

Pension Reform Options in Korea

A large, stylized graphic element consisting of two curved, overlapping shapes. The left shape is orange and the right shape is green, both curving upwards and outwards.

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1. Overview of Current Public Pension Systems

- Overview of Current Income Security Systems in Korea
- Coverage Extension of National Pension
- Size of Beneficiaries of Public Pensions

Overview of current Income Security Systems in Korea

- Established multi-pillar systems

3rd pillar	Individual pension(1.62 million insured persons, Dec. 2009)			
2nd pillar	Retirement Pension (3.49 million insured persons, Feb. 2012)			Public Occupational Pensions (1.39 million insured persons, Dec. 2010)
1st pillar	National Pension (19.89 million insured persons, Dec. 2011)			
0 pillar	Basic Old Age Pension(Tax-based and means tested, 70% of the elderly aged 65 and over, 3.80 million beneficiaries, Dec. 2011)			
	National Basic Livelihood Security (1.47 million beneficiaries, Dec. 2011): poverty households			
Covered Groups	Employees	Self-employed	Others	Civil servants, Private school teachers and Military personnel

Overview of current Income Security Systems in Korea

- Coverage Extension of National Pension
 - 1. 1988: workplaces with 10 workers or more
 - 1. 1992: workplaces with 5 workers or more
 - 7. 1995: rural areas
 - 4. 1999: urban areas → full coverage to labor force aged between 18 and 59 by law

[Increase of the insured of national pension]

(Unit: thousand persons)

1988	1992	1994	1995	1998	1999	2007	2008	2009	2010	2011	09. 2012
4,433	5,021	5,445	7,497	6,580	16,262	18,267	18,335	18,624	19,229	19,886	20,141

Overview of current Income Security Systems in Korea

- Size of the Insured of Public Pension Schemes

- Still low at proportion of current contributors to labor force

(Unit: %)

	Working age 15-64	Labor force age 15-64		Working age 18-59	Labor force age 18-59
The insured of public pension	57.0	90.6	The insured of public pension	64.7	95.7
Current contributors of public pension	40.4	64.2	Current contributors of public pension	45.8	67.7

Overview of current Income Security Systems in Korea

- Size of Beneficiaries of Public Pensions
 - 82.2% : proportion of beneficiaries of public pensions as of 2011
 - Most of them comes from BOAP

(Unit: thousand persons, %)

Total Population Aged 65 and over	Basic Old Age Pension (BOAP) Recipients	Recipients of National Pension (NP) and/or Public Occupational Pensions (POP)	Non-beneficiaries
5,701 (100.0%)	3,796 (66.6%)	1,799(31.6%) (NP 1,577+POP222)	1,013 (17.8%)
	Only BOAP 2,889 (50.7%), NP+BOAP 907 (15.9%), Only NP or POPs 892(15.7%) <Total=4,688, 82.2%>		

2. Brief History of National Pension

Reforms in Korea

- Introduction of National Pension: 1988
- First Pension Reform: 1998
- Second Pension Reform: 2007

Brief History of National Pension Reforms in Korea

- Introduction of National Pension
 - Enforcement of National Pension in January 1988 by the national pension act revised in 1987 from the first act in 1973
 - 9% contribution rate
 - 70% earnings replacement ratio
 - Pensionable age: 60 years old
 - 15 qualifying years for old age pension but 5 years for initial period of introduction of the scheme
 - Compulsory application to total labor force aged 18 to 59 by April 1999, and voluntary application to the others aged 18 to 59 without earnings or economic activities

Brief History of National Pension Reforms in Korea

- First National Pension Reform in 1998
 - Establishment of the committee for pension reform in 1997
 - Report submitted as of the end of the year
 - Majority idea: structural reform of dual pension systems composed of basic insurance pension of 20 % and earning related pension of 20%
 - Contents of revised act in 31. Dec. 1998
 - Benefit reduction: 70% → 60% from 1999
 - Raise of pensionable age: 60 to 65 from 2013 to 2033
 - Introduction of financial review system
 - Reduction of 15 qualifying years for old age pension to 10, introduction of split old age pension after divorce, etc.
 - Financial effect of first reform
 - Prolonged depletion year from 2031 to 2047

Brief History of National Pension Reforms in Korea

- Second National Pension Reform in 2007
 - Results of first financial review in 2003
 - Required another pension reform for long term financial stability
 - Government reform bill proposed in 2003 but not passed
 - Proposed another pension reform bill by opposite party in 2004
 - Change of national pension to dual systems of non-contributory basic pension of 20% of average earnings and earnings related pension of 20% ERR
 - Major contents of 2007 pension reform
 - Introduction of non-contributory basic old age pension
 - Benefit reduction of national pension: 50% in 2008 and 0.5%pt reduction every year from 2009 to 2028 until it reaches 40%
 - Financial effect of second reform
 - Prolonged depletion year from 2047 to 2060

3. Necessity of Another Pension Reform

- Changes of Population and Family Structure
- Poverty of the Elderly
- Inadequacy of Income Security
- Sustainability of the Pension Schemes
- Systematic Role Allocation Among Pension Schemes

Necessity of Another Pension Reforms

- Changes of Population and Family Structure
 - Population aged 65+ : 3.1% in 1970 → 5.1% in 1990 → 11% in 2010 → 24.3% in 2030 → 27.4% in 2050
 - TFR: 4.53 in 1970 → 1.23 in 2010 → 1.42 in 2035 and hereafter
 - Average life expectancy: 61.9 in 1970 → 71.3 in 1990 → 76.0 in 2000 → 81.0 in 2010 → 87.4 in 2050
 - Elderly dependency ratio: 15% in 2010 → 71% in 2050
 - Proportion of single elderly household: 24.0% in 2000 → 25.4% in 2010 → 39.8% in 2030
- Poverty of the Elderly
 - Proportion of poor elderly people: 45.1%
 - Proportion of private transference among income composition of elderly people: 54.8% in 1990 → 44.7% in 2008

Necessity of Another Pension Reforms

- Inadequacy of Income Security
 - Average amount of old age pension of National Pension
 - 15.4% of A value (3-year average earnings of the insured in total of NP)
 - Higher average amount in case of the newly awarded of old age pension

[Average amount of old age pension of the newly awarded]

(Unit: %)

	2006	2007	2008	2009	2010	2011
Total(%)	15.6	16.5	17.1	19.8	19.6	20.5
Men(%)	17.6	18.7	19.5	22.5	22.5	23.1
Women(%)	10.9	11.8	11.7	13.1	13.3	14.2

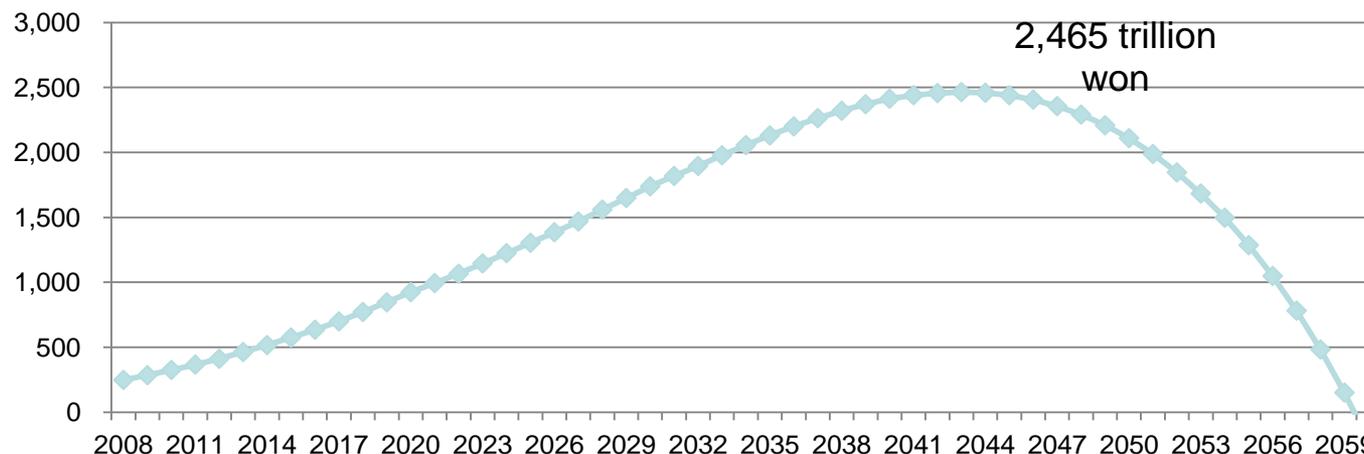
Necessity of Another Pension Reforms

- Inadequacy of Income Security
 - **Benefit of basic old age pension** : 5% of A value of National Pension
 - **Retirement pension**: no beneficiaries yet
 - The insured: 9.8% of total workplaces and 38.3% of total regular employees as of Feb. 2012.
 - **Individual pension**: low continuous contract rate
 - Multi-pillar income security systems established, but all of them are immature.

Necessity of Another Pension Reforms

- Sustainability of Pension Schemes
 - Financial stability and adequate size of accumulative fund
 - According to 2008 financial review, the national pension fund will be depleted in 2060.
 - No plan after depletion yet.

Accumulated Fund(basic population assumption)



Necessity of Another Pension Reforms

■ Sustainability of Pension Schemes

• Fairness between generations

- Pay-as-you-go rate: 3% in 2010 → 21.9% in 2060
- Cost transference to future generations

Pay-as-you-go rate of national pension (%)

2010	2020	2030	2040	2050	2060	2070	2078
3.0	4.9	8.2	13.1	17.7	21.9	23.2	22.9

• Fairness between strata

- Redistribution function installed in benefit formula of NP
- But, difficult to access to national pension because of no or low earnings, or old age → no pension benefits → big needs to social pension

Necessity of Another Pension Reforms

- Sustainability of Pension Schemes
 - Compliance with pension schemes
 - Increase of compliance with national pension due to
 - ✓ Recent retirement of baby boomers
 - ✓ Increased interests in old age income at homo hundred era
 - ✓ Better understanding and trust on national pension
 - Private pension → necessity of good governance and regulations
- Systematic Role Allocation Among Pension Schemes
 - Each income security system → competitive and sometimes conflicting in process of developing the own system
 - Necessity for good arrangement: to give income security through harmonized and systematic roles playing of pension schemes

4. Pension Reform Options and Assessments

- Tasks of Pension Reform
- Principles of Pension Reform
- Pension Reform Options and Assessments

Pension Reform Options and Assessments

- Tasks of Pension Reform
 - Establishment of Minimum and Adequate Standards of Income Security
 - Defining minimum and adequate stands of income security
 - Drawing a blue print of short and long terms for income security systems and to enforce the plans
 - Minimum income security provision by public schemes and making adequate benefit level by multi-pillar systems
 - Arrangements for Adequate Benefits and Coverage Extension
 - Enhancement of credits program
 - Subsidizing contributions to vulnerable groups
 - Facilitating voluntary affiliation,
 - Approving various contribution payment ways and so on

Pension Reform Options and Assessments

- Tasks of Pension Reform
 - Better Sustainability
 - Clarification of long term financial goal of pension scheme
 - Defining a long term financial stability clearly
 - Making and enforcing measures for long term financial stability
 - Restructuring of Income Security Systems to make Better harmony of their roles
 - Clarification of characteristics and role of basic old age pension
 - Efforts to make better adequacy of national pension
 - Providing adequate income by private pension schemes

Pension Reform Options and Assessments

- Principles of Pension Reform
 - Adequacy of Benefit
 - Adequacy of Burden and Equity between Generations
 - No excessive burdens to future generations
 - Consideration on Social Acceptance and Feasibility of Reforms
 - Abrupt change of the pension scheme will increase mistrust toward the scheme and harm social sustainability.
 - Size of accumulated fund should be considered with fund operation capability.

Pension Reform Options and Assessments

- Pension Reform Options and Assessments
 - Parametric National Pension Reform Measures
 - Raise of contribution rate of national pension ?
 - Raise of pensionable age ?
 - Introduction of automatic stabilizer ?
 - Brief Assessments
 - Difficult to raise contribute rate or pensionable age
 - Too early to introduce an automatic stabilizer
 - should satisfy strong needs for adequacy and alleviation of the elderly poverty

Pension Reform Options and Assessments

- Pension Reform Options and Assessments
 - Structural Pension Reform Options
 - Transformation of dual public pension systems of non-contributory basic pension and earnings related pension ?
 - Introduction of notional defined contribution scheme + minimum guarantee program ?
 - Brief Assessments of Structural Reform Options
 - Too much cost for basic pension, specifically in rapid ageing society
 - Too early to introduce NDC + minimum guarantee program
 - Difficult to secure social acceptance on radical change of pension schemes

Pension Reform Options and Assessments

- Prerequisites for Successful Reform
 - Regarding the effects:
 - alleviation of poverty
 - extension of coverage, adequacy of benefit
 - equity between strata and generations
 - financial and social sustainability
 - social acceptance
 - financial and managerial feasibility, etc.
 - Indispensable to make measure for better adequacy and wider coverage
 - Without adequate measures: It is difficult to secure social sustainability of the public pension scheme and to succeed pension reform



Thank You!