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*Evaluating the National Pension
for Salary Earners and the Self
Employed*

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Korea Institute for Health and Social Affairs

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ABSTRACT

EVALUATING THE NATIONAL PENSION FOR SALARY EARNERS AND THE SELF EMPLOYED

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This paper has four main aims. First of all it explains the specific goals of the Productive Welfare approach with respect to the National Pension Scheme. Secondly it outlines the recent changes made to the National Pension Scheme, some of which were designed to make it more universal and equitable. Thirdly the paper considers the strengths and weaknesses of the current approach to pensions for private sector employees and the self-employed. Finally, some suggestions are made for possible future policy directions aimed at preserving the core features of the National Pension and ensuring its sustainability.

EVALUATING THE NATIONAL PENSION FOR SALARY EARNERS AND THE SELF EMPLOYED

ALAN WALKER

1. INTRODUCTION

In accordance with the generous invitation from the Ministry of Health and Welfare to take part in this International Symposium, for which I am very grateful, this paper has four main aims. First of all it explains the specific goals of the Productive Welfare approach with respect to the National Pension Scheme. Secondly it outlines the recent changes made to the National Pension Scheme, some of which were designed to make it both more universal and equitable. Thirdly the paper considers the strengths and weakness of the current approach to pensions for private sector employees and the self-employed. Finally, some suggestions are made for possible future policy directions. The assessment contained in this paper is based on the relatively limited information available and without the advantages of close first-hand examination of the operation of the National Pension

Scheme or questioning anyone with responsibility for managing it and, therefore, must be regarded as a preliminary appraisal.¹

Of course in discussing the National Pension Scheme we must be mindful of the fact that we are concerned with tomorrow's pensioners. Most older people in Korea today, especially those with the lowest incomes, depend on their own earnings or savings, family support and social assistance. Only a small proportion receive public pensions because, until recently, only government employees, teachers and the military were covered by public pensions. Prior to the introduction of the NPS in 1988 the only mandatory public pension scheme covering private sector employees was Retirement Allowances. This scheme was compulsory for firms with, first of all, 10 employees and later for firms with five or more employees. It did not cover self-employed people.

2. PRODUCTIVE WELFARE

The Korean Government should be congratulated on its Productive Welfare Strategy. This strategy is a sophisticated one derived from a careful analysis of competing welfare state models and based on clear principles. It has been very well summarised by Chung (2001, p.2):

Productive Welfare can be defined as an active welfare policy aiming at social productivity improvement through economic value creation, based on the fundamental drive towards equality. That is, Productive Welfare begins on the firm premise that every single citizen in the society should be guaranteed and secured basic livelihood as one of their basic rights. With this premise, Productive Welfare acknowledges and stresses human development and self-actualisation by means of education and work opportunity. Combining these ideologies, it aims at balanced development of equality and efficiency.

¹ For what is contained here I am indebted principally to Dr Chanyong Park, Dr Byungsik Yoon and the World Bank, although none of them has the slightest responsibility for my interpretation of their work.

In contrast to some other countries in the region the Korean Government has openly acknowledged the limitations of development based only on economic growth. The Productive Welfare Strategy recognises the limitations of the policy that prioritised growth. First of all in many countries, East and West, it has led to the widening of inequalities in income and wealth and, rather than the fruits of growth 'trickling down' to the poorest, those at the bottom have been further impoverished. The Korean Productive Welfare approach turns its face against such theories (that have proved deficient in practice) and seeks a much more inclusive form of development: 'If any group does not share in the fruits of economic growth, development is deficient'. Secondly it is clear that a globalised world requires a more sophisticated blend of economic and social policies than those offered by neo-liberals in order to ensure both international competitiveness and social cohesion. Thus it is entirely appropriate that the Kim Dae-jung administration has set its sights on 'balanced social development' aimed at guaranteeing basic human rights and improving quality of life for all.

The goal of combining economic growth and social justice is one that many countries aspire to and some have achieved, most notably the Member States of the European Union (EU). The European model of development has long been described as one that combines growth and competitiveness with social justice - the two sides of the same coin. During the 1990s it was often represented in diagrammatic form:

Diagram 1. The European Model Of Development

ECONOMIC GROWTH			
AND		+	SOCIAL
COMPETITIVENESS			JUSTICE

The social policy strategy that places work at the heart of welfare is an increasingly familiar one as the developed countries strive to maintain their welfare states in the face of globalisation and the ageing of their populations. We can see it in Australia's 'Working Nation', the New Deal policies of the UK Labour Government ('making work pay' has been a dominant slogan) and, increasingly, in the approach being adopted by the European Union. All of them, of course, derive partly or wholly from the 'third way'

policies pursued by the Clinton Administration in the US and, certainly, the high rates of growth and employment achieved by the US in the 1990s have proved irresistible advertising slogans for this approach. However the Korean Government has reached beyond the other main variants of work-based welfare or 'welfare through work' in proposing to guarantee the right to work.

This is a difficult guarantee to deliver in a market economy - especially, as the report points out, in the face of globalisation and technological change - but it is a bold step and rests on a principled belief in the dignity and other non-material benefits of labour. If the welfare through work strategy is to be successful it must be as inclusive as possible. Work must be made a realistic option for everyone and the many barriers to employment must be combated.

3. Pensions and Productive Welfare

Pensions are obviously a key element in any strategy to secure minimum living standards for all and to maintain human dignity, but they are not only an instrument of Productive Welfare, their sustainability depends on the success of the strategy. In particular, as noted above, an inclusive labour market is essential if pensions are to be both universal and sustainable. This is the stated intention of Productive Welfare in that its first component is a 'fair labour market through which appropriate and fair working conditions can be achieved'. In order to secure equal opportunities there must be active measures to combat discrimination and other barriers to employment (a point I return to at the end of this paper). Pensions play a central role in the second component of productive welfare - redistribution - and, as the report points out, if distribution is left to the market, it will lead to exclusion and a breakdown in social cohesion. The third component of Productive Welfare - the encouragement of self-activation (the hand-up rather than the hand-out) - will help to ensure that labour force participation remains high and, therefore, that people are able to contribute to their own pensions. The fourth component - investment to enhance quality of life - will also help to deliver more secure pensions. Life long education will enable citizens to continually adapt to the demands of a knowledge-based society and remain in employment while improved access to healthcare will

help to ensure not only productivity but also the chance for healthy ageing.

This is the theory or ideology of Productive Welfare but what about its practice with regard to pensions? The Korean pension reforms are a key element in the expansion and strengthening of the social insurance system designed to reduce the impact of social risks, including old age. The National Pension Scheme (NPS) was established in 1986 and began in 1988. To start with it covered only workplaces with 10 or more employees. On 1 April 1999 it was extended to all private employees and the self-employed, just 11 years after its introduction. The NPS covers those aged 18 to 60 who are resident in Korea. The scheme applies to private sector employees and the self-employed and excludes civil servants, military personnel and private school teachers, all of whom have their own Occupational Pensions Schemes (OPSs). The NPS also has two categories of insured persons: the compulsorily insured, such as employees and the self-employed, and those who pay contributions voluntarily, including housewives and students. Since 1988 the number of insured persons has grown continuously from 4.4 million to 16.1 million in 1999. Between 1998 and 1999, as a result of the extension of coverage, the numbers of insured nearly doubled.

The NPS for employees is funded by contributions from employers and employees (currently 4.5 per cent each). Initially, however, contributions were set at a relatively low rate (1.5 per cent between 1988 and 1992). The contribution rates of the self-employed, including farmers and fishermen, and voluntary insured persons was 3 per cent in June 2000 and is being raised by 1 per cent per year from July 2000 until 2005 when it reaches 9 per cent. The self-employed pay their own contributions. The Government subsidises the contributions of farmers and fishermen, a policy that will end in December 2004.

The NPS reflects the central goals of the Production Welfare Strategy in two main respects. First, following the 1999 reforms it aspires to universal coverage, so that the financial risk associated with old age may be spread throughout society, and to provide an income at least sufficient to maintain human dignity. Secondly, the NPS is a defined benefits scheme. Benefits (Old-age Pension, Disability Pension and Survivors' Pension) are calculated according to a combination of flat-rate (equalised) and earnings-

related (individualised) elements with the former representing the average amount of the Standard Monthly Income of all insured persons and the latter the average of the Standard Monthly Income of an individual insured person. An additional 5 per cent is added to both parts for each year in excess of 20 years. The standard level of pension benefits is estimated at 60 per cent of the income paid to the insured person who retires after 40 years of contributions and whose monthly income level is the median of the Standard Monthly Income of all insured persons. The amount of benefit received ranges from 60 per cent to 100 per cent of a person's income if the amount of monthly income is lower than the median of the Standard Monthly Income of all insured persons. If the person's income is higher than the median, the benefits will be less than 60 per cent of their income.

The Old-age Pension part of the NPS is paid at the age of 60 (55 for miners and fishermen) if the insured has contributed for at least 10 years. The Basic Pension Amount is designed to ensure that a person with 40 years of contributions, whose income is the same as the median value of all insured persons, would receive 60 per cent of his or her average lifetime wage. The level of the pension is determined for each income group by the insured person's monthly income (the Standard Monthly Income). An Additional Pension is paid if the beneficiary is supporting a spouse, children under 18 or parents (including spouse's parents) who are aged 60 or over. Special arrangements are made for those who began contributing too late to build up the required contributions.

As noted in the introduction, in addition to the NPS Korea's Labour Law requires employers to pay every worker who has been employed for one year or more a minimum Retirement Allowance of 30 days (8.33 per cent) of the worker's average for every working year. The Retirement Allowance can be paid as a lump sum before retirement. Some employers promise to pay more than the legal minimum. Also it is common for firms to seek tax relief on the reserves by establishing contracts with insurance companies on the proviso that the funds are lent back to the firm. Thus even the funded element of Retirement Allowances is built on a rather shaky foundation.

4. REFORMING THE NPS

Since it was established in 1988 the NPS has been extended gradually until it has achieved almost universal coverage. Initially it covered only workplaces with more than 10 people and was extended, in 1992, to cover those employing 5-9 workers. In 1995 coverage was extended to include farmers and fishermen, workers in small firms with less than 5 employees and the self-employed in rural areas.

As well as extending the coverage of the NPS a series of reforms in the late 1990s have altered several aspects of the operation of the scheme. Following deliberations by the National Pension Reform Board (NPRB) major changes to the NPS were introduced in January 1999. The NPRB was convened in 1997 to recommend measures that would provide long-term financial sustainability, address the potential problems associated with extending coverage to the urban self-employed, provide methods of efficient management of reserves, coordinate links with the occupational schemes and design policies to deal with those older people not covered by the NPS. The NPRB held 13 conferences and 9 meetings of the Special Committee in 1997 and involved representatives from the main trades unions, cooperatives, researchers and journalists in its numerous task forces. Unfortunately the NPRB did not produce a unanimous report, with the majority advocating a target replacement rate for average wage workers with full contribution histories from 20 to 40 per cent and the minority recommending a higher replacement rate of 50 to 60 per cent to be financed by increased contribution rates. The majority opinion was driven by a desire to prevent contribution rates from rising and would have maintained them at their 1998 levels until 2010 and, eventually, allowing them to rise to 12.65 per cent by 2025 (World Bank, 2000, p.38).

The recommendations of the NPRB were not accepted by the Government and, instead, after public hearings, the Ministry of Health and Welfare submitted a new reform package on May 8, 1998, one which according to the World Bank was closer to the minority than the majority of the NPRB. The main proposals were: an increase in the retirement age to 61 in 2013 and one year every five years thereafter until reaching 65 in 2033; a new benefit

formula, which would use an accrual rate after 1998, which would generate a 55 per cent replacement rate for a worker with an average wage; no separation of the redistributive from the earnings-related scheme; and past years would be credited under the old formula (World Bank, 2000, p.38).

Most of these measures recommended by the Ministry of Health were included in the amendment to the National Pension Act on December 31, 1998. In approving the measures Congress made several important changes, including reducing the target replacement rate for an average worker to 60 (from 70 per cent) instead of the recommended 55 per cent and deciding not to increase the contribution rate in stages but to mandate five-year actuarial reviews. Table 1 shows the effects of the January 1999 reforms on target replacement rates and the consequent reduction in the redistributory impact of the NPS. Coverage of the NPS was further extended, in April, 1999, to cover those employed by small firms with less than five workers and the self-employed in urban areas (Yoon, 2001, p.2).

As Table 2 shows, at the end of November 2000, a total of 16.5 million people were covered by the NPS, including 5.6 million employees and 10.8 million self-employed. The table also illustrates the high level of exemptions from contributions among the self-employed (45.2 per cent) due to factors such as business closure, suspension or unemployment. At November 2000 the number of NPS beneficiaries was 0.6 million, some three-quarters of whom received Old-age Pension benefits. Since the implementation of the NPS a total of 7.2 million people have received a lump-sum benefit (Yoon, 2001, p.3).

5. STRENGTHS AND WEAKNESSES OF THE NPS

Having outlined the basic features of the Korean pension system for private employees and the self-employed and how it was altered by recent reforms, we can begin a preliminary assessment of its strengths and weaknesses. A key aim of any public pension system is to ensure financial security in old age and this is achieved principally by smoothing consumption between working life and retirement. At the same time public pension systems usually include an element of vertical redistribution to

offset poverty in old age and to ensure that the living standards of all pensioners reach a minimum level. The pension systems of developed countries differ significantly with regard to their redistributory impact (OECD, 1988, 1998, 2000). The Korean NPS combines both of these elements and, in line with the Productive Welfare Strategy, seeks to guarantee a higher quality of life for the poor, to reduce the effect of the social risk of old age and to ensure that all groups share in the fruits of economic growth. Within the context of both the national goals set by the Korean Government and global guidelines on provision for old age, such as the UN Plan of Action and Long-term Strategy on Ageing (in both its original 1982 and revised 2002 forms), this clear focus on achieving financial security in old age must be regarded as both a defining feature of the NPS and, from the perspective of future beneficiaries, its greatest strength.

The precise level of financial security is determined by the replacement rate and the target rate set by the Government for the NPS, 60 per cent, compares favourably with those of other developed countries. However it is regarded in some quarters as being too generous (World Bank, 2000). The NPS was designed to be redistributory both among different groups and intergenerationally. The benefit formula of the NPS is progressive and therefore provides a higher replacement rate (and a higher rate of return on contributions) to workers with lower lifetime earnings. The real value of retirement income is protected by indexing the pension to the consumer price index and the initial pension amount depends on the increase in real wages.

Secondly, as with other public defined benefit schemes, it is a great advantage to potential beneficiaries to be aware of the replacement rate they can reasonably expect from a lifetime's contributions. This contrasts with the defined contribution approach more common in private pension schemes in which a target contribution rate relies on the performance of stock markets and, therefore, contains an element of risk and uncertainty, as has been demonstrated amply by the negative impact of the recent downturn in equity performance, for example in the UK. Public defined benefit schemes may also be subject to 'political risk' in the form of governments reneging on their own promises or, more often, those of previous governments as, again, is well illustrated by the recent history of pension reform in the UK (Walker, 1989). We can say, without fear of contradiction, that there are strong

differences of opinion about the best approach to pension funding. However, if the public defined benefit schemes are sustainable, they are likely to be preferred by beneficiaries.

A third strength of the NPS is its intention to attain universal coverage which, again, is in line with the Productive Welfare Strategy. Thus the January 1999 reforms reduced the minimum eligibility period required for pension rights from 15 years service to 10 years. Also a split pension benefit system was introduced to safeguard pension rights for surviving spouses. The aim of achieving universal coverage will ensure that the financial risk associated with retirement is pooled throughout Korean society. This entails the considerable benefit of solidarity and is likely to be a source of social cohesion in Korea. As we have seen an important element of the redistributory aspect of the NPS is the intergenerational one and, if it can be maintained, is another source of social cohesion (Walker, 1996).

In summary the NPS is characterised by clear policy principles, such as universality, redistribution and solidarity and aspires to replacement rates that would, over time, minimise financial onsecurity in old age and place Korea in the top rank of public pension providers in the developed world.

Turning to the weaknesses of the pension system for private employees and the self-employed, there are six main ones, by far the biggest of which is the question of sustainability. In the unlikely event of the current contribution rate of 9 per cent remaining unchanged, the NPS is projected to run into deficit from 2034 and to see its reserves depleted by 2048. Therefore future options for the NPS must address this central question of funding. In particular the lack of funding for Retirement Allowances makes them vulnerable. In the recession many firms were not able to pay the benefit guaranteed by law and, as a result, the Government introduced the Wage Guarantee Funds in July 1998. This fund is managed by the Minister of Labour and financed from a 0.2 per cent tax on the wage bills of firms covered by the Retirement Allowance legislation. Where employers are unable to meet their obligations, the Government Fund pays the Retirement Allowance to the workers up to a maximum of three months.

Secondly, it is not entirely clear that the principle goals of the NPS, as derived from the Productive Welfare approach, are fully operational or, in other words, that the practice reflects the

principles. For example, the combination of Retirement Allowance and NPS means that retirement incomes from these public schemes vary by age cohort and type of worker. According to World Bank calculations a Korean worker aged 50 in 2000 with 35 years of service would receive benefits of roughly equal magnitude from each of the two schemes. As the NPS matures workers will have spent more of their careers covered by the NPS and, by the time those entering the labour force in 1990 retire with full benefits the ratio of NPS to Retirement Allowance will be 2:1 (World Bank, 2000, p.21). The combination of the two pension programmes also produces higher replacement rates for some workers (as high as 85 per cent for a worker with 35 years of contributions). The operation of the twin public schemes - the Occupational Pension Schemes and the NPS - is also a source of inequity within the whole public pension system. Some aspects of these variations in accrued rights are transitory, related to the immaturity of the NPS, but some of them are structural features of public pension provision in Korea.

Thirdly there is the issue of equity between employees and the self-employed due to the problem of assessing the incomes of the self-employed. At the end of 1999, the reported incomes of the self-employed were 69 per cent of the reported incomes of employees (Yoon, 2001, p.9). Low reported incomes by self-employed people result in disproportionately low contribution levels. This not only reduces the potential income of the NPS but also threatens the legitimacy of the scheme. Although some efforts have been made already to improve the accuracy of income reporting among the self-employed this must be an element in any reform package.

Fourthly there are still groups of workers who remain outside of the NPS. In fact some 51 per cent of eligible urban workers are exempt from paying contributions. The majority of these exemptions are due to unemployment or premature retirement due to the recession. Some of those exempted from contributions are participating in some form of paid employment but have claimed exemption because they are not able to pay contributions. The high level of exemptions is obviously a factor in the financial sustainability of the NPS and it may also undermine the fairness of the scheme as perceived by its contributors. Many of those claiming exemption will be excluded from future old age pension coverage because they have not made

sufficient contributions. In an attempt to mitigate this problem the national pension plan last year began to try to protect the underprivileged by placing them in small businesses with less than four employees.

Fifthly, there is the management system of the NPS. Since the scheme is in surplus the Government has been using its reserves as a source of direct borrowing. By the late 1990s two-thirds of the surpluses were automatically earmarked for this type of lending (World Bank, 2000, p.26). The amendment to the Public Funds Management Act in 1998 phased out this automatic mechanism for channelling NPS surpluses to the Government. The NPS' surpluses are projected to grow over the next three decades and to peak in 2040. A question arises, therefore, concerning the investment of these funds, the answer to which will have an important bearing on the funds available to the NPS and the wider public sector. This also emphasises the need for greater transparency in fund management.

Finally, the World Bank's analysis suggests that the fact that the Korean Government was forced to reduce the replacement rate promised only 10 years earlier by 15 per cent and increase retirement ages has undermined the credibility of the NPS (World Bank, 2000, p.24). It is impossible to assess the truth of this claim from a distance. However the changes are relatively minor and the NPS remains a substantial achievement and one that is likely to win the support of Korean citizens if it can experience a period of sustained stability.

6. FUTURE POLICY DIRECTIONS

The future of the NPS and, indeed, the entire Korean pension system is in question. In the wake of the financial crisis the World Bank advised the Korean Government to review not only the NPS but the entire pension system. The Government accepted this advice and, in December 1998, established the Pension Reform Task Force under the aegis of the Social Security Deliberation Committee and the Minister of Health and Welfare. The Task Force's terms of reference went way beyond the future of the NPS to encompass the balance between public and private pensions and the long term financing of the OPSs (World Bank,

2000, p.39). The Task Force set four objectives for the reform of the pension system: securing financial stability and sustainability; assuring adequate levels of pensions; assuring equity between generations, income groups and occupational groups; and assuring that the old age income protection system is comprehensive (Yoon, 2001, p.12).

The Task Force also set out five policy directions aimed at pursuing these objectives. First of all it recommends the establishment of a multi-pillar pension system composed of a mandatory public basic pension as the first pillar, a mandatory private pension scheme as the second pillar and a voluntary private pension scheme as the third pillar. Secondly it proposes the introduction of a defined contribution scheme as the way to ensure long term financial stability and to enhance individual responsibility. Thirdly, the Task Force argues that the Retirement Allowance system should be converted into a corporate pension scheme. Fourthly it recommends systematic reform to facilitate portability among different pension schemes, to improve fund management and to strengthen the supervision of pension schemes. Fifthly it suggests the absorption of the OPSs into the multi-pillar system and their linkage with the NPS (Yoon, 2001, pp.12-13). These policy directions clearly reflect the advice given by the international economic agencies (OECD, 1998, 2000; World Bank, 2000), and, in particular, the first and second were urged strongly by the World Bank.

The model of multi-pillar pension systems with mandatory public and private first and second tiers and the replacement of defined benefits by defined contributions have achieved the status of global economic laws in the pensions field largely because of their sponsorship by the international economic agencies (see for example, World Bank, 1994). Korea may well decide on a radical root-and-branch overhaul of its young pensions system but it is not clear from the evidence available that this radical option is essential. Moreover, before such a fundamental change is enacted it is important for the Task Force and others engaged in the pensions policy process to consider the advantages and disadvantages of the two main approaches to pension provision.

On the one hand, public defined benefit systems suffer from the danger of political interference and do not necessarily have a positive impact on the development of financial markets. They are

vulnerable to demographic change and a decline in employment. But they do allow pensioners' incomes to rise along with general living standards if the political will exists to do this. They are superior with regard to the alleviation of poverty and the provision of insurance against inflation and investment risks. They tend to be socially inclusive: they can cover everyone, provide protection for gaps in earnings and also job changes.

On the other hand private defined contributions, or funded, schemes lack political and democratic accountability; entail higher levels of risk than public schemes; have high start-up costs; provide poor coverage for the vulnerable and those, such as female carers, with limited employment opportunities; have high public costs in terms of tax reliefs and other incentives; and generally entail higher administrative costs than public schemes. On the positive side private defined contribution schemes are said to produce lower distortionary effects in the labour market than public ones and contribute to the development of financial markets. Some of the disadvantages of private funded schemes can be minimised by making them compulsory and by regulating them strictly, but there are no precedents internationally of compulsory private schemes covering more than two-thirds of the population. Also there is no guarantee that compulsory savings would yield sufficient income in retirement for large groups of workers (as the case of Singapore demonstrates).

A major change of direction for the Korean pension system would entail risks, particularly with regard to the retirement incomes of future pensioners. Moreover it may well compromise some of the intentions of the Productive Welfare Strategy such as universality, risk pooling and the maintenance of human dignity for all. But, if such a radical change is contemplated, as the Task Force's recommendations suggest, it is better to do it sooner than later because the transitional costs will be low and the disruption minimal. If the Korean Government decides on a more cautious approach (and caution is an excellent watchword with regard to pension system reform) there are several changes that would improve the operation of the NPS and help to overcome its weaknesses. They may also offset some of the fears about future sustainability.

First of all it is essential to 'join-up' the different elements of policy that have a bearing on pension provision. Much of the

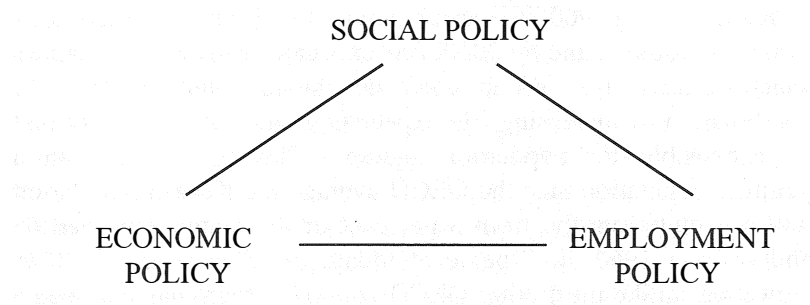
debate about pensions tends to be conducted purely in terms of the technical features of pension systems themselves, but employment and health are also major determinants of the demand and supply sides of the pension equation. In the European Union (EU) for example, public pension sustainability has been threatened by the trend towards early exit from the labour force (Walker, 1997; OECD, 2000) as well as by increased life expectancy. Korea is on a similar path to other developed countries with regard to life expectancy but not with regard to falling labour force participation among men.

Korean life expectancy has been below the OECD average but, by the end of 2030, it is likely to have caught up (OECD, 2000, p.176). In 1960 life expectancy was 54 years for men and 57 years for women, and by 2030, it is expected to grow to 75 and 81 years respectively. As in other developed countries it is the combination of increasing life expectancy and falling fertility that is responsible for population ageing. Having started with a younger population than the OECD average the Korean population will age quite rapidly: from 3 per cent of the population aged 65 and over in 1960, to 7 per cent today, to 18 per cent in 2030. However, unlike most other OECD countries, there has not been a large decline in labour force participation among Korean men. Moreover, according to OECD projections, there is not likely to be a significant decline in male labour force participation over the next 30 years. The pattern of labour force participation among women in Korea is similar to the OECD average: rising employment rates but not attaining the same level as men. When the demographic and labour market trends are combined it can be seen that Korea has a much higher projected share of its total population in employment than the OECD average and this is before the productive welfare strategy has reached its full effect. Thus the OECD projection of a 50 per cent employment rate by 2030 (compared with an average 43 per cent) may be significantly below the actual rate (OECD, 2000, p.178).

It is essential that Korea maintains relatively high rates of labour force participation and at the same time seeks to minimise the negative impact of employment on health. In the EU and gradually elsewhere in the world the strategy that reflects these goals is labelled 'active ageing': the promotion of employment and other forms of activity and engagement in later life and the prevention of age-related barriers to employment or 'age

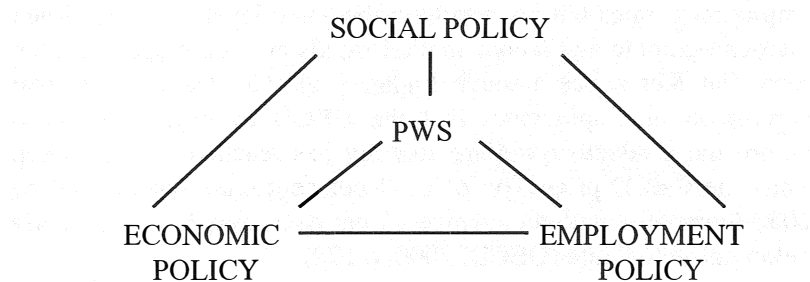
management' (Walker, 1997, 1999, 2002; OECD, 2000; WHO, 2000). This entails a life-course perspective on the relationship between age and employment, rather than remedial measures, and emphasises the need to connect all relevant policies. The Productive Welfare Strategy provides a perfect vehicle for joined-up policy thinking including in the pension field. Diagram 2 shows the way in which the interconnectedness of the different policy fields is expressed in the EU (a model which replaced the simple one shown in Diagram 1) while Diagram 3 shows how it could be modified for Korean policy purposes.

Diagram 2. The Policy Triangle



Source: European Commission, 2000.

Diagram 3. The Korean Policy Triangle



Within this joined-up policy context the specific weaknesses of the NPS can be tackled more effectively. The Task Force has proposed four reform options and each of them contain advantages as well as disadvantages (Yoon, 2001). All of them are

projected to result in financial sustainability but at different contribution rates. Options 2 and 3 appear to be particularly attractive because they maintain the NPS as a common denominator for the whole pension scheme (option 2) or create a universal basic pension (option 3) and break down the barrier between the NPS and the OPSs. In addition to the four reform options the Task Force made a series of laudable general policy recommendations which include the need for urgent reform and a broad national consensus on levels of contributions and benefits: the conversion of Retirement Allowances into an occupational pension; a clear definition of the roles to be played by the public and the private sectors; a safeguard to provide old age protection for those denied benefits under the current system; and the need for reliable income data for the self-employed before pension reform is undertaken.

Regardless of the extent of the changes made to the NPS and OPSs it is essential that reforms are also introduced to the management and operation of the pension system. In particular it is important to ensure a much higher level of transparency in fund management. The governance structures of the NPS also need overhaul to allow greater independence in the management of investments, with clear lines of accountability and regulation, and to include representatives from both contributors and pensioners. Furthermore, the sustainability of a pension system depends on more than simple economic formulae suggest, it also requires the support of contributors and potential contributors. The Government must play a leading role in advertising the benefits of the NPS to the younger generations and in persuading them that it is a vital element of Korean citizenship.

7. CONCLUSION

This review of the operation of the NPS has found that its establishment is a considerable achievement for the Korean Government. When it reaches maturity the NPS offers the prospect of financial security in old age and, therefore, reflects the fundamental human dignity aspiration of the Productive Welfare Strategy. However there is no doubt that the scheme suffers from several weaknesses and, as a result, further reform is needed. Reforms are required especially to ensure sustainability, to phase

out Retirement Allowances as public provision, to end the distinction between the NPS and OPSs and to achieve greater transparency and democratic representation in the management and operation of the scheme. It is essential that these reforms are carried out in the context of a joined-up policy strategy in which economic, employment and social policies seek to achieve the same goal (Productive Welfare). Although Korea is being urged towards a radical overhaul of its pension system, it is clear from the available evidence and the work of the Pension Reform Task Force, that relatively minor adjustments to the operation of the NPS and other parts of the pension system would achieve the desired results including sustainability. The Korean pension system stands at the crossroads and which path is chosen remains a matter for the Government and the people of Korea.

Table 1. Effects of 1999 reform of national Pension Act on Replacement Rates (Percentages)

	Pre 1999	From 1999	Percentage Change
Average Wage	70	60	-14.3
150% Average Wage	57	60	-11.8
50% Average Wage	110	90	-18.2

Source: World Bank, 2000, p.23.

Table 2. Numbers Covered by the National Pension Scheme Cheme (000s) November 2000.

Privatesector Employees	Self-employed				
	Contributing	Exempt	Total	Voluntary Insured	Total
5,680	5,963	4,926	10,889	114	16,683

Source: National Pension Corporation, quoted in Yoon, 2001, p.3.

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