

KOREA



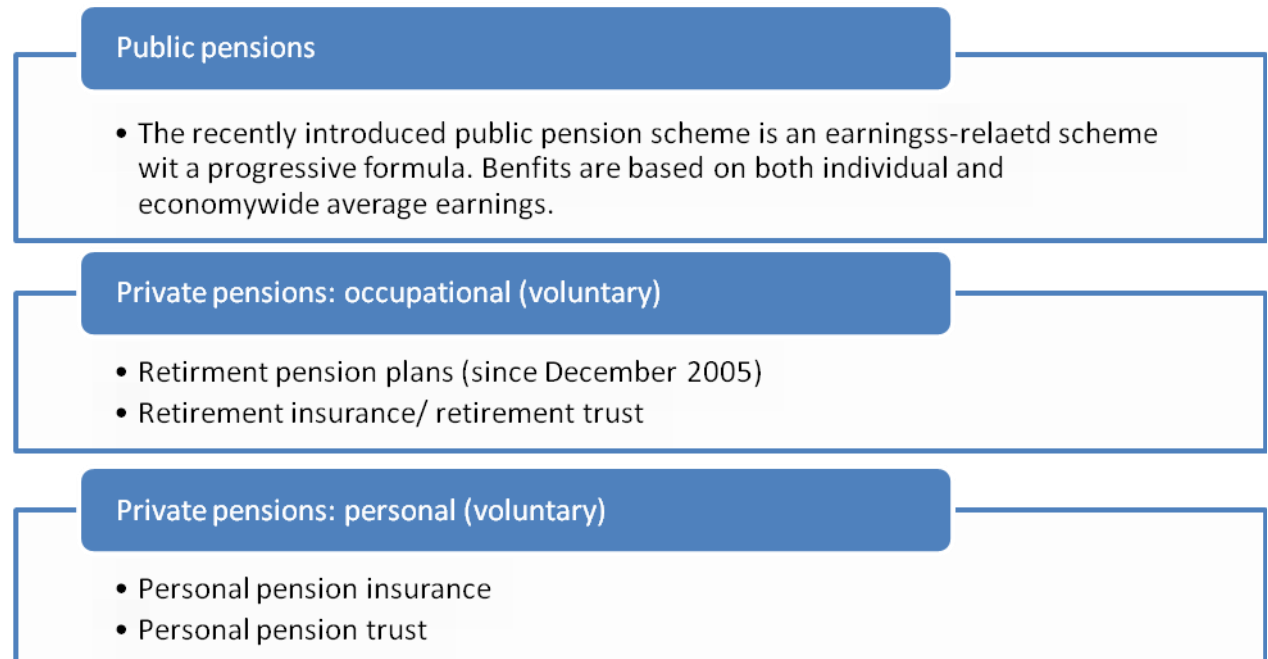
DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (EUR bn)	1 023 937
GDP per capita (USD)	19 115
Population (000s)	48 607
Labour force (000s)	24 216
Employment rate	97.36
Population over 65 (%)	10.3
Dependency ratio ¹	20.7

Data from 2008 or latest available year.
 1. Ratio of over 65-year-olds the labour force.
 Source: OECD

COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM



Source: OECD Global Pension Statistic.

PENSION FUNDS DATA OVERVIEW

	2001	2002	2003	2004	2005	2006	2007	2008
Assets								
Total investments (National currency millions)	ND	42,743,624	47,626,903	53,623,756	59,345,092	65,691,486	71,350,903	78,508,318
Total investments, as a % of GDP	ND	5.93	6.21	6.48	6.86	7.23	7.32	7.67
Of which Assets overseas, as a % of Total investment:								
• Issued by entities located abroad	ND	3.54	2.96	2.88	2.94	2.78	3.20	2.07
• Issued in foreign currencies	ND	0.01	0.00	0.01	0.06	0.04	0.01	0.00
By financing vehicle (as a % of Total investments)								
• Pension funds	ND	24.70	24.72	24.59	25.29	38.58	38.80	38.97
• Book reserves	NA	NA	NA	NA	NA	NA	NA	NA
• Pension insurance contracts	ND	75.30	75.28	75.41	74.71	44.37	44.76	46.19
• Other financing vehicle	ND	ND	ND	ND	ND	17.06	16.44	14.84
By pension plan type								
• Occupational assets	ND	15,909,853	17,356,275	20,619,927	23,212,332	24,584,622	24,929,583	30,593,454
• % of DB assets	ND	100.00	100.00	100.00	100.00	100.00	100.00	93.36
• % of DC (protected and unprotected) assets	ND	0.00	0.00	0.00	0.00	0.00	0.00	6.64
• Personal assets	ND	26,833,771	30,270,628	33,003,829	36,132,761	40,350,110	43,666,278	47,914,864
Structure of Assets (as a % of Total investments)								
Cash and Deposits	ND	4.06	4.51	4.20	4.64	7.23	9.72	17.90
Fixed Income	ND	65.94	67.17	65.42	65.28	63.74	58.09	51.27
Of which:								
• Bills and Bonds issued by the public and private sector	ND	65.94	67.17	65.42	65.28	63.74	58.09	51.27
• Loans	ND	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares	ND	1.60	2.35	1.92	2.47	2.39	2.45	2.46
Land and Buildings	ND	2.08	1.84	1.58	1.46	1.40	1.38	1.00
Other Investments	ND	26.32	24.12	26.88	26.14	25.23	28.36	27.36
Contributions and Benefits								
Total Contributions, as a % of GDP	ND	1.53	1.34	1.12	1.23	2.15	1.57	0.89
• Employer Contributions, as a % of Total contributions	ND	52.88	47.25	52.87	57.41	73.15	48.67	0.00
• Employee Contributions, as a % of Total contributions	ND	47.12	52.75	47.13	42.59	26.85	51.33	100.00
Total Benefits, as a % of GDP	ND	0.90	0.92	0.57	0.72	0.85	0.92	0.77
• % of benefits paid as a Lump sum	ND	ND	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Pension	ND	ND	ND	ND	ND	ND	ND	ND
Membership (in thousands of persons)¹								
Total membership	ND	6,054	5,919	6,470	11,335	7,661	7,931	9,442
• % of Active membership	ND	ND	ND	ND	ND	ND	ND	ND
Of which: % of Deferred membership	ND	ND	ND	ND	ND	ND	ND	ND
• % of Passive membership	ND	ND	ND	ND	ND	ND	ND	ND
Other beneficiaries	ND	ND	ND	ND	ND	ND	ND	ND
Number of Pension Funds/Plans								
Total number of funds	ND	358	441	441	482	ND	ND	ND
Total number of plans	ND	ND	ND	ND	ND	ND	ND	ND

1. Membership figures reflect 'membership' rather than 'people'. Therefore a person may be a member of more than one types of plan at any one time, particularly if the person has a number of employments in the year.

ND = data not available

NA = data not applicable

Source: OECD, Global Pension Statistics

KOREA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The National Pension System (NPS) established in 1988 was a partially funded system with contributions from workers and employees (4.5% of salary each), providing mandatory social insurance coverage through old-age, disability and survivor pensions, as well as sickness and maternity benefits. The pension benefit consists of two parts, the basic and the earnings-related part, which is progressive and applies an average accrual rate of 1.5% over a 40 year contribution period, thus generating a target replacement rate of 60%. Benefits are paid mostly in the form of an annuity, which is indexed to prices, with the full pension available aged 60 (rising to 65 by 2033). The Scheme initially covered all workers in firms with 10 employees or more, though was expanded for firms with over 5 workers from 1992. From 1995 coverage for fisherman, farmers and the rural self-employed was introduced and finally the urban self-employed were included in 1999. The NPS is not a *universal* scheme as many self-employed and low income, temporary and daily workers remain outside the pension system. The coverage rate was 50% of the labour force as of 2005. Civil servants participate in a special pension system financed by the government.

OCCUPATIONAL MANDATORY

Contributions

Contributions are made solely by employers at the rate of 8.3%. In 1997 the SPS was reformed to allow assets to be administered either by companies in-house (*i.e.* book reserves) or, externally, by insurance firms (retirement insurance) and banks and asset management companies (retirement trust).

Benefits

Under book reserve schemes, employees who have completed one year of continuous employment are entitled to benefits equal to one month's pay for every full year of employment, calculated on their final three monthly salaries. Under retirement insurance and retirement trust arrangements, benefits are based on defined contributions (DCs). Benefits are payable as a lump sum or annuities.

Taxation

Employers may qualify for tax relief of up to 40% of their reserve liability set aside internally, and for 100% of their external reserve liabilities placed in retirement insurance companies or trusts. The investment returns are tax-exempt, while benefits are liable to taxation.

OCCUPATIONAL VOLUNTARY

Coverage

All sponsors currently participating in the old severance pay system are entitled, but not required, to switch to the new system. Unlike the SPS, the new system will also cover those enterprises with less than five employees from 2010.

Contributions

IOPS Country Profiles – KOREA, December 2009

The new legislation does not specify details regarding employer contributions to DB plans. For DC schemes, however, minimum contributions from employers are equal to one-twelfth of the annual payroll, with additional contributions from employees being allowed.

Benefits

Under the new pension system, benefits in an individual's retirement account will continue to vest even if he or she changes employer. Benefits are paid in the form of annuities or a lump sum if an employee retires at age 55 and has at least ten years of service. If an employee does not meet these two requirements, the accrued benefits must be transferred to an individual retirement account (IRA). At the same time, the 2005 pension law specifies a minimum benefit equal to the average monthly salary (AMS) for each year of service.

Taxation

The new tax law became effective on 1 January 2006. It raised the cap on employee benefit tax relief from KRW 2.4 million to KRW 3 million, and on tax-deductible annuities from KRW 6 million to KRW 9 million per year.

PERSONAL VOLUNTARY

Coverage

Voluntary personal pension arrangements have been available in Korea since June 1994 in the form of IRAs.

Contributions

No limit.

Benefits

Fully funded

Taxation

In 2006 the ceiling on tax-exempt contributions was raised from KRW 2.4 million per annum to KRW 3 million.

MARKET INFORMATION

Occupational mandatory

In 2007 retirement insurance and retirement trust arrangements managed KRW 24.9 trillion (USD 26.8 million). Participants in these arrangements numbered 4.3 million in total.

Occupational voluntary

In December 2007, participants numbered 481 000 in total. KRW 2.8 trillion (USD 2.9 billion) were managed under the new pension system.

Personal voluntary

In December 2007 the total number of participants was 3.6 million, and total assets within the voluntary personal pension system were KRW 43.7 trillion (USD 47.0 billion).

POTENTIAL REFORM

- Reform on the NPS: increase in contribution rate, and decrease in replacement rate
- Reform on the SPS: contracted out to the new occupational pensions
- More (globally) diversified NPS investment

REFERENCE INFORMATION

KEY LEGISLATION

2005: the Employee Retirement Benefit Security Act (ERBSA) sets out the principles and guidelines for establishing and managing occupational pension plans.

1999: the Act Establishing Financial Supervisory Organisations creates the Financial Supervisory Service.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

The Ministry of Labour;

www.molab.go.kr/.

Ministry of Finance & Economy;

<http://english.mofe.go.kr/>.

Financial Supervisory Service;

<http://english.fss.or.kr/fsseng/index.jsp>.

KEY OFFICIAL STATISTICAL REFERENCE AND SOURCES ON PRIVATE PENSIONS

Financial Supervisory Service, <http://english.fss.or.kr/fsseng/index.jsp>.

OECD, Global Pension Statistics project, www.oecd.org/daf/pensions/gps.

OECD Est. Gross Replacement Rate Mandatory Pensions, Average Earner 2009

