

# IOPS COUNTRY PROFILE: KOREA



Source map: the Ministry of Foreign Affairs of the Republic of Korea

## DEMOGRAPHICS AND MACROECONOMIC

Nominal GDP (Million USD)	<b>1,411,000</b>
GDP per capita (USD)	<b>27,533</b>
Population (000s)	<b>49,855</b>
Labour force (000s)	<b>27,035</b>
Employment rate	<b>60.1</b>
Population over 65 (%)	<b>13.6</b>
Dependency ratio <sup>1</sup>	<b>25.0</b>

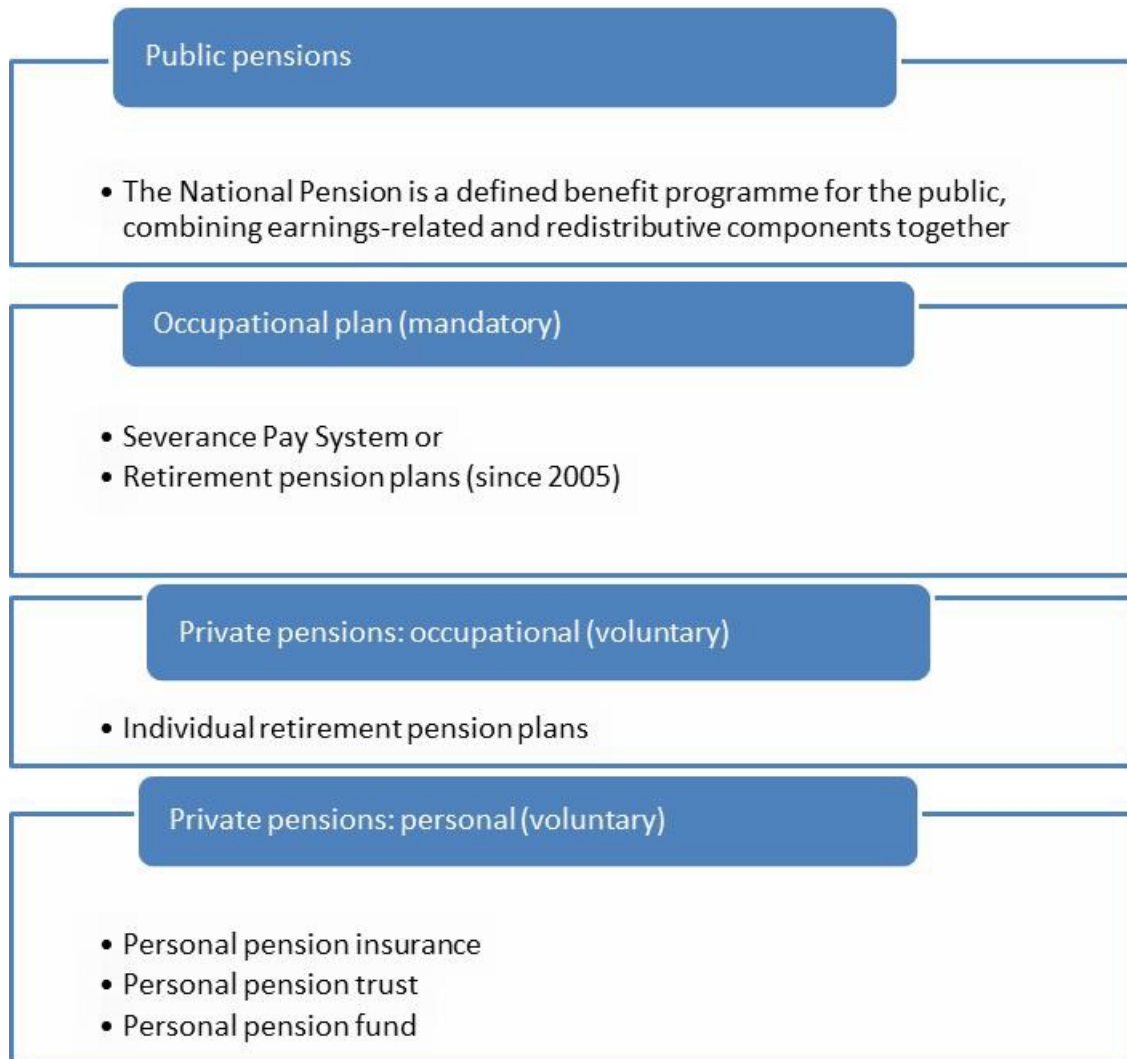
Data from 2016 or latest available year.

1. Ratio of over 65-year-olds the labour force.

Source: Bank of Korea, Statistics Korea

## COUNTRY PENSION DESIGN

### STRUCTURE OF THE PENSION SYSTEM



Source: National Pension Service (NPS).

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## 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 PLANS

#### SEVERANCE PAY SYSTEM

##### *Contributions*

Contributions are made solely by employers at the rate of 8.3%. In 1997 the Severance Pay System (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.

## RETIREMENT PENSION PLANS

### Coverage

All sponsors currently participating in the old severance pay system are entitled, but not required, to switch to the retirement pension plans.

### Contributions

For DC schemes, minimum contributions from employers are equal to one-twelfth of the annual payroll, with additional contributions from employees being allowed.

Individual Retirement Pension (IRP) plans: In the case of business ordinarily employing less than ten (10) workers and establishing an individual retirement plan for an individual worker, the employer shall pay in cash contributions amounting to on twelfth or more of the total annual wages of each pension holder into individual retirement pension plan account of the pension holder.

Act on the Guarantee of Workers' Retirement Benefits specifies the minimum contributions from employers for DB schemes as follows:

In order to secure the ability to pay benefits, an employer who has established a defined benefit plan shall reserve at the end of each business year an amount which is not less than the amount obtained by multiplying the larger of the following amounts by the rate prescribed by Presidential Decree, which is not less than 80/100 (hereinafter referred to as "minimum reserve"):

1. The amount calculated by the method prescribed by Ordinance of the Ministry of Employment and Labor, which is obtained by deducting the present value of the estimated revenues accruing from contributions for the future period of service from the present value of the estimated expenses incurred in paying benefits for the contribution period until the estimated time of retirement;
2. The amount calculated by the method prescribed by Ordinance of the Ministry of Employment and Labor, using the estimated expenses incurred in paying benefits for the contribution period until the last day of the business year concerned of a person who is or was a participant.

### Benefits

Workers whose consecutive service period is one year or more and workers whose average weekly working hours over a four-week period is 15 hours or more can be affiliated to the retirement pension plans. If pension holders choose to receive annuities, the annuities should be paid to persons aged 55 and above, whose contribution period is ten years or more. In such cases, the payment period shall be five years or more. Lump-sum benefits shall be paid to pension holders who fail to meet the eligibility requirements to receive annuities or want to receive lump-sum benefits.

### Taxation

#### Taxation of employee contributions

**Defined contribution and Individual Retirement Plans (IRP plans):** provides a tax credit for employee contributions up to a yearly ceiling of KRW 7,000,000 at the rate of 13.2%;

income tax up to an annual limit of KRW 924,000 can be deducted. The employee contributions covered by the tax credit and the investment income are taxed when the employee receives retirement benefits.

### **Taxation of employer contributions**

**All plans:** Employer contributions are recognized as expenses. In the case of defined benefit plans, the internally reserved amount is recognized as expenses up to the certain limit given by the Corporate Tax Act.

## **PERSONAL VOLUNTARY**

### *Coverage*

Voluntary personal pension arrangements have been available in Korea since June 1994.

### *Contributions*

No limit.

### *Benefits*

Fully funded.

### *Taxation*

**Personal pension savings** provides a tax credit for employee contributions up to a yearly ceiling of KRW 4,000,000 at the rate of 13.2%; income tax up to an annual limit of KRW 528,000 can be deducted. The employee contributions covered by the tax credit and the investment income are taxed when the employee receives retirement benefits.

## **MARKET INFORMATION**

### *Occupational plans*

In 2016 retirement insurance and retirement trust arrangements managed KRW 985.3 billion.

In December 2016, KRW 147.0 trillion were managed under the retirement pension plans.

### *Personal voluntary*

In December 2016, total assets within the voluntary personal pension system were KRW 310.3 trillion.

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## **REFERENCE INFORMATION**

## **KEY LEGISLATION**

2017: Amended Enforcement Decree of the Employee Retirement Benefit Security Act

extend the scope of people eligible to set up an Individual Retirement Plan (IRP) account to self-employed people, workers with less than one year's length of service, part-time workers, workers currently in employment who received lump-sum retirement benefits and those covered by an occupational pension plan, such as public officials and members of the armed forces.

2012: Amended Regulations on Supervision of Retirement Pension Plan improved the regulation of asset management and strengthened disclosures of pension service providers.

2012: Amended Employee Retirement Benefit Security Act expanded the application scope of the Individual Retirement Pension (IRP) plans, increased the protection of pension holders' rights by, for example, introducing penalty interest on unpaid employer contributions and strengthened the government's supervision of pension service provider.

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/](http://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](http://www.oecd.org/daf/pensions/gps).