

Korea

Korea: Pension system in 2020

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)	46.0	46.2
	USD	38 991	39 178
Public pension spending	% of GDP	2.8	7.7
Life expectancy	at birth	82.7	80.6
	at age 65	20.6	19.7
Population over age 65	% of working- age population	23.6	30.4

Qualifying conditions

The pension age is currently 62 with at least ten years of contributions. A reduced early pension can be withdrawn from the age of 57 years.

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

Benefit calculation

Contribution-based

The earnings-related targeted replacement rate after 40 years of contributions is 45% in 2018 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), with the latter therefore forming a contribution-based basic component. There is a ceiling of pensionable earnings equal to KRW 5.03 million per month, equivalent to 206% of the A value in 2020. The A value was equal to KRW 2438679 in 2020.

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.

Targeted ("Basic") pension

Older persons aged 65+ whose recognised income – including from the National Pension - is at or below the income eligibility threshold can get "Basic Pension". The eligibility for the targeted pension benefit is determined based only on the applicants' age and (single or couple) income and property. (Their children's income and property are not taken into account).

Eligible seniors with a recognised pension income below KRW 450 000 per month (for low-income beneficiary) receive the maximum benefit of KRW 300 000 from 2020. The remaining eligible seniors with a recognised income above KRW 450 000 receive a benefit if the following formula returns a positive value:

low-income beneficiary : $(\text{KRW } 300000 - 2/3 * \text{A value of the National Pension}) + \text{KRW } 150000$

general beneficiary : $(\text{KRW } 254760 - 2/3 * A \text{ value of the National Pension}) + \text{KRW } 127380$

Couple rate is 80% of single rate each. The level of basic pension benefit increases in line with the annual price index.

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.

Eligible households receive different levels of support for living, medical, housing and education expenses, depending on their characteristics and circumstances. There are seven forms of benefits: livelihood benefit, medical benefit, housing benefit, education benefit, childbirth benefit, funeral benefit.

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 the pension 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 62 with higher earnings than the average earnings of the insured are paid the amount obtained by subtracting a certain amount of money depending on their earnings. This is known as the "active old-age pension". Pensioners between ages 62 and 66 and are working can choose either the "deferred pension" or the "active old-age pension". The starting age of pension deferral is also increasing from 60 years to 65 years in 2033.

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.

The childcare credit is given to insured women who give birth or the baby's father, 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 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 are reflected in the Old-age Pension benefit amount, however, they are not included in the amount of Disability and Survivor Pension.

Self-employed

The self-employed are mandatorily covered by the earnings-related scheme if their taxable income is above the minimum amount of about 10% of the average wage. The contribution base is the income from the self-employment activity, after having paid pension contribution

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

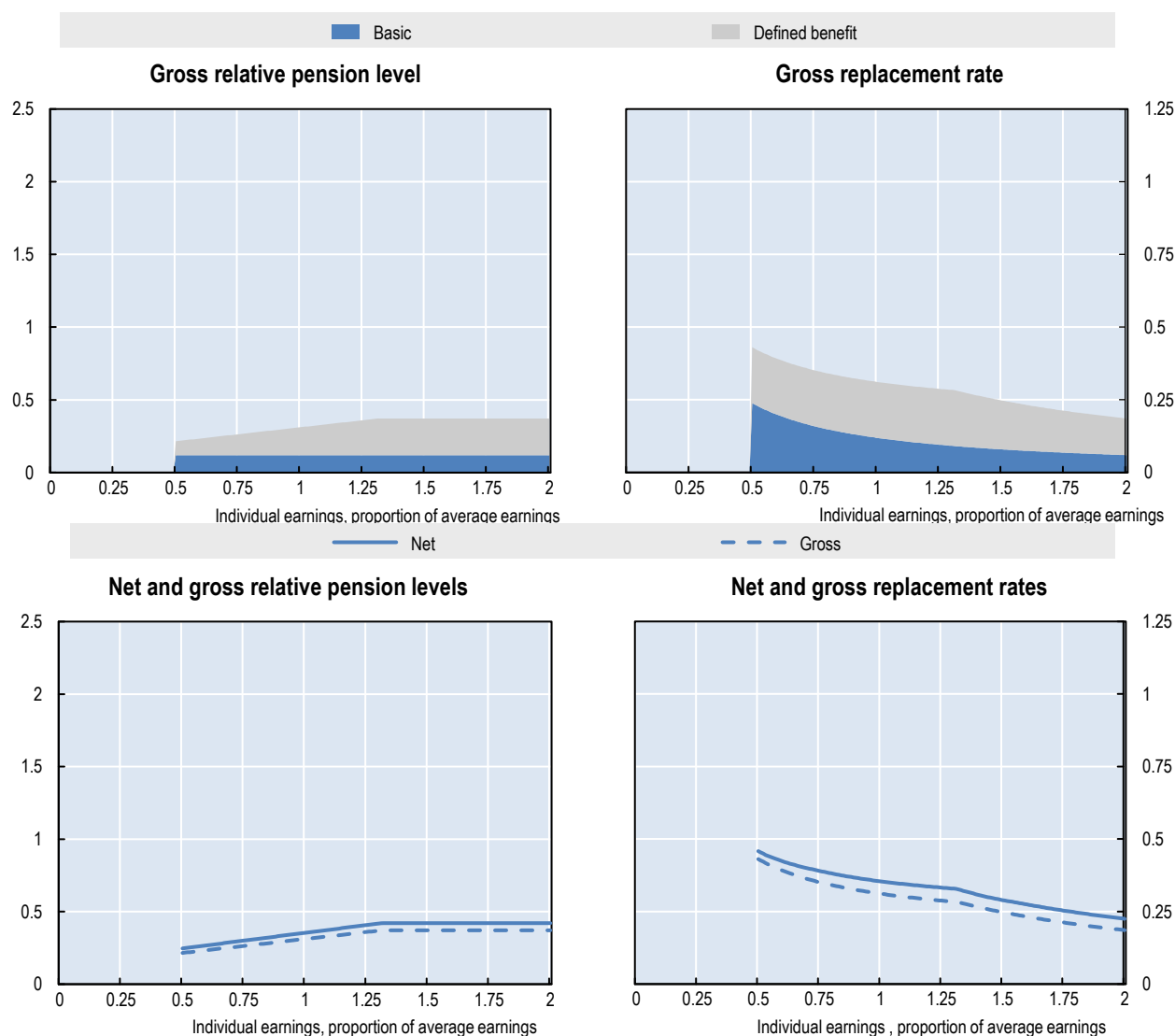
Pension income is taxable (applied to all rights accrued from 2002). There is, however, a pension income deduction. Below KRW 3.5 million, all pension income is tax deductible. Above that level, the marginal rate of deduction falls to 40%, 20% and, finally, to 10%. The maximum deduction is KRW 9 million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

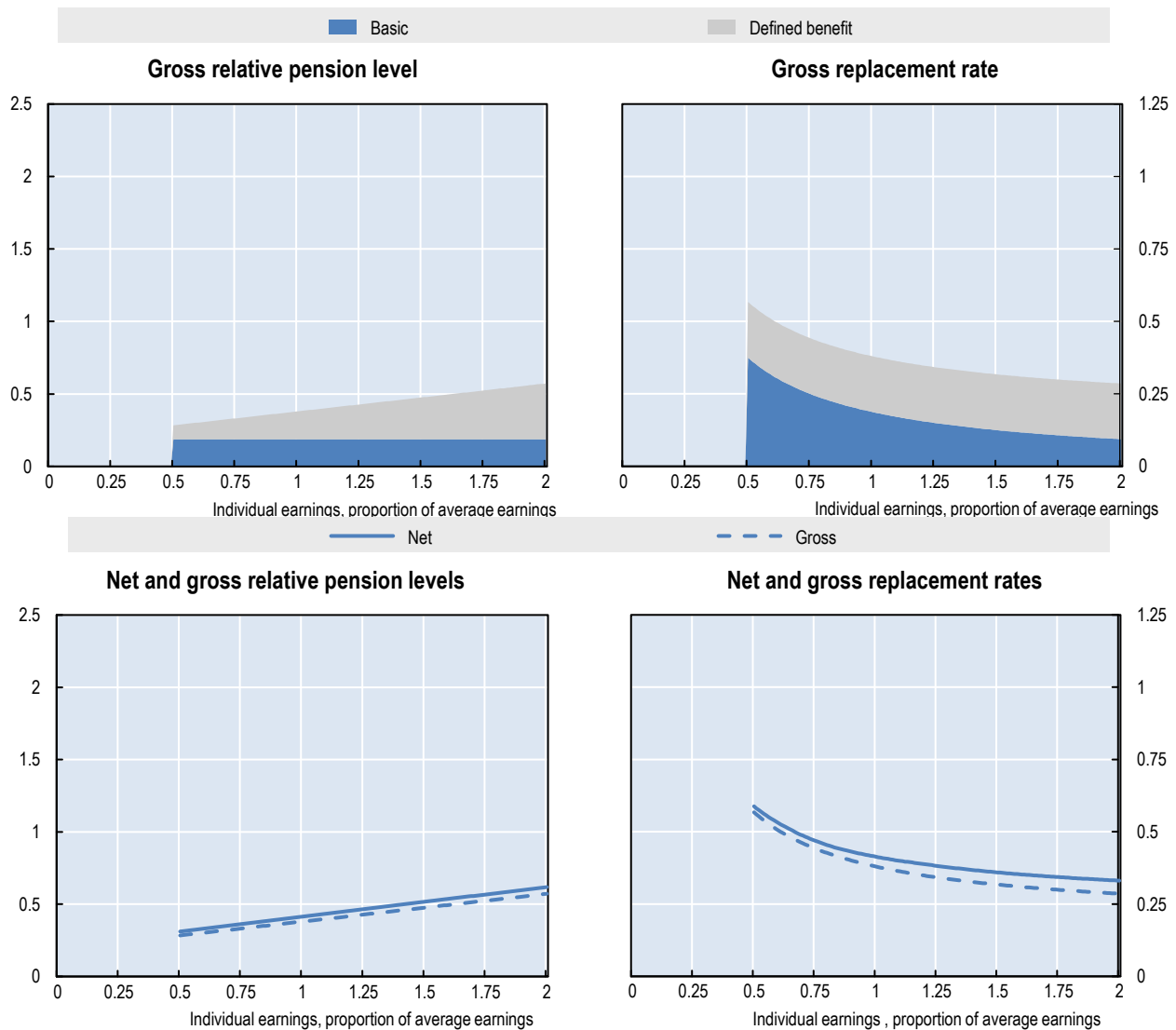
Pension modelling results: Korea in 2063 retirement at age 65 (OECD wage)



	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Men						
<i>Women (where different)</i>						
Gross relative pension level (% average gross earnings)	21.5	26.3	31.2	37.1	37.1	37.1
Net relative pension level (% net average earnings)	24.7	30.0	35.4	42.1	42.1	42.1
Gross replacement rate (% individual gross earnings)	43.1	35.1	31.2	24.8	18.6	12.4
Net replacement rate (% individual net earnings)	45.8	39.0	35.4	28.9	22.5	16.0
Gross pension wealth (multiple of individual gross earnings)	8.0	6.6	5.8	4.6	3.5	2.3
Net pension wealth (multiple of individual net earnings)	9.4	7.7	6.8	5.4	4.1	2.7
	8.6	7.3	6.6	5.4	4.2	3.0
	10.0	8.5	7.7	6.3	4.9	3.5

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 22 in 2020. Tax system latest available: 2020.

Pension modelling results: Korea in 2063 retirement at age 65 (A-value wage)



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)	28.4	33.2	38.0	47.6	57.2	58.4
Net relative pension level (% net average earnings)	31.1	36.2	41.4	51.6	61.8	63.1
Gross replacement rate (% individual gross earnings)	56.7	44.2	38.0	31.7	28.6	19.5
Net replacement rate (% individual net earnings)	58.8	46.9	41.4	35.9	33.1	23.5
Gross pension wealth (multiple of individual gross earnings)	10.6	8.3	7.1	5.9	5.3	3.6
Net pension wealth (multiple of individual net earnings)	12.4	9.7	8.3	6.9	6.2	4.3
Net pension wealth (multiple of individual net earnings)	11.0	8.8	7.7	6.7	6.2	4.4
Net pension wealth (multiple of individual net earnings)	12.8	10.3	9.0	7.9	7.2	5.1

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 22 in 2020. Tax system latest available: 2020.