

World Bank - Hitotsubashi - MOF Workshop on Closing the Coverage
Gap: The Role of Social Pensions
Tokyo, February 20-22, 2008

The Role of Social Pension in Korea

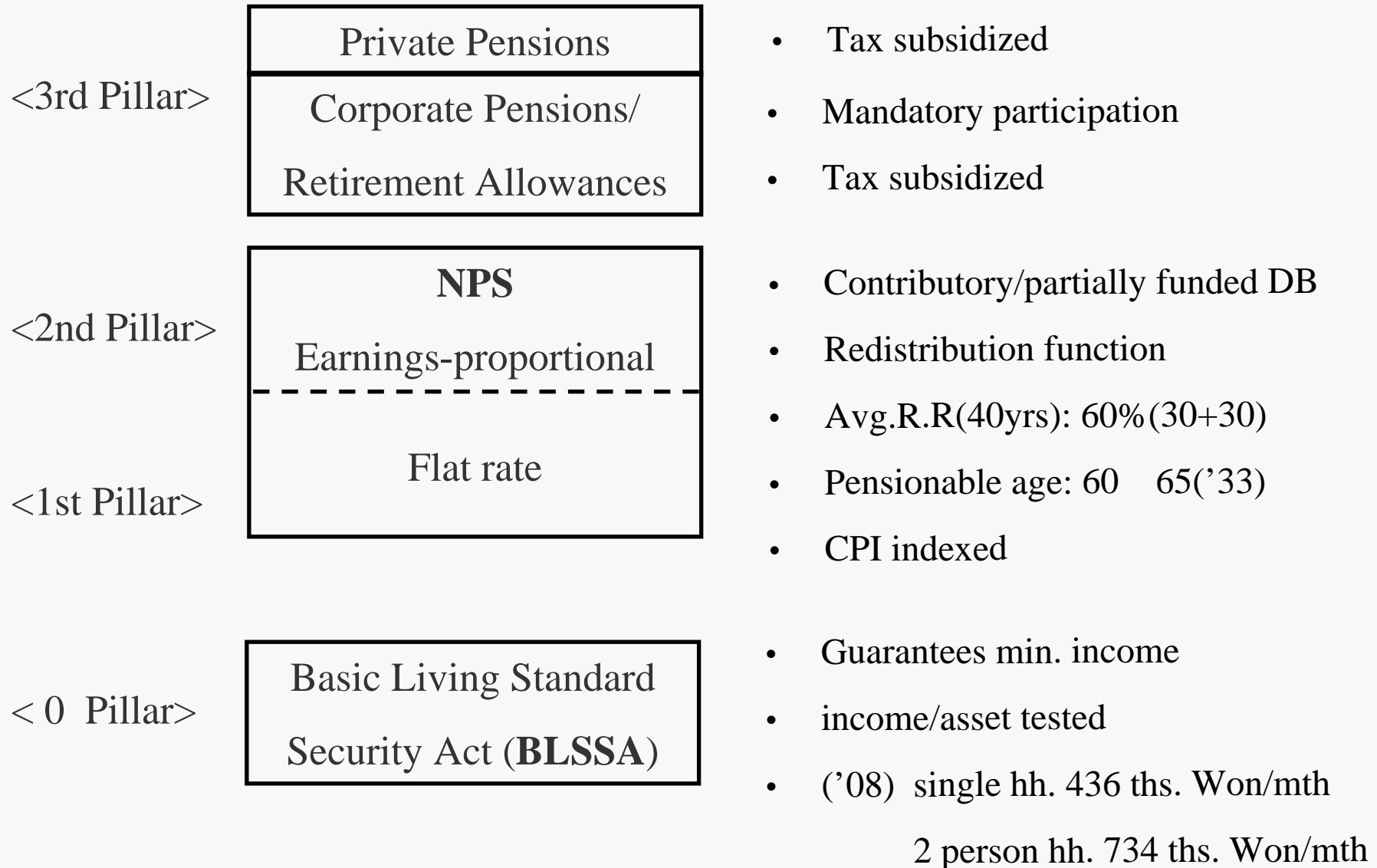
Hyungpyo Moon
KDI, Korea



OUTLINE

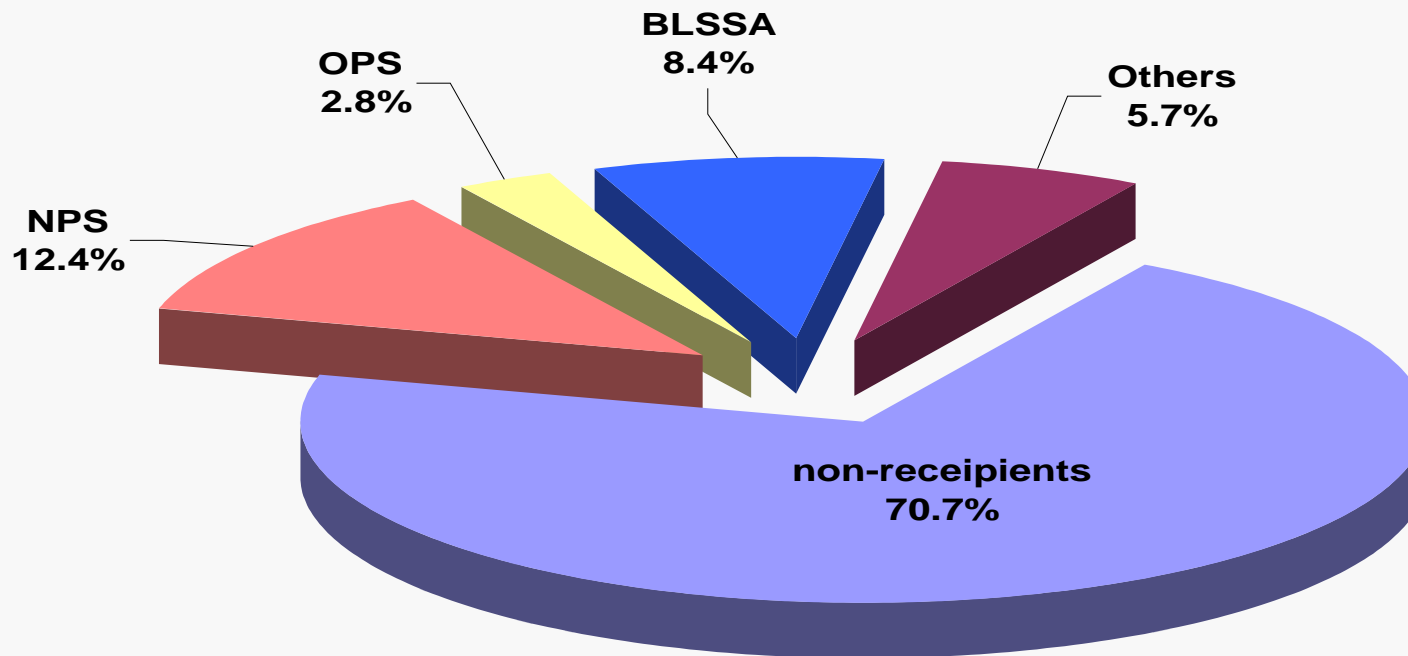
- 1. Current Issues in Pension Coverage*
 - 2. Pension Reform in 2007*
 - 3. Future Policy Agenda*
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Major Old-age Income Security System in Korea



Public Pension Beneficiaries: Age 65+ (2005)

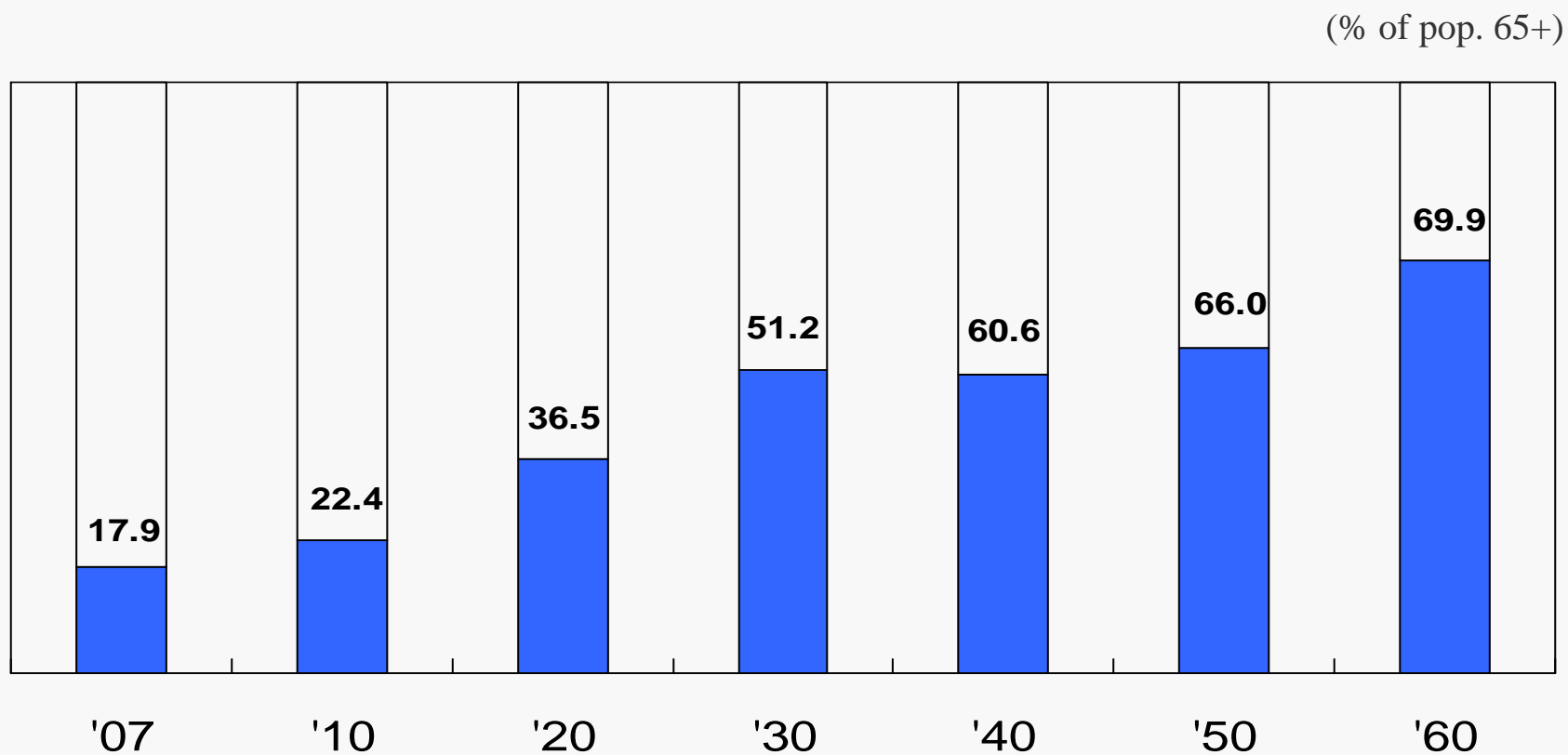
- NPS coverage: workplace(1988), self-employed(1999)
- Currently, NPS coverage is very limited.
- Poverty rate among the elderly is more than twice as high as the nat'l average.



Source: Yoon(2007)

Beneficiaries of Old-age Pension(NPS):Forecasts

- As the NPS matures, the coverage will be expanded gradually.



Data: NPS(2007)

Number of Insured Persons(NPS): 2006

- Currently, about 1/3 of the insured are non-contributors.

(ths., %)

total insured	workplace-based	individually insured				voluntary participants
		contributors		exempted		
		collected	not-collected			
17,740 (100.0)	8,605 (48.5)	9,086 (51.2)	3,150 (17.8)	1,000 (5.6)	4,936 (27.8)	49 (0.3)

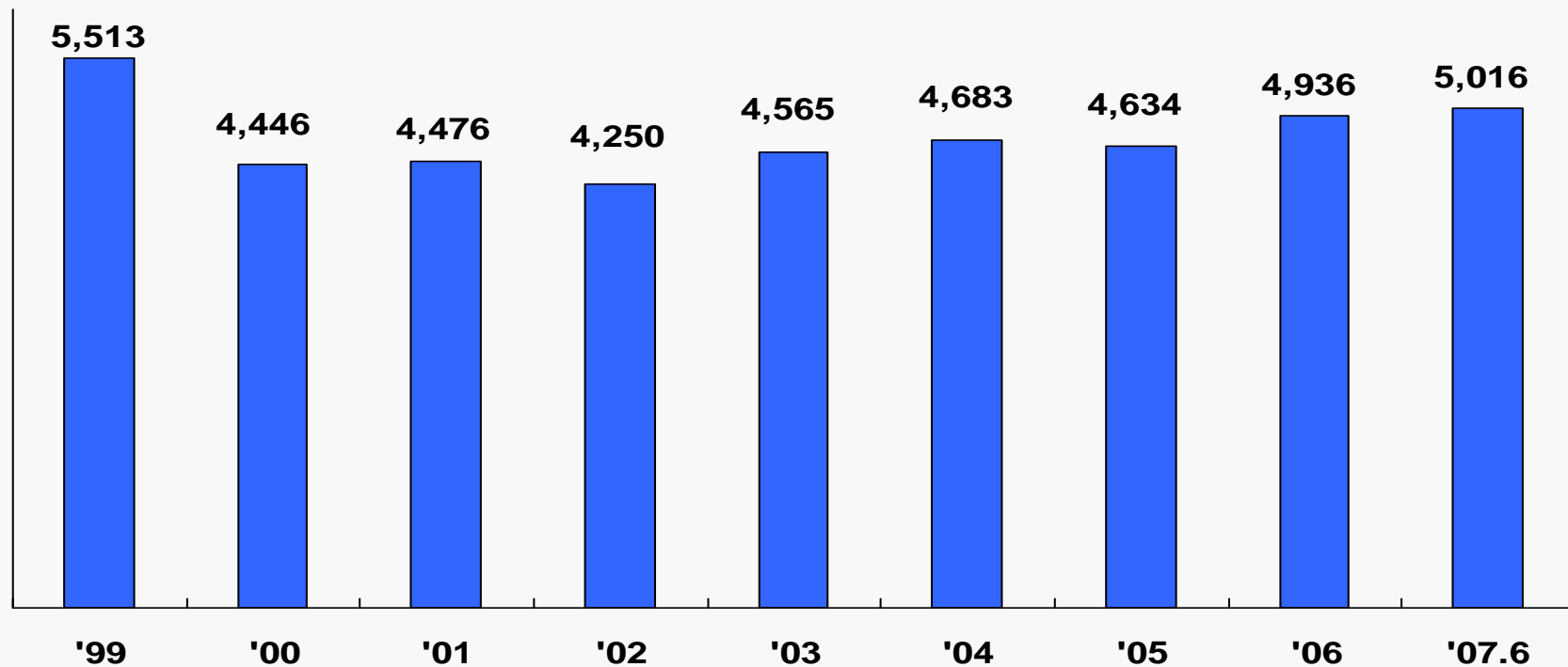
**Non-contributors
(33.4%)**

Data: NPS(2007)

Number of Exempted from Contributions

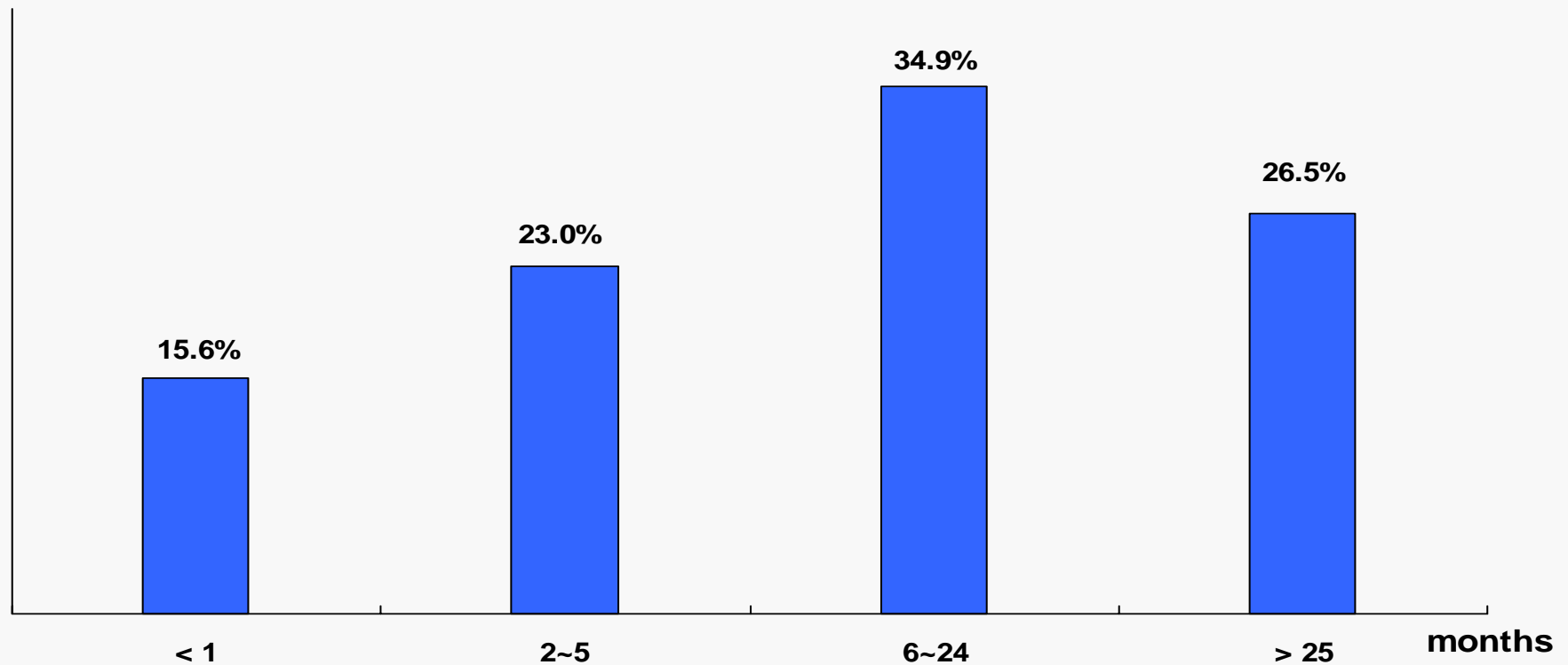
- The number of those who are exempted is increasing in recent years.

More than 90% of them remained as exempted for 2 years and longer.(NPS.2003)



Delinquency Periods(2003)

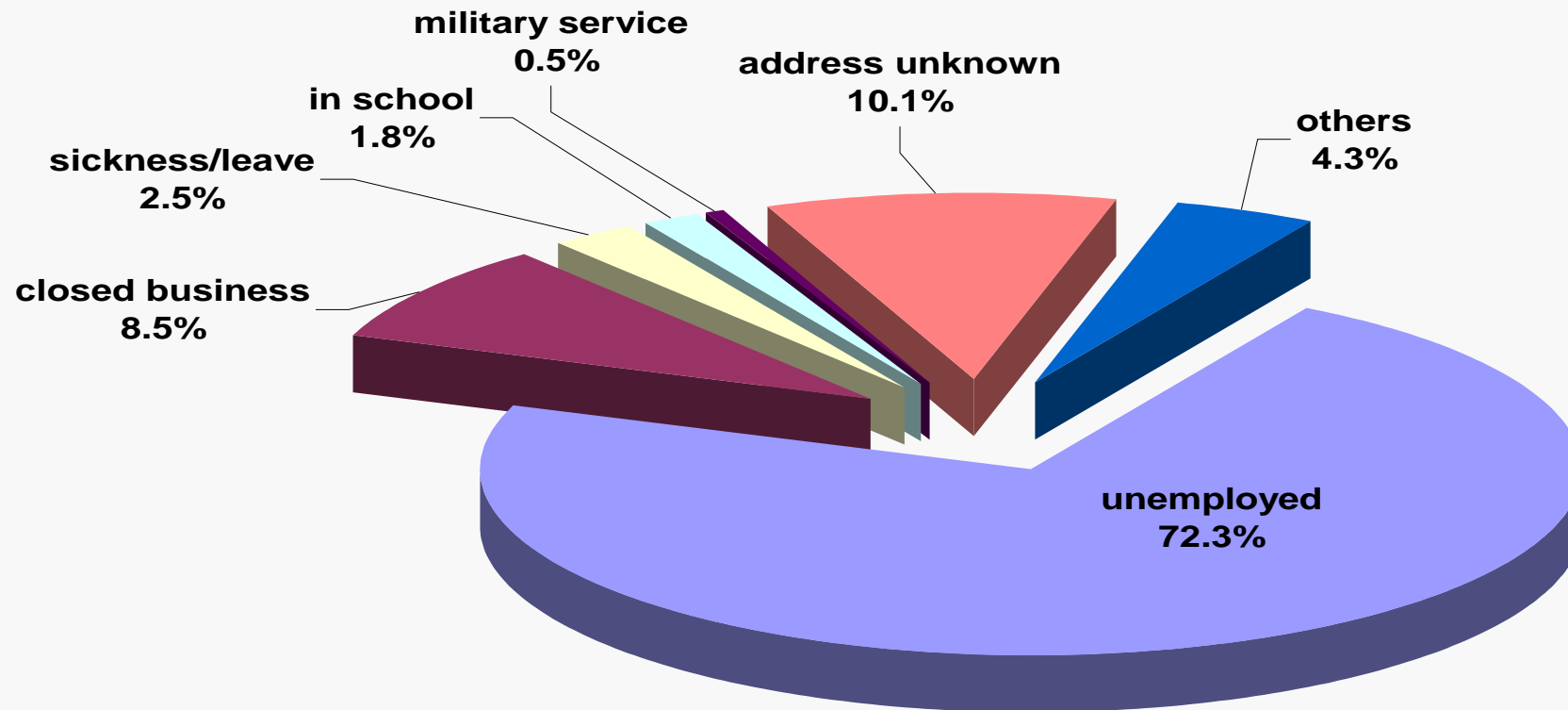
- More than 1/4 of delinquent contributors are not paying contributions for 2 years or longer.



Data: NPS(2003)

Characteristics of Non-contributors

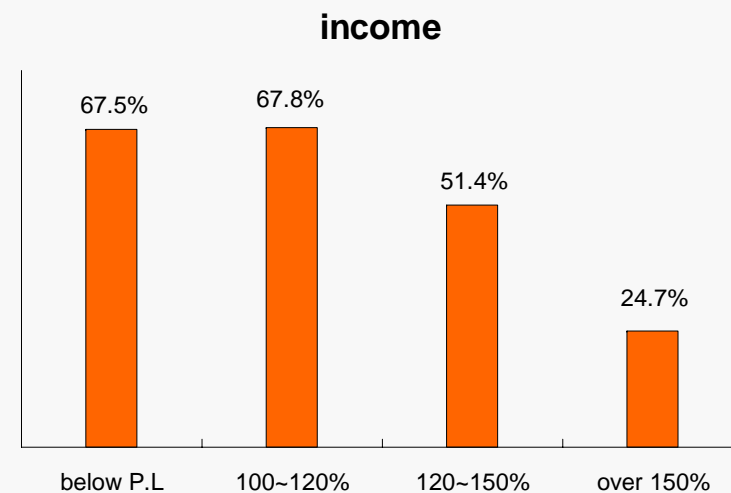
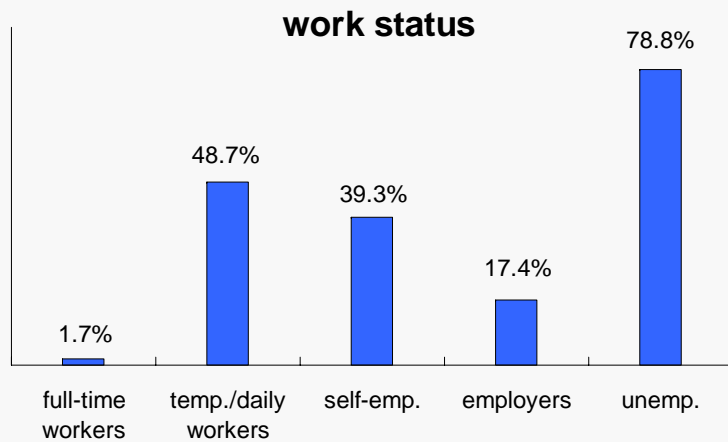
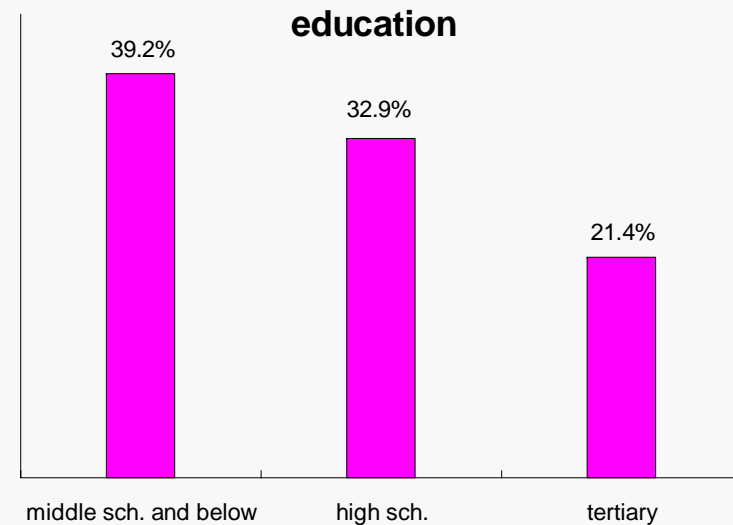
- Insufficient income and administrative incapacity are main causes for non-contributions.



Data: NPS(2007)

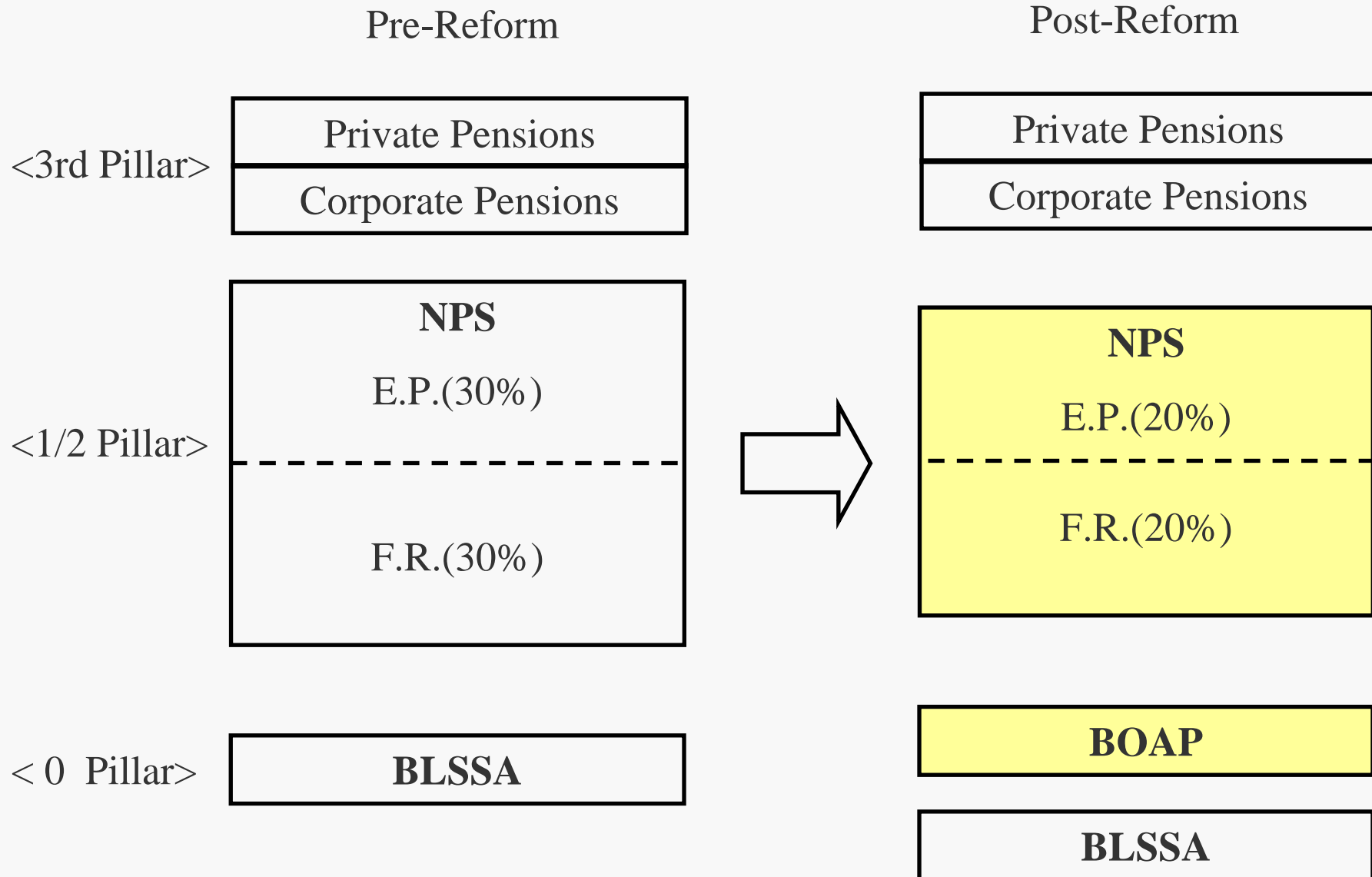
Probabilities of Non-Contribution

- Micro study showed that probabilities of non-contribution are significantly higher for i) less educated/unskilled workers, ii) atypical workers/self-employed, iii) in agricultural sector. (Seok(2003))



Data: KIHASA(2007)

2007 NPS Reform



2007 NPS Reform

Measures for Financial Stabilization

- Average Income Replacement Ratio(40yrs):
60%(~2007) 50%(2008) --> 40%(2028)
- Contribution rate(9%) is unchanged.

Measures for Additional Coverage

- to introduce *pension credit systems*:
 - childbirth credit(12~50 months)
 - military service credit(6 months)
- to increase Government subsidies for farmers & fishermen
 - gives subsidies of max. 1/2 (before 1/3) of their contributions until 2014.

2007 NPS Reform

Introduction of Basic Old-age Pension

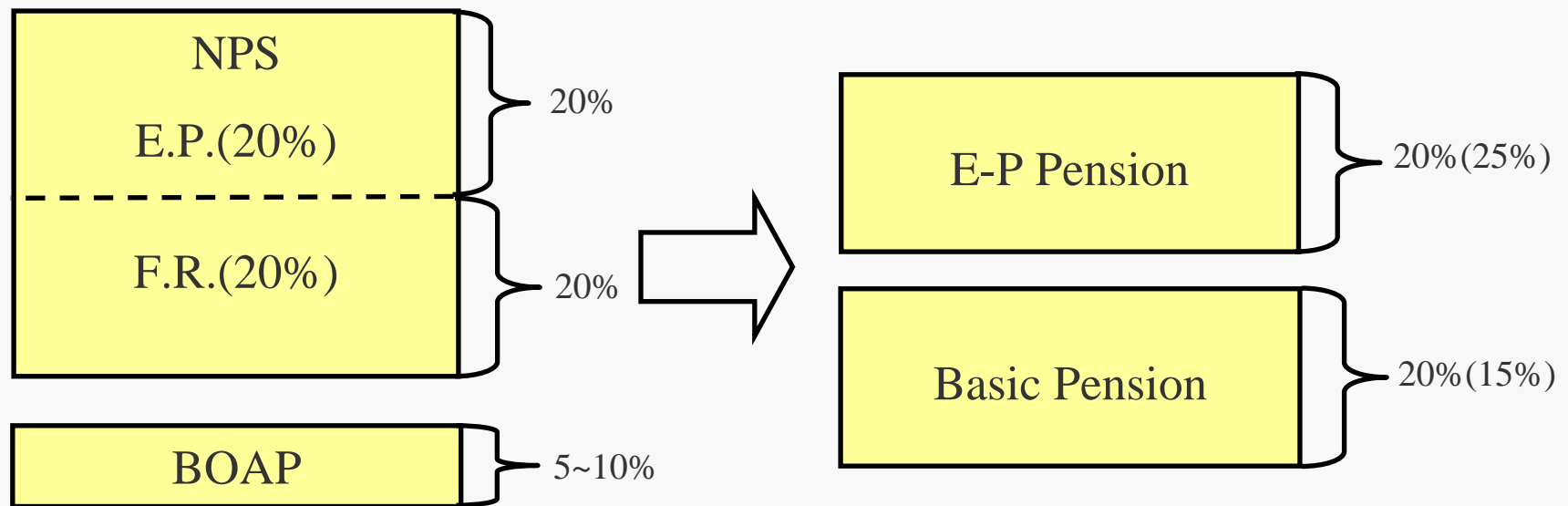
- non-contributory / tax-financed
- coverage: 60% of population 65+ (means-tested) 70% (2009)
- benefits: flat benefits of R.R. 5% 10% (2028)

Issues in BOAP

- coverage: neither *demogrant*, nor *targeted*
- Benefit level is too low:
 - single person hh: 20% of Poverty Line (BLSSA)
 - two person hh: 18% Poverty Line

Future Prospects

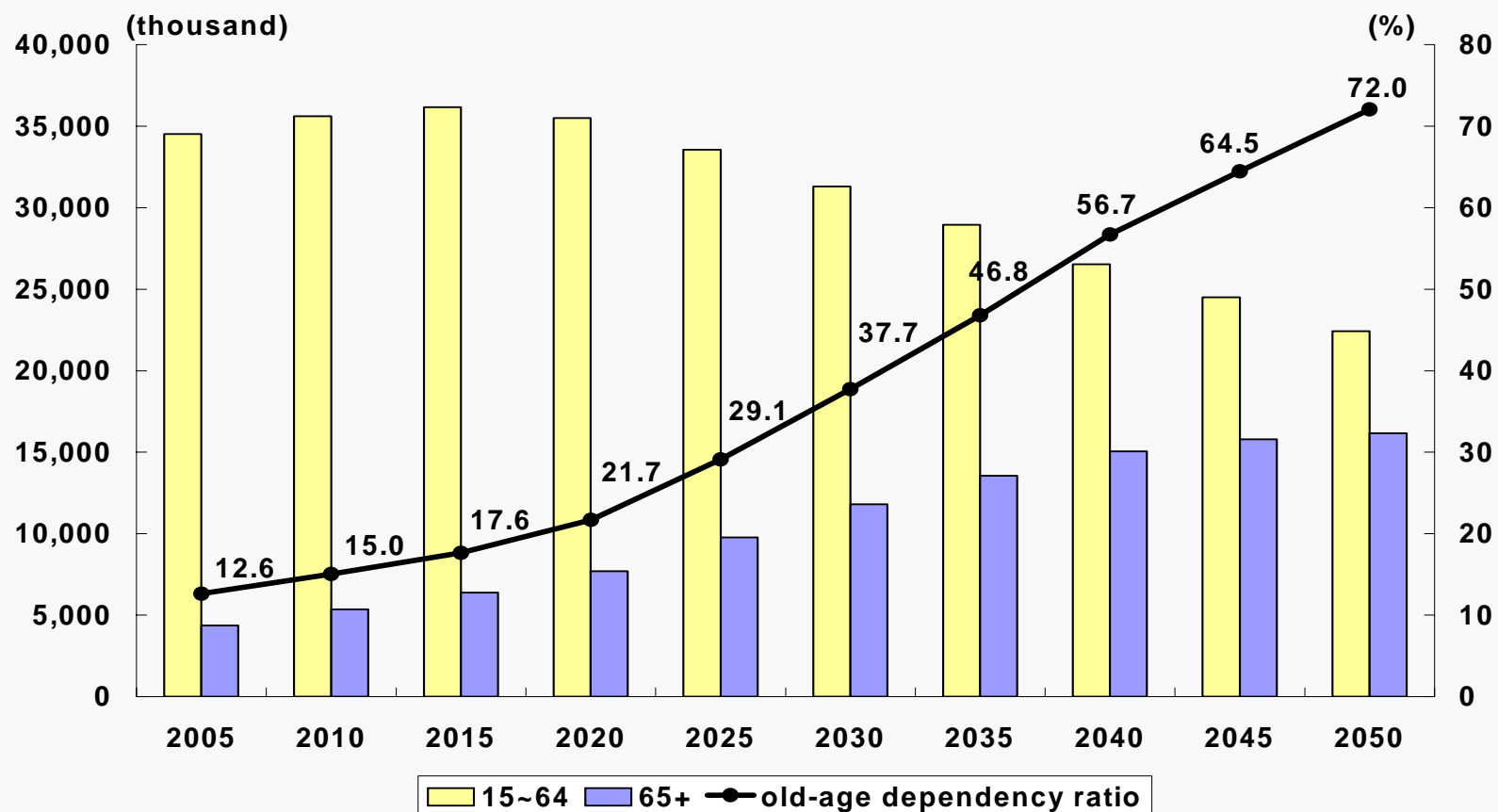
- The new president elect promised structural reform of the NPS.



- E-P Pension: funded DB plan
- Basic Pension: non-contributory/ tax financed
covers more than 80% of pop. 65+

Population Ageing in Korea: Forecasts

- Total Fertility Rate: 1.13(2005)

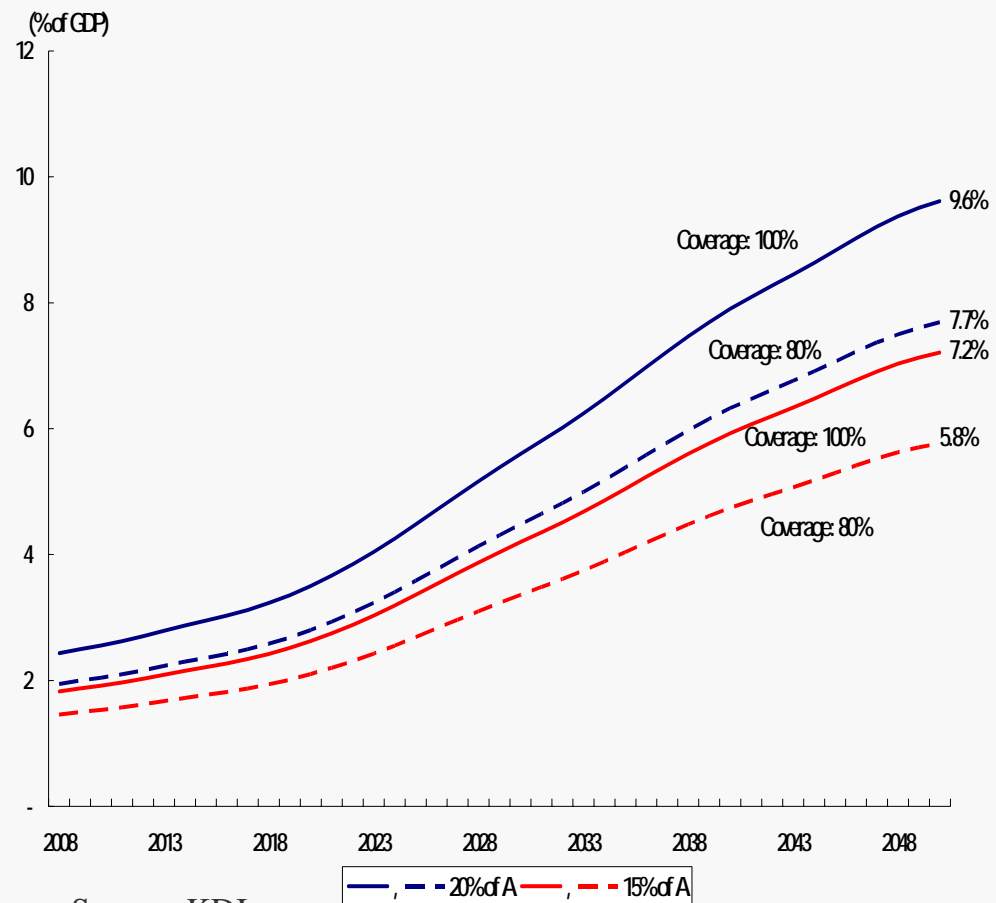


Data: NSO(2006)

Expenditure Forecasts of Basic Pension

- Due to rapid population ageing, BP expenditure alone will take up 5.8~ 9.6% of GDP in 2050.

- When financed by VAT, the tax rate (currently 10%) should go up to 21~29% by 2050.



Other Policy Options: Targeted Approach

- Instead of introducing demogrant-type Basic Pension, we can modify the means-tested BOAP so that it targets the poor elderly more effectively.
 - Coverage: 60~70% of pop. 65+ 25~30%
 - Benefits: average R.R 5~10% 10~15%
- With the coverage expansion of NPS, the BOAP can be converted to Guaranteed Minimum Pension.

CONCLUSION: Basic Pension or Means-tested?

For this question, we need to consider

- **long-term sustainability/ affordability**
- **financing plan(general tax revenue or earmarked) and DWL**
- **(marginal) administrative costs /capacity of means-testing**
- **impacts on work/savings incentives**
- **impact on incentive to participate in contributory scheme**
- **effectiveness in reducing poverty/ inequality among the elderly**
- **integration with the other tiers**
- **irreversibility / path-dependency**

Despite these concerns, however, it is likely that the decision will be made based on political consideration, rather than socio-economic consideration.

Thank you