

Korea

Korea: Pension system in 2016

The Korean public pension 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

		Korea	OECD
Average worker earnings (AW)	KRW (million)	43.86	44.21
	USD	36 328	36 622
Public pension spending	% of GDP	2.6	8.2
Life expectancy	at birth	82.3	80.9
	at age 65	20.4	19.7
Population over age 65	% of working- age population	19.4	27.9

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Qualifying conditions

The pension age is currently 61 with at least ten years of contributions. A reduced early pension can be withdrawn from the age of 56 years.

The normal pension age is gradually being increased reaching 65 from 2033 and the early pension age will also increase from 56 years to 60 years.

Benefit calculation

Earnings-related

The earnings-related targeted replacement rate after 40 years of contributions is 46% in 2016 and is being reduced by 0.5 percentage points for every year from 2008 until reaching 40% in 2028. The pension benefit is calculated as half of the targeted rate times the individual's lifetime average earnings valorised in line with nominal wage growth and half of the average earnings of the insured measured over the previous three years and valorised in line with prices (A value). There is a ceiling of pensionable earnings equal to KRW 4.34 million per month, equivalent to 206% of the A value in 2016. The A value was equal to KRW 2 105 482 in 2016.

The highest possible pension benefit is equal to 100% of individual earnings. The benefits in payment are indexed to prices. People above the age of 60 do not pay contributions and benefits do not accrue after this age.

Basic age pension

Some 70% of those aged 65 and over can get "Basic Pension". The Basic pension benefit replaced the Basic Old Age Pension in 1 July 2014. The maximum benefit is equal to KRW 204 010 which is about 10% of the three-year average earnings of the insured of the National Pension (A value). Seniors receiving no or less than KRW 306 015 per month from their National Pension get an additional KRW 204 010 per month. The remaining seniors receive the following in below formula.

$$(\text{KRW } 204\,010 - 2/3 * \text{A value of the National Pension}) + \text{KRW } 102\,005$$

Couple rate is 80% of single rate each.

Social assistance

There are two criteria for the Basic Livelihood Security (social assistance). First the recognized income of a recipient's household should be less than the minimum cost of living per household. Second, a recipient should have no person under obligation to support. If a recipient has a person under obligation to support, he/she should not have capacity to support the recipient; or a recipient should be unable to be supported.

There are seven forms of Livelihood benefits: housing benefits, self-sufficiency benefits, education benefits, childbirth benefits, funeral benefits, and medical benefits.

Variant careers

Early retirement

The early retirement age is increasing from 55 years to 60 years in 2033. The early retirement pension decreases the pension benefit by 6% for every year below the normal retirement age. The early retirement benefit equals 70% of the old-age pension if the benefit is withdrawn five years earlier.

Late retirement

Pension deferral is possible and increases by 7.2% for every year above the normal retirement age. The pension benefit can be deferred for a maximum of five years. Pensioners above age 61 with higher earnings than the average insured will receive 50% of the full old-age pension and see the benefit increase by 10% according to the age increase. This is known as the "active old-age pension. Pensioners between ages 61 and 65 and that are working can choose either the "deferred pension" or the active old-age pension".

Childcare

A person who is not on the labour market due to childcare can apply for exemptions from pension contributions and be exempted from payment of contributions during the period requested. Individuals are able to increase their insurance period by paying additional contributions themselves after resuming work.

Pension credits are given to insured women who give birth, except for the first child. The credits are given for 12 months up to a maximum of 50 months depending on the number of children.

Unemployment

Unemployed individuals can apply for contribution exemptions. They are able to increase the insured period by paying the exempted contributions themselves after resuming work.

The unemployment credit was introduced in 2016. The government will support those who receive unemployment benefits by 75% of his/her contributions for up to a year with the period included in the coverage period. The added periods will be reflected in the Old-age Pension benefit amount, however, will not be included in the amount of Disability and Survivor Pension.

Personal income tax and social security contributions

Taxation of pensioners

There is no separate taxation rule for pensioners.

Older people (above age 70) receive an additional tax allowance of KRW 1 million on top of the standard tax allowance (KRW 1.5 million for each taxpayer or dependant).

Taxation of pension income

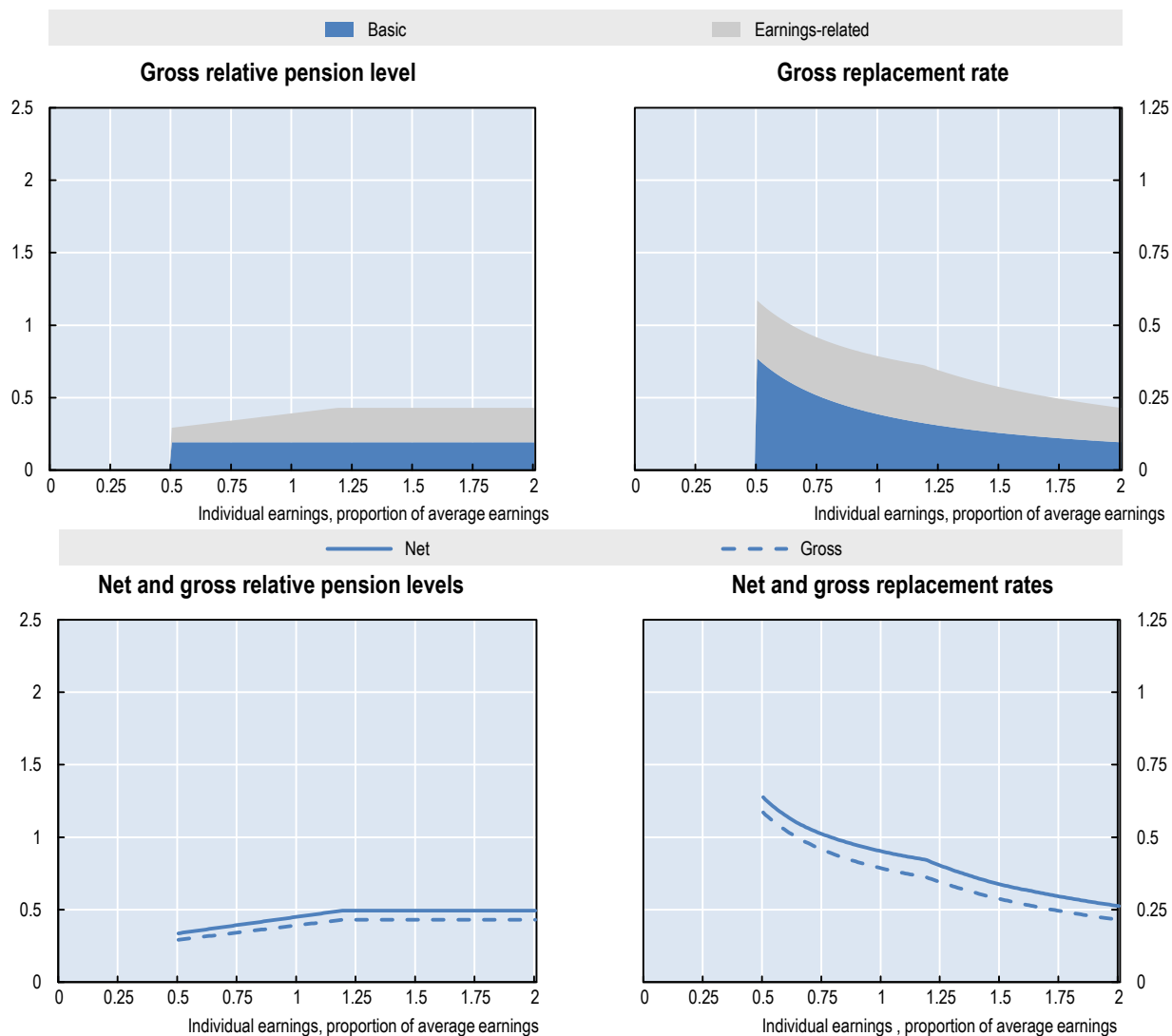
Pension income is taxable (applied to all rights accrued from 2002). There is, however, a pension income deduction. Below KRW 3.5 million, all pension income is tax deductible. Above that level, the marginal rate of deduction falls to 40%, 20% and, finally, to 10%. The maximum deduction is KRW 9 million 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 the national health insurance scheme as a regional-based insured pays health insurance contributions for their pension income. The amount of the health insurance contribution varies by income level. However, only 20% of pension income is subject to contribution.

Pension modelling results: Korea in 2061 retirement at age 65



Men Women (where different)	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	29.3	34.3	39.3	43.0	43.0	43.0
Net relative pension level (% net average earnings)	33.7	39.4	45.1	49.4	49.4	49.4
Gross replacement rate (% individual gross earnings)	58.5	45.7	39.3	28.7	21.5	14.3
Net replacement rate (% individual net earnings)	63.8	51.1	45.1	33.7	26.3	18.6
Gross pension wealth (multiple of individual gross earnings)	11.0	8.6	7.4	5.4	4.0	2.7
Net pension wealth (multiple of individual net earnings)	12.0	9.6	8.5	6.3	4.9	3.5
	14.3	11.5	10.1	7.6	5.9	4.2

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 20 in 2016. Tax system latest available: 2015.

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