Korea

Korea: Pension system in 2008

The Korean public pension scheme was introduced relatively recently. It is an earnings-related scheme with a progressive formula, since benefits are based on both individual earnings and the average earnings of the insured as a whole.

Key indicators

		Korea	OECD
Average earnings	KRW (million)	33.50	44.70
	USD	30 400	40 600
Public pension spending	% of GDP	1.7	7.0
Life expectancy	At birth	79.2	78.9
	At age 65	83.0	83.1
Population over age 65	% of working-age population	15.8	23.6

Qualifying conditions

The pension is currently available from age 60 provided the individual has contributed for ten years or more. A reduced, early pension can be drawn from age 55.

The normal pension age is gradually being increased reaching 65 from 2033. The modelling assumes the long-term pension age of 65 and that the early pension age will be raised from 55 to 60.

Benefit calculation

Earnings related

The earnings replacement rate of the pension for 40 years of contributions is 50% in 2008 and will be reduced 0.5pt every year between 2009 and 2028 until reaching 40%. The model assumes that the 40% is calculated over a 45-year period. The earnings measure is the average of individual lifetime average earnings, valorised in line with wage growth, and average earnings of the insured of the national pension, measured over the previous three years and valorised in line with prices (A value). There is a ceiling on pensionable earnings of KRW 3.6 million per month, equivalent to 215% of the A value in 2008.

The maximum level of benefit is 100% of individual earnings. The benefit is indexed to prices after retirement. People aged 60 and over do not pay contributions and benefits are not accrued after this age.

Basic age pension

Some 60% of those aged 65 and over can get the means tested "basic age pension" from 2008. It was planned that the beneficiaries-to-be would be increased to 70% in 2009. This benefit is a flat rate of 5% of the three-year average earnings of the insured of the national pension every year. The benefit is reduced in phases according to income and assets of the aged. Couple rate is 80% of single rate each.

Variant careers

Early retirement

When, starting in 2013, the normal pension age increases from 60 to 65, the early pension age is assumed to increase from 55 to 60. At 60, the early old-age pension will then be 70% of the normal old-age pension. The benefit is increased by 6% every year, so a person who retires at age 64 will be entitled to 94% of the full old-age pension.

Late retirement

People can earn extra pension from retiring late. The benefit is increased by 6% every year and the maximum deferral is five years until age 70.

If the pensioners between 65 and 69 have earnings higher than the average earnings of the insured as a whole, their pension paid at 65 will be 50% of full old-age pension with the benefit increasing by 10% according to age increase, which is known as the "active old-age pension". Therefore, if the pensioner between 65 and 69 is working, they can choose either the "deferred pension" or the "active old-age pension".

Childcare

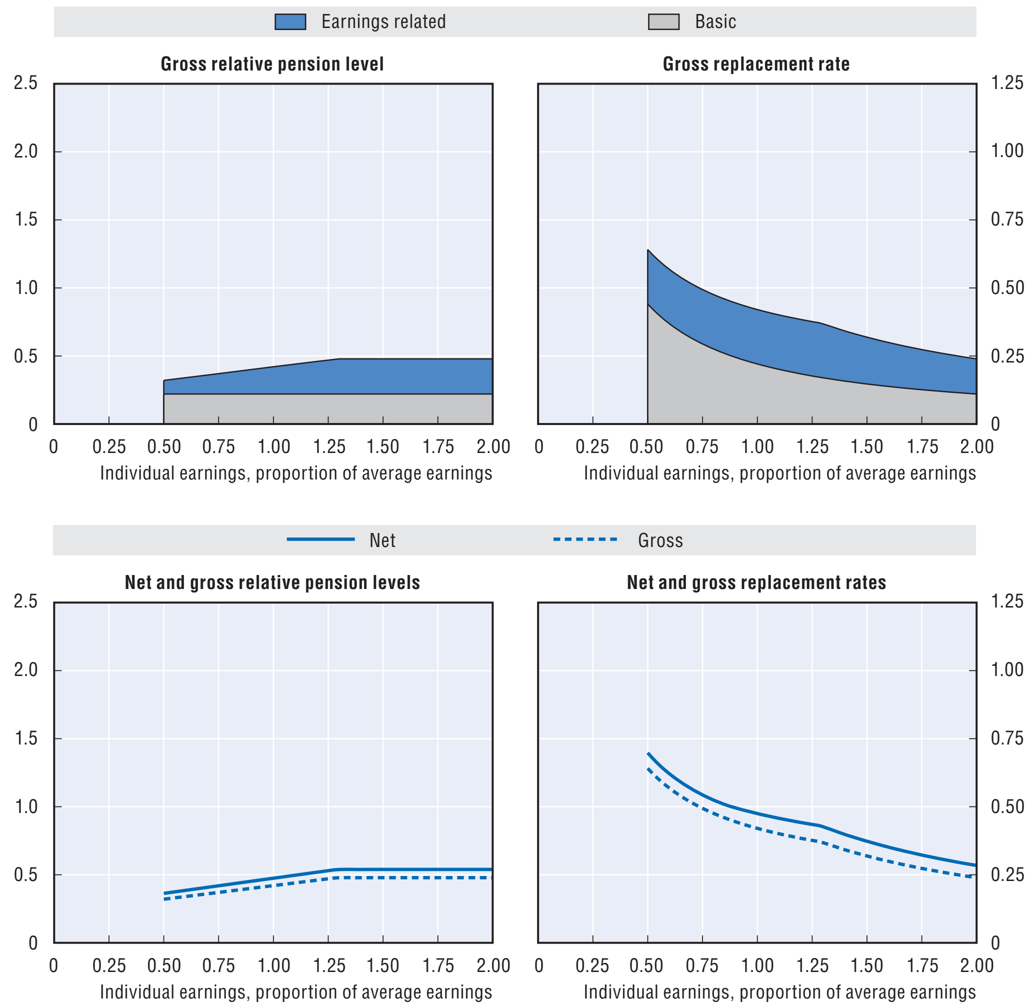
A person who is not engaged in labour market activities for childcare could apply for contribution exemption and be exempted from payment of contributions during the period requested. They are able to increase the insured period by paying the exempted contributions by themselves after resuming income-earning activities.

The insured who gives birth to a child, except for the first child, after 1 January 2008 can get pension credits. The credits given are 12 months to a maximum of 50 months according to the number of children being born after that time.

Unemployment

An unemployed person could apply for contribution exemption and be exempted from payment of contributions during the period requested. They are able to increase the insured period by paying the exempted contributions by themselves after resuming income-earning activities.

Pension modelling results: Korea



Men *Women (where different)*	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	38.5	32.1	37.1	42.1	47.9	47.9
(% average gross earnings)						
Net relative pension level	43.5	36.3	41.9	47.5	53.9	53.9
(% net average earnings)						
Gross replacement rate	46.9	64.1	49.4	42.1	31.9	23.9
(% individual gross earnings)						
Net replacement rate	51.8	69.8	54.4	47.5	37.3	28.5
(% individual net earnings)						
Gross pension wealth	7.3	9.9	7.6	6.5	4.9	3.7
(multiple of individual gross earnings)	*8.7*	*12.0*	*9.2*	*7.8*	*6.0*	*4.5*
Net pension wealth	7.2	9.9	7.6	6.5	4.9	3.7
(multiple of individual gross earnings)	*8.7*	*11.9*	*9.2*	*7.8*	*5.9*	*4.4*

StatLink http://dx.doi.org/10.1787/888932371728

From:

Pensions at a Glance 2011

Retirement-income Systems in OECD and G20 Countries

Access the complete publication at:

https://doi.org/10.1787/pension_glance-2011-en

Please cite this chapter as:

OECD (2011), "Korea", in *Pensions at a Glance 2011: Retirement-income Systems in OECD and G20 Countries*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/pension_glance-2011-64-en