

Opening Remarks

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Financial Services Commission

Chairman

Je-Yoon Shin

1. Greetings

Good afternoon, Ladies and gentlemen,

Welcome to Seoul.

I am happy to open the 2013 IOPS Global Forum on Private Pensions.

Let me thank IOPS President Dr. Edward Odundo, *and* Chairman Ambrogio Rinaldi of OECD's Working Party on Private Pensions for this wonderful event.

Let me also thank today's keynote speaker, Minister of Employment and Labor Ha-nam, Phang.

Today, we are here to discuss Asia's experience on pensions *and* the lessons for the world.

Let me highlight the importance of this theme.

II. Homo-Hundred Era

Ladies and gentlemen, the world is heading towards the Homo-Hundred Era. It will become a common thing to live over 100 years. This is *huge accomplishment* in terms of medical technology and living standards. But, every blessing comes with a challenge. Despite the aging population, fertility rates remain low. Working population will shrink. Dependency ratios will rise. This will place greater financial burden on individuals *and* the government.

To counter this problem, governments are trying to secure a *sustainable* pension system.

Specific measure differ from country to country. But there is a common theme: the growing role of *private pensions*.

Governments are wondering *how* to increase the role of private pensions.

III. The Role of Private Pensions

Let me note *why*.

Life expectancies are exceeding estimates. For individuals, this means—larger medical costs & living expenses.

For governments, this means—higher welfare & pension expenditures.

On current trends, public pensions could come under huge financial pressure. Reforms on public pensions are inevitable.

The OECD pension reforms are part of this context. The reforms include higher pensionable ages, automatic adjustment mechanisms, and stronger work incentives.

This is *why* private pensions need to play a bigger role.

So, governments are working to increase private pension coverage, and lengthen payout periods.

Governments are reviewing plans to insure private pensions and maintain their soundness.

On the investment side, governments are encouraging pensions to diversify investments.

This way, private pensions can secure adequate investment returns and manage longevity risks.

Let me talk about Korea's efforts on this front.

As you know, Korea is the world's most-*rapidly* aging society.

In 2018, Korea will be an "aged society." The elderly population will account for 14% of the society.

And in 2026, Korea will reach a "*super-aged* society."

By then, 20% of the population will be aged 65 or above.

This means—it will *only take 8 years* for Korea to go from an "aged" society to a "*super-aged*" one. So, retirement security is a *big* issue.

The Korean government has taken measures to ensure the sustainability of public pensions. Mandatory replacement rates were cut. The pensionable age was raised. But—this is not the *whole* solution. It is only *part* of the solution.

The government is taking steps to strengthen the role of private pensions.

First, a stronger retirement pension scheme.

In 2005, retirement pensions were added on top of existing public pensions. And last year, Individual Retirement Pensions (IRPs) were introduced.

Now, individuals can make additional savings in their IRP accounts.

Second, broader tax incentives for private pensions.

More tax credits are available for private pensions. Pension incomes below certain levels are subject to schedular taxation.

Third, a newly-introduced reverse mortgage scheme.

Under this scheme, individuals can liquidate housing assets to spend after retirement. The purpose is to help the soon-to-be-retired baby boomers, because about 75% of their assets are real estate assets.

IV. The Case of Korea

Distinguished guests, Korea's private pension market achieved remarkable growth within a short time. The market continues to grow.

Retirement & individual pension reserves jumped from 14% in 2012 to 23% in 2013.

Private pensions will not only help sustain the pension system—but *also* provide growth momentum for the financial industry.

A robust pension system can provide a stable supply of funds to the financial industry. This will *feed back to* the pension system. Pensions will see higher returns, gain more enrollments, and accumulate larger reserves. Ultimately, this will help ensure individuals' retirement security.

The Korean government is working to make this happen. Many measures are in the pipeline and ready to be implemented.

First—measures on public awareness of retirement planning.

Individuals should be able to set their *own* retirement plans. Then, they must learn to manage retirement savings & related risks.

The Korean government is planning to set up a “web portal” for pensions. There, individuals can check their own pension entitlements.

They can also ask for professional one-on-one counsel on retirement planning.

Second—measures on private pension coverage and the opt-out rate.

The government will support the development of *various* pension products to meet different demands.

Diverse marketing channels, such as online sales, will be available.

“Affirmative” incentive provisions are considered for social groups that are *less* likely to have private pensions. These groups include baby boomers, low-income earners, and small business workers.

To lower the opt-out rate, disincentives will be imposed on individuals who receive severance in lump sum.

Third—measures on pension asset management.

Pensions should be managed effectively, so that they can secure retirement incomes. The government will relax regulations on pension asset management. Also, the government will encourage private pensions to *shift towards* mid- to long-term investments for higher returns.

Last but not least—measures on consumer confidence.

The government is trying to boost consumer confidence in private pensions, as well as financial companies in general.

The government plans to maintain a proper level of supervision on private pensions.

Private pensions, for their part, should do all they can to remain sound and effectively manage their assets.

V. Closing

Ladies and gentlemen, Baby boomers across the world are entering retirement age. Life expectancies continue to rise. Now more than ever, government must brace for the “aging storm.”

On the flip side, this could bring a new wave of economic vitality. The silver industry will see a rush of demand. Larger pension assets will facilitate financial market development. However, this depends on how we prepare *now*

Ladies and gentlemen, Let us find ways to turn the Homo-Hundred Era into nothing—but a *blessing*.

Thank you.