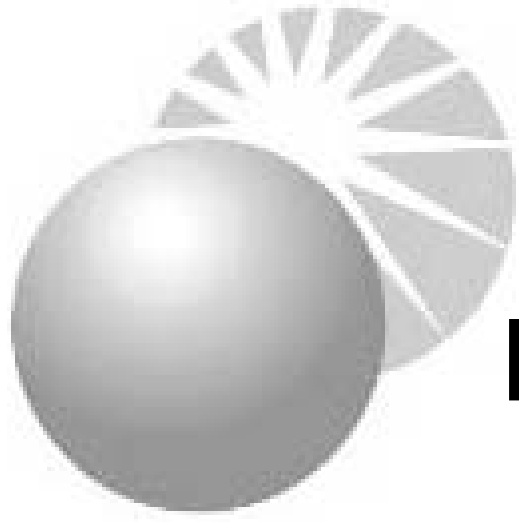


April 2005

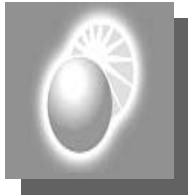


Overview of Korean Retirement Pension Plan

Myoung Jin Koh

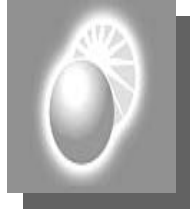
Chief of Pension Supervision Team

Financial Supervisory Service of Korea



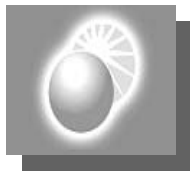
Major Contents

- Overview of current pension systems in Korea
- Current Severance Payment System
- Contents of **Employee Retirement Benefit Security Act (ERBSA)**
- Effects and prospects of the new system



Introduction

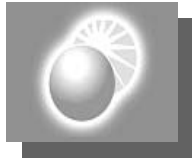
- According to the Employment Retirement Benefit Security Act*, Retirement Pension Plan is to be enforced after December, 2005
- * officially announced on January 27, 2005
- Presidential decree and its ordinance are under discussion



Current Pension Systems in Korea

Pillar	Pension System	Coverage	
1st	National Pension	All citizens Except Gov't Employees, etc.	Mandatory
	Special Occupational Pension	Gov't Employees, Private Teachers, etc.	Mandatory
2nd	Severance Payment system	Private Sector Employees	Mandatory
3rd	Personal Pension	All Citizens	Voluntary

Special Occupational Pensions are designed exclusively for government employees, private school teachers and military personnel



1st Pillar (National Pension System)

■ National Pension (mandatory and life annuity)

- ▶ **Established : 1988**
- ▶ **Coverage : All Citizens**
except government employees, private school teachers
and military personnel
- ▶ **Contribution Rates : 9% of the standard monthly income**
(4.5% employer, 4.5% employee)
- ▶ **Replacement Ratio: 60% (average income earners with 40 years contribution)**

■ Occupational Pension (mixed form of NP and CP)

- ▶ **Government Employees Pension (1960), Private School Teachers Pension (1975), Military Personnel Pension (1963)**



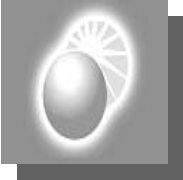
2nd Pillar (Severance Payment System)

▣ Severance Payment System (mandatory and lump sum)

- ▶ **Established : 1953 (voluntary) → 1961 (mandatory)**
 - ▶ **Coverage : employees of the business with more than five**
 - ▶ **Funding : Book value Internal or External funding contributed entirely by employers (at least 8.3% of annual salary)**
 - ▶ **Benefits : # of service yrs x average monthly salary of last three months**
- No portability and limit of benefit payment age**

▣ External Funding Schemes(Retirement Insurance, Retirement Trust)

- ▶ **Established : 1999**
- ▶ **Providers : Banks(trust account), Insurers(separate account), Asset Management Companies**



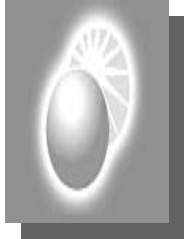
Critiques of current Severance Payment

- ◆ Employees of business with less than five excluded
- ◆ Lack of Portability
- ◆ Weak security of retirement benefits in case of employer's insolvency
- ◆ Lump sum payment rather than annuity



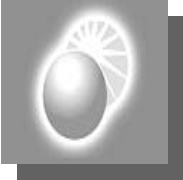
Major contents of Employee Retirement Benefit Security Act

- Introduction of retirement benefit system
- Plan design and operation
- Individual retirement accounts
- Rule of conducts and compliance
- Others



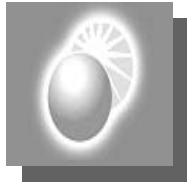
Introduction and change of retirement benefit system

- ◆ Choose at least one of Severance Payment, Defined benefit or defined contribution plan
 - based on the agreement between employer and employees
- ◆ Obtain the consent of employee representative to change the plan type



Retirement pension agreement

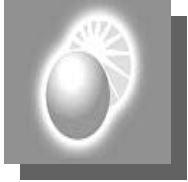
- ◆ In order to begin the pension plan, sponsor is required to
 - make retirement pension agreement based on the consent of employees, and
 - report the agreement to the Minister of Labor



Defined Benefit Plan

Retirement benefits are based on employee's final salary level and service period

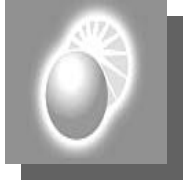
- ◆ Investment results change employer's contribution to pension plan
- ◆ Agreement must include the contents for the financial soundness of the plan
- ◆ Lump sum amounts equivalent to or more than 30-day salary per service year upon the retirement date



Funding rule of DB Plan

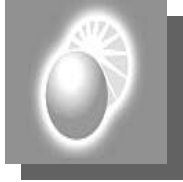
At the end of fiscal year, sponsor is required to reserve following amount, whichever is larger

- ◆ Amount calculated based on the estimated present value of expected benefit payments and contribution incomes, or
- ◆ Expected expenses to pay the benefits for all the participants during service period



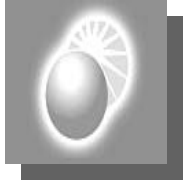
Qualification of Vesting right

- ◆ To be qualified for the annuity payment, the participants aged 55 or above should
 - have participated in the plan for ten years or more,
 - accept annuity payment with five years or longer
- ◆ Lump sums are paid to
 - participants not entitled to receive annuity or
 - those who want to receive



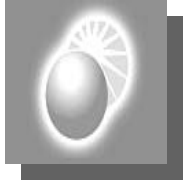
Notice of investment results

- Service providers are required to notice the status of reserves and investment results at least once a year



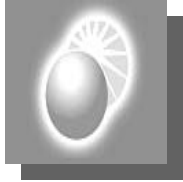
Defined Contribution Plan

- ◆ Under DC plan, sponsor's contribution is predetermined and retirement benefit depends on the investment results
- ◆ Sponsor's contribution must be
 - at least 1/12 of the total annual salary of participants in cash
- ◆ Employee's additional contribution is allowed



Investment of reserves

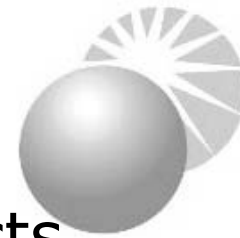
- Participants have the right to choose the investment vehicles of reserves
- Sponsor must provide the followings to participants;
 - more than three types of investment vehicles with different structures of risk and return semi-annually
 - necessary information such as the possibility of profits and losses for the participants to choose the investment of reserves



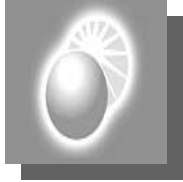
Retirement pension services

- ◆ **Operation management services**
 - allowed to insurers, banks, securities companies and asset management companies
 - include the followings ;
 - providing investment vehicles and information for each alternative
 - arranging plan design and actuarial service
 - keeping records of reserves and investment results
 - transferring the investment orders to the asset management providers

◆ **Asset management services**

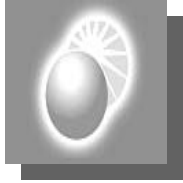


- based on the insurance or trust contracts
- allowed to the insurers and trust companies
- include the followings;
 - account opening and managing
 - receipt of contribution
 - custody and management of reserves
 - payment of benefits
 - execution of investment orders



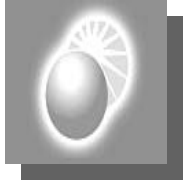
Pension Service Providers

- ◆ Required to register with adequate qualifications
- ◆ Scope of service providers
 - insurers, banks, securities companies and asset management companies
 - others



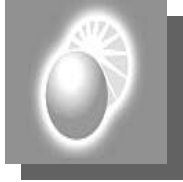
Investment Principles

- Prudent man rule applied to the service providers
- Requirements of investment alternatives
 - understandable and easy to acquire information
 - easy to be changed
 - transparent evaluation methods and procedures of investment results
 - at least one principal and interest guarantee product for DC plan and IRA
 - diversification for sound investment



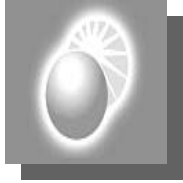
Individual Retirement Accounts

- Coverage
 - the retirees who receive lump-sum payments
 - the employees of business with less than ten
- basic operations are the same as those of Defined contribution plan



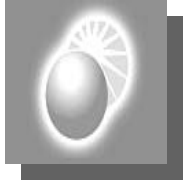
Obligations of sponsors

- Education to participants regarding the operation of pension plan at least once a year
 - allowed to consign this obligation to service provider
- The followings are prohibited;
 - conflicts of interest
 - any other breaches of obligations



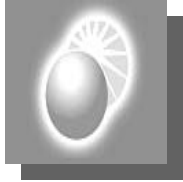
Obligations of service providers

- Compliance with Act, regulations, orders of authorities and contracts
- No denial of contracts without acceptable reasons
- Not unfairly compelling to make contracts with specific service providers



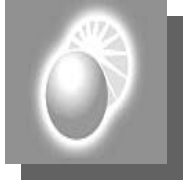
Illegal actions of service providers

- Promise to pay back entire/partial losses
- Offer special benefits to sponsor or participants
- Use participants' private information beyond the pension operation
- Propose specific investment vehicles for the purposes of boosting its own or a third party's interests



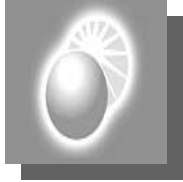
Responsibilities of service providers

- Education service to the participants at least once a year regarding the plan operations and status
- A report on the pension business and performance to sponsors, the Minister of Labor and FSC within three months following a fiscal year



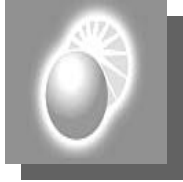
Minister's supervision on sponsors

- Ask report on the plan operation
- Carry out field exam
- Order to terminate the unfair plan, and
- Take corrective measures if sponsors do not follow the orders or regulations



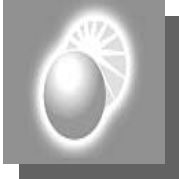
Supervision on service providers

- Minister can ask the reports on plan business and its performance
- FSC regulates the business of service providers and can ask corrective measures against the violation of responsibilities
- FSS can examine the business and operation of service providers



Consignment of Minister's power

- Minister's powers such as registration of service providers, regulation of investment and supervision on their business and operation, can be consigned to FSC



Prospects of new pension system

New Pension System

**Stronger Security
(Vesting Rights etc.)**

**New Opportunity
(the variety of
investment vehicles)**

**Balanced Social Security
(public and private pensions)**

**The Growth of
Financial Industry**

**Ultimate improvement of participants'
Welfare & Economic Growth**