

Ongoing Pension Reform Debates in Korea: Conflicts between Income Security and Financial Sustainability

2024. 06. 17

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KOREA INSTITUTE FOR HEALTH AND SOCIAL AFFAIRS

LEADING THE WAY IN IMPROVING
PEOPLE'S QUALITY OF LIFE AND SOCIAL SECURITY

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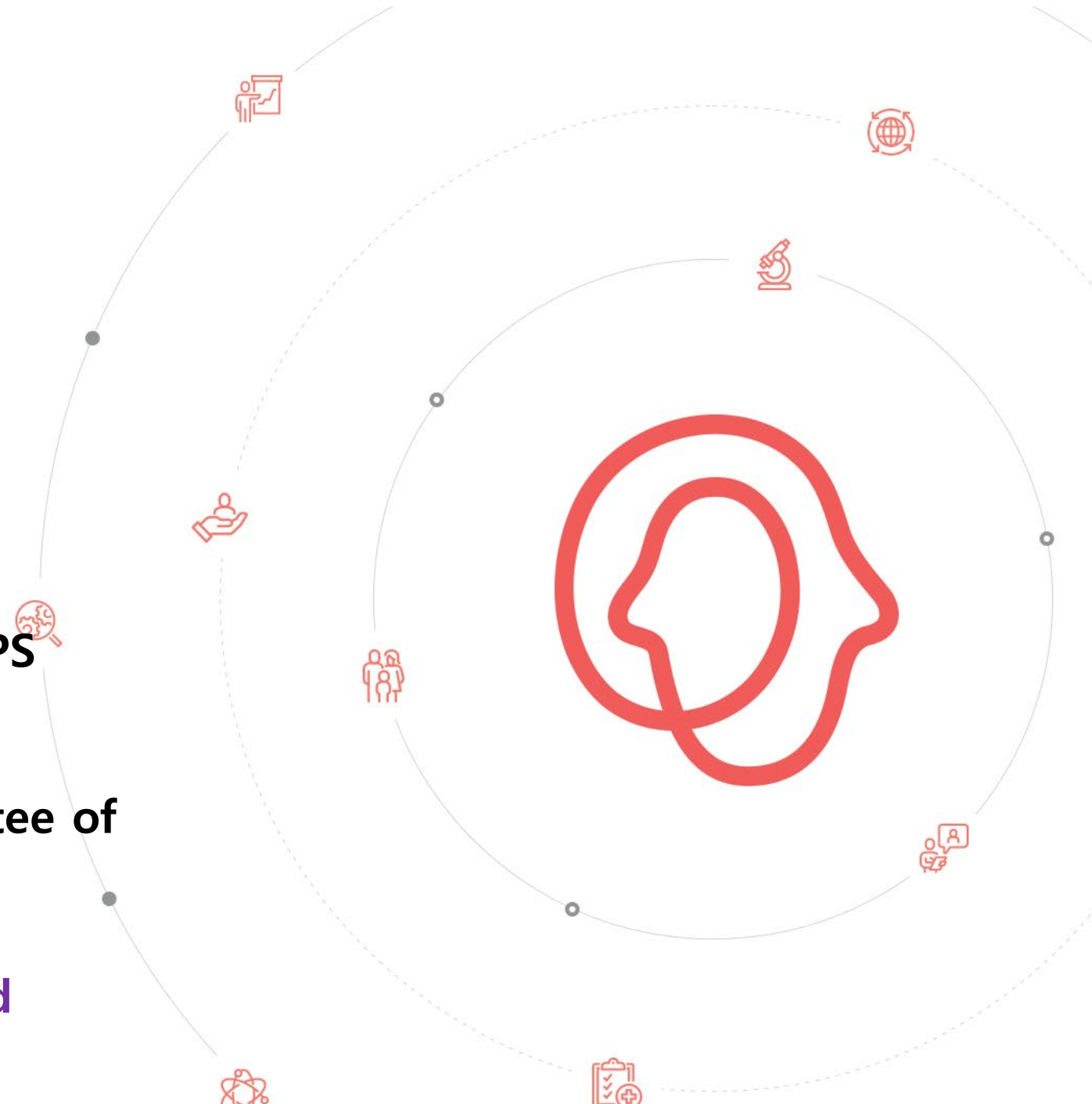
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1. Overview of After-retirement Income Support System



1.1 Old-Age Income Security System in Korea

| | | | | | |
|---------|--|---------------|-------------------------------|----------------------|---|
| Tier 3 | Private/housing/farmland pension schemes | | | | 2.57 million contributors |
| Tier 2 | Retirement benefits/pensions (DB, DC) | | IRPs for individuals | | 8.12 million contributors |
| Tier 1 | NP | | Special/occupational pensions | BP | 21.45 million contributors 4.61 million recipients |
| | | | | | |
| Tier 0 | NBLSP | | | | 1.63 million recipients |
| Targets | Workers | Self-employed | Other | Civil servants, etc. | Recipients and contributors |

Source: MOHW (2018). Fourth National Pension Master Plan (draft). Yun Suk-myung (2019)

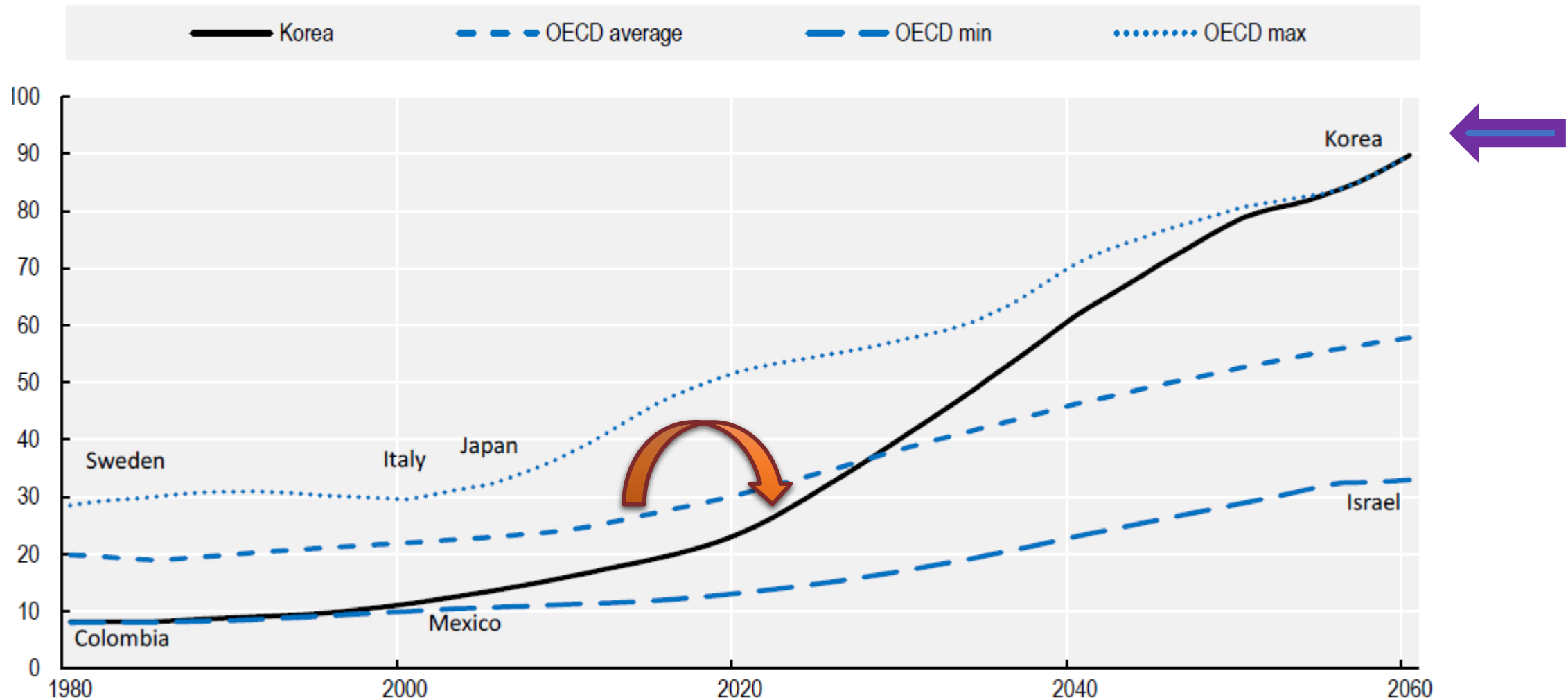
1.2 Public Pension Enrollment Status (2022. 12)

(Unit: Thousands)

| | | | | |
|---|---|--|---|--|
| Total population aged 18–59 ⁵⁾ 30,682 | | | | |
| Economically active population ⁶⁾ 22,666 | | | | |
| Population eligible for the National Pension ⁸⁾ 21,997 | | | | |
| Economically inactive population ⁷⁾ 6,879 | Potential Contributors 18,933 | | Occupational pension ¹⁰⁾ 1,806 | |
| | Insured persons exempted from contribution payments 3,064 | Long-term defaulters ⁹⁾ 882 | | Insured persons paying contribution 18,051 |
| | Subtotal 10,825 | | | Subtotal 19,857 |

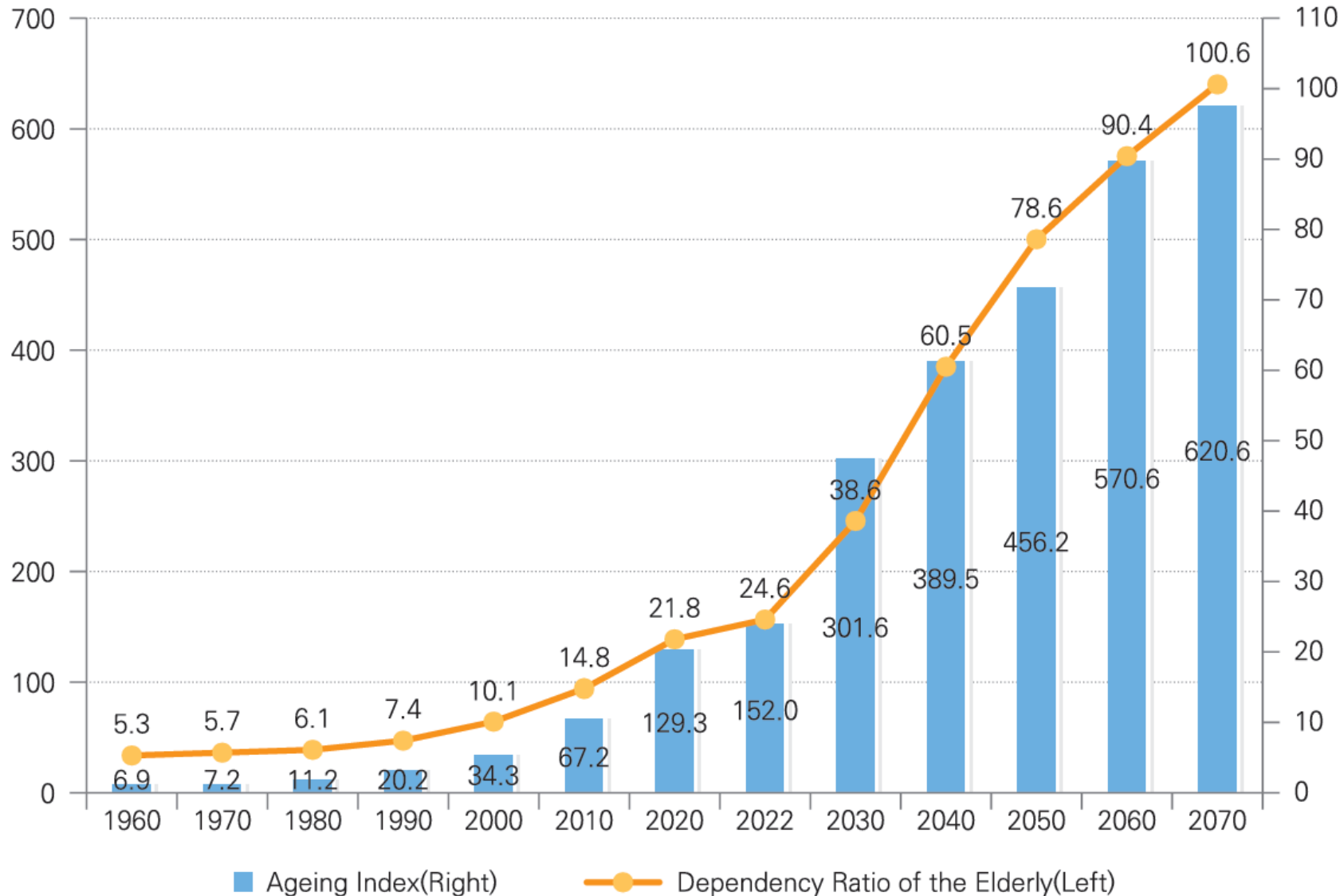
1.3 Population Ageing Is **Very Fast**

(Number of people aged 65+ per 100 people aged 20-64)



Source: *OECD Reviews on Korean Pension Systems (2022)*.

1.4 Trends in the Elderly Dependency Ratio and Aging Index (1960-2070)



(Unit: In persons)

Note 1. Dependency ratio of the elderly = (population at age 65+ / population aged 15-64 years) × 100

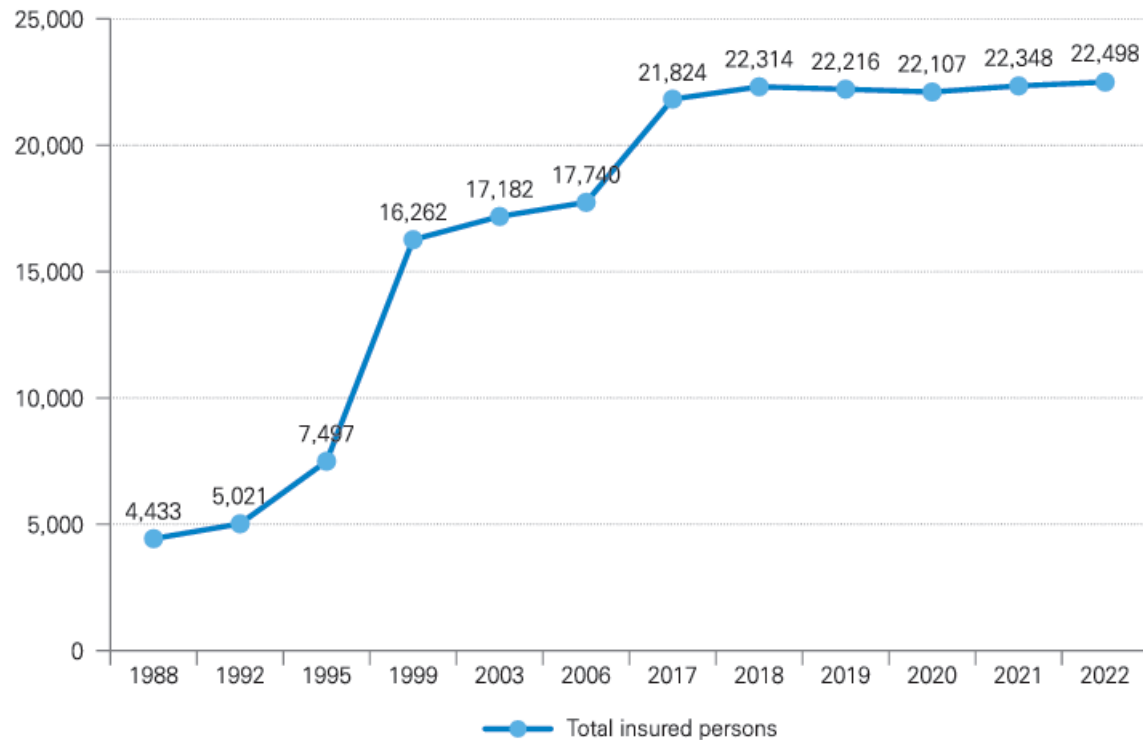
Note 2. Aging Index = (population aged 65+ / population aged 0-14 years) × 100

Source Statistics Korea, 「Population projections for Korea」

1.5 Changes in the number of Insured Persons & Total Beneficiaries

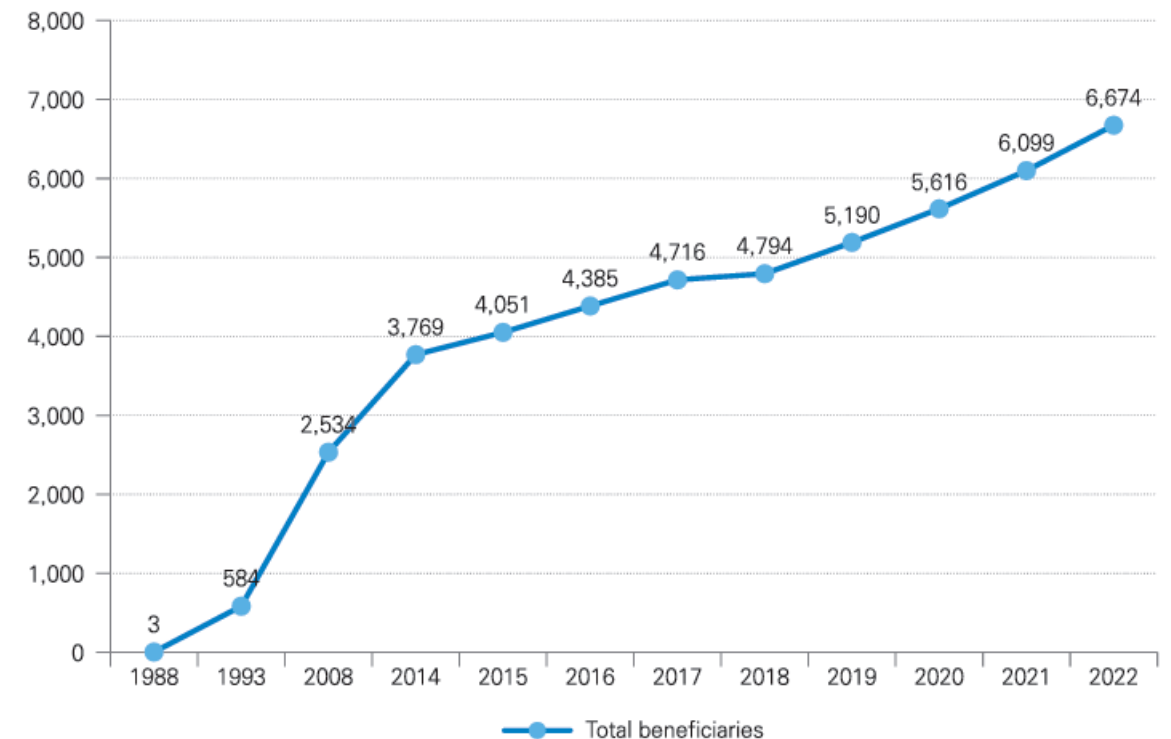
Change in the Total Number of Insured Persons

(Unit: Thousands)



Change in the Total Beneficiaries

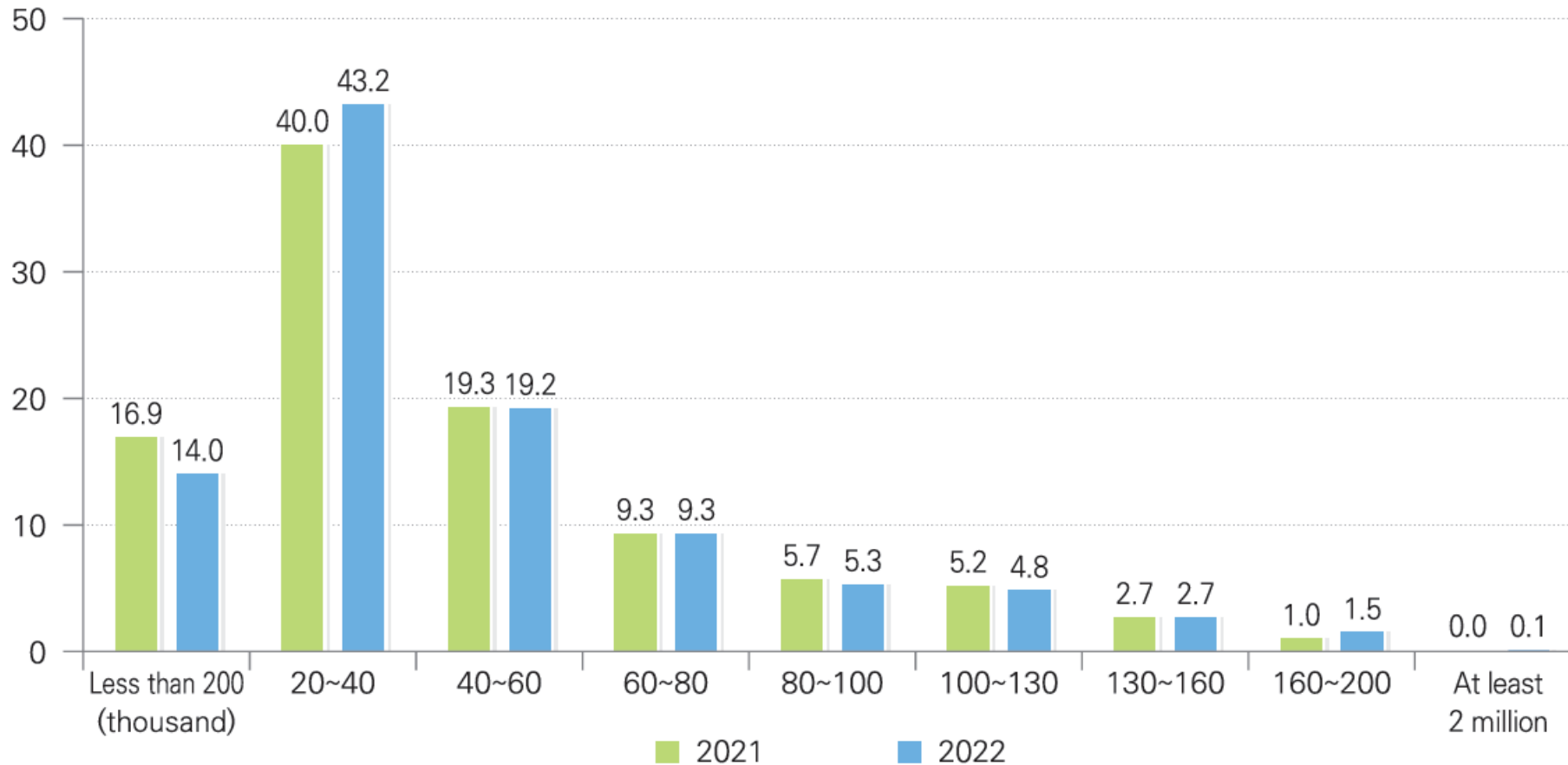
(Unit: Thousands)



Source National Pension Statistics Yearbooks

1.6 Distribution of Old-Age Pension Beneficiaries by the Average Monthly Payment

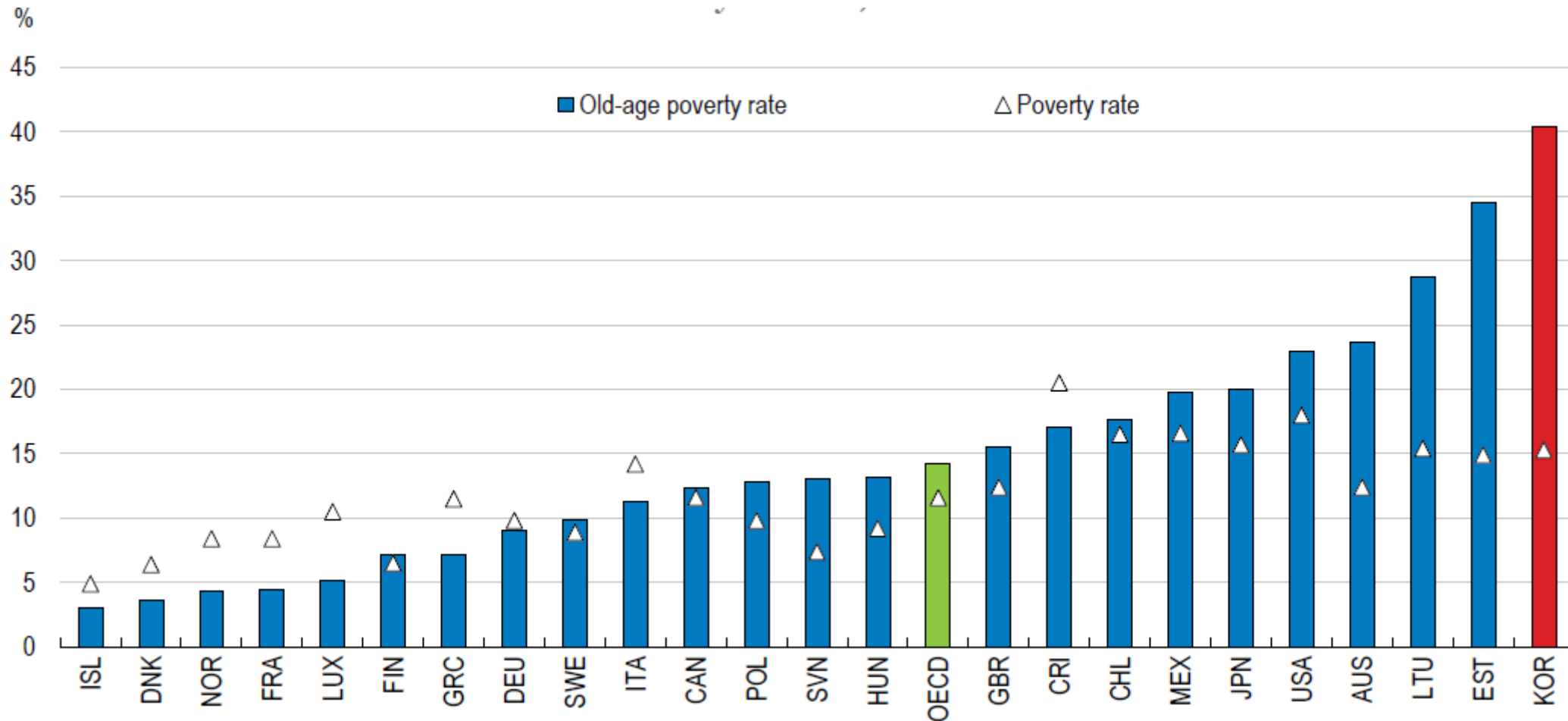
(Unit : %, KRW in Ten thousand)



Note Average Monthly Payments are reflected by Old-Age Pension(**Special Old-Age**, Disability, and Survivor Pension monthly benefits excluded).

Source National Pension Monthly Report

1.7 The Poverty Rate Is High, Notably for The Elderly



Note: The poverty rate(2020) is the share of the number of people living with less than half of the median disposable income. Wealth, which increases consumption possibilities and is typically higher among older generations, is not reflected.

Source: OECD Income distribution (database). 2022 OECD Economic Survey of Korea.

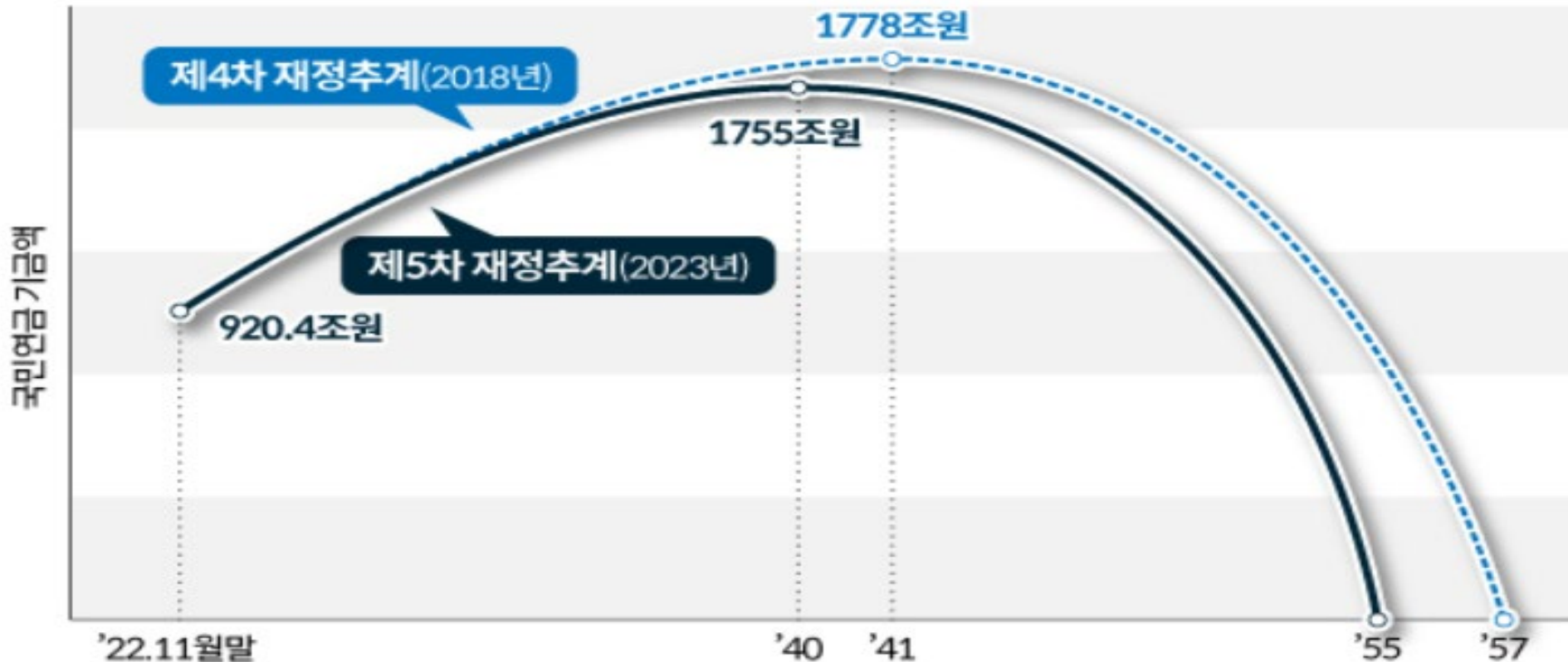
2. --- The 5th Actuarial Estimates of the NPS ---



2.1 Actuarial Estimates of the NPS (5th Estimate, Year 2023)

- Korea's national pension fund is set to see its pool of money **depleted by 2055**, because of a shrinking population amid low economic growth
- **The estimate**, made every 5 years
 - **the NPS** would see its fund depleted **two years earlier** than **2018 estimate predicted**
- The NPS had **915 trillion KRW** (\$743.13 billion) of funds as of the end of October 2022,
 - **the third-largest** in the world & **equivalent to 42%** of that year's estimated GDP

2.2 Long-term Outlook of the NPS (5th Estimate, Year 2023)



[자료=보건복지부] [그래픽=홍종현 미술기자]

NEWSPIM

Quoted from an interview with Sukmyung Yun of Newspim Press (June 10, 2024).

[인터뷰] 보사연 윤석명 박사 "국민연금 소득대체율 인상은 개혁 아닌 개악" (newspim.com)

2.3 Actuarial Estimates of the NPS (5th Estimate, Year 2023)

- ➔ **The assessment of NPS** income & financial prospects
 - Backed by **solid analyses** conducted in **regular actuarial reviews**.

< Balance Sheet Projection >

| Category | Peak Contribution | Deficit* | Depletion |
|--------------------------|---------------------|----------|--------------------|
| 5 th Estimate | 2040 (1,755 tn KRW) | 2041 | 2055 (△47 tn KRW) |
| 4 th Estimate | 2041 (1,778 tn KRW) | 2042 | 2057 (△124 tn KRW) |

Note: *The deficit year refers to the point when expenditure exceeds total revenue (contribution revenue + investment income). Values indicated within parentheses refer to pension reserves.*

Source: MOHW (2023)

2.4 Actuarial Estimates of the NPS (5th Estimate, Year 2023)

< Contribution Rate Required to Meet Financial Targets >

| Timeline for Contribution Rate Increase ¹ | | Financial Target (as of the end of the forecast period ²) Scenarios | | | | |
|--|------|---|------------------|------------------|------------|--|
| | | Reserve Ratio x1 | Reserve Ratio x2 | Reserve Ratio x5 | No Deficit | Maintaining a Consistent Reserve Ratio (Reserve Ratio) |
| 5 th | 2025 | 17.86% | 18.08% | 18.71% | 19.57% | 20.77% (14.8) |
| | 2035 | 20.73% | 21.01% | 21.85% | 22.54% | 23.73% (11.7) |
| 4 th | 2020 | 16.02% | 16.28% | 17.05% | 18.20% | 20.20% (17.3) |
| | 2030 | 17.95% | 18.27% | 19.25% | 20.22% | 22.20% (14.0) |

Note 1. The timeline for contribution rate increases has been set forth by the Financial Estimate Expert Committee, taking into consideration the beginning year of forecasts and the possibility of increasing contributions in phases.

Note 2. The 4th estimates are as of 2088, and the 5th actuarial estimates are as of 2093.

Source: MOHW (2023)

2.5 Actuarial Estimates of the NPS (5th Estimate, Year 2023)

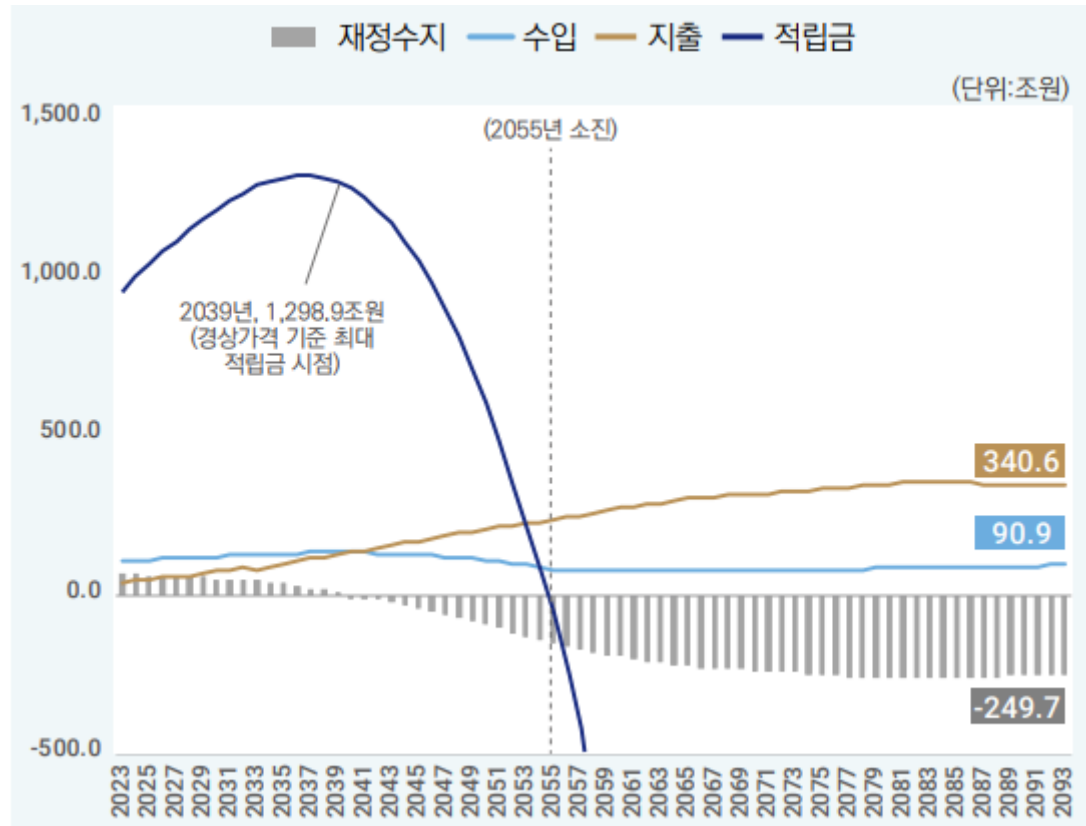
<Pension Dependency Ratio and Pay-As-You-Go Cost Rate >

| Category | | 2023 | 2030 | 2040 | 2050 | 2060 | 2070 | 2080 | 2088 | 2093 |
|------------------------------------|-----------------|------|------|------|------|-----------|-----------|-----------|-----------|-------|
| Pension Dependency Ratio (%) | 5 th | 24.0 | 36.4 | 62.9 | 95.6 | 125.4 | 138.3 | 143.1 | 128.1 | 119.6 |
| | 4 th | 23.0 | 35.0 | 62.7 | 91.0 | 116. 0 | 123. 6 | 121. 9 | 118. 6 | |
| Pay-As-You-Go Cost Rate (%) | 5 th | 6.0 | 9.2 | 15.1 | 22.7 | 29.8 | 33.4 | 34.9 | 31.7 | 29.7 |
| | 4 th | 6.3 | 9.0 | 14.9 | 20.8 | 26.8 | 29.7 | 29.5 | 28.8 | |

Source: MOHW (2023)

2.6 Actuarial Estimates of the NPS (NABO, 2023)

Long-term Projection of NPS (Baseline): 2023~2093



Changes in Case of 2%pt Increase in Replacement Rate (from 40 to 42%) of the NPS



2.7 Various long-term projection scenarios of the NPS (NABO, 2023)

| | Scenario 2 | Scenario 3 | Scenario 4 | Scenario 5 | Scenario 1 |
|--------------------|--------------------------------------|-------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Contribution Rate | 15% | 15% | 12% | 12% | 15% |
| Income Replacement | 45% (accrual rate: 1.125) | 50% (accrual rate: 1.25) | 40% (accrual rate: 1.0) | 40% (accrual rate: 1.0) | 40% (accrual rate: 1.0) |
| Eligible age | 65 | 65 | 67 | 65 | 65 |
| Benefit Formula | A+B | A+B | A+B | B only | A+B |

- Note: 1. Contribution rate of Scenario①, ②, ③: increase by 0.6%p every year from 2025
 2. C.R. of Scenario④, ⑤: increase by 1%p every year from 2025
 3. C. R. of Scenario②, ③: an immediate increase in 2025
 4. Pension eligible age of Scenario④: 1 every year from 2038

Source: NABO (National Assembly Budget Office)

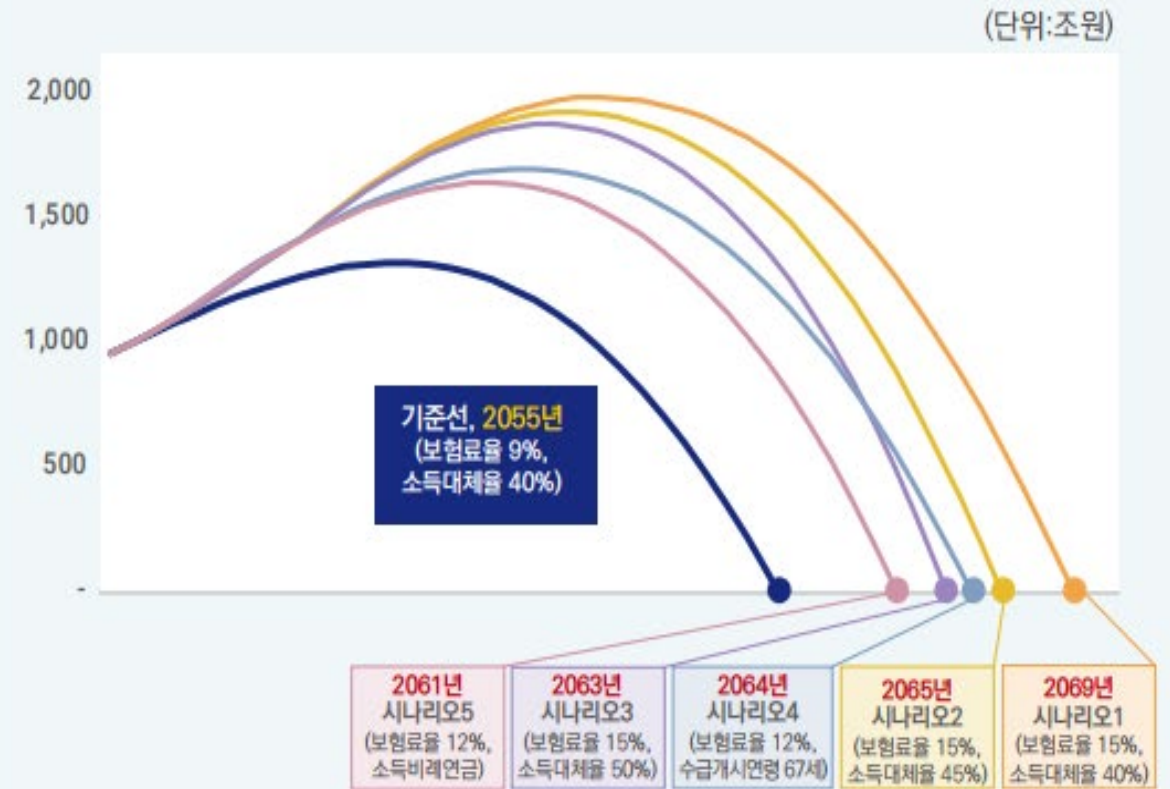
2.8 Various long-term projection scenarios of the NPS (NABO, 2023)

국민연금 시나리오별 재정전망 결과

| | 기준선 | 시나리오 1 | 시나리오 2 | 시나리오 3 | 시나리오 4 | 시나리오 5 |
|-------------------|-------|--------------|--------------|-------------|-------------|-------------|
| 적자전환 | 2040년 | 2052년 (+12년) | 2049년 (+9년) | 2048년 (+8년) | 2047년 (+7년) | 2045년 (+5년) |
| 기금소진 | 2055년 | 2069년 (+14년) | 2065년 (+10년) | 2063년 (+8년) | 2064년 (+9년) | 2061년 (+6년) |
| 2093년 기준 누적적자 증감분 | - | △3,699 조원 | △1,976 조원 | △283 조원 | △2,966 조원 | △1,080 조원 |

주: 2023년 기준 불변가격

시나리오별 국민연금 적립금 전망 결과



주: 2023년 기준 불변가격

2.9 Is the government committed to pension reform?

By THE DONG-A ILBO (October. 28, 2023)

The Ministry of Health and Welfare confirmed the fifth comprehensive plan for pension management on Friday during the meeting of the Health and Welfare Committee at the National Assembly. The key to pension reform is to decide how much to pay, at what age, and how much to receive, but **the plan is missing all of these numbers**. The responsibility for pension reform has **now been shifted to the National Assembly**, with **the rationale that a public discussion process is essential** due to differing opinions across generations. The former Moon Jae-in administration had presented a plan with four scenarios, which was heavily criticized as 'utterly irresponsible.'

Pension reform has already lost momentum after the government's advisory body, the National Pension Financial Calculation Committee, **failed to produce a single plan**. Despite claiming that a 'pay more, take less' reform is essential for the sustainability of the pension system, **the Committee concluded its work by presenting the government with more than 20 reform scenarios**.

A responsible government would have **chosen the best of these options to convince the public and speed up the reform process**. Instead of narrowing down the choices, the government has reset the pension reform debate to square one with a blank slate. **While claiming that reaching a premium rate comparable to that of advanced countries**, which is currently half, is inevitable, it offers **only a broad direction** for pursuing a gradual increase in the pension premium rate.

2.10 Is the government committed to pension reform?

By THE DONG-A ILBO (October. 28, 2023)

The current pension system, which requires people to **contribute 9% of their income and receive 40% in retirement**, has been labeled by international evaluation agencies as **'difficult to guarantee the system's effectiveness and sustainability.'** As the number of pension contributors plummets and the number of recipients soars, the pension fund is projected to **run a deficit from 2041 and be depleted by 2055**. Beyond that point, it will transition to **a full pay-as-you-go system, and by 2060**, if a working person **earns 1 million won**, they will have to **pay 340,000 won for pensions**. Even this projection **is based on an optimistic forecast of a 1 percent fertility rate**. According to a report released by the National Pension Research Institute, **the unfunded accrued liability** that future generations will have to bear for the current generation to receive their pensions is **173.5 trillion won**, resulting in **a debt of 80 million won per member**. (→ Emphasized by Pension Research Association over & over again) **Less than 30% of Koreans in their 20s and 30s** believe they will receive a pension income later. I wonder how long this system will last.

The government will submit a final plan to the National Assembly by Tuesday, following deliberation by the State Council and approval by the president. If the president approves it, we must ask: Why did he sign the bland bill after making pension reform one of **his top three priorities** upon taking office and repeatedly emphasizing, **“Although it's unpopular, it has to be done”**? The president should convince us before signing the plan and handing it over to the National Assembly **why he is irresponsibly squandering this golden opportunity for reform**.

3.

Special Pension Reform Committee of the National Assembly



3.1 [Editorial] Pension Reform <https://m.koreaherald.com/view.php?ud=20240423050829>

Rival parties must focus on pension reform, revise law by May to prevent further delay

April 24, 2024 - 05:30

By Korea Herald

As South Korea rapidly ages, the national pension fund is expected to be drained by 2055 if no changes are made to its structure.

The special parliamentary committee for pension reform is currently **reviewing two reform plans.**

3.2 [Editorial] Pension Reform <https://m.korea Herald.com/view.php?ud=20240423050829>

Plan A is about **paying more in premiums and receiving a greater pension**. It calls for raising the premium rate **from the current 9 percent to 13 percent**, and **the income replacement ratio from 40 percent to 50 percent**. Under Plan A, the national pension fund will be depleted by 2061, and **by 2093, its accumulated deficit would be some 702.4 trillion won greater than the size of the deficit estimated under the current system**.

Plan B is about **keeping the income replacement ratio at 40 percent while raising the premium rate to 12 percent**. Under Plan B, the accumulated deficit by 2093 would be 1.97 quadrillion won less than the amount expected under the current pension structure.

3.3 Risky pension politics of Korea



3.4 Risky pension politics of Korea

Pension Research Association's emergency press conference

“Key information missing from the public debate on pension reform” By KBS
(2024. 04. 24)



3.5 Risky pension politics of Korea

Pension Research Association's emergency press conference

"Key information missing from the public debate on pension reform" By KBS
(2024. 04. 24)

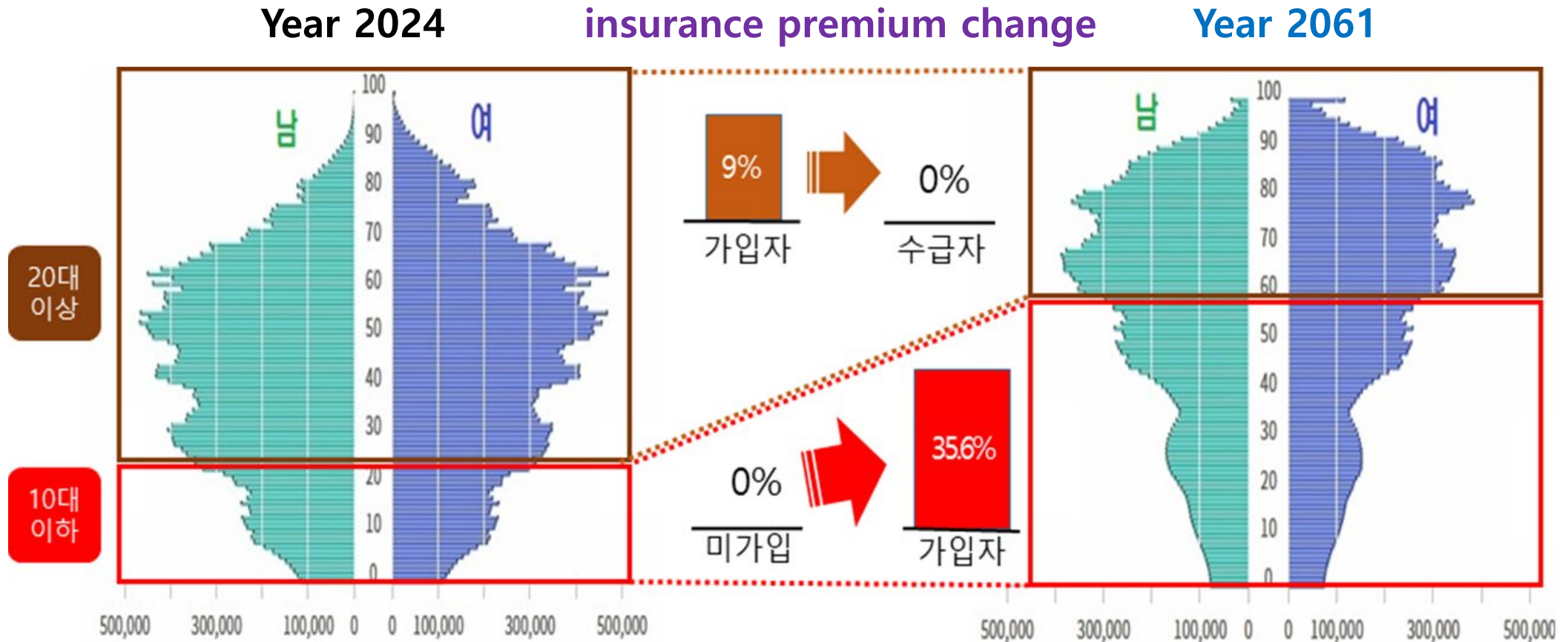


3.6 Risky pension politics of Korea



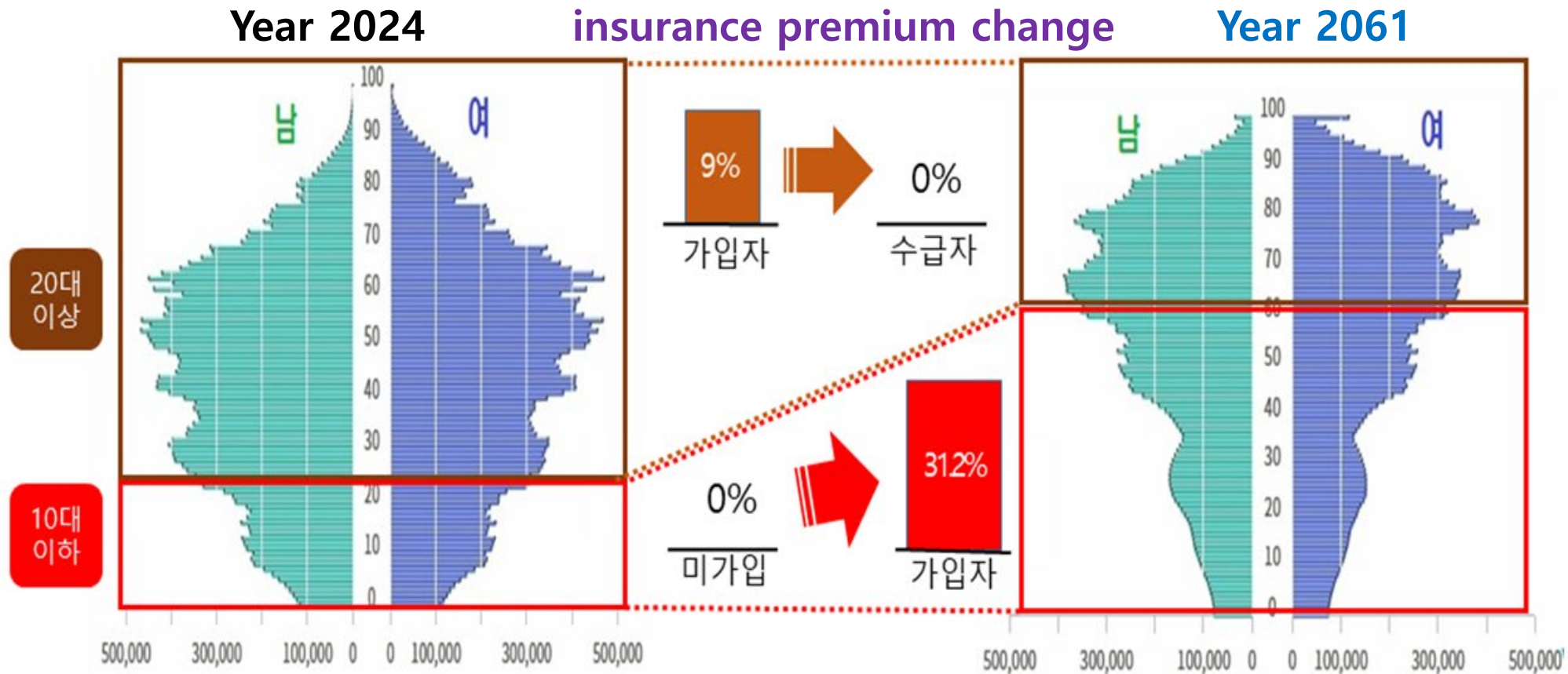
Kim Sang-kyun, the middle, **head of the special pension reform committee**, speaks about **the committee's pension reform proposals** at the National Assembly in Seoul, on April 22, 2024. /Lee Deok-hoon

3.7 Changes in Insurance Premium Rates by Generation (Plan A 13%-50%)



| Age Group in 2024 | Insurance Premium rate (Now) | Insurance Premium rate (2061) | Insurance Premium rate (2078) |
|-------------------|------------------------------|-------------------------------|-------------------------------|
| 20s or Older | 9% | 0% (Beneficiary) | 0% (Beneficiary) |
| Under 10s | 0% (Non-subscriber) | 35.6% (PAGO Cost rate) | 43.2%(PAGO Cost rate) |

3.8 Changes in Insurance Premium Rates by Generation (Plan B 12%-40%)



| Age Group in 2024 | Insurance Premium rate (Now) | Insurance Premium rate (2061) | Insurance Premium rate (2078) |
|-------------------|------------------------------|-------------------------------|-------------------------------|
| 20s or Older | 9% | 0% (Beneficiary) | 0% (Beneficiary) |
| Under 10s | 0% (Non-susbscriber) | 31.2% (PAGO Cost rate) | 35.1%(PAGO Cost rate) |

3.9 [Editorial] Pension Reform <https://m.koreaherald.com/view.php?ud=20240423050829>

Poll results released on Monday by the special committee showed that **56 percent of 492 citizen representatives picked Plan A over Plan B.**

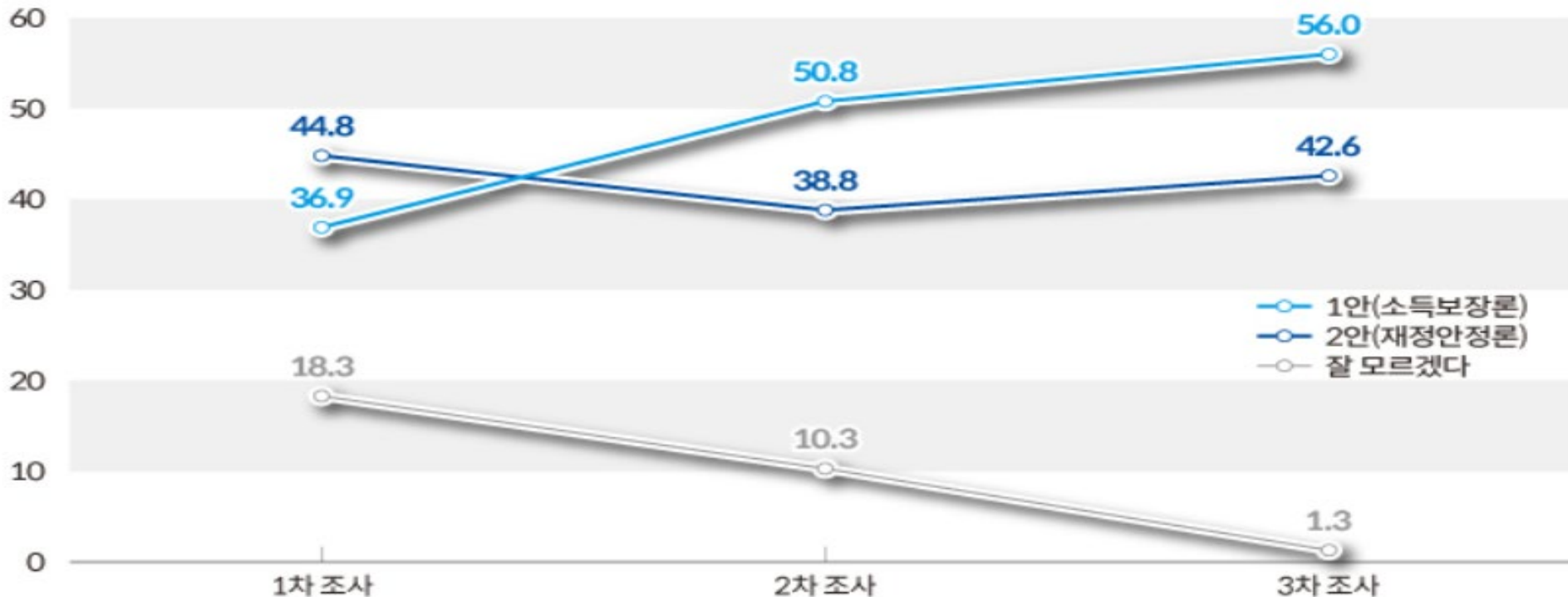
Only 42.5 percent chose Plan B.

Eighty percent of the respondents agreed to the proposal to **raise the maximum age for joining the National Pension Plan from the current 59 to 64.**

3.10 Pension Reform Public Debate final Survey Results

연금개혁 공론화 최종 설문조사 결과

단위: %



대상: 시민대표단 492명(최종) | 방법: 설문조사 | 기간: 2024. 3.22~4.21 | 표본오차: 95% 신뢰수준에서 ± 4.4%p

*1안(소득대체율 50%, 보험료율 13%), 2안(소득대체율 40%, 보험료율 12%)

[자료=국회 국민연금 특별위원회] [그래픽=홍종현 미술기자]



Quoted from an interview with Sukmyung Yun of Newspim Press (June 10, 2024).

[\[인터뷰\] 보사연 윤석명 박사 "국민연금 소득대체율 인상은 개혁 아닌 개악" \(newspim.com\)](https://www.newspim.com)

3.11 Risky pension politics of Korea



4. Ongoing Debates - Way forward



4.1 Risky pension politics of Korea

연금연구회 "보험료율 15%안도 함께 논의하자"

입력 2024-04-04 05:30:24

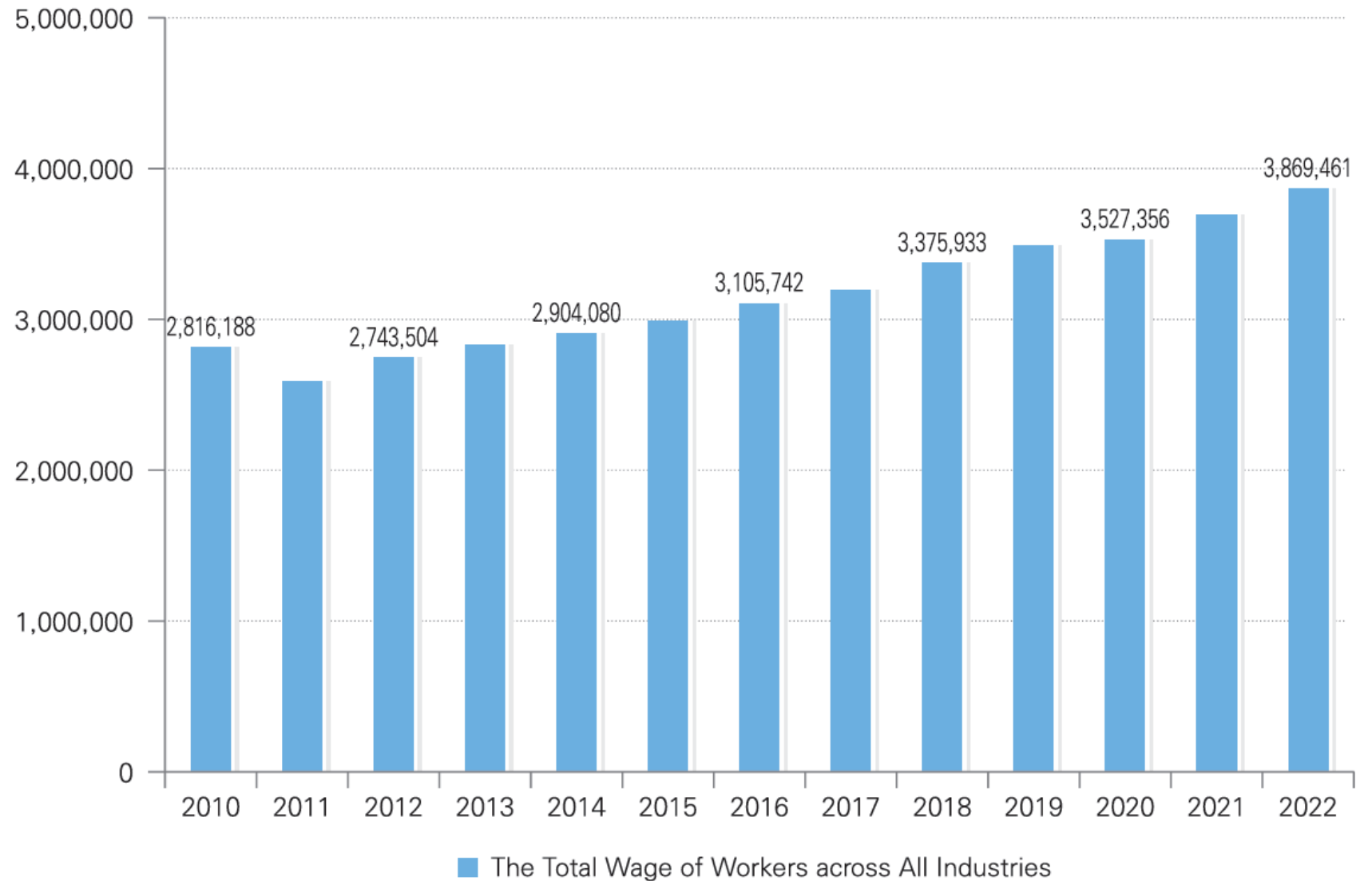
출처 : <https://www.sedaily.com/NewsView/2D7S4ASML0>

주요 연금개혁 논의안 (단위:원)

| 구분 | 내용 | 적자전환 | 기금소진 | 누적적자 증감 |
|---------|----------------------|--------------------------|-------|----------|
| 현행 | 소득대체율 42%, 보험료 9% | 2041년 | 2055년 | - |
| 공론화위 1안 | 소득대체율 50%, 보험료 13% | 2045년 | 2060년 | 702.4조 |
| 공론화위 2안 | 소득대체율 40%, 보험료 12% | 2047년 | 2063년 | -1879.7조 |
| 연금연구회 | 소득대체율 40%·보험료 15% | 2053년 | 2071년 | -3699.3조 |
| KDI | 신·구 연금 분리, 보험료 15.5% | 신연금: 완전적립식, 구연금: 609조 투입 | | |

※누적적자는 2093년 누적액을 현재가치로 환산, 현 소득대체율 2028년 40%로 단계적 인하
자료:국회예산정책처, KDI, 보건복지부

4.2 Trends in the Total Wage of Workers across All industries



Source Ministry of Employment and Labor, Labor Force Survey at Establishment

4.3 Average Monthly Income and A-value of the NPS, by Year

(Unit: KRW, percent, YOY)

| Year | Average Monthly Income ¹⁾ | A-Value ²⁾ | |
|------|--------------------------------------|-----------------------|------------------------|
| | | | Growth rate of A-Value |
| 1995 | 900,024 | 859,838 | 13.5 |
| 2010 | 1,779,574 | 1,791,955 | 2.3 |
| 2011 | 1,814,477 | 1,824,109 | 1.8 |
| 2012 | 1,882,336 | 1,891,771 | 3.7 |
| 2013 | 1,955,395 | 1,935,977 | 2.3 |
| 2014 | 2,016,894 | 1,981,975 | 2.4 |
| 2015 | 2,084,920 | 2,044,756 | 3.2 |
| 2016 | 2,159,703 | 2,105,482 | 3.0 |
| 2017 | 2,227,788 | 2,176,483 | 3.4 |
| 2018 | 2,319,100 | 2,270,516 | 4.3 |
| 2019 | 2,412,593 | 2,356,670 | 3.8 |
| 2020 | 2,530,634 | 2,438,679 | 3.5 |
| 2021 | 2,641,611 | 2,539,734 | 4.1 |
| 2022 | 2,728,439 | 2,681,724 | 5.6 |

Source
Pension Benefits Calculation
and Adjustment Schedule (2022)

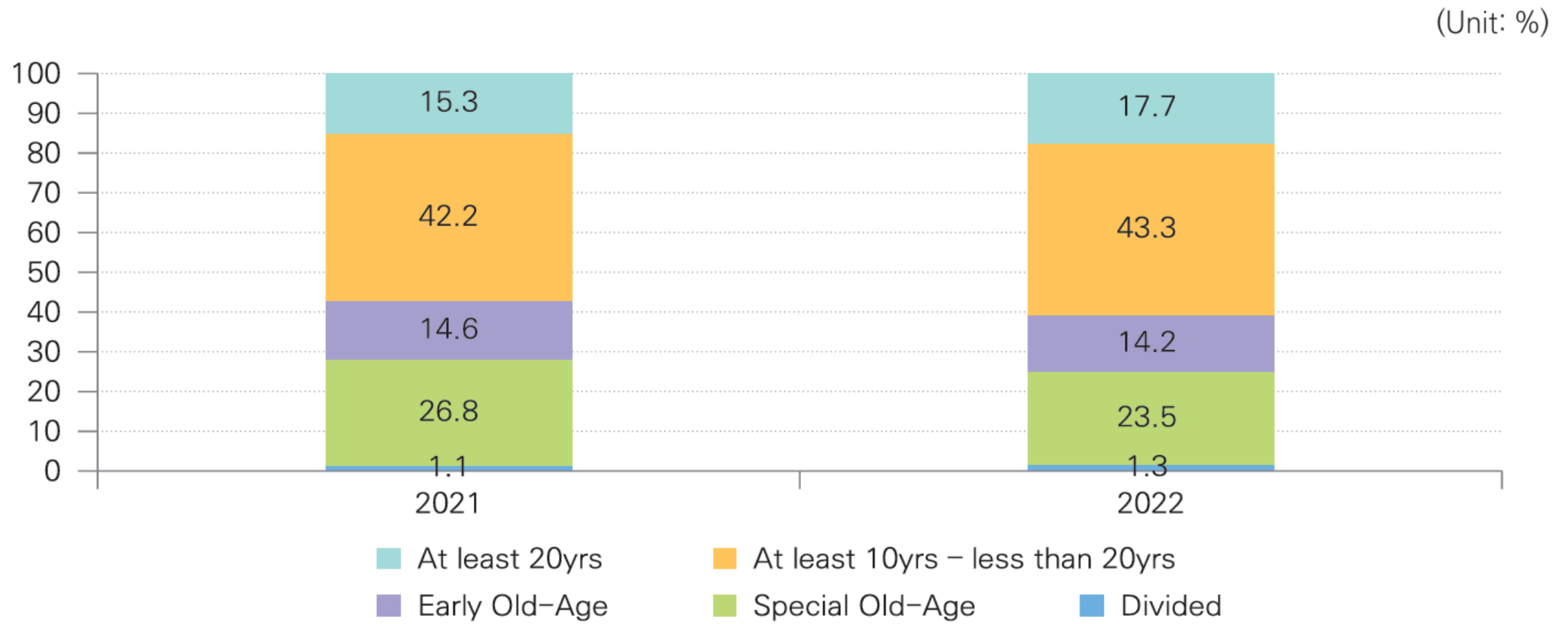
4.4 Contribution & Income R. Rate of the Public Pension in OECD Countries

(Unit: %)

| Country | Contribution Rate(2020) | | | Income replacement rate |
|-------------|-------------------------|----------|-------|-------------------------|
| | Employee | Employer | Total | |
| Korea | 4.5 | 4.5 | 9.0 | 31.2 |
| Canada | 5.25 | 5.25 | 10.5 | 38.8 |
| France | 11.3 | 16.5 | 27.8 | 60.2 |
| Germany | 9.3 | 9.3 | 18.6 | 41.5 |
| Italy | 9.19 | 23.81 | 33.0 | 74.6 |
| Japan | 9.15 | 9.15 | 18.3 | 32.4 |
| Belgium | 7.5 | 8.9 | 16.4 | 43.4 |
| Sweden | 7.0 | 10.8 | 17.8 | 41.3 |
| Switzerland | 4.2 | 4.2 | 8.4 | 22.1 |

Source
OECD,
Pensions at a Glance 2021

4.5 Comparison of the Proportion of the Old-Age Pension Beneficiaries by Contribution Period



Source National Pension Statistics Yearbooks

4.6 Financial Estimates of the NPS under Various Scenarios

| 구분 | 수지 적자 | 기금 소진 | 필요보험료율 | | 수지균형 보험료율 (보험료율과 차이) | 현행 대비 누적수지 적자규모 (경상가 기준) |
|--------------|----------|----------------|--------------|-------|----------------------------|-----------------------------------|
| | | | 최고 ('78년) | '93년 | | |
| 9·40 (현행) | 2041년 | 2055년 | 35.0% | 29.7% | 19.8% (-10.8%p) | - |
| 13·43 | 2048년 | 2064년 (+9년) | 37.5% | 31.9% | 21.3% (-8.3%) | -4,318조원 |
| 13·44 | 2047년 | 2064년 (+9년) | 38.8% | 32.7% | 21.8% (-8.8%p) | -3,738조원 |
| 13·45 | 2047년 | 2063년 (+8년) | 39.1% | 33.4% | 22.3% (-9.3%p) | -2,766조원 |

4.7 Various long-term projection scenarios of the NPS

Reduce the current 5-year gap between the early(age 59) & pensionable ages (age 64)

| 구분 | 구분 | | 기금소진 시점 | 필요보험료율 ¹⁾ (’78년 기준) | 현행대비 누적수지 적자 규모 ²⁾ (경상가, ~’93) | GDP 대비 총지출 (’83, 최고) |
|-----------|------|-----------|----------------|-----------------------------------|--|----------------------------|
| | 보험료율 | 소득 대체율 | | | | |
| 현행 | 9% | 40% | 2055년 | 35% | - | 9.5% |
| 1안 | 13% | 50% | 2061년 (+6년) | 43.2% (+8.2%p) | +1,004조원 | 11.8% (+2.3%p) |
| 64세 연장 | 13% | 50% | 2059년 (+4년) | 45% (+10%p) | +5,676조원 | 13.5% (+4%p) |
| 2안 | 12% | 40% | 2062년 (+7년) | 35.1% (+0.1%p) | -4,598조원 | 9.6% (+0.1%p) |
| 64세 연장 | 12% | 40% | 2060년 (+5년) | 36.6% (+1.6%p) | -833조원 | 10.9% (+1.4%p) |

Source: '더 내고 더 받는 연금개혁안' 국민연금 기금고갈 4~6년 늦춰. 아시아경제. 2024.04.30.

4.8 Risky pension politics of Korea



korea JoongAng Daily



Joo Ho-young, **chair of the Special Committee on Pension Reform**, presides over the committee's plenary session at the National Assembly in Seoul on **April 30, 2024**. /Lee Deok-hoon

4.9 Editorial: National Assembly urged to achieve crucial pension reform by May

By The Chosunilbo (2024.05.01)

The National Assembly's Special Committee on Pension Reform discussed a revised pension proposal on April 30, presented by its Public Opinion Committee. The first option proposed increasing contributions from the current 9% of income to 13% and raising the payout from 40% to 50%. The second option suggested increasing contributions to 12% while maintaining the current payout level. After a series of debates and educational sessions, a group of citizen representatives selected the first option as their preferred choice, which was then reported to the special committee. The Democratic Party of Korea (DPK) supports this option.

The problem is that the first option is unsustainable for future generations. Implementing the first option would delay the depletion of the national pension fund from 2055 to 2062, but the increased payouts would lead to an accumulated deficit of an additional 702 trillion won from 2062 to 2093, an unbearable burden for generations currently in their teens. The pension and welfare systems could be at risk of collapsing. The citizen representatives could have voted without fully understanding these implications.

4.10 Editorial: National Assembly urged to achieve crucial pension reform by May

By The Chosunilbo (2024.05.01)

Another critical issue is the urgency of even a slight increase in contributions. Contributions to the national pension have not been increased in 26 years and are currently only half the OECD average. To reduce the future burden on younger generations, it is crucial to pass a proposal to increase contributions during the current 21st National Assembly, which ends in May. Especially in South Korea, where **the largest population cohorts are in their 40s and 50s, accumulating as much in premiums as possible before they retire is essential for fiscal stability.** Now could be an opportune moment with the DPK currently supporting pension reform.

A compromise between the first and second pension options is possible. Experts suggest setting contributions and payouts at an average of the two plans (12.5% and 45%) could increase payouts while reducing future burdens. **(NOT Correct. → Harshly criticized by Pension Research Association)** The DPK secretary of the special committee said, “We will find a compromise that secures both income and financial stability during committee discussions.” The gap in support between the two options is minor. **(NOT Correct. → Harshly criticized by Pension Research Association)** Passing a compromise by May could allow the 21st National Assembly, often criticized as the worst, to achieve a significant national accomplishment.

4.11 PPP Floor Leader Calls for Pension Reform in 22nd National Assembly

(YONHAP NEWS AGENCY. May 26, 2024)



The floor leader of the ruling People Power Party proposed the ruling and opposition parties **establish a consultative body** to thoroughly discuss reforming the national pension scheme in the upcoming **22nd National Assembly**.

"Let's establish a bipartisan consultative body and a special committee on pensions **to build public consensus**, including from the youth. Choo's suggestion came amid prolonged debates over the issue with the main opposition Democratic Party (DP). He said **the government will prioritize the issue as soon as the 22nd National Assembly starts**, rather than rushing through a **"half-baked reform."** The DP has previously called for passing the pension reform plan during a plenary session scheduled for Tuesday, **the final session before the current National Assembly's term expires**.

The two sides agreed on **raising the premium from 9 percent to 13 percent** of income, but **disagreed on the income replacement rate**, which is the pension as a percentage of a subscriber's average lifetime income.

"The DP, which had neglected pension reforms for years, is **now suddenly and hastily trying to push through an unresolved reform just three days before the 21st National Assembly's term ends**," Choo criticized.

"As soon as the hastily made numbers are finalized, the momentum for pension reform will fizzle out," he said. Earlier in the day, the presidential office echoed Choo's sentiment.

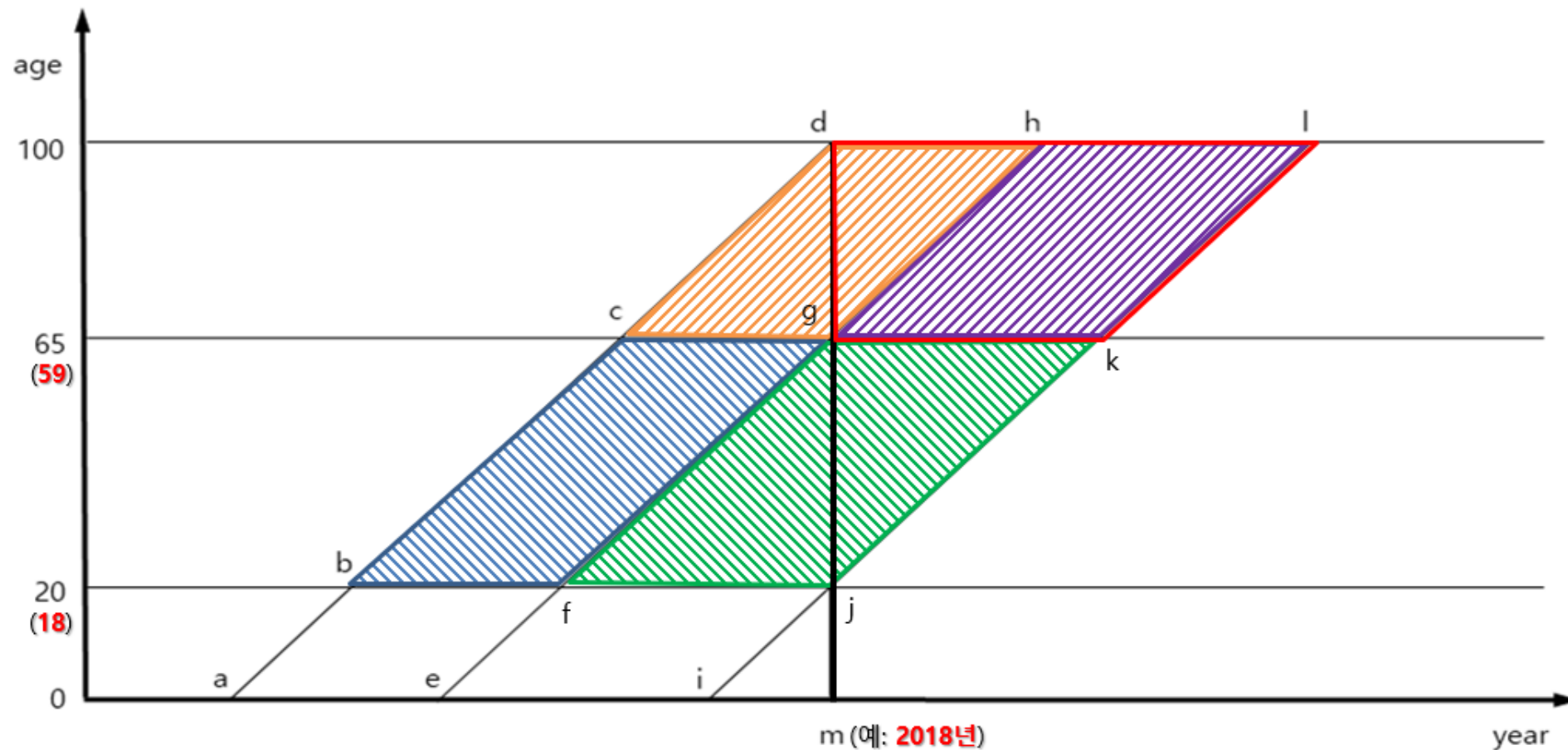
"Reforming the national pension scheme is a lengthy process with significant implications for young people and future generations, which requires parametric as well as structural reforms," a high-ranking presidential official said.

"We think it is more reasonable for the 22nd National Assembly **to address the issue**," the official said, citing the limited time available to **"achieve a significant compromise."**

4.12 Need to extend NPS Actuarial Valuation Period (from 70 yrs to 100 yrs)

Lexis Diagram

- An effective policy tool that can properly show the various problems that a populist approach will cause.



4.13 Various Policy Objectives of Old-age Pension Scheme



- **Raise the wage ceiling** to contributions substantially. (**fully acceptable**)
- Finance some pension redistributive components from the state budget. (**Unacceptable**)
 - ➔ Although the current NPS has an **income distribution portion (A value)**, **progressive income redistribution is not working** due to the **extremely low insurance premium rate**.
A regressive redistribution to high-income people who have been enrolled in the national pension for a long time **is proceeding**, while passing on the enormous financial burden **to the next generation**.
 - ➔ In particular, in a situation where **many of the vulnerable**, such as low-income local (individual) subscribers, **are excluded** from the national pension, the **regressive phenomenon** will **be aggravated** if **the state budget is used** to finance it.
 - ➔ While **transforming** the current national pension into **a financially sustainable income-related pension**, it would be desirable for **the basic pension (safety-net pension)** operated with **state finance** to **take responsibility for the income redistribution function**.

- ➔ Ensure **active participation** in the pension system of **all eligible individuals**,
 - By **improving co-ordination** with tax authorities to verify income levels for the individually insured & Increasing penalties for employers who do not enrol their workers. (**acceptable**)

- ➔ Link the retirement age to **life expectancy**,
 - **Reduce the current 5-year gap** b/w the early & the statutory **retirement** (➔ should be modified as **pensionable**) ages and **consider moving faster** to age 65. (**Conditionally acceptable**) ➔ **Unfeasible** if **NO** labour market reform

4.16 2022 OECD Economic Survey of Korea (Recommendations to strengthen the social safety net)

- Pursue **a broad pension reform** to secure adequate old-age income.
 - In this context, **conditional on the reform** of the NPS, consider **lowering the basic pension income threshold and increasing the benefit level to better target those with the highest needs.** (**Fully agree & acceptable recommendation**)
- **Raise** the pension eligibility age **further than** currently legislated (**age 65**) by 2035
 - And **link** it to **life expectancy thereafter,**
 - Align the maximum contribution age **to the pensionable age.** (**Fully agree but need for social consensus**)



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Thanks a Lot !

감사합니다 !