

Old-age Income Security System in Korea and Future Policy Issues

Kyunghee Chung

WORKING PAPER 2010-03

**Old-age Income Security System in Korea
and Future Policy Issues**

Chung KyungHee, Research Fellow

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Korea Institute for Health and Social Affairs
Jinhungro 28, Eunpyeong-gu, Seoul 122-705, Korea
<http://www.kihasa.re.kr>

ISBN: 978-89-8187-656-2 93330

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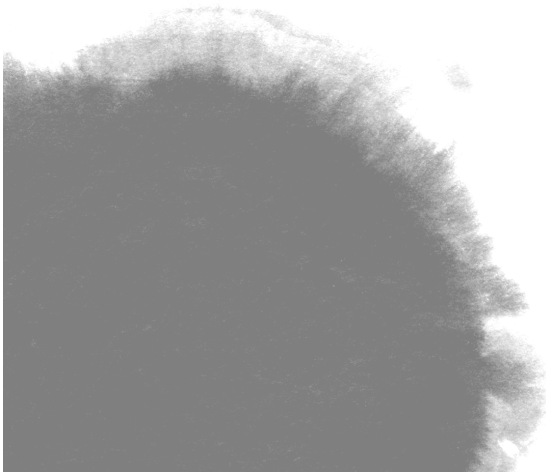
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Economic Situation of the Elderly



CHAPTER 1

Economic Situation of the Elderly

The economy has a great influence on the quality of living of the elderly. It is well-known that low income leads to low satisfaction level, with poverty being cited as one of the troubles most often suffered by the elderly. Actually, the poverty rate among the Korean elderly is much higher compared against the total population, and this requires social attention. The sharp increase of the elderly in the population also calls for policy measures to protect and provide for a stable income for the elderly. However, the old-age income security system has not been fully established in Korea, and the existing measures are judged to be not quite effective. This is due to inadequate connection between old-age income security measures, lack of role division, and insufficient measures to protect income after retirement. Therefore, this is aimed to examine the economic situation of the elderly in various aspects and to discuss policy issues related to the establishment of the old-age income security system.

The economic situation of the Korean elderly has the following characteristics: First, they have very low income level compared to the income level of the overall population. According to "Pensions at a Glance 2009" published recently by OECD, average income of the elderly

in OECD countries is 82.4% of the overall population on the basis of disposable household income, and the ratio for the Korean elderly stands at less than 70%, which is the second lowest among the member countries following Ireland. We can see that in Korea, people have high risk of income loss due to ageing compared to other OECD nations.

Meanwhile, this inferior economic situation of the elderly is reflected on their income distribution. Concerning the household income distribution of the elderly and non-elderly, elderly households covered by the basic livelihood security program took 7.2% of the entire elderly households, which is much higher compared to 2.5% in the case of non-elderly households. In addition, the second-lowest bracket according to law took 17.2% of the aged households and the second-lowest income bracket took 15.3%, which are over 10% higher than 3.3% and 4.0% respectively in the case of non-elderly households. In the case of ordinary income, elderly households with over 120% of ordinary income took up 19.4%, which is higher than 10.4% in non-elderly households.

〈Table 1-1〉 Income distribution in elderly and non-elderly households

(Unit: households)

Income bracket	Elderly households					Non-elderly households	Total
	Elderly single households	Elderly couple households	Elderly households with children	Other elderly households	Total		
BLSP	19.1	3.4	2.3	6.1	7.2	2.5	3.8
Second-lowest bracket according to law	34.8	17.9	7.3	14.7	17.2	3.3	6.9
Second-lowest income bracket	12.6	27.9	9.9	18.9	15.3	4.0	7.0
Third-lowest bracket	18.3	21.6	16.9	25.5	19.4	10.4	12.8
Others	15.2	29.2	63.6	34.9	41.1	79.8	69.5
Subtotal	100.0 (1,468)	100.0 (1,178)	100.0 (42.3)	100.0 (838)	100.0 (6,072)	100.0 (16,839)	100.0 (22,911)

Note: 1) BLSP: Basic Livelihood Security Program beneficiaries

2) Second-lowest bracket according to law: Households with recognized income at or lower than 120% of the minimum cost of living, excluding BLSP households

3) Second-lowest income bracket: Households with recognized income over 120% and income at or lower than 120% of the minimum cost of living

4) Third-lowest bracket: Households with ordinary household income at or over 120% and less than 180% of the minimum cost of living

5) Others: Households with ordinary household income at or over 190% of the minimum cost of living

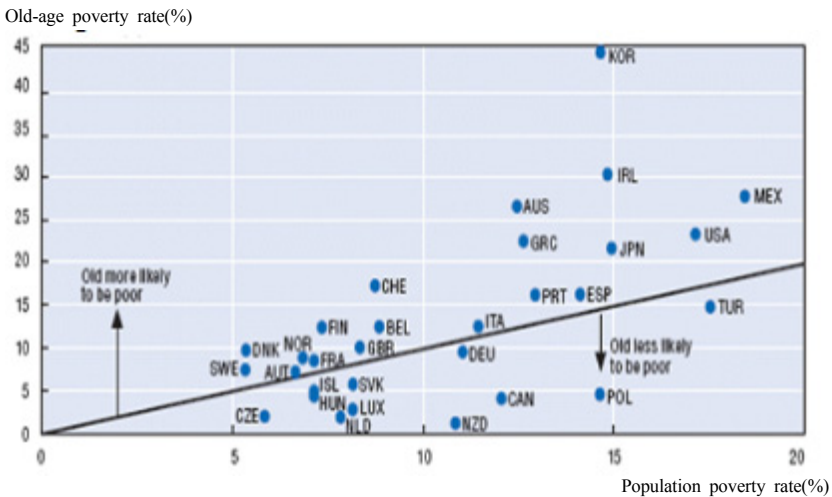
Source: Lee Hyeon-ju et al., 『Analysis of the Status of the Second-lowest Bracket and Policy Recommendations 2006』, 2008.

Second, poverty rate among the Korean elderly is extremely high. It is at the highest level among OECD members, and based on the concept of relative poverty which is measured with the rate of those whose income is less than half of the median household income, 45% of the Korean elderly are in the state of poverty. This is about 32% higher than OECD average of 13.3%, and 14% higher compared to Ireland, which has the second highest elderly poverty rate. In more detail, elderly women have higher poverty rate compared to elderly men, elderly households with a working family member have lower poverty rate, and elderly single households experience poverty more often, showing a particularly high poverty risk.

Poverty rate of the Korean elderly is significantly high

compared to the poverty rate of the overall population. Among OECD member countries, the average poverty rate of the total population is 10.6% whereas the elderly poverty rate is a little higher at 13.3%. Korea appears to be the country with the highest gap between the poverty rate of the total population and the poverty rate of the aged among the analyzed countries. The result of classification of OECD countries based on the relative level of income of the elderly and the elderly poverty rate put Korea as one of the countries with the highest risk for old-age income with relatively low income and high elderly poverty rate along with Australia and Ireland.

[Figure 1-1] Income poverty rates of older persons and the population (Mid-2000s)



Source: OECD, 『Pensions at a Glance 2009』, 2009.

If we examine closely the state of poverty among the Korean elderly using recent domestic data, the absolute poverty rate, which is based on the minimum cost of living,

of the entire population is 9.40%, while that of the elderly households is much higher at 22.75%. Concerning the poverty gap ratio¹⁾, it is 1.98% for the total population and 4.85% for the elderly population, which is around 2.5 times higher. When the comparison is made according to the concept of relative poverty, the poverty rate of the total population is 20.11% and that of the aged households is more than twice higher at 44.81%; in this case, the poverty gap ratio is 6.95% for the overall population and 16.52% for the aged. These differences are expected to have somewhat decreased following the introduction of the basic old-age pension system in 2008, but poverty still remains as a key problem for elderly households.

〈Table 1-2〉 Comparison between poverty index of elderly and non-elderly households

(Unit: %)

	Based on the minimum cost of living (absolute poverty)		Based on 50% of median income (relative poverty)	
	Poverty rate	Poverty gap ratio	Poverty rate	Poverty gap ratio
Total households	9.40	1.98	20.11	6.95
Elderly households	22.75(15.40)	4.85(2.48)	44.81(40.31)	16.52(12.63)

Note: Analysis based on ordinary income in 2007

Figures in parentheses are the results of simulation on the status of poverty after the introduction of the Basic Old-age Pension in 2008.

Source: KIHASA, 『Korean Welfare Panel: the Third Research』, source data.

Chung Kyunghee et al., 『Evaluation of the Socioeconomic Impacts of the Introduction of the Basic Old-age Pension』, 2009

Third, the elderly are highly dependent on the income of others. Personal income of the elderly takes up about 51.2%

1) Poverty gap: The gap between the poverty line and the income of individuals/households at a level lower than the poverty line.

It signifies the social cost that should be spent to bring these individuals/households up to a level higher than the poverty line.

of the household income and it is especially low when they live with their offsprings at 20.4%. With regards to the composition of the personal income, transfer income takes up a large part, with allowance from family members or relatives at 38.0% and subsidy from social organizations at 5.1%. In addition, public transfer income holds 34.4% of personal income of the elderly with public pension taking up 8.1%, basic old-age pension at 20.3% and basic livelihood security allowance at 6.0%. However, earned income and business/sideline income are quite low at 5.5% and 8.4%, respectively.

〈Table 1-3〉 Composition of the income of the elderly

(Unit: %)

	Earned income	Business/sideline income	Public pension	Basic old-age pension (age pension)	Allowance from family/relatives	Subsidy from social organizations	Basic livelihood security allowance	Total personal income	Percentage in household income
Total	5.5	8.4	8.1	20.3	38.0	5.1	6.0	100.0	51.2
Sex									
Male	8.9	16.3	13.9	13.2	26.0	12.0	2.9	100.0	56.3
Female	3.5	3.8	4.7	24.5	45.0	1.0	7.8	100.0	47.6
Household type									
Elderly single	4.7	6.7	4.6	16.7	42.7	1.7	16.6	100.0	99.4
Elderly couple	5.5	11.2	9.5	13.0	42.5	11.6	2.6	100.0	51.9
With children	5.9	6.4	7.7	30.4	32.2	0.5	1.8	100.0	20.4
Others	6.2	7.5	12.9	25.0	25.9	1.3	10.0	100.0	34.0

Source: Chung Kyunghee et al., 『Evaluation of the Socioeconomic Impacts of the introduction of the Basic Old-age Pension』, 2009

Fourth, the elderly has different asset composition compared to other age groups, and a high percentage of the elderly have properties. That is, around 2/3 of the elderly households have properties, and a substantial part of the elderly own assets although they don't have an income.²⁾

2) Chung Kunghee et al., 『A Study on the Enforcement Measures of the Basic

This shows that in the case of elderly households, a high percentage of the elderly and/or their spouses have properties in their names, even if they do not have incomes. In relation to this, it is necessary to seek ways in which to utilize these assets, such as houses and land, as a source of income.

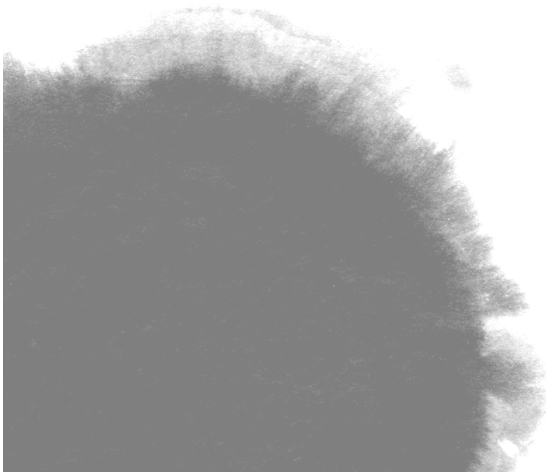
Fifth, the elderly spend a lot on medical expenses. A survey on the second-lowest bracket in 2006 showed the ratio of medical expense in total spending by the elderly households at 8.3%, which is much higher compared to 4.6% in overall population. The importance of medical expense in the life of the elderly is confirmed through other data too, and the elderly mention medical expenses as a category on which they would like to spend their extra money at the first chance.³⁾ It is difficult for the elderly to create a new income source, and thus, reduced spending may affect their quality of living; in this regard, the reduction in the medical expense seems to have played a major role.

Old-age Pension』, 2007

3) Kyunghee Chung et al., 『Evaluation of the Socioeconomic Impacts of the Introduction of the Basic Old-age Pension』, 2009.

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Outline of the Old-age Income Security System



CHAPTER 2

Outline of the Old-age Income Security System

The current old-age income security system has the public pension as its first safety net, and guarantees a minimum income by offering the basic old-age pension to 70% of the low-income bracket and protecting those under the poverty line with a basic livelihood security program. Additional income security is also provided through retirement allowance for employed workers, retirement allowance which is included in the pension scheme for those with special occupations, and personal pension wherein all Koreans can join voluntarily.

It's been more than 20 years since the national pension plan, which forms the basis of the old-age income security system, was introduced. However, over 50% of the planholders came under the benefits of the program only after its urban area expansion in April 1999, and there is still considerably low number of elderly people who have attained the right to receive the pension.

Currently, the basic old-age pension is provided to around 3,530,000 elderly people (including 374,000 who receive the basic livelihood security allowance), or 68% of the entire aged population. Among them, 1,018,000 (28.8% of the basic old-age pensioners and 19.6% of total aged population)

receive public pension at the same time. Also, around 36% are beneficiaries of public pension.⁴⁾ This means that about 15% of the elderly are excluded from any protection of the public income security system.

Meanwhile, Korea is in the middle of population ageing progressing faster than in any other countries, and is suffering from a quick decline in the pension system dependency ratio, which puts limitations on the old-age income protection that the country can offer. Contrary to advanced countries where population ageing and development of pension system have taken place over a long period, rapid economic growth and improvement of the standard of living have led to negative effects of population ageing and maturation of pension system in a short span of time. Before we could achieve maturation of the national pension scheme for all people and most of the elderly could enjoy the benefits of the pension, we have fallen in a position to worry about the financial security of pension to deal with the advent of a super-aged society.

Korea has established a multi-pillar system of public pension, corporate (retirement) pension and personal pension to secure multiple sources of income for the elderly in a super-aged society. However, there remain many problems to be solved for the system to be managed stably. If retirement pension and personal pension become limited to

4) Figures related to the national pension, the basic old-age pension, etc. are statistics as of the late May, 2009, (Sourcebook for 『Open Forum for Integration and Restructuring of the National Pension and the Basic Old-age Pension』, 2009); , and those related to the special occupational pension and the basic livelihood security program are statistics as of the late 2008. (『2009 Statistics on the Elderly』, 2009).

certain brackets instead of the majority of population to make up for the large decrease in the income replacement rate of the national pension to maintain financial security, the multi-pillar system of old-age income security system may prove to be a mere show. Therefore, it is urgently needed to supplement existing measures to ensure multi-pillar old-age income security system in the real sense.

[Figure 2-1] Composition of the Korean old-age income security system at present

	General income bracket			Low-income bracket	
	Employed workers	Self-employed people	Gov. employees, private school teachers, soldiers	Second-lowest income bracket	People under the poverty line
Private work, private transfer income, etc.	4th				
Additional protection (private pension)	3rd	Personal pension			
	2nd	Retirement allowance (retirement pension)		Gov. employees pension, teachers pension, military pension	
1st safety net (public pension, etc.)	1st	National pension			
Final safety net (poverty line)				Basic old-age pension	
	0th				Basic livelihood security program

<Table 2-1> Preparation for old age of different age groups

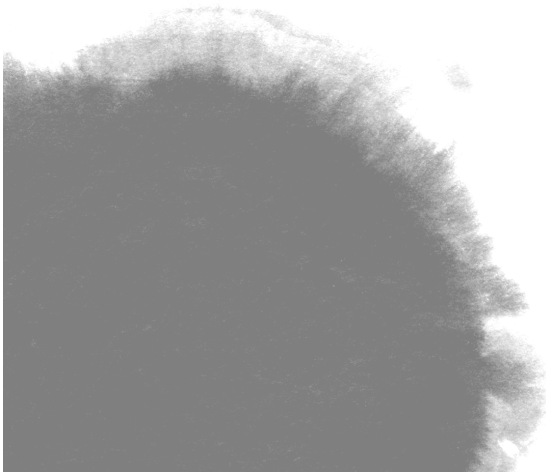
(Unit: %)

Classification	Below 60		60 or above	
	Members	Non-members	Members	Non-members
Personal pension	18.7	81.3	10.4	89.6
Pension insurance/ savings	22.2	77.8	9.5	90.5
Life insurance	67.1	32.9	33.0	67.0
Retirement pension	17.5	82.5	2.8	97.3

Source: Yoon Seok-myeong et al., 'Research and Analysis of the National Pension, etc. for Establishment of Multi-pillar Old-age Income Security System', 2010

03

Current Status and Policy Issues of the Old-age Income Security System



CHAPTER 3

Current Status and Policy Issues the Old-age Income Security System

Each elements of the old-age income security system influences the stability and comprehensiveness of the old-age income. Accordingly, I would like to examine the problems of each element of the old-age income security system and consider which policy improvements are needed. Also, I would like to propose additional policy issues required for a more stable and comprehensive old-age income protection.

1. Reconsideration of long-term sustainability of public pension

For the national pension on which the old-age income security system is based as well as special occupational pension schemes including government employees pension, private school teachers pension and military pension, efforts for sustained financial stability is required. Conventional measures for financial stability has not had fundamental results, so more effective actions need to be made.

A. Current status and problems

It's not been quite long since the national pension, which

forms the basis of the old-age income security system, was first introduced. The economic development plans that the government carried out in the 1960s led to rapid industrialization, urbanization, family nuclearization, and population ageing, and the National Pension Act was enacted and proclaimed in 1973 to deal with the social problems brought by these changes. However, the oil crisis that occurred in the same year and the resultant economic depression indefinitely postponed the national pension scheme that was due to be implemented in January 1974. After that, the successful progress of the 6th economic development plan and economic takeoff during this period improved people's ability to share the burden, and various conditions for the national pension scheme matured. Expansion of the labor market and continued decline of birth rate also added to the necessity of the national pension, so revision and supplementation of the previously developed national pension scheme was made starting in 1986 and the system finally took effect in January 1988.

In September 1987, the National Pension Service was established as an independent institution dedicated to efficient management, including fund management, of the pension system, which at first targeted employees aged between 18 and 60 and employers of businesses with 10 or more workers.

Starting with businesses with at least ten employees in 1988, the national pension scheme expanded its target to workplaces with 5 or more employees that required income protection more acutely in 1992; in 1995, the national pension was enlarged to cover rural areas as part of the

new 5-year economic development plan and rural development measures under the WTO system; and finally, the national pension scheme for the entire country was fully established in April 1999 as it reached the urban areas.

〈Table 3-1〉 Changes of the national pension scheme

Date	Details
July 1, 2003	Target businesses expanded (workplaces with 1 or more workers)
Nov. 1, 2001	Teleservice system spread throughout the nation
July 1, 2000	Special old-age pension for rural areas paid
Apr. 1, 1999	Pension expanded to urban areas (national pension scheme for the entire country)
July 1, 1995	Pension expanded to rural areas
Jan. 1, 1993	Special old-age pension payment started
Jan. 1, 1992	Target businesses expanded (workplaces with 5 or more full-time workers)
Jan. 1, 1988	National pension scheme implemented (workplaces with 10 or more full-time workers)
Sept. 18, 1987	National Pension Service established
Dec. 31, 1986	National Pension Act proclaimed 【Act No.3902】 (old act abolished)
Dec. 24, 1973	National Pension Act proclaimed (implementation postponed due to the oil crisis)

To solve the financial instability of the national pension, the National Pension Act was revised in 2007 to reduce the pension benefit after discussions based on the result of the first financial calculation in 2003. As the result of the financial calculation, it was proposed to reduce the income replacement rate to 40% in the long term and increase the insurance premium rate to 12.9%. However, after discussion at the National Assembly, only the reduction of the income replacement rate was made and the increase in the insurance premium rate was put off, so financial instability is inevitable in the long run. In the second financial calculation conducted in 2008, financial stability measures

were deferred considering the reform fatigue felt by pensioners after continued pension reforms, in spite of the financial instability factor in the long term.

〈Table 3-2〉 Financial outlook for the national pension (after pension reform in 2007)

(Units: KRW trillion, times)

Year	Gross income			Gross expenditure	Balance	Reserve fund	Funding ratio ²⁾	Gross expenditure as a percentage of GDP
	Total	Insurance earnings ¹⁾	Investment earnings					
2010	51	28	23	10	40	325	27.5	0.9%
2020	110	54	56	32	78	923	26.5	1.5%
2030	176	87	89	87	90	1,739	19.1	2.5%
2040	240	128	112	199	40	2,401	11.8	4.0%
2050	278	182	96	379	-102	2,077	5.7	5.6%
2060	232	232	-	599	-366	-275	0.2	6.6%
2070	309	309	-	846	-536	-	-	7.2%

Note: 1) Insurance premium rate maintained at 9%

2) Reserve fund of the previous year compared to gross expenditure of the given year

3) Economic variables are based on the assumptions of the 2nd National Pension Development Committee in 2008.

Source: Yoon Seok-myeong et al., 『A Study on the Sustainability of Public Pension - With the Focus on Financial and Political Sustainability』, 2008

Meanwhile, special occupational pension is also undergoing a serious financial instability. In the case of the government employees pension, which has already experienced substantial instability, the Government Employees Pension Development Committee was set up to examine the financial status and to seek improvement measures and carried out financial calculation. After complications of establishing the committee for two times, the reform proposal of 2008 for the government employees pension scheme was passed at the National Assembly in 2009 after long discussions. Despite the revision for pensioners to pay more and earn less, the government

subsidy to make up for the loss of the pension fund is expected to increase gradually, and thus, additional reforms on the pension scheme is unavoidable. Also, the fact that most of the revisions of the pension scheme are applied to new employees, which may lead to a conflict between new and existing government employees due to the differences in old-age income based on when they were first employed.

〈Table 3-3〉 Current status of special occupational schemes (as of the end of December, 2009)

Classification		Government employees pension	Teachers pension ¹⁾	Military pension ¹⁾
Year introduced		1960	1975	1963
Institution in charge (executive organization)		Ministry of Public Administration and Security (Gov. Employees Pension Service)	Ministry of Education, Science and Technology (Korea Teachers Pension)	Ministry of National Defense (Military Pension Department, Health and Welfare Bureau)
Subjects		National and local government employees, judges, police officers	Private school teachers	Professional soldiers (staff sergeant or above)
No. of planholders		1,049,000	257,000	161,000 ²⁾
No. of pensioners		293,000	31,000	68,000
Amount of paid allowance in 2009		KRW 7,684,800,000,000	KRW 1,373,000,000,000	KRW 1,988,000,000,000
Fund	Fund amount	KRW 5,187,300,000,000	KRW 9,010,600,000,000	KRW 474,000,000,000
	Fund exhaustion	2002	2029	1973

Note: 1) Teachers and military pension figures based on statistics from late 2008 and late 2007, respectively

2) Number of military pension planholders based on 2004 statistics

〈Table 3-4〉 Outlook for changes in financial balance before and after the government employees pension reform in 2009

(Units: KRW 100 mil., current price)

Year	Fund	If the scheme before 2009 reform is maintained		If the revised scheme is applied (based on the plan proposed in the 2008 public hearing)	
		Earnings	Allowance payment	Earnings	Allowance payment
2010	59,185	54,990	76,154	62,835	75,969
2020	107,502	101,141	237,172	127,916	235,559
2030	173,452	169,444	558,879	214,398	529,602
2040	266,798	285,578	1,075,325	361,411	919,420
2050	402,588	456,007	1,806,145	577,162	1,280,196
2060	595,929	692,826	2,971,803	876,971	2,022,610

Note: Economic variables are based on the assumptions of the 2nd National Pension Development Committee in 2008.

Source: Yoon Seok-myeong et al., 『A Study on the linkage of public pension subscription period II』, 2009

Private school teachers pension also went through a reform in a way similar to the government employees pension in late 2009, with financial instability factor still remaining. In the case of the teachers pension, in particular, decrease in the number of teachers following the decline in the number of school children due to low birthrate is sure to result in less number of insurance premium payers, and this is likely to aggravate the financial instability more severely compared to other public pension schemes.

Accordingly, the Teachers Pension Financial Recalculation Committee consisted with pension experts was formed in February 2002 to examine the financial status and develop improvement measures.

〈Table 3-5〉 Financial outlook of the teachers pension before 2009 reform

(Units: KRW 100 mil., current price)

Year	Earnings		Expenditure		Financial balance & fund	
	Gross earnings	Insurance premium earnings	Gross expenditure	Allowance payment	Balance	Fund
2010	22,114	14,687	13,829	13,535	8,285	110,293
2020	36,339	29,376	48,040	47,452	-11,701	122,429
2030	50,286	50,286	121,347	120,341	-71,061	-
2040	83,876	83,876	218,023	216,345	-134,147	-
2050	128,015	128,015	365,330	362,770	-237,315	-
2060	187,046	187,046	590,241	586,500	-403,195	-
2070	272,153	272,153	936,342	930,899	-664,189	-

Note: Economic variables are based on the assumptions of the 2nd National Pension Development Committee in 2008.

Source: Yoon Seok-myeong et al., 『A Study on the linkage of public pension subscription period II』, 2009

〈Table 3-6〉 Financial outlook of the teachers pension after 2009 reform (if the plan proposed in the 2008 public hearing on the government employees pension is applied in the revised scheme)

(Units: KRW 100 mil., current price)

Year	Earnings		Expenditure		Financial balance & fund	
	Gross earnings	Insurance premium earnings	Gross expenditure	Allowance payment	Balance	Fund
2010	23,871	16,259	13,676	13,351	10,195	113,015
2020	48,595	36,385	44,890	44,162	3,705	214,978
2030	62,632	62,632	110,120	108,867	-47,488	-
2040	105,285	105,285	185,606	183,500	-80,321	-
2050	162,193	162,193	268,927	265,683	-106,734	-
2060	236,982	236,982	417,421	412,681	-180,439	-
2070	344,809	344,809	651,270	644,374	-306,461	-

Note: As the revised plan for teachers pension is the same as the revised plan for government employees pension, the plan proposed in the 2008 public hearing on the government employees pension has been applied. Economic variables are based on the assumptions of the 2nd National Pension Development Committee in 2008.

Source: Yoon Seok-myeong et al., 『A Study on the linkage of public pension subscription period II』, 2009.

In the case of the military pension which became dependent on the government reserve fund already in mid-1970s, the Military Fund Development Committee and the Working Committee were formed in 2008 to discuss about reforms. However, no tangible actions have been made to achieve financial stability. Even if we take the unique characteristics of the military into consideration, the current pension scheme that allows payment of pension immediately after being discharged from the military after 20 years of service regardless of the retirement age makes it impossible to guarantee the scheme's sustainability; therefore, development of a reasonable reform plan is essential.

〈Table 3-7〉 Financial outlook of the military pension

(Units: 100 mil., current price)

Year	If the current scheme is maintained			If the scheme is revised in the same way as the 2009 government employees pension reform		
	Gross expenditure	Gross earnings	Reserve fund	Gross expenditure	Gross earnings	Reserve fund
2010	20,177	10,389	9,787	18,853	11,847	7,007
2020	30,691	16,661	14,030	30,184	21,109	9,075
2030	50,371	24,379	25,992	49,141	30,887	18,253
2040	84,556	34,734	49,822	77,630	44,006	33,624
2050	152,386	48,032	104,354	118,486	60,855	57,632
2060	251,683	70,348	181,336	186,321	89,128	97,193
2070	395,021	100,949	294,072	299,751	127,899	171,852

Note: Economic variables are based on the assumptions of the 2nd National Pension Development Committee in 2008.

Source: Yoon Seok-myeong et al., 『A Study on the linkage of public pension subscription period subscription period II』, 2009.

〈Table 3-8〉 Army promotion rate in different ranks in 2006 (captain or above)

Promotion	Promotion rate	Retirement age in the case of non-promotion
Captain → major	26%	43
Major → lieutenant major	15%	45
lieutenant major → Colonel	8%	53

Source: Yoon Seok-myeong et al., 『A Study on the linkage of public pension subscription period』, 2007.

Each public pension is managed separately, so there is a disadvantage for individual pension holders; there has also been a rising voice that a linkage of the subscription period between the national pension and the special occupational pension is required for increased exchanges between the private and public sectors based on the flexibility of the labor market and increased old-age income protection in an aged society, and thus, the linkage system between the national pension and the special occupational pension was introduced in August 2009. As a result, a large part of the disadvantage of pension payment that occurred with transfer between the two pensions can be resolved, and this is expected to contribute to the flexibility of the labor market by promoting job changes.

〈Table 3-9〉 Changes in the number of pensioners following the introduction of the public pension subscription period linkage system

(Units: 1,000 persons, %)

Classification		2010	2020	2030	2040	2050	2060	2070
Before the revision of the Government Employees Pension Act in 2009								
Existing pensioners		2,425	3,986	6,531	9,606	11,872	12,247	11,253
Compulsory application of linkage	Additional pensioners (increase rate)	3 (0.1)	32 (0.8)	88 (1.3)	223 (2.3)	583 (4.9)	907 (7.4)	1,030 (9.1)
If the revised Government Employees Pension Act (2008 government proposal) is applied for the special occupational pension								
Existing pensioners		2,425	3,986	6,530	9,578	11,718	12,079	11,105
Compulsory application of linkage	Additional pensioners (Increase rate)	3 (0.1)	32 (0.8)	75 (1.1)	173 (1.8)	476 (4.1)	801 (6.6)	942 (8.5)
50% linkage selection	Additional pensioners (increase rate)	1 (0.0)	15 (0.4)	35 (0.5)	84 (0.9)	236 (2.0)	398 (3.3)	469 (4.2)

Source: Yoon Seok-myeong et al., 『A Study on the linkage of public pension subscription period II』, 2009.

However, it is likely that a substantial part of the benefits of the subscription period linkage system will be reverted to

the special occupational pension holders who failed to complete the 20-year subscription period before the introduction of the linkage system, and thus, it is expected to aggravate the financial instability of the special occupational pension in the long term. The linkage system will contribute to improvement of the pension's financial status in short to mid-term by suspending lump sum payment, but it is sure to deepen the financial instability in the long run.

At first, the number of pensioners who receive lump sum allowances will rapidly drop, but as they gradually change into pensioners, their total pension amount will be much higher than lump sum allowances, which will make the financial instability inevitable.

〈Table 3-10〉 Changes in the financial balance following the introduction of the public pension subscription period linkage system

(Units: KRW bil., constant price 2005)

Classification		2010	2020	2030	2040	2050	2060	2070	Subtotal ¹⁾
Before the revision of the Government Employees Pension Act in 2009									
Balance before linkage		33,000	41,547	22,625	-24,910	-99,245	-197,853	-244,175	-3,710,871
Compulsory application of linkage	Balance after linkage	33,311	41,894	22,803	-25,742	-102,483	-203,648	-252,340	-3,847,822
	Balance difference ²⁾	311	348	177	-832	-3,238	-5,796	-8,166	-136,951
If the revised Government Employees Pension Act (2008 government proposal) is applied for the special occupational pension									
Balance before linkage		34,097	44,816	28,432	-11,292	-68,724	-154,112	-190,545	-2,447,216
Compulsory application of linkage	Balance after linkage	34,405	45,163	28,814	-11,503	-70,801	-158,627	-197,438	-2,544,220
	Balance difference ²⁾	307	348	382	-211	-2,077	-4,515	-6,893	-97,004
50% linkage selection	Balance after linkage	34,232	44,951	28,600	-11,492	-70,018	-156,561	-194,128	-2,503,554
	Balance difference ²⁾	135	135	168	-200	-1,294	-2,449	-3,583	-56,338

Noe: 1) Subtotal figures are accumulated balance and accumulated balance difference from 2009 to 2070.

2) Balance difference (Balance after linkage - balance before linkage) means additional financial expense due to the introduction of the linkage system.

3) Economic variables are based on the assumptions of the 2nd National Pension Development Committee in 2008.

Source: Yoon Seok-myeong et al., 『A Study on the linkage of public pension subscription period II』, 2009.

B. Policy issues

Additional policy improvement is essential to ensure long-term sustainability of public pension. Concerning the national pension, the income replacement rate was reduced (70% → 40%) through two reforms, but a long-term financial instability factor remains because the increase in the insurance premium proposed in the first financial calculation was not put into practice. Contrary to advanced countries where the development of pension system and population ageing took place over a long period of time, Korea which is undergoing population ageing -- a negative factor for the pension system -- and maturation of pension schemes simultaneously needs ongoing pension reforms.

In spite of the pressure that pension reform should be carried out even before most subscribers of the national pension plan receive its benefits, we need to develop a revised pension plan that can lead to financial stability in the long run. In 2013, when the 3rd financial calculation for the national pension is completed, tangible complementary measures which were postponed after the 1st financial calculation need to be prepared. Income replacement rate, which was reduced to the marginal rate of 40% in consideration of proper pension allowance level, is better not be reduced further. In this relation, an improvement measure that gradually increases the insurance premium while maintaining the current income replacement rate should be proposed through the 3rd financial calculation of the national pension in 2013. Consideration should also be given to a built-in stabilizer for the financial status of

pension that can systematically ensure sustainability in the long term as well as some measures that can solve the problem of low pension coverage in the case of underprivileged people.

〈Table 3-11〉 Comparison of pension insurance rate in major countries

	Korea	USA(ODSDI)	Canada(CPP)	Sweden	Japan
Insurance rate	9%	12.4%	9.9%	18.5%	National pension fixed amount (¥14,000/mon.) Welfare pension: 15.35%
Ageing rate	'08: 10.3% '50: 38.2%	'06: 12.3% '50: 21.1%	'08: 13.4% '50: 25.1%	'00: 17.4% '50: 30.4%	'00: 17.4% '50: 36.4%

Meanwhile, a blueprint should be developed for the reorganization of the fund management body and the establishment of an asset management plan to effectively operate the huge national pension fund which already amounts to KRW 300 trillion and will continue to grow in the future. To guarantee strategic and stable fund management, social consensus needs to be reached on establishing a fund management corporation that will replace the Fund Management Center of the National Pension Service and plans should be developed and implemented to promote stability and profitability in fund management through diversification of domestic and overseas investment.

With regards to the government employees pension, further reform is required due to the existence of mid-term and long-term financial instability factor in spite of the pension reform in late 2009. The higher-premium,

lower-allowance reform was far from sufficient to guarantee the pension scheme's sustainability. In the 2nd Government Employees Pension Financial Recalculation Committee, improvement measures aimed at long-term sustainability should be developed by examining the trends of special occupational pension reforms in major advanced countries.

In addition, to effectively deal with an ageing society, it is necessary for the government employees pension to consider seriously a shift to multi-pillar income security system consisting of public pension, retirement pension and personal pension. This issue was studied in detail at the Government Employees Pension Development Committee in 2008, and additional in-depth examination is required on the financing plan for the system conversion expense. Notably, the reform should be made in a way to limit the gap of old-age income between existing employees who have vested rights and new employees.

Teachers pension, which went through similar reforms as the government employees pension in late 2009 also needs more reforms in view of sustainability in the long run. The Teachers Pension Financial Recalculation Committee is to be formed in March 2010 to examine the financial status and seek financial stabilization measures. The pension is also required to actively consider a switch to a multi-pillar income security system consisted with public pension, retirement pension and personal pension, with the diversification of old-age income sources in an ageing society and the limitations of government's financial support capability.

Military pension, which is already under a substantial government support for a large part of the source of

pension, has been operating the Military Pension Development Committee since 2008 to secure the sustainability of the pension scheme and to find the proper direction of development. The reform measures should be reasonable and developed in consideration of the unique characteristics of the military, such as its dedication to the national defense and the difficulty of employment after discharge. Even if we recognize the uniqueness of military, it is essential to amend the current pension system under which professional soldiers who have been discharged due to the age-limit system for specific ranks can immediately receive pension allowances. Instead of revising the current military pension scheme in a way to ascertain old-age income security, which is the proper goal of pension system, it is required to prepare various measures by which retired soldiers can assure income through economic activities and to help them adapt to the society through employment, education, etc.

2. Solution for blind spots of old-age income security

A. Current status and problems

The issue of blind spots in the pension for the elderly arose during the process of discussion on financial stability of the national pension, and to relieve the problem, the basic old-age pension system was introduced in 2008. The system was launched in January, 2008 with the aims of reducing blind spots of public old-age income protection and supporting the stabilization of the livelihood of the

elderly as the number of the pensioners has continued to increase in phases.

〈Table 3-12〉 Continuous & phased expansion of the basic old-age pension

Phase	Period	Subjects	Number of pensioners	Take-up rate
Phase1	Jan.~June '09	60% of the elderly aged 70 or older	June '09: 1.94 million.	61%
Phase2	July.~Dec. '09	60% of the elderly aged 65 or older	Dec.'09: 2.90 million	57.3%
Phase3	Jan.'09~	70% of the elderly aged 65 or older	Late Dec.'09: 3.63 million	69%

The level of the allowance of the basic old-age pension is 5% of the average income (A value) of the overall national pension subscribers. According to the current Basic Old-age Pension Act, A value is to increase gradually to 10% by 2028, and the detailed schedule and means are to be discussed by the Pension System Improvement Committee to be established within the National Assembly. At present, the allowance calculated based on the principle is KRW 90,000 for elderly single households, KRW 144,000 for elderly couple households and reduction is made on the amount exceeding the recognized income (KRW 20,000 for single elderly households and KRW 40,000 for couple households).

〈Table 3-13〉 Increase in the basic old-age pension allowance

(Unit: KRW 10,000)

Classification	'08~Mar.'09	Apr.'09~Mar.'10	Apr.'10.~Mar.'11
A value	167	175	179
Pension amount (elderly couple)	8.4(13.4)	8.8(14)	9(14.4)

The subjects of basic old-age pension scheme is 70% of the total population aged 65 or above, currently numbered at around 3,750,000. The standard of selection is conversion amount of household income and property of less than the standard amount (KRW 700,000 for elderly single households and KRW 1,200,000 for couple households). Standard amount for each household type is as following.

〈Table 3-14〉 Standard amount for selection per household type

(Unit: KRW 10,000)

Classification	'08	'09	'10
Single elderly households	40	68	70
Elderly couple households	64	108.8	112

The basic old-age pension budget is appropriated from the government expenditure and local government expenditure. From the government expenditure, government subsidy is provided on a differentiated basis within the range of 40%~90% considering the ratio of elderly population in each region, financial conditions, etc., and the average government subsidy rate for 2010 is 73.3%.

〈Table 3-15〉 Budget related to the basic old-age pension

(Unit: KRW 100 mil.)

Classification	'08(executed)	'09(executed)	'10
Total budget	22,242	34,279	37,110
Gov. expenditure	15,889	24,744	27,202
Local gov. expenditure	6,353	9,535	9,908

〈Table 3-16〉 Government subsidy rate related to the basic old-age pension

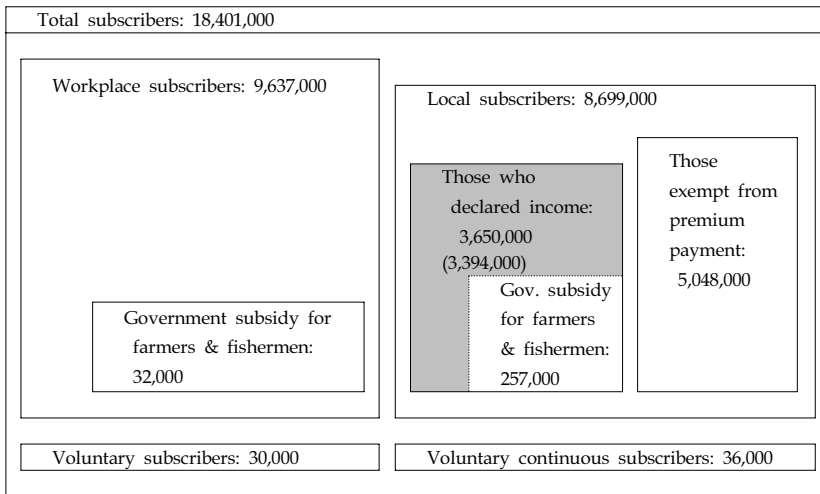
No. of local governments		Ratio of elderly population			
		Total	Less than 14%	14-20%	20% or above
Financial independence	90% or above	0	40% (0)	50% (0)	60% (0)
	80-90%	18	50%(18)	60% (0)	70% (0)
	less than 80%	213	70%(109)	80%(41)	90%(63)
	Total	231	127	41	63

The basic old-age pension's problem is its vague nature and development. In other words, although it succeeded in drastically reducing blind spots in the public old-age income protection, the basic old-age pension scheme which was introduced suddenly in the process of political compromise to pass the Act for Financial Stabilization of National Pension lacks clear characteristics or future direction. In the long term, it is necessary to define the targets, allowance level, relationship with the national pension and future development direction. Accordingly, a committee was set up for the integration and restructuring of the national pension and the basic old-age pension, and proposed some alternatives for its future direction. The committee's suggestions include: a plan to reduce the target population gradually considering the maturity of the national pension, increase the allowance and switch to public assistance; and a plan to convert the basic old-age pension scheme to a universal tax-based basic pension system.

Meanwhile, a measure to minimize the low or no pension coverage problem that those exempt from paying the national pension premium and low-income bracket will face after retirement is required. Among 18,000,000 who are subjects of the national pension, an average of around

5,000,000 are exempted from payment of the national pension premium due to reasons including unemployment and failed business. Also, a large part of the national pension subjects classified as local subscribers are assumed to be workers of small businesses or irregular workers, and not local subscribers in fact. However, what we need to focus in relation to those exempt from premium payment is that this group that reaches around 5,000,000 in average is not a fixed group, if we approach it from the viewpoint of individual subscription history. That is, while those exempt from premium payment is maintained at about 5,000,000, new entries and withdrawals are constantly going on, so the number of people who stay in the group for a long period is presumed to be much lower. The size of potential blind spots of the national pension may be exaggerated more than reality, but it is highly probable that many of those exempt from premium payment will be left with low or no pension and become a part of the deprived bracket under the current system. Therefore, a more active measure should be taken to include these people in the national pension system in the actual sense.

[Figure 3-1] Current status of the national pension subscribers (as of May 2009)



Note: Among local subscribers who declared income (3,650,000), low-income insurance assistance beneficiaries are selected among 3,394,000 after excluding those who receive government subsidy for farmers & fishermen (257,000).⁵⁾

Source: Yoon Seok-myong et al., 『A Study on the Insurance Premium Assistance for Low-income Local Subscribers of the National Pension』, 2009

B. Policy issues

Clarifying the characteristics of the basic old-age pension scheme is required, based on which the roles of the national pension and the basic old-age pension should be defined. On the basis of the restructuring plan examined at a subcommittee of the National Pension Reform Committee, the Pension System Improvement Committee should be established at the National Assembly and social consensus should be sought. We are in the early stage of the system introduction, and there is a low percentage of the national

5) Among the total subjects of the government subsidy for farmers and fishermen (289,000), around 257,000 are local subscribers (excluding 32,000 of workplace subscribers).

pension beneficiaries in the overall elderly population. However, as the national pension system enters maturity, the percentage of the national pension beneficiaries is expected to rise to 69% (75.7% when survivors pension is included) among the overall elderly in the long run, and this factor should also be considered in improving the system.

〈Table 3-17〉 National pension beneficiaries among the elderly population

(Unit: 1,000 persons)

Year	Population aged 65 or older (A)	Old-age pension beneficiaries (B)	Survivors pension beneficiaries (C)	Beneficiaries of pension incl. survivors pension (B+C)	Percentage among population	
					Old-age pension beneficiaries (B/A)	Beneficiaries of pension incl. survivors pension (B+C)/(A)
2010	5,354	1,200	1,353	2,553	22.4	25.3
2020	7,821	2,853	3,230	6,083	36.5	41.3
2030	11,899	6,095	6,795	12,890	51.2	57.1
2040	14,941	9,050	10,049	19,099	60.6	67.3
2050	15,793	10,422	11,572	21,994	66.0	73.3
2060	14,583	10,197	11,272	21,469	69.9	77.3
2070	12,925	8,917	9,789	18,706	69.0	75.7

Source: Yoon Seok-myeong et al., 『Korean-style Old-age Income Security System Development Plan to Prepare for the Aged Society』, 2007

Even if the present basic old-age pension system is maintained (including the ratio of beneficiaries among total elderly population and the allowance level), it is anticipated that the number of beneficiaries and allowance expenses will rapidly grow due to the progress of population ageing and increase in the number of the elderly. Considering that it is impossible to contain drastic increase in financial burden and ease poverty among the elderly at the same time with a single measure in an aged society, it would be desirable to find the point where the two opposed policy goals overlap the most.

〈Table 3-18〉 Outlook of the basic old-age pension subjects and the cost of pension

Year	Subjects ¹⁾ (1,000)	Gross cost (KRW trillion)					
		5% of the average income (A value) of entire national pension subscribers			To be increased to 10% of the average income of entire national pension subscribers by 2028		
		Current price	Based on 2008 price ²⁾	Gross cost compared to TGDP	Current price	Based on 2008 price ²⁾	Gross cost compared to GDP
2010	3,748	4	4	0.4%	4	4	0.4%
2020	5,475	11	5	0.5%	16	8	0.8%
2030	8,329	29	8	0.8%	57	17	1.7%
2040	10,459	59	10	1.2%	117	21	2.4%
2050	11,055	98	11	1.4%	196	22	2.9%
2060	10,208	140	10	1.6%	281	21	3.1%
2070	9,047	193	9	1.6%	387	18	3.3%

Note: 1) Number of subjects is 70% of population aged 65 or older.

2) Discount is made based on wage increase rate.

3) Economic variables are based on the assumptions of the 2nd National Pension Development Committee in 2008.

Source: Yoon Seok-myeong et al. 『A Study on the Sustainability of Public Pension - With the Focus on Financial and Political Sustainability』, 2008

〈Table 3-19〉 Comparison of possible alternatives for the basic old-age pension

	Subjects	Pension allowance	Characteristics
Selective public assistance system	Low-income, deprived elderly (ex. 70% with lower income → 40%)	To increase compared to current level (50% of A value)	Focused support for the poor elderly
Universal basic pension system	All elderly (aged 65 or older) (ex. 70% with lower income → 100%)	Current level or partial increase	Reinforcement of multi-pillar income security system through universal basic protection ※ 4-layer structure of basic/national/retirement/personal pension

Note: A value = Average monthly wage of the entire national pension subscribers

Two alternatives currently under discussion are changes into the selective public assistance system and the universal basic pension system. The selective public assistance system can solve the elderly poverty problem, but it is too weak to sufficiently reduce blind spots of the public old-age income protection. On the contrary, the universal basic pension system can usher in the era of pension for all people, but it

is limited in solving the problem of elderly poverty completely due to the constraint of allowance amount.

We need both the redefinition of the role of the basic old-age pension system and the policy response to reduce blind spots of the current national pension system. The most effective way to do away with blind spots in the national pension would be to provide pension allowance for minimum livelihood when any citizen reaches a certain age (eg. 65) through a universal public pension scheme. However, considering the aggravating financial pressure to follow the progress of the aged society, it is likely to have limits in spite of high policy impact. In this regard, a more viable alternative would be to present motivations for the elderly to prepare themselves because it is difficult to prepare for later years on their own.

〈Table 3-20〉 Current status of those exempt from national pension premium payment

(Unit: 1,000 persons)

Year	Total beneficiaries (A)	Number of local subscribers			
		Total	Those who declared income	Those exempt from premium payment (B)	Ratio of those exempt from premium payment ¹⁾ (B)/(A)
1999	16,262	10,822	5,310	5,513	33.9%
2000	16,209	10,419	5,973	4,446	27.4%
2005	17,124	9,124	4,489	4,634	27.1%
2006	17,740	9,086	4,150	4,936	27.8%
2007	18,267	9,063	3,956	5,107	28.0%
2008	18,335	8,781	3,756	5,026	27.4%
July 2009	18,512	8,627	3,635	4,993	27.0%

Note: 1) Ratio of those exempt from premium payment to total subscribers

Source: Yoon Seok-myeong et al., 『Plans for Expanding Social Insurance for the Deprived - With the Focus on the National Pension』, 2009

In this relation, it is necessary to positively consider providing part of the national pension premium to the low-income bracket including the beneficiaries of the basic

livelihood security program and unemployment benefits as well as low-income retirees. First, we need to think about a way to cover a certain percentage of the insurance premium from the national treasury in a matching fund format for beneficiaries of the basic livelihood security program and unemployment benefits, on condition that the beneficiaries pay part of their cash allowance as insurance premium.

〈Table 3-21〉 Those exempt from insurance premium payment by causes of exemption

(Units: 1,000 persons, as of July 2009)

Classification	Total	Unemployment/ leave of absence	Suspension of business	Difficulty in basic livelihood, etc.1)	Others
Total	4,309 (100.0)	3,240 (75.2)	436 (10.1)	348 (8.1)	285 (6.6)
Cities	4,023	3,163	346	280	234
Rural areas	286	76	90	68	52

Note: 1) Difficulty in livelihood, etc. refers to cases in which payment of pension premium can cause difficulty in maintenance of basic livelihood.

2) Others include natural disasters, schooling, unknown addresses, etc.

Source: Yoon Seok-myeong et al.,(2009) 『Plans for Expanding Social Insurance for the Deprived - With the Focus on the National Pension』

Also, considering the fact that late retirement may cut down the cost of old-age protection, we may consider the support for the low-income elderly or retirees to stay in the labor market as part time workers and postpone the receipt of pension benefits, with part of their national pension premium from the national treasury.

Development of a plan to assist low-income local subscribers with their insurance premium can be another way to solve the problem of blind spots. It is not easy for low-income local subscribers who barely make their living to participate in the national pension system for which they

have to pay monthly premiums with the distant future in mind. Results of various researches show that the majority of people who belong to the low-income bracket are unable to prepare for old age due to insufficient income, although they clearly feel the need.

If they are kept in the present condition without any supplementary measures, most of them are highly likely to be left with no or low pension. To encourage them to join the national pension and to help them retain higher pension allowance, the government's assistance with their insurance premium is urgently in need on the condition that low-income local subscribers pay part of their own insurance premium. Government support of the pension premium from the national treasury may be a financial burden in the short to mid-term, but considering that much more government resources will be spent when they retire and receive their pension if prior support has not been made, there is cost reduction effect. Due to the difficulty of determining the income of low-income local subscribers and to minimize moral hazard (a tendency of intentionally deflating income report to get assistance), we need to consider introducing this measure on a trial basis up to the second-lowest income bracket (those who earn up to 120% of the minimum cost of living).

〈Table 3-22〉 Reasons for lack of old-age preparation by heads of households

(Unit: %)

Classification		Sufficient as present	Dependent on children's support	Lack of information	Lack of money	No reason	Total
Status of public pension subscription	Pension beneficiaries	10.53	17.57	2.97	62.55	6.38	100.00
	Subscribers	4.66	10.31	9.54	62.88	12.60	100.00
	Non-subscribers	4.36	11.31	4.89	73.23	6.20	100.00
	Not eligible	9.49	15.60	7.71	59.33	7.87	100.00
Type of public pension	National pension	4.59	10.36	9.56	62.95	12.54	100.00
	Special occupational pension	7.47	13.92	5.91	65.64	7.06	100.00
Type of national pension	Workplace subscribers	5.69	17.83	14.84	48.01	13.63	100.00
	Local subscribers	3.36	1.90	3.62	79.70	11.42	100.00
	Voluntary subscribers	0.00	0.00	0.00	100.00	0.00	100.00
Type of national pension payment	Payers	5.20	12.63	11.51	56.04	14.62	100.00
	Payment exemption	4.29	0.00	0.73	93.96	1.02	100.00
	Unpaid	0.63	0.00	0.69	94.62	4.06	100.00
Total		6.00	12.10	7.78	64.27	9.85	100.00

Source: Yoon Seok-myeong et al., 'Research and Analysis of the National Pension, etc. for Establishment of Multi-pillar Old-age Income Security System', 2010

In addition, developing a measure is required to motivate deprived employees working in small businesses, such as day laborers at construction sites, to participate in the system. Considering that most of the people classified as local subscribers among those exempt from insurance premium payment are seen as day laborers at construction sites and workers in small businesses, it is essential to provide a solution for workers who do not receive the benefits offered to workers in general. In this regard, it is necessary to change conditions related to the national pension so that these workers can be motivated to pay the insurance premium. That is, support for partial insurance premiums should be offered not only to low-income local subscribers but also day laborers with low income and weak

job stability to alleviate their burden and motivate them to pay their insurance premiums.

Notably, construction workers have low job stability - due to weather and seasonal factors - and their monthly working days change frequently. In consideration of this factor, social insurance premium in the national pension, etc. is calculated based on around 20 working days per month in the construction industry in general. According to the National Pension Act, business owners pay 4.5% of the insurance premium per month, but in the construction industry, they pay only 2.43% of the insurance premium to reflect laborers who work for less than 20 days. This may lead construction companies to avoid employees who work for more than 20 days a month although there is no other problem in their work conditions.

To deal with this problem, relevant stipulations should be revised to adjust insurance premium based on actual monthly working days of laborers including day laborers at the time of bidding for construction projects, under the principle of ex-post settling up, and it is necessary to consider reducing the burden of social insurance premium for small business owners. Many of small businesses are marginal companies, so there may be an objection that they may be liquidated. However, allowing for the fact that these businesses are creating employment, there needs to be a measure to lessen the burden of small business owners. Before full-fledged introduction of the measure, a pilot test can be carried out in which part of the business owners' burden for social insurance premium is paid from the national treasury within a limited range, with the focus on

small businesses with high employment effect. If such a measure is adopted, it would be possible to prevent a large portion of false reduction of working days through the collusion between the workers and business owners as well as dishonest reports (treatment as informal labor, etc.).

〈Table 3-23〉 Percentage of the national pension subscribers among construction business employees

(Units: 1,000 persons, %)

Year	Construction business employees			National pension subscribers (B)	Ratio of the national pension subscribers to construction business employees (B/A)
	Subtotal (A)	Technical management personnel	Technician personnel		
2001	1,648	427	1,221	525	31.9
2002	1,805	453	1,352	573	31.8
2003	1,851	457	1,394	632	34.1
2004	1,846	440	1,406	665	36.0
2005	1,765	459	1,306	679	38.5
2006	1,773	422	1,351	711	40.1
2007	1,808	513	1,295	857	47.4
2008	1,759	567	1,192	879	50.0

Source: National Pension Service, 『Annual Statistics on the National Pension』, 2009.
 Statistics Korea 『Economically Active Population Survey』, 2009.

Source: Yoon Seok-myeong et al., 『Plans for Expanding Social Insurance for the Deprived - With the Focus on the National Pension』, 2009.

〈Table 3-24〉 Application of social insurance for day laborers at construction sites (based on the responses of workers)

Classification	Percentage of day laborers at construction sites (%)
Workers' compensation insurance	81.1%
Unemployment insurance	73.7%
National pension	27.7%
Health insurance	27.3%
Mutual retirement aid program for construction workers	52.7%

Note: Based on the results of a survey by the Construction Economy Research Institute of Korea in July 2009

Source: Yoon Seok-myeong et al., 『Plans for Expanding Social Insurance for the Deprived - With the Focus on the National Pension』, 2009

It is also necessary to incorporate workers in special employment relationship in the scope of workplace subscribers. Efforts should be made to include special-type workers including golf caddies, concrete mixer truck drivers and home-study teachers as workplace subscribers of the national pension scheme. These people have strong characteristics of employed workers, but because they are classified as self-employed workers, they tend not to join the national pension due to heavy personal burden. If they are included as workplace subscribers through the revision of relevant laws, their personal burden will be lessened and thus, more people are expected to subscribe to the national pension. However, considering the past experience in the operation of the workers' compensation insurance, a more systematic approach seems to be needed. The workers' compensation insurance has already incorporated the special-type workers as compulsory workplace subscribers, but a high percentage of these workers withdraw after compulsory subscription (70.3%). Therefore, it would be desirable to abolish the rule that allows, as in the workers' compensation insurance, voluntary withdrawal when special-type workers have joined the national pension as workplace subscribers.

3. Promotion of labor motivation by public pension

A. Current status and problems

The age of receiving public pension allowance including the national pension is going up according to the increase in

the average life span in an aging society. However, due to the disparity with the reality in the labor market, there is considerable gap between the time of receiving pension and the time of retirement. The current pensionable age of the national pension scheme is 60, and it will increase once every five years starting in 2013, until it reaches 65 in the long term. However, actual age of retirement in the labor market is getting much younger due to growing demand for involuntary early retirement arising from severe competition among different businesses and countries as the world as a whole gets globalized. As the average life span continues to grow, it is difficult to effectively respond to changing social and economic environment based on the conventional concepts of labor and retirement; thus, we need to redefine these concepts in a way suitable for an aged society.

B. Policy measures

It is required to promote conditions for the elderly to stay in the labor market, at least partially, as long as they have labor capability, under the theme of "active ageing" put forth by organizations such as OECD from the 1990s. The elderly can make earned income through part-time labor, and part of the reduced earned income may be provided from the partial pension system, which needs to be facilitated. The deferred pension program, which presents incentive in return for deferment of pension receipt (6% increase per deferment of one year) should be promoted.

It is also required to positively consider the measure to expand the eligible ages of the deferred pension program -

up to 67 or 70 years. In addition, it is necessary to relieve the requirements of old-age pension benefits for incumbent workers, so as to prevent disadvantage for the working elderly. For example, when an aged worker receives retirement allowance, etc. from his company at the time of retirement (after part-time labor), at present this keeps him from receiving old-age pension because the retirement allowance is classified as earned income. The regulation that makes the retirees unable to receive the old-age allowance of the relevant year under the national pension, even if the earned income of the year of retirement is quite small, needs to be revised.

4. Expansion of private income security system

A. Retirement pension

1) Current status and problems

In Korea, the retirement allowance system was introduced to protect the income of workers for various purposes when there was no social security programs. Therefore, the retirement allowance system played a number of different functions during the economic development process, such as livelihood stabilization fund, old-age income and fund for sanatorium or purchase of housing. It was a voluntary program at the time of first introduction in 1953, and it became compulsory in 1961. With the establishment of social insurance system, the retirement allowance should turn into a part of old-age income security system after retirement

from the labor market.

The changes in the labor market such as the introduction of intermediate settlement system, expansion of annual salary system and reduction of the length of service have led to exhaustion of retirement allowance as livelihood fund, decline of its role as a source of old-age income security and rapid increase in real age, adding to the burden of the businesses. Retirement allowance is usually put aside merely in the books, so the workers' right to the retirement allowance is not guaranteed at the time of bankruptcy of businesses. Also, the statutory retirement allowance system is not applied to small businesses. According to the Labor Standards Act, reimbursement of three years' worth of retirement allowance can be made preferentially at the time of business bankruptcy, but the exceeding coverage amount of wage claim guarantee depends entirely on the reimbursement capability of the business owners. Statutory retirement allowance system is problematic in that it lacks fairness because it excludes deprived workers with relatively higher need of protection.

These problems with retirement allowance led to introduction of the retirement pension scheme. The Employee Retirement Benefit Security Act (Jan.27, 2005), the enforcement ordinance (Aug.19), enforcement regulations (Sept.22) and the notification were established and proclaimed, and they have been in effect since Dec.1, 2005. This change from retirement allowance system to retirement pension system was decided after gaining consent of the majority of workers, and the type and design of retirement pension system are left to the voluntary discussion between

the management and labor.

If the past working days are retroactively included in the retirement pension subscription period, differentiated saving of lump sum allowance can be made according to the period of retrospective application, up to maximum 5 years. There exist regulations on human/materialistic conditions of those who can receive the consignment of record keeping and fund actuary operation.

〈Table 3-25〉 Comparison of retirement allowance schemes

	Lump sum allowance	Retirement pension (introduced on Dec.1, 2005)	
		Defined benefit (DB)	Defined contribution (DC)
Expense bearers	Employers	Employers	Employers (workers may cover additional expense)
Type of retirement allowance	Lump sum payment	Pension or lump sum allowance (same as retirement allowance)	Pension or lump sum allowance (same or more than retirement pension)
Level of assumed expense	30-day portion of total annual salary (1/12)	Can be more or less than retirement allowance (depends on the employers' management performance)	Same as retirement allowance (Based on yearly intermediate settlement)
Accumulation pattern & guarantee of pension benefit	Accumulation at work, instability	Partial accumulation outside the company(60%), partial protection	All accumulation outside the company, complete protection
Management of reserve fund	-	Employers	Workers
Tax benefits for workers	Lump sum allowance taxation of retirement income	Tax deferment until the time of pension receipt	Tax deferment until the time of pension receipt
Tax benefits for employers	30% of accumulation at work as allowable costs	30% of accumulation at work & total amount of accumulation outside the work as allowable costs exemption from coverage of wage claim guarantee (in the category of retirement allowance)	Total amount of accumulation outside the work as allowable costs exemption from coverage of wage claim guarantee (in the category of retirement allowance)
Suitable businesses & workers	Workers without risk of	Businesses without risk of bankruptcy and with ability to manage	Annual salary system, businesses with risk of wage overdue, workers who

	Lump sum allowance	Retirement pension (introduced on Dec.1, 2005)	
		Defined benefit (DB)	Defined contribution (DC)
	bankruptcy and with high wage increase rate	retirement pensioners	frequently change jobs
Early withdrawal	Possible	impossible	Possible (under certain conditions)
Subscription rate (Apr.'10)	-	37.82% of regular employees at workplaces with 5 or more workers	
		78.1%	18.8%

Note: Individual retirement account (IRA): Savings account opened by an employee who received lump sum retirement allowance from the employer to receive set amount of allowance each month. Early withdrawal is possible. 31% of subscription rate as of Apr.'10)

〈Table 3-26〉 Level of distributed accumulation for defined benefit retirement pension according to the period of past period of employment

Period of employment	Less than 1 year	1 year ~ 3 years	3 years ~ 6 years	6 years ~ 10 years	10 years or more
1st year	60/100	30/100	20/100	15/100	12/100
2nd year	-	60/100	40/100	30/100	24/100
3rd year	-	-	60/100	45/100	36/100
4th year	-	-	-	60/100	48/100
5th year	-	-	-	-	60/100

Note: 1) Above level of accumulation is the ratio in the amount calculated for each item of Paragraph 5, Article 12 of the Employee Retirement Benefit Security Act, which should be reached by the end of relevant year.

2) Level of accumulation for the entire subscription period (past period of employment plus subscription period after the retirement pension was set up) is calculated according to the following formula.

$$\frac{[(\text{past period of employment} \times \text{level of accumulation}) + (\text{subscription period after the retirement pension was set up} \times 60/100)] \times \text{level of allowance}}{\text{entire subscription period} \times \text{level of allowance}}$$

Current status of introduction of the retirement pension system (as of the end of Nov.'09) shows that a total of 1,722,662, or 22.59% of regular employees at workplaces with five or more workers are pension subscribers. Concerning the number of workplaces, a total of 67,705 businesses, or 13% of those with five or more workers have adopted the retirement pension. The current accumulation

amount of the retirement pension stands at around KRW 10,334,500,000,000.

〈Table 3-27〉 Current status of retirement pension subscription by number of subscribers

Classification		Total	DB type ²⁾	DC type	IRA exception	Private IRA
No. of employees (%)		1,722,662 (100)	1,172,344 (68.05)	472,854 (27.45)	68,552 (3.98)	8,912 (0.52)
Type of institution	Bank	1,045,478	645,592	327,855	66,708	5,323
	Life insurance	350,834	297,485	48,995	1,672	2,682
	Securities	243,624	169,806	73,265	111	442
	Indemnity insurance	82,726	59,461	22,739	61	465

Note: 1) Total number of regular employees at workplaces with 5 or more workers is 7,626,022. (Ministry of Employment and Labor, Facts on Labor in Businesses, Dec. 2007)

2) Number of DB subscribers include multiple subscribers who have more than one contracts.

〈Table 3-28〉 Current status of retirement pension subscription by number of workplaces

Classification	Total	DB type	DC type	DB & DC types	IRA exception*
Workplaces (%)	67,705 (100)	18,926 (27.9)	27,067 (40)	766 (1.1)	20,946 (31)
500 or more	352	185	72	95	-
Less than 500	67,353	18,741	26,995	671	20,946

Note: 1) Total number of workplaces with 5 or more employees is 518,716 (Ministry of Employment and Labor, Facts on Labor in Businesses, Dec. 2007)

2) Notification was made after reducing 980 workplaces (with less than 500 workers) that abolished retirement pension scheme after acceptance of abolition report. (Apr.1, '08)

〈Table 3-29〉 Accumulation amount of the retirement pension

(Unit: KRW 100 mil.)

Classification		Total	DB type	DC type	IRA exception	Private IRA
Accumulation amount (percentage)		103,345 (100)	67,981 (65.78)	26,336 (25.48)	3,465 (3.35)	5,561 (5.38)
Type of institution	Bank	56,025	33,412	15,485	3,388	3,507
	Life insurance	29,144	24,015	3,698	59	1,462
	Securities	12,161	5,910	5,953	9	276
	Indemnity insurance	6,014	4,642	1,199	8	165

Note: 1) Statistics of fund management institutions that have submitted performance outcomes. As of November 2009, 54 institutions have registered as retirement pension providers at the Financial Supervisory Service.

At present, the role of retirement pension as a means to prepare for old age is considered to be unsatisfactory. The current income replacement rate of public and private pension programs is assumed to be 55% and the income replacement rate of retirement pension is estimated to be 12.5%, and these rates are significantly low when global comparison is made. In advanced countries, income replacement rate of pension deemed acceptable is 60~70%. The result of the World Bank's survey on the income replacement rates of various countries have set the average income replacement rates of public pension and retirement pension at around 30%, with combined income replacement rate of the two pension systems reaching 60%. Compared to the average income replacement rate of retirement pension at 30% as shown in the result of an international survey, the Korean rate of 12.5% is quite low.

Average accumulation level of retirement pension in OECD countries is estimated to be around 111% of GDP. In Korea, the percentage is just 7.9%, which is less than 1/10 of the OECD average. There are several reasons for such a low percentage and insufficient role of retirement pension. First, concerning taxation, which is considered as the most important policy measure for facilitation of retirement pension, taxation on pension income is disadvantageous compared to lump sum retirement allowance and fails to serve the basic purpose of the introduction of retirement pension system; income tax reduction for workers' additional burden is also insufficient. From the employers' viewpoint, there are not enough tax benefits to promote conversion from retirement insurance to retirement pension; for

example, tax deductibility limit of retirement allowance reserve is too low. Second, the statutory retirement allowance system is maintained as the current retirement allowance system, and is seen to restrict further expansion of retirement pension. Third, there are insufficient guarantee measures for payment of retirement allowance, and fourth, some people point out that the regulation on pension management may limit the scope of asset management by workers, reduce investment earnings rate and impede the facilitation of retirement pension in the long run.

B. Policy measures

To alleviate these problems and promote retirement pension, the following policy measures are required. First of all, taxation system should be improved so that selecting retirement pension is more advantageous than lump sum retirement allowance. From the employers' view, recognition of retirement pension reserve at work as allowable costs (30% at present) should be phased out (by 5% yearly) and abolished. From the workers' view, amount of income tax deduction on the lump sum retirement allowance should be reduced from the current 45% by 5% each year.

Meanwhile, introduction of retirement pension should become an obligation for workplaces with 100 or more employees, and retirement pension subscription at public institutions should continue to be expanded. For this, it should be considered to include the introduction of retirement pension as a criteria of management evaluation in public institutions. Other policy measures that can help

increase subjects of retirement pension include the introduction of retirement allowance at workplaces with four or less workers and obligation of retirement pension in new businesses.

In addition, there needs to be tighter guarantee of retirement pension payment to protect workers' right to receive pension. In the case of defined benefit type pension, the ratio of accumulation outside the company (60% at present) should be increased to protect pension benefits against the risks of bankruptcy, etc., and in the case of defined contribution type pension, workers should be able to choose the time of asset evaluation between the current year and the average of three years surrounding the retirement.

Allowing income tax deduction of the retirement pension, independently from personal pension, would be another way to facilitate retirement pension. Currently, the annual limit of income tax deduction is KRW 3,000,000 combining personal pension and retirement pension; however, for workers who choose DC-type retirement pension, it may be helpful to allow separate income tax deduction on additional contribution. Also, it is necessary to differentiate the limit of income tax deduction according to different income levels by reducing the limit further for higher income groups and thus protecting those in the low-income bracket.

〈Table 3-30〉 Investment limit on risky assets

Type of retirement pension	Risky assets	Limit of investment
Defined benefit	Listed stocks, equity stocks, foreign indirect investment securities, etc.	30%
	Combined indirect investment securities, foreign investment grade bonds, etc.	40%
Defined contribution	Listed stocks, equity stocks, combined indirect investment securities, etc.	0%
	Foreign investment grade bonds, foreign indirect investment securities (40% or less stocks)	30%

Along with these system improvements, assistance with education and consulting should continue to be made. In addition to the conventional support focused on booklets and briefing sessions, consumer education programs in which promotion of pension system can be made using visual media and TV programs providing financial information in general should be offered, while designating expert groups with public confidence and information sources with no conflict of interest with pension subscribers.

According to a survey on OECD countries, workers do not have the ability to make judgments even if they get information on pension system or other financial information, and tend to accept the suggestions of experts. Also, the general public obtains information and knowledge through TV programs more often than documents or publications, and many subscribers think they have sufficient financial knowledge while, in fact, they don't. For early establishment of retirement pension, free training should be provided to labor union leaders, labor relations managers, etc., and consulting should be offered to small businesses (eg. less than 300 employees).

At the same time, improvement on the retirement allowance system should be made. The current statutory retirement allowance system remains as the retirement allowance system, but we should consider reducing it through tax benefits, etc. in the short term and phase it out in the long term.

There should also be continued efforts for reinforcement of infrastructure and system basis, such as establishment of consistent retirement pension statistics and improvement, development of governance structure of retirement pension plan, establishment of pension actuary qualification system, active participation in private pension-related discussion in OECD's Working Party on Private Pensions, Task Force on Private Pensions and the Insurance and Private Pensions Committee, and establishment and operation of a research group on retirement pension system and an advisory committee.

C. Facilitation of personal pension

1) Current status and problems

In relation to the paradigm of old-age income security, the role of private pension is gradually being emphasized as the system that used to be based on public pension is changing into multi-pillar old-age income security system comprising corporate retirement pension, personal pension, etc., following the economic growth. Accordingly, promotion of personal pension has been made for protection of old-age income on the proper level through role sharing between

public and private pension schemes in Korea. Personal pension plans offered by private insurance companies have been operated under the name of 'Personal Pension Savings Plan' until 2000 and 'Pension Savings Plan' since 2001.

Since the personal pension plans started selling in 1994, the amount of asset has been growing quite quickly, but the growth is gradually slowing down. The total asset of Korean personal pension rose from KRW 22.4 trillion in 2002 to 29.9 trillion in 2004, but has been at a standstill by recording KRW 30.5 trillion in 2006.

The growth rates of personal pension asset were 2.7% for the old personal pension and 69.2% for the new personal pension in 2006, which are still quite high, but these rates have dropped from by 10.8% for the old pension and 149.1% for the new pension in 2002, and this tendency is continuing.

<Table 3-31> Amount of personal pension asset and changes in growth rate

(Units: KRW 100 mil, %)

	Old personal pension		New personal pension	
	Asset	Growth rate	Asset	Growth rate
2001	189,263		1,948	
2002	209,727	10.8	4,852	149.1
2003	230,994	10.1	9,179	89.2
2004	245,119	6.1	15,919	73.4
2005	253,150	3.3	26,719	67.8
2006	259,955	2.7	45,214	69.2

Note: Based on the balance at year end for banks, premium reserve for insurance banks and settlement balance (설정잔액?) for securities companies / Data: Financial Supervisory Service (banks, life insurance companies); Asset Management Association of Korea (securities)

Source: Ryu Geon-sik et al., 2009, p.68

The premium of the personal pension savings have increased swiftly along with the amount of asset, but the growth is recently levelling off. In the case of the old

personal pension, the pension premium started to fall since it reached KRW 2.4 trillion and 31.9% of growth in 2002, maintaining negative growth with pension premium of KRW 1.5 trillion and growth rate of -13.3% in 2006. Concerning the new personal pension, its asset and growth rate, which peaked at KRW 192.09 billion and 103.3% in 2002, started to slowdown in 2003, with a growth rate of 55.9%. While the asset amount continues to increase, reaching KRW 1.6 trillion in 2006, the growth rate fell from 83.1% in 2005 to 78.0%.

〈Table 3-32〉 Personal pension premium and changes in the growth rate

(Units: KRW million, %)

	Old personal pension		New personal pension	
	Asset	Growth rate	Asset	Growth rate
2001	1,852,510		94,496	
2002	2,444,224	31.9	192,085	103.3
2003	2,229,307	-8.8	299,528	55.9
2004	2,127,406	-4.6	486,861	62.5
2005	1,752,787	-17.6	891,515	83.1
2006	1,519,039	-13.3	1,586,805	78.0

Data: Financial Supervisory Service (banks, life insurance companies); Asset Management Association of Korea (securities)

Source: Ryu Geons-sik et al., 2009, p.69

Persistency rate of the new personal pension has remained steady at 95% from 2001 to 2006, which has much improved compared to 28.6% of the old personal pension in late 2000. This is because surtax of 5% of the paid premium and additional tax for income tax deduction are imposed if cancellation is made within 5 years after joining the pension, and because the shift of pension tax system from TEE system to EET system has improved benefits of pension subscription. However, tax-qualified personal pension plan that provides tax benefits under the Restriction of Tax

Reduction and Exemption Act shows much lower sales compared to tax-disqualified personal pension. The number of new contracts of the tax-qualified new personal pension was 90,211 in 2006, which is just around 1/4 of 263,574 of the tax-disqualified new personal pension.

Current tax benefits related to the private pension savings scheme is as follows:

〈Table 3-33〉 Outline of tax benefits for pension savings

Classification	Tax benefit
Premium payment stage	KRW 3,000,000 of income tax deduction (added with the retirement pension premium payment)
Management stage	Tax exemption for management profit
Allowance payment stage	Pension income tax deduction allowed within the limit of KRW 9,000,000

Although the proposal for simplified year-end settlement of pension income was developed to revise the enforcement ordinance of the Income Tax Act and to guarantee proper level of old-age income through facilitation of personal income, it is seen that infrastructure building for expanding personal pension has not been sufficient until now, including diversification of asset management measures.

At present, the real income replacement rate of Korean personal pension is estimated to be 7.5%⁶⁾, which is much lower than the international organization standard (OECD, World Bank, etc.) of 20-30% and over 25% of personal pension plans in advanced countries (eg. 25% in Japan and 36% in the U.S. in 2007) The limited role of personal

6) Ryu Keonsik et al. "Policy Measures to Enhance the Roles of Private Pension", 2009. Korea Insurance Development Institute.

pension is due to following problems: First, income tax deduction, which is the tax benefit for personal pension, has failed to provide enough attraction. In particular, the difference between high-income and low-income brackets has not been fully examined. For high-income bracket, it is not easy motivate them to join the new personal pension through additional incentives because they may choose tax-disqualified personal pension over tax-qualified new personal pension due to reasons including inheritance. In the meantime, while the function of old-age income security is important for the low-income bracket, benefits including income tax deduction are not strong enough to attract this group to join the personal pension.

Second, the possibility of expanding the subjects of income tax deduction to the extreme poor, housewives, etc. is not being realized. Third, it has been pointed out that the disadvantage of premature cancellation may have contributed to increasing the subsistency rate, but the relatively severe disadvantage of premature cancellation in a situation where there is not much attraction of tax benefits may prevent more people from joining the pension. The lack of diversity of choice of asset management for personal pension subscribers also limits increase of subscription, and the contract transfer system implemented after the 2001 revision of the Restriction of Tax Reduction and Exemption Act is still said to have many shortcomings.

2) Policy measures

Following measures may be considered for tax revision

aimed at facilitation of personal pension. Allowing for the fact that high-income and low-income brackets are motivated differently by income tax deduction, we need to introduce income tax deduction system differentiated for different income levels. Different limits of income tax reduction should be applied according to income levels and middle and lower brackets should be allowed higher limits. For these brackets, the current limit of income tax deduction is KRW 3,000,000 combined with retirement pension; however, we may consider separating personal and retirement pensions and applying KRW 3,000,000 of income tax deduction for each category. According to the effect of the policy, the amount limit can also be increased in several steps. Preference of the deprived can be made in relation to the expansion of the scope of income tax deduction. There can be two different cases. First, those with extremely low income below a set amount can be assisted with government subsidy proportionate to the amount of premium they have paid, if they stay in tax-qualified personal pension during the required period. This measure is viable considering that they would have not joined the personal pension without government subsidy, would have increased the government's financial burden due to old-age poverty, and that employees have assistance from their companies.

Next, we can consider the option of approving income tax deduction for pension premium paid by housewives in households below a certain income level. This has the meaning of recognizing the social contribution of the labor of housewives, and it is possible in relation to the income tax deduction of dependents. Notably, female spouses are

younger than males on average and have longer life expectancy; also, considering that housewives of low-income households have very low old-age income, it seems to be an adequate measure for more stable old-age income security. At present, the disadvantage of premature cancellation is more severe than the motivation effect of tax benefits, and this can prevent more people from joining the pension. Therefore, it is needed to enhance the motivation effect of taxation and alleviate the disadvantage of premature cancellation. There should be continued consideration of tax benefits in view of the changes in the number of personal pension subscribers. To this end, a regular consultative body should be set up among related institutions such as the Ministry of Health and Welfare and the Financial Supervisory Service.

In the mid- to long term, tax revision of pension income needs to be pursued in connection with the revision of the taxation system on financial income, considering the characteristics of personal pension as a financial product.

Next, the infrastructure for promotion of personal pension should be established. By diversifying the means of asset management, personal pension subscribers should be enabled to choose among a wider variety of pension management options. This will increase the earnings rate and facilitate personal pension. Setting a certain period (a quarter, etc.) may be considered, based on which period the asset manager can suggest asset management options regularly so that individual subscribers can decide the means of asset management in consideration of the management performance, etc. The contract transfer system

that allows personal pension to be transferred to financial institutions of the customers' choice has been implemented since 2001, but the system has a lot of problems and needs to be supplemented.

5. Search for the means of asset management

A. Current status and problems

In Korea, the ratio of financial assets is low and there is a high percentage of real assets including real estate, with people nearing retirement having especially high ratio of real assets. Among net assets, financial assets take up 7.5% and real estate takes up 91.4% (KRW 93,450,000).

〈Table 3-34〉 Ratio of real estate and financial assets in major countries

Classification	Korea('06)	U.S.A.('05)	Japan('04)
Real estate	78%	42%	39%
Financial assets	22%	58%	61%

Source: Samsung Research Institute of Finance, 'Financial Status of Households' (2006).

Due to the retirement of the baby boom generation and decline in the real estate market, there will be difficulties related to encashment of real assets for maintaining livelihood, and the elderly may have problems in obtaining income if liquidation of real estate they owned doesn't go smoothly. In the U.S. and Japan, housing price fell at the time of retirement of the baby boom generation and decrease in the number of population aged 35 to 54. In Korea, too, there is a fear about real estate market recession in 2011 when the population between 35 and 54 starts to drop.

B. Major policy options

Assets subject to the present housing pension should be expanded. The mortgage system (housing pension) should cover real assets in addition to housing including elderly housing, officetels, shops, farmland and other land.

Second, the subjects should cover a larger age group. The current housing pension system should be opened to people between 55 and 59 in addition to the present target of those aged 60 or older. People in late 50s have higher cost of living compared to those in their early 60s, and the age at which payment of pension benefits of the early old-age pension starts will change from 55 to 60; therefore, the ratio of unfulfillment of consumption among elderly workers in their late 50s is likely to grow. According to a survey by the Statistics Korea, the percentage of housing in the total assets of households headed by those 55 years or older is over 50%.

In addition, the public reverse mortgage system for the low-income bracket should be introduced to stabilize the income status of the elderly. In the U.S., low-income households repay less amount of money and high-income households repay more, whereas Japan has adopted the public mortgage system for the low-income bracket.

6. Others

To solidify the multi-pillar old-age income security system as discussed, following two approaches should be made simultaneously in addition to improvement of current

measures. First, the basic livelihood security program, which is important for solving the problem of the elderly poverty, should be reformed. The basic livelihood security program is the public response to the problem of poverty, and the elderly poverty is more widespread and deeply rooted compared to poverty in general. Among the policy issues of the basic livelihood security program, the relaxation of family support obligation rules is drawing the most attention in connection with the old-age income. Relaxation of the income standard of family member with family support obligation and reduction of income conversion rate of properties are expected to alleviate the elderly poverty. Notably, the elderly tend to lose their right to receive benefits because of their offsprings listed in their family register, although they are economically deprived, more often compared to other age groups. Therefore, the relaxation of family support obligation will reduce blind spots in the basic livelihood security program and relieve absolute poverty among the elderly. Reduction in the income conversion rate of properties will also help solve the problem of elderly poverty.

Second, measures should be developed to reduce medical expenses of the elderly. For the elderly suffering from chronic diseases and functional disorder, it is as important to lower their medical expenses as to increase their income. Considering the fact that it is difficult for the elderly to increase income through income creation, we need to focus more on reducing the expenses of the elderly. Even with the same level of income, less spending can improve the quality of living and bring economic stability. This need appears

strongly among the elderly with low income, and is expected to be stronger among the second-lowest income group which is excluded from the medical allowances.⁷⁾ By seeking ways to cut down co-payment rate significantly and expanding the range of health insurance payment, it will be possible to improve the actual standard of living of the elderly. If income creation efforts including the basic old-age pension and spending control policies are carried out together, policy sensitivity of the elderly will be enhanced and the ultimate goal of higher quality of living for the elderly will be achieved.

7) According Kyunghee Chung et al.(2009), many of the elderly who receive the basic old-age pension spend their pension allowance for medical expenses and recognize the decreased burden of visiting hospitals as a major change. Lee Hyeon-joo et al. (2008) reports that those who belong to the low-income bracket have strong desire for dietary supplements and dental treatment in addition to essential medical care.