000 [\$3,402]	W900,000 [\$1,140]	W900,000 [\$1,140]
	Books & Other Educational Expenses	W200,000 [\$253]	W500,000 [\$633]	W1,000,000 [\$1,268]	W200,000 [\$254]	W1,000,000 [\$1,268]
	Subtotal Expenses of Instruction	W 4,366,000 [\$5,534]	W 6,745,000 [\$8,561]	W9,774,000 [\$12,389]	W8,610,000 [\$10,914]	W11,990,000 [\$15,198]
<i>Student Living Expenses</i>	Lodging	W0	W1,000,000 [\$1,268]	W3,000,000 [\$3,802]	W3,800,000 [\$4,817]	W2,500,000 [\$3,169]
	Food	W0	W2,000,000 [\$2,535]	W2,700,000 [\$3,422]		W2,700,000 [\$3,422]
	Transportation	W360,000 [\$456]	W360,000 [\$456]	W360,000 [\$456]	W360,000 [\$456]	W360,000 [\$456]
	Other Personal Expenses	W800,000 [\$1,014]	W1,200,000 [\$1,521]	W1,600,000 [\$2,028]	W1,000,000 [\$1,268]	W2,400,000 [\$3,042]
	Subtotal Expenses of Student Living	W1,160,000 [\$1,470]	W4,560,000 [\$5,780]	W7,660,000 [\$9,709]	W5,160,000 [\$6,541]	W7,960,000 [\$10,000]
	Total Cost to Parent & Student	W 5,526,000 [\$7,005]	W 11,314,000 [\$14,341]	W 17,434,000 [\$22,099]	W 13,770,000 [\$7,454]	W 19,950,000 [\$25,288]

Low Public: Local, humanities, living at home with parents

Moderate Public: Local, science, living in dormitory or shared apartment

High Public: Seoul, Fine arts, living as "independent adult"

Low Private: Local, humanities, living in dormitory or shared apartment

High Private: Seoul, Fine arts, living in dormitory or shared apartment

A: Other fees are included in tuition.

Source: <http://www.moe.go.kr>. Ministry of Education. Downloaded on April 13, 2001.

#### **IV Student Loans Schemes in Korea**

There are seven national loan schemes in the Republic of Korea: the Ministry of Education's new income contingent study now pay later program, the Ministry of Education's Government-Guaranteed Loans Scheme (GGLS), the Korea Research Foundation (KRF) interest free tuition fee loan, the Ministry of Labor's (MOL) tuition loans for workers who benefit from employment insurance, the Korea Teachers' Pension (KTPF) tuition loans, the Government Employees Pension Corporation (GEPCO) tuition fee loans for civil servants and their children, and the Korea Labor Welfare Corporation (WELCO) tuition assistance loan for children of deceased work-related accident victims (see Table 5 for details). With the exception of the two MOE loan programs, the student loans are highly subsidized, with little or no interest charged to borrowers, cover only tuition fees and reach a very limited student population. Loan repayments in all but the new MOE income contingent program are in the form of "mortgage" installments: using interest-rates and the maximum length of repayment to calculate the fixed periodic payment.

The MOE loan programs are the strictest in targeting students' from low-income families, while the KRF scheme is both need-based and merit based with a special focus on students from farming and fishing villages. The other four schemes are not directly targeted at students from low-income family. The MOL scheme aims to help young industrial workers; the GEPCO scheme targets government employees and their children; the KTP scheme is for teachers and their children; and the KLWC scheme is designed for industrial accident victims.

There are also many non-governmental student loans programs; most large firms and state-owned enterprises provide their employees with student loans. Nevertheless, most students in the Republic of Korea rely on parental financial support (Kim & Lee 83).

The Government Guaranteed Loan Scheme (GGSL) was introduced in 2005 to replace the Subsidized Interest Rates Loan Scheme (SIRLS) that was run by the Ministry of Education and the Ministry of HRD through commercial banks. The GGSL scheme was designed to avoid the major problems identified in the SIRLS program including excessive interest subsidization by the government, insufficient loan amounts, too short repayment period, and insufficient numbers of loans. The GGSL scheme provides student loans that cover both tuition fees and living expenses (provided that the annualized income of a borrower's household is less than a certain level) through 16 commercial banks at real interest rates with a repayment period of 20 years. Government interest subsidizes range from 100 percent for the poorest students to partial interest coverage for the remaining students (2 percent of the 6.66 percent interest in 2007). As part of the GGSL scheme, a Student Loan Guarantee Fund was created in the Ministry of Education. Students apply for the guarantee (90 percent partial loss coverage) through the banks that originate the loans. In order to free up the bank balance sheets and enable them to make additional student loans, the Korea Housing Finance Corporation, a public financial company created in 2004, buys the loans from the originating banks and issues Student Loan-Backed Securities to investors (with a guarantee on SLBS principal and interest payments). The banks continue to service the loans. Under the GGSL the number of loan recipients has grown substantially from 294,000 in 2005 to 615,063 in 2007 and benefits more low income than previously (Chae and Hong 2009)

A new income contingent student loan program (referred to as the Study-Now-Pay-Later program) was introduced in January 2010. The loans are available to basic livelihood student recipients and students from households in the lowest to the seventh income deciles starting in the spring 2010 semester. This loan is being introduced alongside the GGSL in response to concerns about the GGSL's monthly interest burden on students still in school. The new income contingent loans will cover annual tuition fees plus two million Korean won [US\$2,535] in living expenses per year (Hye-mi 2010). At present (March 2010) the interest rate has been set at 5.7 percent, but will be decided on a year by year basis in consideration of fund interest rates. Students will make no payments during the grace period (study period) and will be required to pay back interest and principal in installments spread over a maximum of 25 years after their annual earning reaches 16 million won [US\$20,280] (Tae-hoon 2010). Students whose families do not meet the financial criteria for the new loans will continue to be able to receive loans under the existing student loan program (Hye-mi 2009).

**Table 3. Student loans schemes in the Republic of Korea**

	<b>Ministry of Education's Income Contingent Loan Program</b>	<b>MOE Government Guaranteed Loan Scheme</b>	<b>Korea Research Foundation</b>	<b>Ministry of Labor</b>	<b>Korean Teachers Pension Fund</b>	<b>Government Employees Pension Corporation</b>	<b>Korea Labor Welfare Corporation (WELCO)</b>
<b>Year</b>	2010	2005	1999	1995	1976	1967	1987
<b>Main target group(s)</b>	Poor students (basic livelihood student recipients & students from households in the lowest to the seventh income deciles)	Poor students	Students from fishing and farming communities and all students	Beneficiaries of employment insurance	Faculty and their children	Government employees & their children	Industrial accident victims & their children
<b>Funding source</b>	Government via sale of national notes to Korea Student Aid Foundation	Commercial banks	KRF	Employment insurance fund	Government Annuity fund	Government (State and local)	Industrial accident compensation insurance fund
<b>Loan distribution, payment, &amp; collection</b>	Ministry of Education	16 commercial banks originate loans. Korea Housing Finance Corporation buys the loans from the banks and issues Student Loan-Backed	KRF	Commercial bank	Commercial bank	Commercial bank	Commercial bank

		securities and guarantees the payment of principal and interest to investors. Banks service the loans					
<b>Guarantor</b>	None required	Borrowers apply for a guarantee from the Student Loan Guarantee Fund (established in the MoE in 2005 by Korean government) through the originating banks.	Individual credit	Joint surety	Joint surety	Joint surety	Joint surety
<b>Interest rate</b>	5.8 percent	Government subsidizes full interest for poorest students; for other students government subsidizes 2 percent of the fixed interest rate of 6.66 percent (as of 2007).	Interest free	1% (secured loan) and 1.5% unsecured loan.	Free interest	Free interest	1% (grace period) 3% (during amortization) 2.28% (after graduation) Amortized in payments over 4 years after grace period ends
<b>Repayment</b>	Within 25 years of attaining employment	20 years	1 year deferment period, repayment over	2 year deferment and 2 to 4	2 year deferment and 2-4 years for	2 year deferment and 3-4 years	1+4

			double the enrollment period.	year amortization period.	repayment.	amortization	
<b>Coverage of higher education cost</b>	Tuition fees plus living expenses	Full tuition and fees plus living expenses	Tuition fees	Full tuition and fees	Full tuition and fees	Full tuition and fees (in domestic institutions)	Full tuition fees
<b>Number of recipients</b>	NA	Total of 615,063 loan recipients (as of 2007)	29,660 recipients in 2004	30,056 recipients in 2004	27,960 recipients in 2004	205,578 recipients in 2004	1,523 recipients in 2004

(Sources: KEDI 2006; Chae and Hong 2009; Korea.net 2009; Shin-who 2009)

The government is also planning to cap annual tuition fee increases starting in 2010 in response to their considerable growth at both state run universities (115.8 percent) and at private institutions (between 80 and 90 percent depending on the type of institution) between 1999 and 2009 following their deregulation in 1989 (for privates) and 2003 (for state-run institutions).

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