

## KOREA

### Korea: pension system in 2006

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 economy-wide average of earnings.

### Key indicators

		Korea	OECD
Average earnings	KRW(million)	30.44	34.08
	USD	32 000	35 800
Public pension spending	% of GDP	1.6	7.2
Life expectancy	at birth	79.1	78.9
	at age 65	83.1	83.4
Population over age 65	% of working-age population	14.5	23.8

### 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 and will reach 65 from 2033. The modelling assumes the long-term pension age of 65 and that the early pension age will also be raised from 55 to 60.

### Benefit calculation

#### *Earnings-related*

The earnings replacement rate of the pension for 40 years of contributions is 60% of the earnings in 2007, but it will be reduced to 50% in 2008 and then will be reduced by 0.5 percentage points every year until making 40% from 2009 to 2028. 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. There is a ceiling on pensionable earnings of KRW 3.6 million per month, equivalent to 142% of average earnings of the insured in whole in 2006.

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 the 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 of deferral is 5 years until age 70.

If the pensioners between 65 and 69 get income-earnings higher than the average earnings of the insured in 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, (s)he can choose either the “deferred pension” or the “active old-age pension”.

### ***Childcare***

A person who is not working due to childcare can be exempted from payment of contributions during the period requested. The insured period can be increased by paying the exempted contributions (total, including the one for employers) after resuming work.

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

### ***Unemployment***

An unemployed person can be exempted from payment of contributions during the period requested. The insured period can be increased by paying the exempted contributions (total, including the one for employers) after resuming work.

## **Personal income tax and social security contributions**

### ***Taxation of pensioners***

There is no separate taxation rule for pensioners. If a pensioner has earned income, the same rules of taxation as those for workers are applied.

Older people (above age 65) receive an additional tax allowance of KRW 1.5 million on top of the standard tax allowance (of KRW 1.5 million for each taxpayer or dependant).

### ***Taxation of pension income***

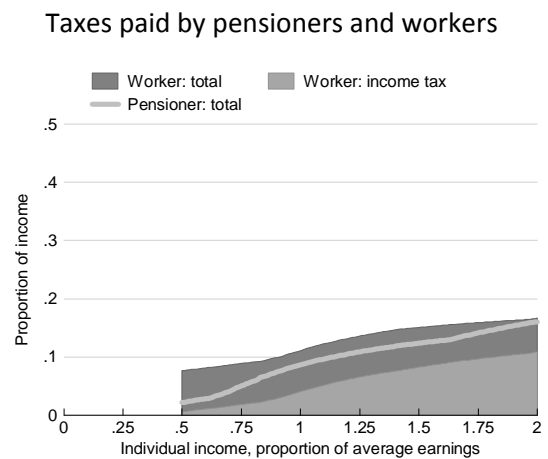
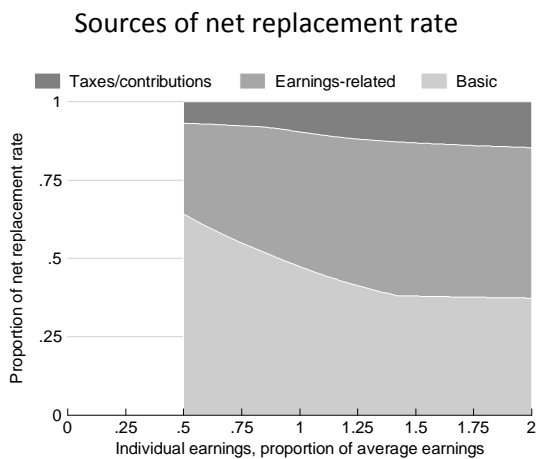
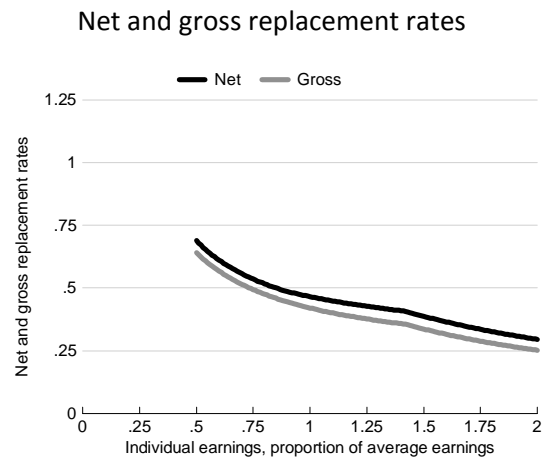
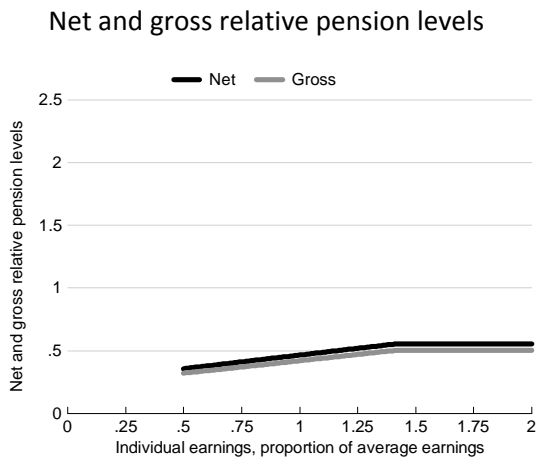
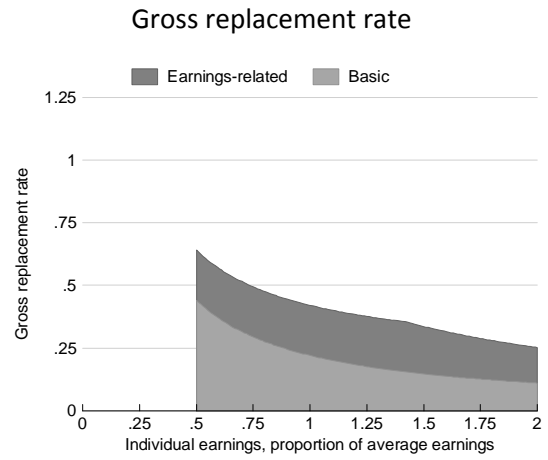
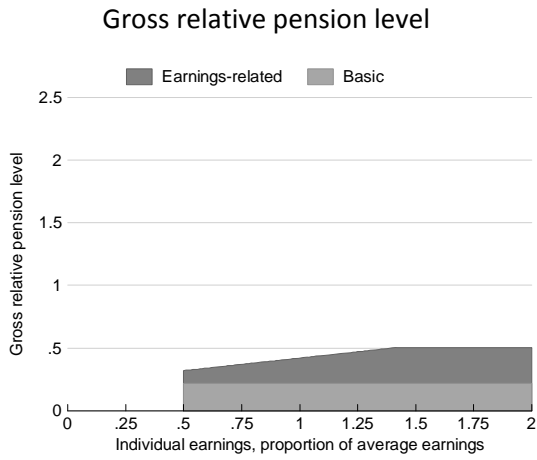
Pension income is taxable (applied to all rights accrued from 2002). There is, however, a pension income deduction. Below KRW 3.5 million, all pension income is tax deductible. Above that level, the marginal rate of deduction falls to 40%, 20% and, finally, to 10%. The maximum deduction is KRW 9 million per year.

Lower limit (KRW)	0~3.5m	3.5m~7.0m	7.0m~14m	14m~
Subjected to Deduction (KRW)	total amount	3.5m	7m	27m
Marginal deduction rate	100%	40%	20%	10%
Deduction (KRW) =	3.5m	1.4m	1.4m	2.7m

***Social security contributions paid by pensioners***

A pensioner who is insured to national health insurance scheme as a regional-based insured pays health insurance contribution for her/his pension income. The amount of health insurance contribution varies with income levels. However, only 20% of pension income is subject to contribution base.

## 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 (% average gross earnings)	39.7	32.1	37.1	42.1	50.4	50.4
Net relative pension level (% net average earnings)	44.0	35.8	41.2	46.6	55.5	55.5
Gross replacement rate (% individual gross earnings)	45.1	64.1	49.4	42.1	33.6	25.2
Net replacement rate (% individual net earnings)	49.2	68.8	53.5	46.6	38.7	29.6
Gross pension wealth (multiple of average gross earnings)	6.3 7.5	8.9 10.7	6.9 8.2	5.9 7.0	4.7 5.6	3.5 4.2
Net pension wealth (multiple of average net earnings)	6.2 7.4	8.9 10.6	6.8 8.1	5.8 6.9	4.6 5.5	3.4 4.1