Old-age Pension Reform in Korea

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Objective

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

* Sustainability
  Old-age income protection
  Inequity (intergenerational, inter-occupational)
  Pension politics

Challenges and Future Development

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<table>
<thead>
<tr>
<th>Year</th>
<th>Program</th>
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</thead>
<tbody>
<tr>
<td>1960</td>
<td>Gov. employees/ Military personnel Pension</td>
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<tr>
<td>1961</td>
<td>Retirement Lumpsum for workers</td>
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<td>1963</td>
<td>Industrial accident insurance</td>
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<td>1975</td>
<td>Teachers Pension</td>
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<tr>
<td>1977</td>
<td>National Health Insurance – 1998 Universal care</td>
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<tr>
<td>1988</td>
<td>National Pension – 1999 Universal pension</td>
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<tr>
<td>1995</td>
<td>Unemployment insurance</td>
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<tr>
<td>2005</td>
<td>Retirement pension for wage earners(optional)</td>
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<tr>
<td>2008</td>
<td>Long-term care insurance</td>
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</tbody>
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Pension Crisis

World fastest aging:
65+: 1970 3.1%, ‘09 10.7%, ‘20 15.6%, ’50 38.2%

World lowest fertility rate:
1970 4.53 -- 2000 1.47 -- 2005 1.08

Economic growth downturn:
1970-80s near 10% -- 1990s 7%
after 1998, under 5% to 2-3%
Pension Crisis

1973  Military pension deficit
1998  Gov. employee pension deficit
2001  Teachers pension deficit
2036  National pension deficit (balance zero in 2047)

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

Rapidly growing public pensions liability (% of GDP)
2000 47% -- 2010 60% -- 2030 151% -- 2050 240%
Pension Reform

During 1960-1999, Pensions expanded and extended,

Pensions for elites (Gov., Military, Teacher) expanded, thanks to econ. Growth (1970-80)
  * max. replace rate: from 70% to 76%
  * additional retirement lumpsum
  * survivor’s pension: from 50% to 70%

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

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Pension Reform

Since 1998 Econ Crisis, Pension Reforms spurred.

National Pension Reform

1999  Replacement rate reduced 70% to 60%
Pensionable age extend 60 to 65 by 2033

2007  Replacement rate reduced 60% to 50%
, and 40% by 2028

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Pension Reform

Gov., Military, Teachers Pension Reform

1996  Pensionable age 60 for new entry

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

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

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Pension vs. Health Care Reform

* National Pension Reform:


* Health Care Benefits Coverage to be expanded:

Sustainability

National Pension is still not sustainable for long-term.
  * Deficit in 2044, and balance zero in 2060
  * Pension liability(% GDP): 150%(2030) – 170%(2040) – 180%(2060)

Gov. employees pension still needs a huge subsidy.
  * Subsidy(%GDP): 0.12%(2009) – 0.84%(2060)

Because of parametric reform, not structural, in nature

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Old-age Income Protection

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

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

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<tr>
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<th>Partly Retired</th>
<th>Retired</th>
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<tbody>
<tr>
<td>National pension recipients</td>
<td>12% (US$ 203)</td>
<td>20% (US$ 325)</td>
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<tr>
<td>Pub. Occupational pension recipients</td>
<td>7% (US$ 1256)</td>
<td>16% (US$ 1358)</td>
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Inequity

Intergenerational inequity:
* Break-even contribution rate is 13.1%(2040)–17.7%(2050) – 23.2%(2070)
* Pension liability(% GDP): 150%(2030) – 170%(2040) – 180%(2060)

Inequity between pub. employees and wage-workers: 
Ratio of benefit/contribution deteriorates from 1.4 times(2007) to 1.5-1.9 times(2009)
Politics of Pension Reform

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

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