

Introduction to the South Korean Pension System: History, Current State and Challenges

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Internal Seminar, Finnish Centre for Pensions | Helsinki, 4 October 2023



Finnish Centre for Pensions
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Social and Economic Backgrounds

- Republic of Korea (South Korea): founded in 1948, Korean War (1950-53)
- ‘Four Asian Tigers’: over 10% annual growth from the 1960s to 90s
- 30 years dictatorship -> democratized in 1987
- ‘Developmental State’ – government led economic development & welfare state expansion (role of civil servants)
- GDP (2023): \$1,720 billion (12th), per capita \$32,138
- Population about 50 million, highly urbanized (92%), Seoul 10 million
- World’s Fastest Ageing Society: elderly population 17%, life expectancy 83, fertility rate 0.78



Old-Age Pensions: A Multi-Tier System

1st Tier, Public Pillar (Poverty Alleviation)

- **Basic Pension** (means-tested, lower 70%)
- National Basic Livelihood Security (Social Assistance)

2nd Tier, Public Pillar (Income Maintenance)

- **National Pension Scheme (quasi-universal)**
- Special Occupational Pensions (Military, Civil Servants, Teachers)

3rd Tier, Occupational & Private Pillar (Top up)

- Retirement Pensions or Lump-sum Payment (52% of employees)
- Individual Pensions (about 15% of working-age registered)



Historical Path of Pension System

- A Bismarckian Process: began as a compensation for 'core' workers
- 1963 Public Officials Pension Act & Military Personnel Pension Act, 1975 Teacher's Pension Plan
 - President Park (dictatorship): created privileged groups in exchange for loyalty
- 1973 National Pension Service Act – implementation postponed (Oil Crisis)
- 1989 National Pension Scheme commenced, expanded steadily
- 1999 National Pension reaches universal coverage
- 2007 Basic Old-Age Pension → 2014 Basic Pension
- Private sector: 1961 mandatory retirement benefits (but not pensions) → 2005 Retirement Pension Act



National Pension Scheme

- The largest public pension scheme (earnings-related)
- Eligible from age 63, will reach 65 from 2035
- Contribution rate: 9% (4.5% from employer)
- Income replacement rate 40% of lifetime average salary
 - 40 years of contribution assumed, minimum 10 years required
 - Redistributive component exists
- Overall low-burden low-benefit structure
- Financing: partially funded & pay-as-you-go scheme
 - Total contribution > benefit → large-scale reserve fund has been accrued
 - National Pension Fund: expected depletion by 2057, afterwards pay-as-you-go

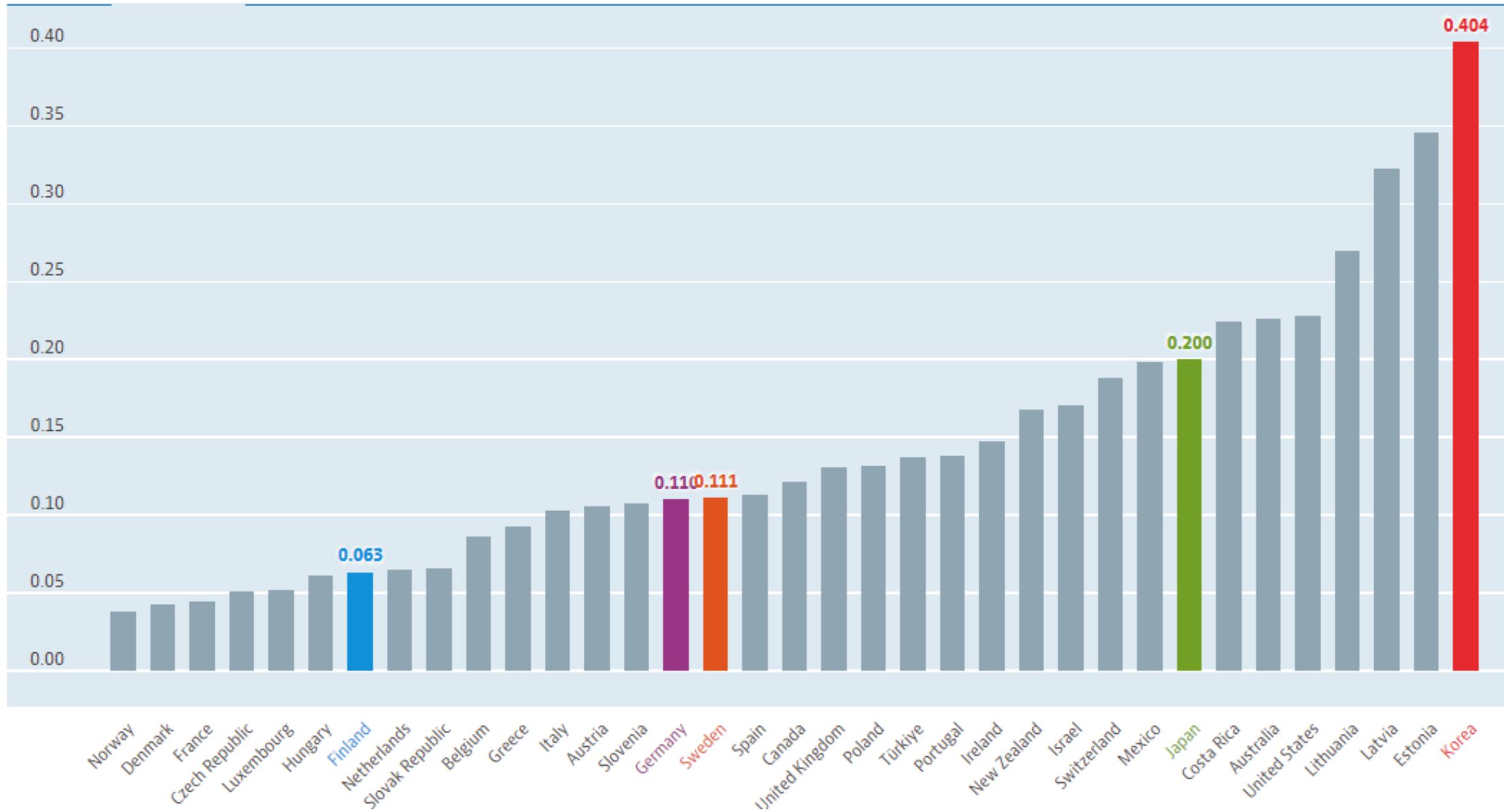


Basic Pension

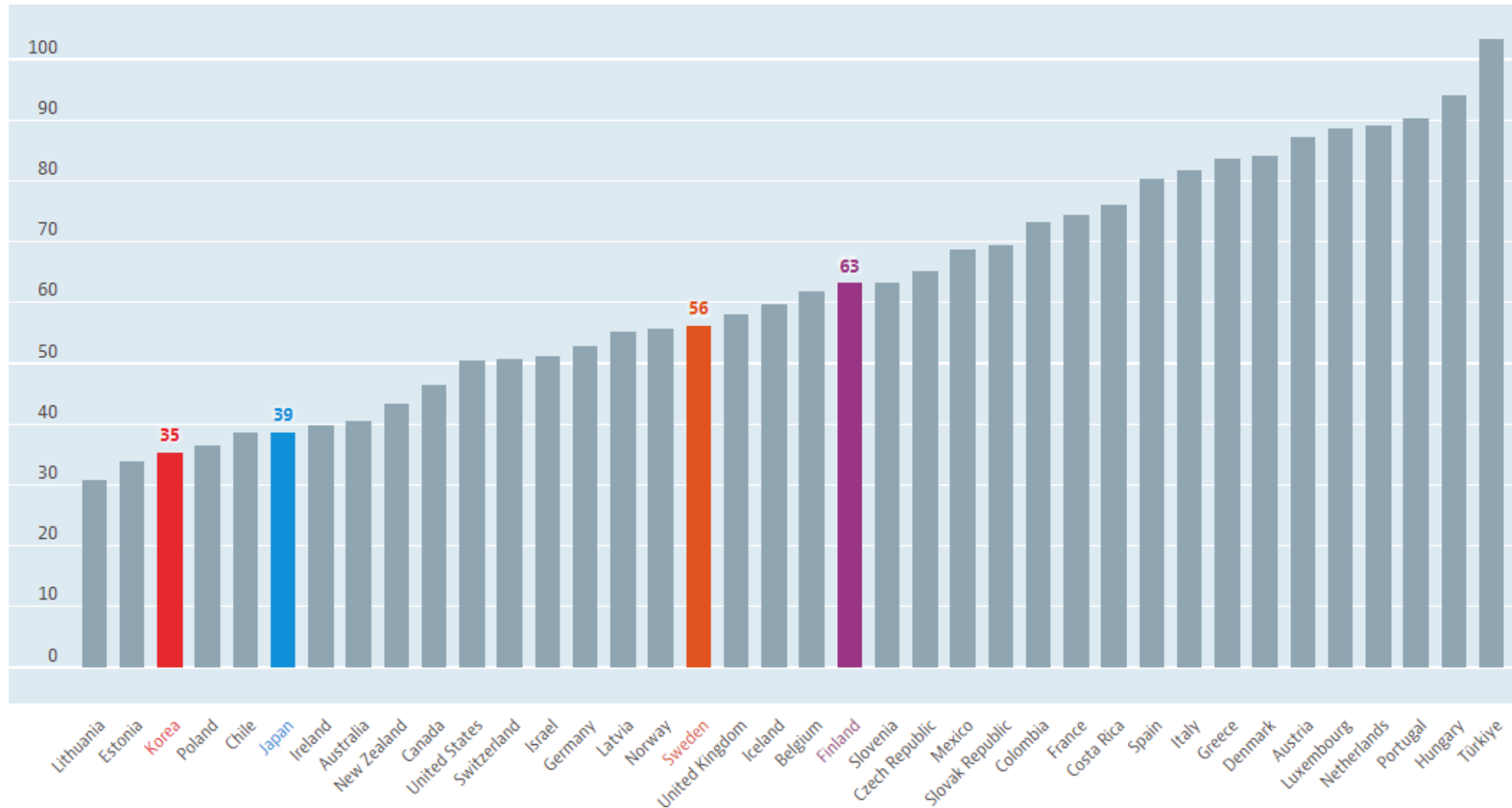
- Eligibility: age 65 or over
- Means-tested: the lower 70% receive the benefit (income cutoff rises)
- 2008 Basic Old-age Pension → 2014 Reform: Basic Pension
- - Initial monthly benefit about 70 Euros → raised to about 150 Euros
- - Several more increases: currently about 250 Euros
- Tax-financed: non-contributory – for poverty alleviation
- Effective in reducing old-age poverty (Lee, 2022) but still low benefit level



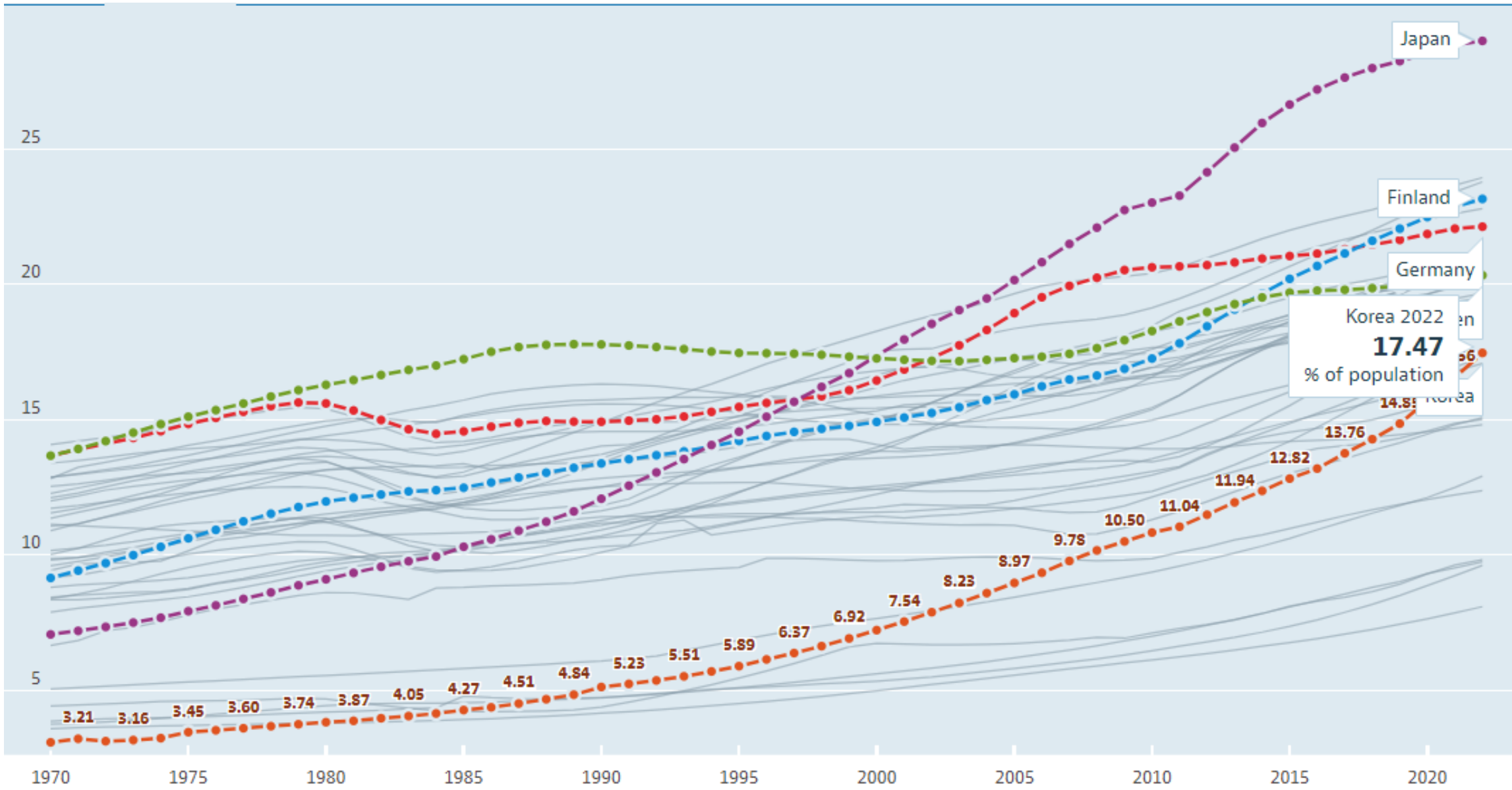
Challenges: Old-age Poverty Rate (OECD)



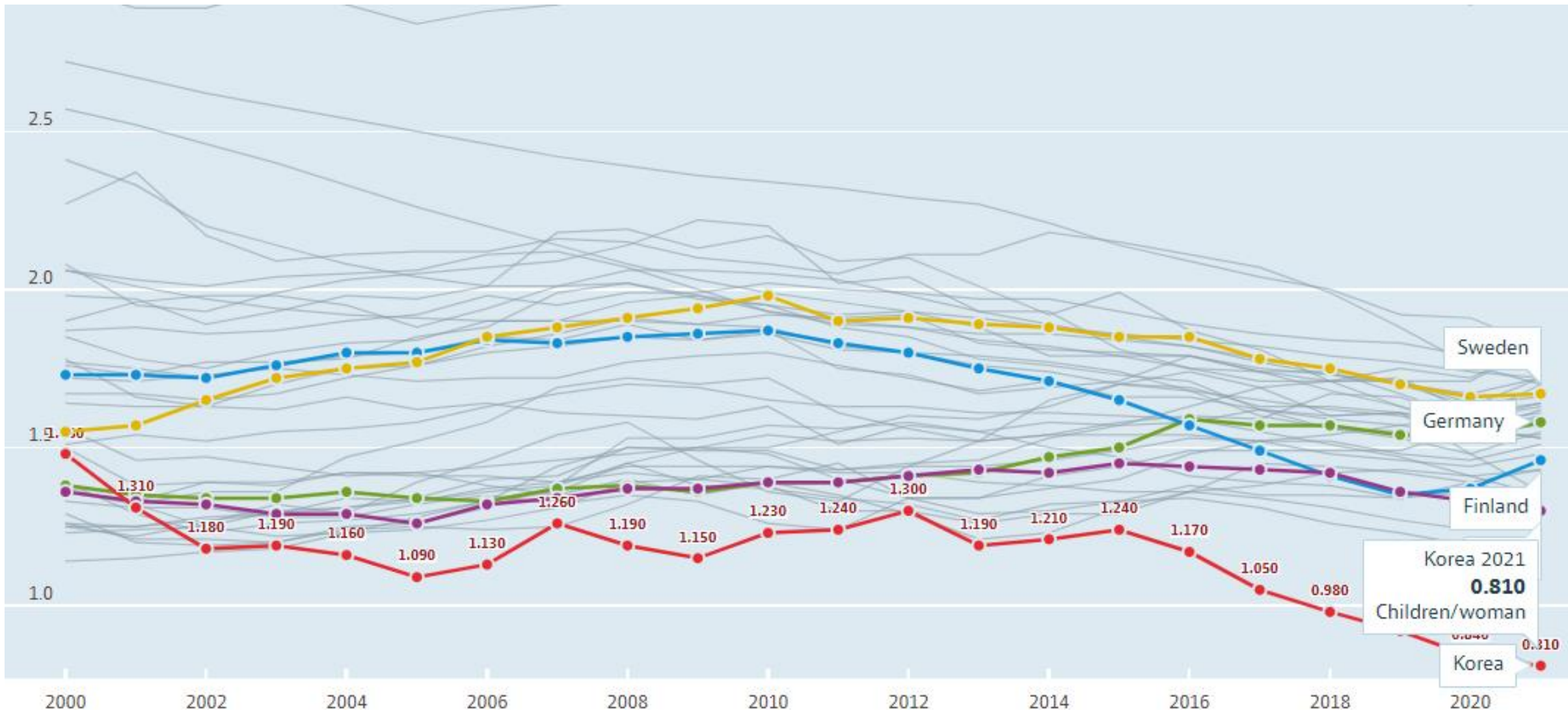
Challenges: Net Pension Replacement Rates (OECD)



Challenges: Share of Older Population (OECD)



Challenges: Total Fertility Rate (0.78 in 2022, OECD)



Challenges (1)

- Urgent challenges: high old-age poverty, low pension adequacy, large pension gaps & exclusion, financial sustainability
- High poverty & exclusion from pensions: to some extent caused by design
 - Older generation excluded at the commencement of NPS
 - Still only 47% of the older population receive earnings-related pensions
 - Early exit from main careers & high self-employment in old age
- Pension adequacy: average monthly payment of NPS is about 400 Euros
 - Most of the recipients do not meet 40 years for 40% replacement rate
 - Large gap in pension income compared to teachers & civil servants
 - Reproduction of labour market inequality (rise of non-standard labour)
 - Low level of means-tested basic pensions



Challenges (2)

- Financial sustainability: low fertility & rapid ageing
 - Total contribution < benefit will be around 2040, NP Fund will run out by 2057
 - Assuming current age structure, future workers will need to pay at least 25% of income for contributions under pay-as-you-go scheme without reserve fund
 - But this is not just about demographic change - low contribution rate (9%)
- Social trust & misinformation
 - Structural reform needed (time bomb): higher contribution rate, pension adequacy, better coverage, but reform attempt has failed since the 2010s
 - Public attitude against contribution rate increase
 - Low trust among young people, lots of misinformation
 - Also related to political system: two-party, winner-takes-all politics (blame avoidance less feasible)



Thank you!

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