


Korea

Korea: Pension system in 2012

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 worker earnings (AW) | KRW (million) | 38.50 | 45.49 |
| | USD | 36 100 | 42 700 |
| Public pension spending | % of GDP | 2.1 | 7.8 |
| Life expectancy | At birth | 81.3 | 79.9 |
| | At age 65 | 19.5 | 19.1 |
| Population over age 65 | % of working-age population | 17.9 | 25.5 |

StatLink  <http://dx.doi.org/10.1787/888932909162>

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 48% in 2012 and has been reduced 0.5% for every year between 2009 until 2012 and will continue to be reduced until reaching 40% in 2028. 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 3.89 million per month, equivalent to 206% of the A value in 2012. (A value in 2012 = KRW 1 891 771.)

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 70% of those aged 65 and over can get the means tested “basic age pension”. 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 7.2% every year and the maximum deferral is five years until age 70. Every pensioner below 65 can apply the deferred pension once.

If the pensioners between 60 and 64 have earnings higher than the average earnings of the insured as a whole, their pension paid at 60 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 60 and 64 is working, they can choose either the “deferred pension” or the “active old-age pension”.

Childcare

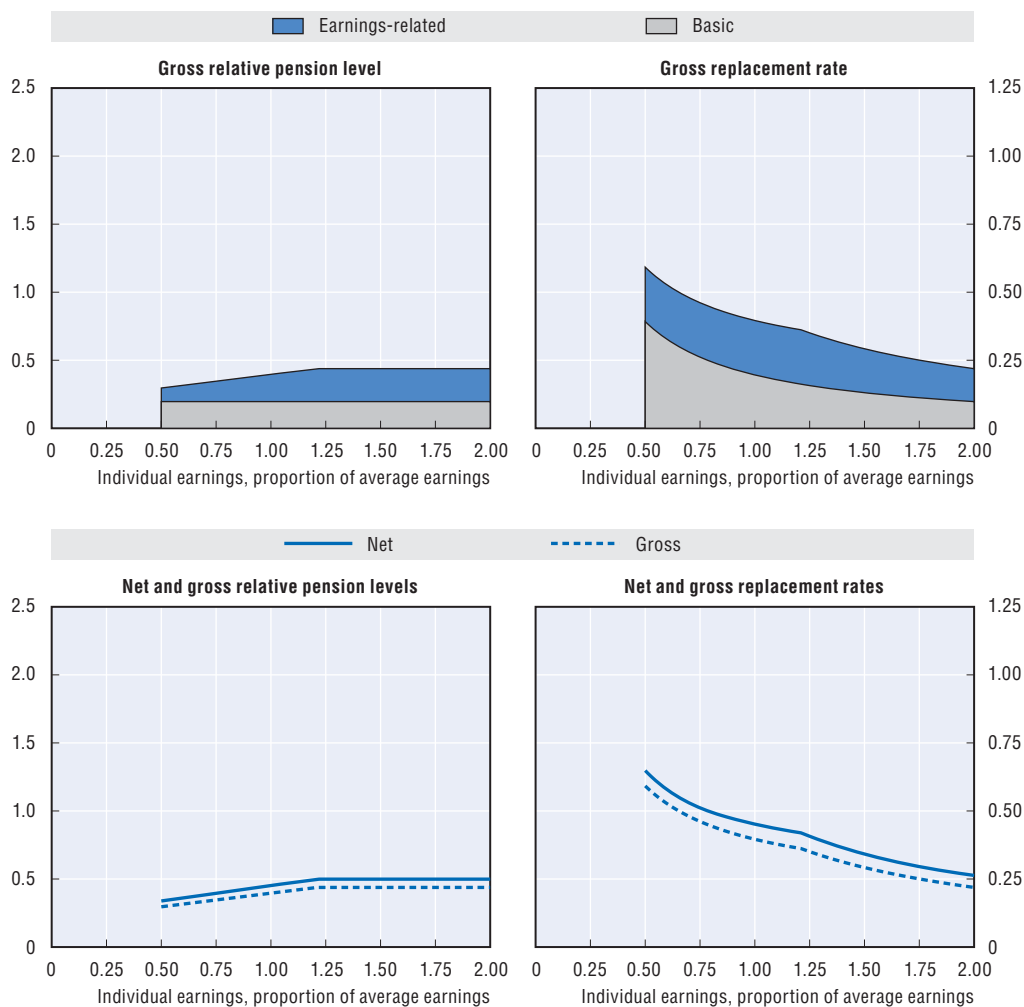
A person who is not engaged in labour market activities for childcare could apply for contribution exemption and be exempted from payment of contributions during the period requested. They are able to increase the insured period by paying the exempted contributions by themselves after resuming income-earning 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 (% average gross earnings) | 36.0 | 29.6 | 34.6 | 39.6 | 43.8 | 43.8 |
| Net relative pension level (% net average earnings) | 41.1 | 33.9 | 39.5 | 45.2 | 49.9 | 49.9 |
| Gross replacement rate (% individual gross earnings) | 43.9 | 59.2 | 46.1 | 39.6 | 29.2 | 21.9 |
| Net replacement rate (% individual net earnings) | 49.1 | 64.8 | 51.2 | 45.2 | 34.2 | 26.3 |
| Gross pension wealth (multiple of individual gross earnings) | 7.9 | 10.6 | 8.3 | 7.1 | 5.2 | 3.9 |
| Net pension wealth (multiple of individual gross earnings) | 7.8 | 10.6 | 8.2 | 7.0 | 5.2 | 3.9 |
| | 9.1 | 12.3 | 9.6 | 8.2 | 6.0 | 4.5 |

StatLink  <http://dx.doi.org/10.1787/888932909181>