

# Public Pension Schemes in Korea

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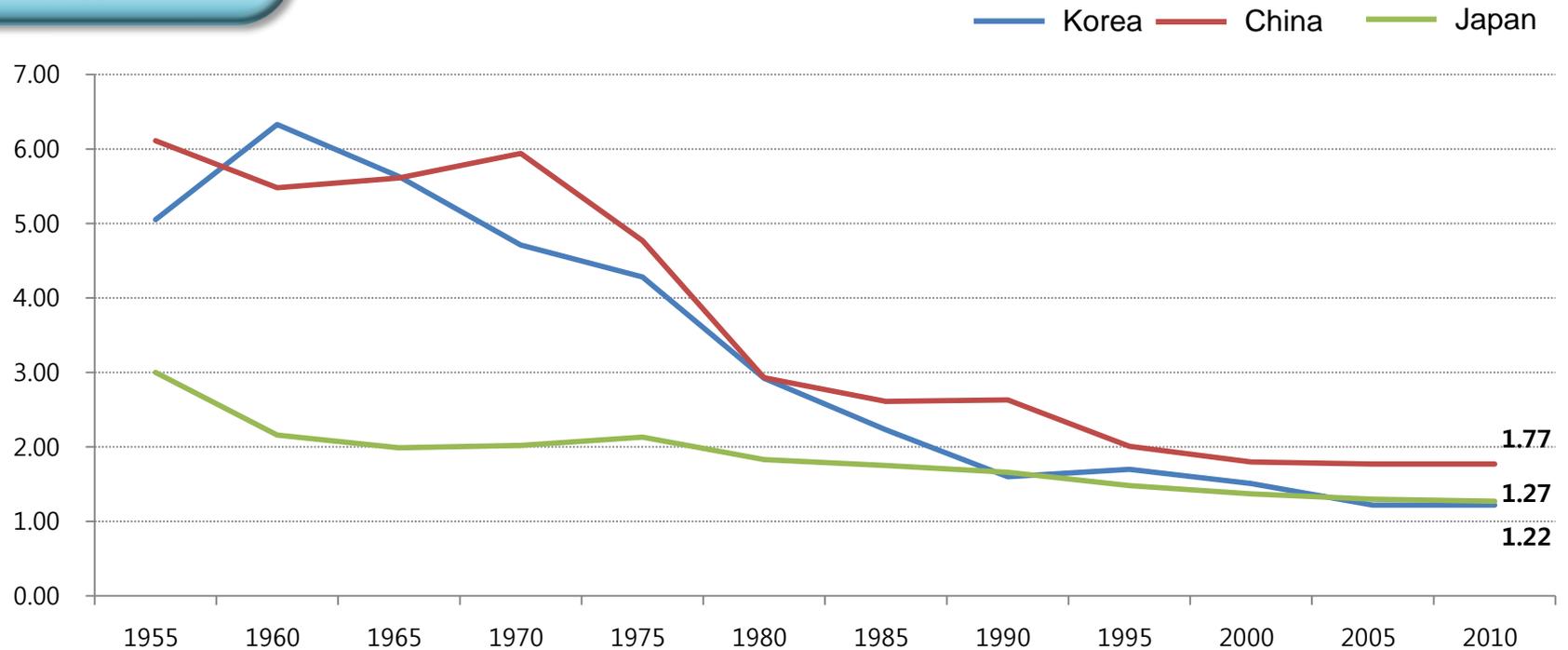
# 1. Introduction

# | Population Ageing

- **Korea has experienced ever-fast aging of its population along with low fertility rate & increasing life expectancy.**
- Total Fertility Rate(TFR) was 6 in 1960, but it dropped to 1.2 now. (Average TFR of OECD countries: 1.73 in 2009)
- Average Life expectancy has increased by 20 years over the last 40 yrs. (61.0 yr in 1970 to 82 yr in 2015)
- The era of Homo Hundred (life expectancy of 100 yr) is expected before the end of this century.

# Trends of Fertility and Life Expectancy

TFR



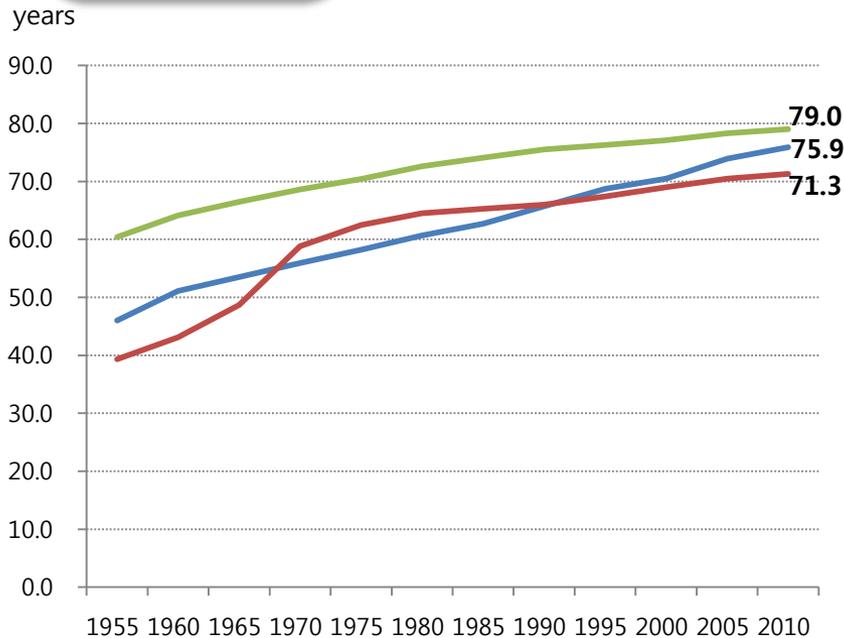
Source : UN, World Population Prospects

# Trends of Fertility and Life Expectancy (Cont')

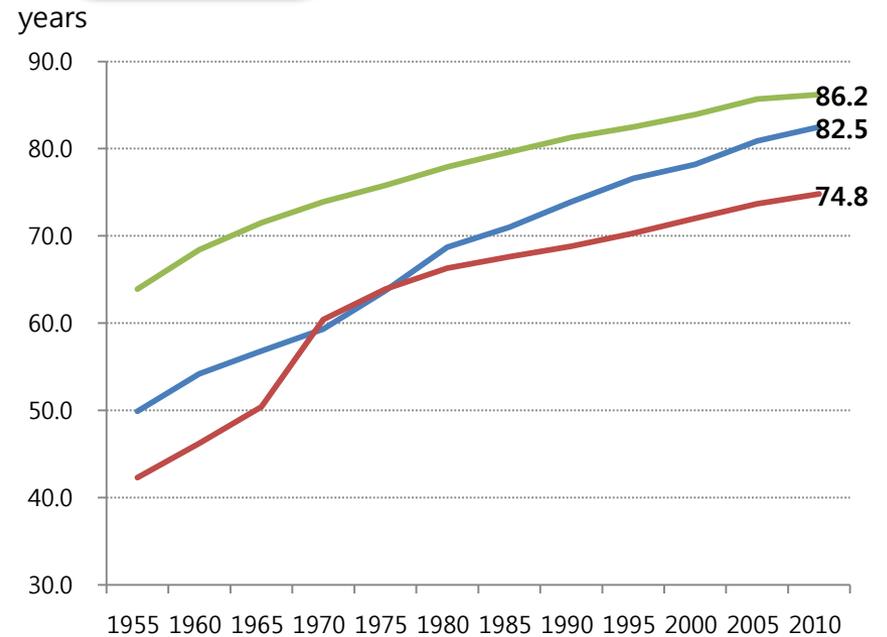
## Life Expectancy at Birth

— Korea — China — Japan

### Male



### Female

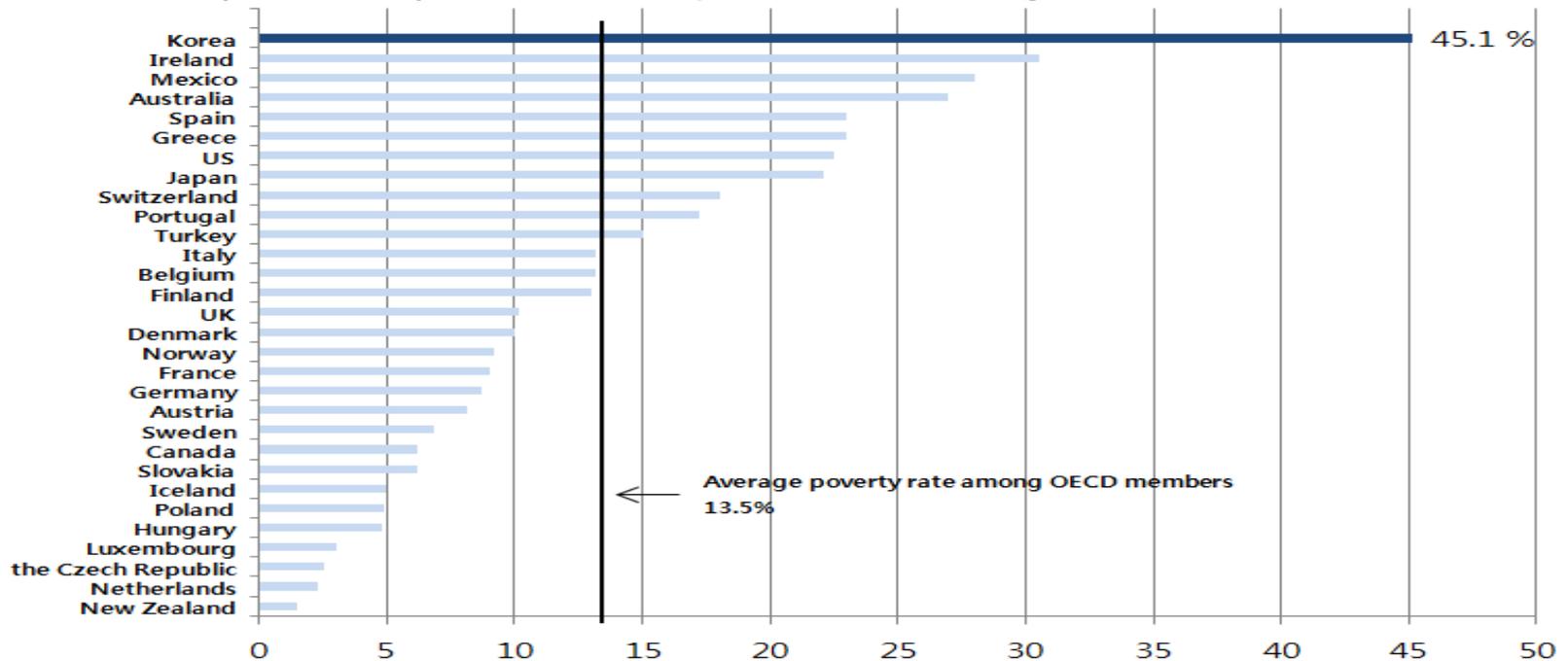


Source : UN, World Population Prospects

# Elderly Poverty Rate (in terms of Relative Poverty)

## □ Current Status of Elderly Poverty and Income Distribution

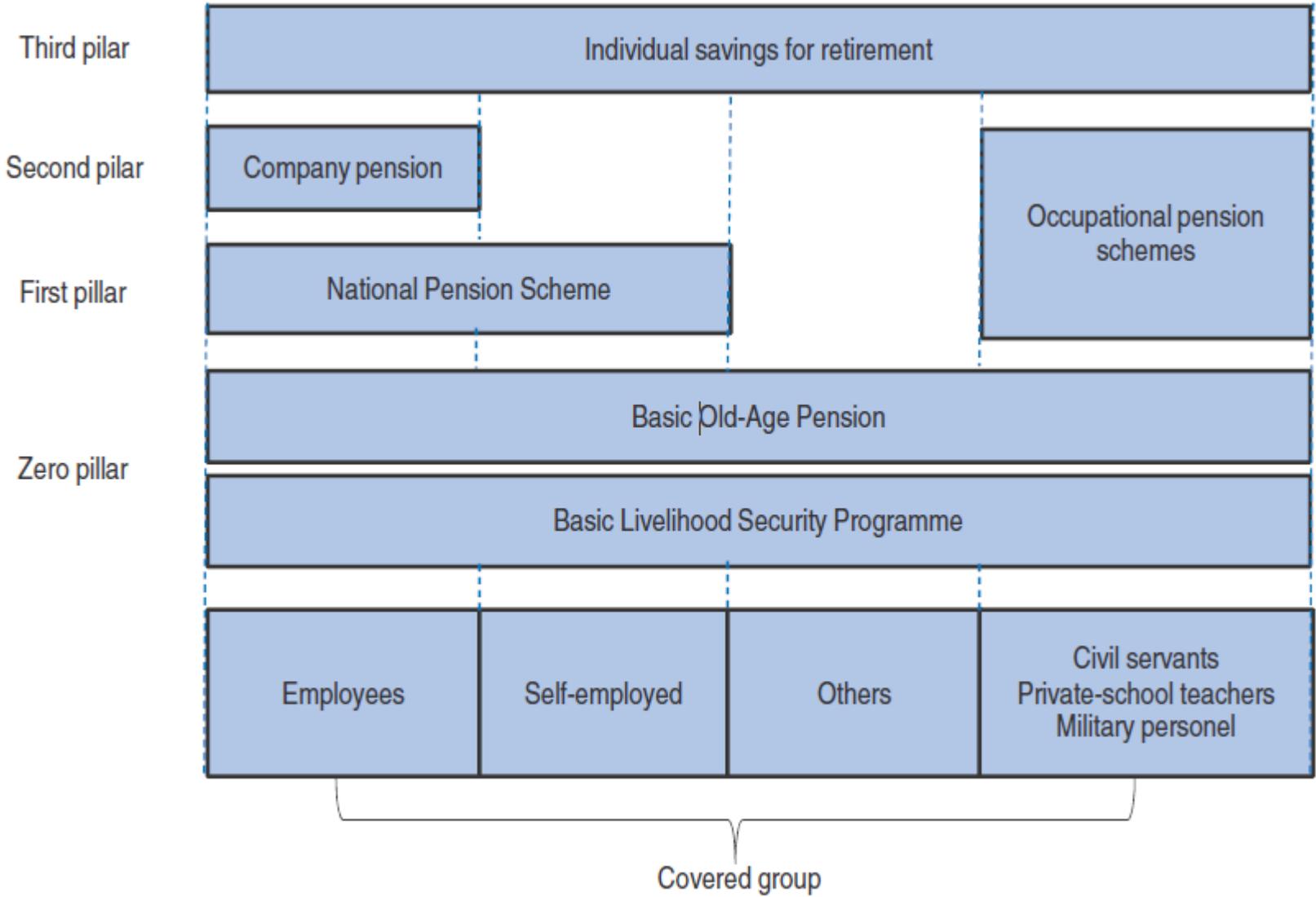
### ✓ Elderly Poverty Rate Comparison among OECD Members



Source : OECD, *Pension at a Glance*, 2011.

## 2. Public Pension Schemes

# Elderly income support system has Multiple pillars



# History of Pension Expansion in ROK

Year	Population Covered				
1960	Government Employees Pension				
1963	Government Employees Pension	Military Pension			
1975	Government Employees Pension	Military Pension	Teachers Pension		
1988	Government Employees Pension	Military Pension	Teachers Pension	National Pension (Ten or more employees)	
1999	Government Employees Pension	Military Pension	Teachers Pensions	National Pension (Ten or more employees)	National Pension (Self-employed)
2008	Basic old age Pension				
2015	→ Basic Pension				

# National Pension Scheme

- NPS was first introduced for workplaces employing more than ten people in 1988.
- NPS had a coverage expansion to farmers & fishers & to the self-employed in urban areas in 1999.
- Applied to all residents in Korea aged from 18 to 59 regardless of their income level.
- In 2015, total 21.6 million people were enrolled in NPS while about 4 million people (4.7M in 2012) were exempted from contribution.

# National Pension Scheme: Brief history

Jan. 1988

Implementation of the NPS for workplaces with 10 or more workers

Jan. 1992

Expansion of coverage to workplace with 5 or more workers

Jul. 1995

Expansion of coverage to rural self-employed, farmers and fishermen

Aug. 1995

Expansion of coverage to foreigners in workplaces

Apr. 1999

Expansion of coverage to urban self-employed including the employed in workplaces with less than 5 workers

- Requires 10 years of contributions to receive benefit.
  
- There were two reforms of NPS in 1998 & 2007.
  - With full 40 years of contributions, the Income Replacement Rate (IRR) is expected to be lowered to 40% by 2028 from 46% in 2016 currently, from 70% in 1988.
  - Pensionable age will increase from current 61 to 65 by 2033. (one year increase every five yrs starting 2013)

# The coverage of the NPS is low

Number of contributors



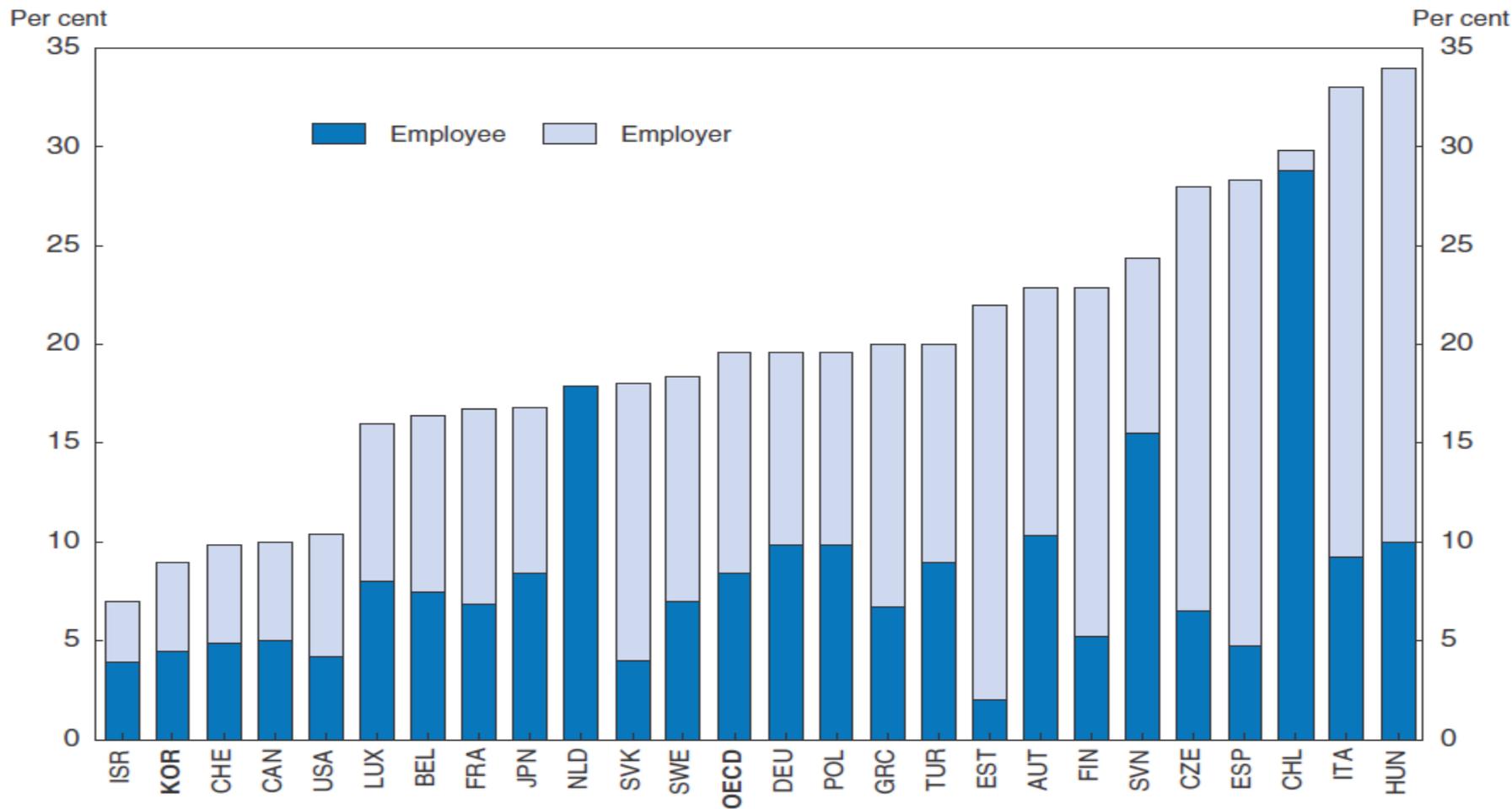
Source: National Pension Service and Statistics Korea.

# National Pension Enrollment (2013.12)

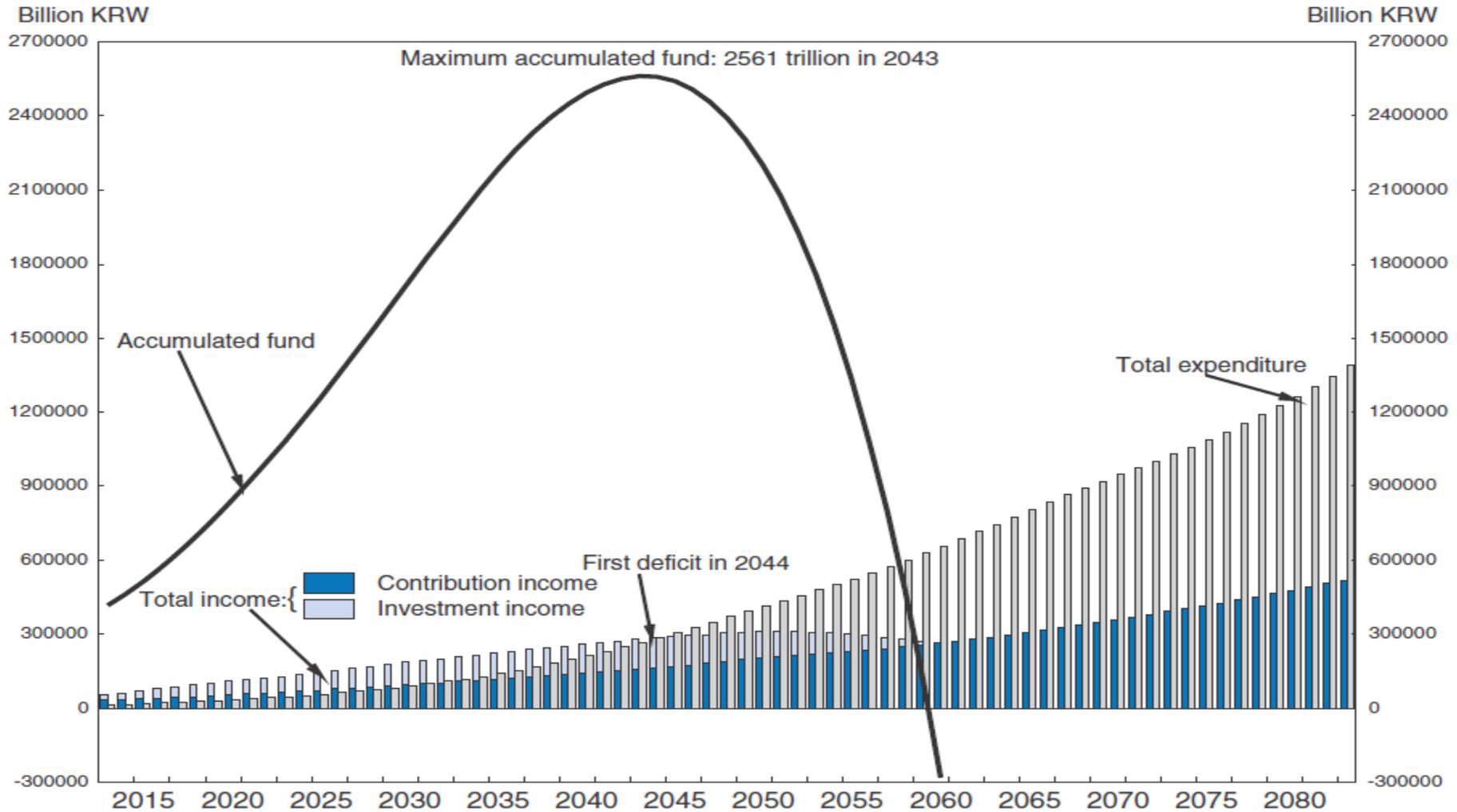
Total Population aged 18-59: 32,972 (100.0%)						
<b>Economically inactive population: 10,345</b>	Economically active population: 22,627					
	Population eligible for the public pension: 22,050					
	Population ineligible for the public pension: 577	Population eligible for the National Pension: 20,628				Special Occupational Pensions: 1,422
		Insured Persons exempted from contribution payments: 4,575	Potential contributors: 16,053			
			Long-term defaulters: 1,065	insured persons paying contribution: 14,988		
31.4%	1.7%	13.9%	3.2%	45.5%	4.3%	
<b>Subtotal: 16,562</b>				<b>Subtotal: 16,410</b>		

# International Comparison of Pension Cont' Rates

As a per cent of gross earnings in 2012<sup>1</sup>



# Long-term Actuarial Estimates of the NPS



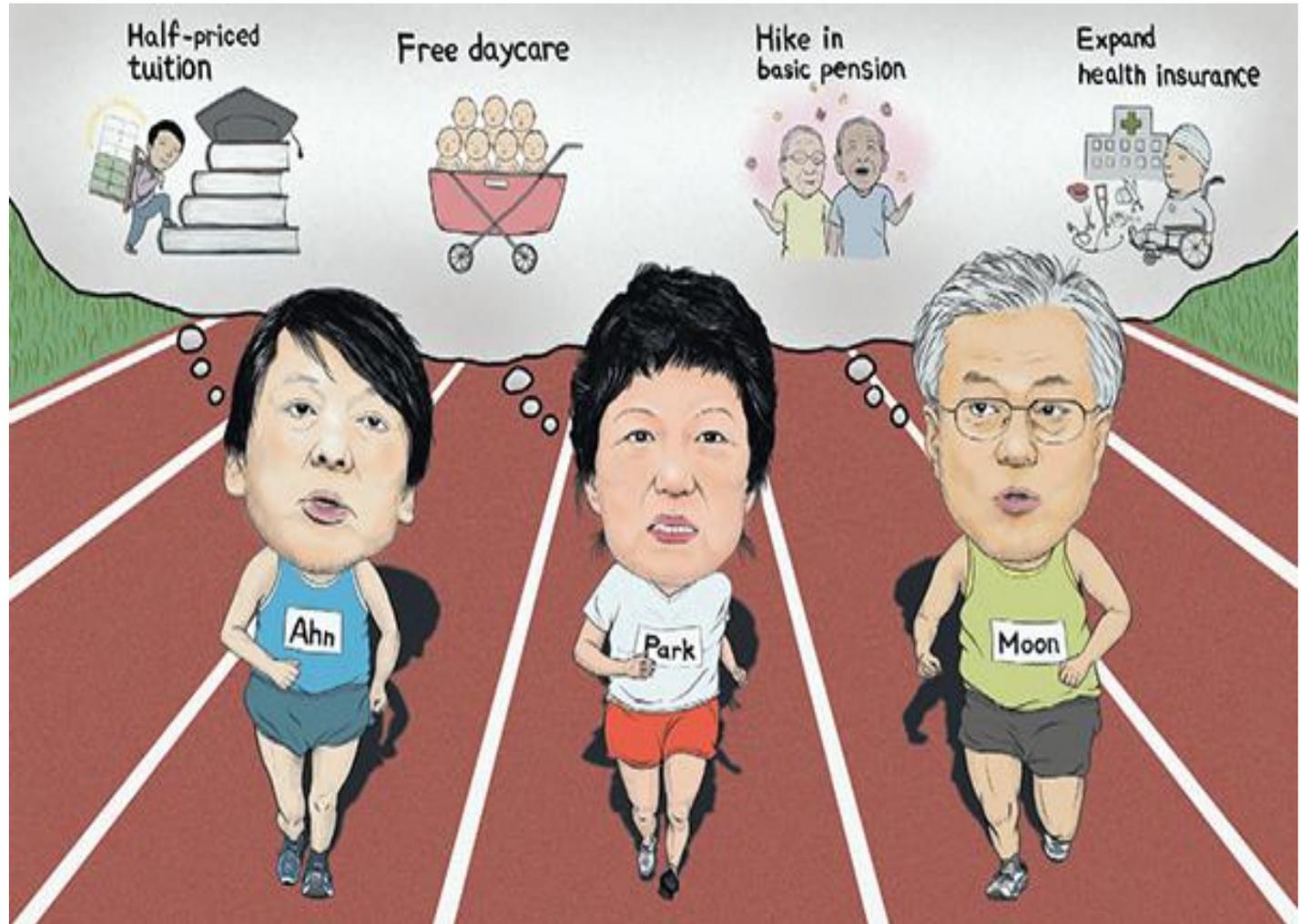
Source : The 3<sup>rd</sup> Actuarial Valuation of the NPS (2013)

### 3. Policy Implications

# Welfare race is on

**2012  
Presidential  
election  
has been  
dubbed “the  
welfare war”**

**as the  
candidates  
compete on  
expanded  
social  
welfare  
policies**



# Pension systems are a lot like elephant

Large, grey, popular with the public and very difficult to move.



**The Pension Reform is a never-ending story.**

# Triangle of Pension Policy Objectives

**universal coverage**

**Need to set policy  
Priority, considering  
socio-economic  
circumstances**

**It is almost impossible  
to attain all policy  
objectives by single  
pension scheme**

**adequacy of benefit**

**Sustainability**

# Poverty Rate of Korea: Revisit

(Unit, %)<sup>↵</sup>

↵	Households including the elderly <sup>↵</sup>		Households composed of <b>only the elderly</b> <sup>↵</sup>	
	Poverty rate <sup>↵</sup>		Poverty rate <sup>↵</sup>	
	2007 <sup>↵</sup>	2012 <sup>↵</sup>	2007 <sup>↵</sup>	2012 <sup>↵</sup>
Total <sup>↵</sup>	32.5 <sup>↵</sup>	34.3 <sup>↵</sup>	61.0 <sup>↵</sup>	<b>66.0<sup>↵</sup></b>
Aged 65-74 <sup>↵</sup>	41.4 <sup>↵</sup>	43.5 <sup>↵</sup>	57.7 <sup>↵</sup>	<b>60.9<sup>↵</sup></b>
Aged 65 and above <sup>↵</sup>	43.6 <sup>↵</sup>	47.2 <sup>↵</sup>	61.0 <sup>↵</sup>	<b>66.0<sup>↵</sup></b>
Aged 75 and above <sup>↵</sup>	48.6 <sup>↵</sup>	54.0 <sup>↵</sup>	67.6 <sup>↵</sup>	<b>74.7<sup>↵</sup></b>
↵	Total household <sup>↵</sup>			
	2007 <sup>↵</sup>		2012 <sup>↵</sup>	
	Poverty rate <sup>↵</sup>	Extreme Poverty rate <sup>↵</sup>	Poverty rate <sup>↵</sup>	Extreme poverty rate <sup>↵</sup>
↵	14.8 <sup>↵</sup>	4.4 <sup>↵</sup>	14.6 <sup>↵</sup>	4.6 <sup>↵</sup>

Poverty's among Korea's elderly **has been aggravated** since the implementation of BOAP

Source : Yun (2013)

# Policy Implications for addressing elderly Poverty

Poverty & income inequality are **much higher among the elderly** than the working age population

Given the budget constraint, would require **narrowing the coverage of Basic Pension**

- to provide larger benefits to the elderly below the minimum cost of living
- in line with its stated goal of aiding the “financially distressed” (Yun, 2013), so that can escape absolute poverty

**Narrowing the Basic Pension’s coverage and increasing its benefit would be appropriate.**

Source : Yun (2013) & OECD (2014)

# Ensuring the Sustainability of Public Pensions

The best option is to raise more revenue.

- relying general tax revenue to finance pensions **would not be appropriate** in Korea.
  - \* only 41% of the elderly will receive an NPS pension in 2020.
- Relying on general tax revenue to fund NPS would transfer income **from low-income persons to high-income persons.**

The priority is to raise the NPS contribution rate.

- has been set at 9% since 1998
- **the 2<sup>nd</sup> lowest** in OECD area
- **well below the OECD average of 19.6%.**

Source : Yun (2013) & OECD (2014)

# *Duru Nuri* Social Insurance Program

The name, "*Duru Nuri* Social Insurance Program", means that the insurance premium subsidy program will enable the entire nation to widely enjoy the benefits for social insurance. To reduce gaps in coverage, government subsidizes 50% of insurance premiums borne by employers and workers of National pension scheme and unemployment insurance.

Selection criteria of subsidy program is both small workplaces hiring less than 10 employees and low-paid workers below 1.4 million KRW (Monthly earning).

## *"Duru Nuri"* Social Insurance Support Program

### **Policy Effects of *Duru Nuri* Support Program :**

From the start of the project,  
new subscriber to the insurance (both National Pension  
and Employment Insurance) increased to **2.85 million**  
persons (1.28 million from National Pension, and 1.57  
million from Employment Insurance) as of March 2014.