

# HR & Tax Alert

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## France: France and South Korea Sign Security Agreement

December 2004

### Executive summary

France and South Korea have entered into a Social Security (Totalization) Treaty signed on 6 December 2004. The treaty now needs to be approved by the parliaments of both countries and will take effect three months after approval. It is expected to enter into force in the first half of 2005.

Human Capital, as part of its Asian strategy, has worked for many years encouraging the French Government to negotiate Social Security treaties with South Korea, Japan and China to demonstrate our market leadership to French multinationals and Korean subsidiaries in France. The first of these treaties with South Korea was signed by the Foreign Ministers of each country in the presence of South Korean President Roh during his visit to France. After the signing of the treaty, Human Capital presented an analysis of the treaty to 200 French and Korean multinationals with the Korean Minister of Finance and the French negotiators of the treaty

We hope that a treaty with Japan will be signed in 2005. There is no date set for approving a treaty with China.

### Effective date

The treaty will only take effect three months after the parliaments of both countries have given their approval. Our understanding is that approval will be given quickly and thus it could be effective as soon as 1 May 2005.

### Coverage

All expatriates in the host country (both French expatriates in South Korea and South Korean expatriates in France) on the date that the treaty becomes effective will be covered by the treaty. In addition expatriates who arrive after the effective date of the treaty will also be covered. The treaty will be applicable for three years with an "almost automatic" renewal for a second three year period, providing a total of six years of coverage.

The coverage of the treaty in terms of the social security system is similar to the other 56 treaties France has on social security. However, ASSEDIC, (unemployment insurance) which is covered by the EU Directives is not covered in this bilateral treaty.

South Korean expatriates in France will be required to subscribe to private medical insurance as with many of the other treaties.

### **Overview of Social Security Treaties**

Social Security Treaties between countries around the world are common. France has a total of 56 treaties including the EU Directives. These treaties, often called “Totalization Agreements” have two main purposes. First, they eliminate dual social security obligations, the situation that occurs when a worker from one country works in another country and is required to pay Social Security in both countries on the same earnings. Second, the treaties help fill gaps in benefit protection for workers who have spent their

careers working in different countries by potentially providing partial benefits from each country.

Generally, under the treaties, workers pay into the social system of the country in which they are working. However, there is normally an exception for employees sent to work in a host country for a limited period of time (generally from three to five years). These workers remain in their home country social system. This avoids dual social taxation and disruption in coverage.

The benefits of a Totalization Treaty are not automatic. An important administrative step is to obtain a Certificate of Coverage under the applicable system under which the short-term assignees will be covered.

For further information and detail on the applicability of these proposals, please contact your normal Human Capital partner in Paris, Lyon or Seoul.

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