

**“Aging Asia” at Stanford University**



# **Old-age Pension Reform in Korea**

**February 26, 2009**

**Byongho Tchoe**

**Korea Institute for Health and Social Affairs**

**Stanford University**

# Objective

**Assess the reform of old-age public pensions for a decade (1996-2008) in Korea**

**\* Sustainability**

**Old-age income protection**

**Inequity (intergenerational, inter-occupational)**

**Pension politics**

**Challenges and Future Development**



# Pension System

- 1960** Gov. employees/ Military personnel Pension
- 1961** Retirement Lumpsum for workers
- 1963** Industrial accident insurance
- 1975** Teachers Pension
- 1977** National Health Insurance – 1998 Universal care
- 1988** National Pension – 1999 Universal pension
- 1995** Unemployment insurance
- 2005** Retirement pension for wage earners(optional)
- 2008** Long-term care insurance



# Pension Crisis

**World fastest aging :**

**65+ : 1970 3.1%, '09 10.7%, '20 15.6%, '50 38.2%**

**World lowest fertility rate :**

**1970 4.53 -- 2000 1.47 -- 2005 1.08**

**Economic growth downturn :**

**1970-80s near 10% -- 1990s 7%**

**after 1998, under 5% to 2-3%**



# Pension Crisis

**1973 Military pension deficit**

**1998 Gov. employee pension deficit**

**2001 Teachers pension deficit**

**2036 National pension deficit (balance zero in 2047)**

**\* Gov. pen deficit subs.(% GDP): 0.17%('09)–2.30%('60)**

**Rapidly growing public pensions liability (% of GDP)**

**2000 47% -- 2010 60% -- 2030 151% -- 2050 240%**



# Pension Reform

**During 1960-1999, Pensions expanded and extended,**

**Pensions for elites (Gov., Military, Teacher) expanded, thanks to econ. Growth (1970-80)**

- \* max. replace rate: from 70% to 76%**
- \* additional retirement lumpsum**
- \* survivor's pension: from 50% to 70%**

**National Pension for workers(1988), rural residents (1995), and urban residents(1999) were extended.**



# Pension Reform

**Since 1998 Econ Crisis, Pension Reforms spurred.**

## **National Pension Reform**

- 1999**      **Replacement rate reduced 70% to 60%**  
**Pensionable age extend 60 to 65 by 2033**
  
- 2007**      **Replacement rate reduced 60% to 50%**  
**, and 40% by 2028**



# Pension Reform

## Gov., Military, Teachers Pension Reform

**1996 Pensionable age 60 for new entry**

**2000 Shift sliding scale from wage to CPI  
Pensionable age extend for existents**

**2008 (Proposal)**  
**Base income from final 3 yrs to working-life**  
**9% cut for new entry**  
**1-8% cut for them less than 10 years of service**



# Pension vs. Health Care Reform

## \* National Pension Reform:

**80%(1973) -- 70%(1988) – 60%(1999) – 50%(2007)  
-- 40%(2028)**

## \* Health Care Benefits Coverage to be expanded:

**33%(1995) – 44%(1998) – 54%(2001) – 55%(2006)**



# Sustainability

**National Pension is still not sustainable for long-term.**

- \* Deficit in 2044, and balance zero in 2060**
- \* Pension liability(% GDP): 150%(2030) – 170%(2040) – 180%(2060)**

**Gov. employees pension still needs a huge subsidy.**

- \* Subsidy(%GDP): 0.12%(2009) – 0.84%(2060)**

**Because of parametric reform, not structural, in nature**



# Old-age Income Protection

**Public pensions are limited to only a fraction of retirees, and National Pension's benefit remains very low.**

**\* Gini index : 0.587 for income; 0.710 for assest  
(Households with age 50 and over)**

	<b>Partly Retired</b>	<b>Retired</b>
<b>National pension recipients</b>	<b>12% (US\$ 203)</b>	<b>20% (US\$ 325)</b>
<b>Pub. Occupational pension recipients</b>	<b>7% (US\$ 1256)</b>	<b>16% (US\$ 1358)</b>



# Inequity

## Intergenerational inequity :

\* Break-even contribution rate is 13.1%(2040)–  
17.7%(2050) – 23.2%(2070)

\* Pension liability(% GDP): 150%(2030) –  
170%(2040) – 180%(2060)

## Inequity between pub. employees and wage-workers: .

Ratio of benefit/contribution deteriorates from  
1.4 times(2007) to 1.5-1.9 times(2009)



# Politics of Pension Reform

- **Conflict between Conservative vs. Progressive Party**
- **However, reform drive is attenuated during presidential election campaign**
- **Labor union, NGOs, and social welfare professors have an alliance to impede reform**
- **Vested interest groups (pension recipients) are growing.**
  - \* **Public occupational pensions formed already strong vested interest groups.**



# Challenges and Future

- **Sustainability vs. Income security**
- **Predictable aging crisis vs. Uncertain future productivity/ technology**
- **“Healthy aging” to extend pensionable age**
- **“Healthy financial market” to secure pension fund**
- **Concerted action of pension policy with health care, labor, welfare, and financial policy needed.**

