

ANNOUNCEMENT

South Korea's Pension System: What Colleagues from the National Pension Service Said

As previously [reported](#), at the beginning of September 2024, a delegation of the National Pension Service of the Republic of Korea (hereinafter referred to as NPS), led by the Executive Director of NPS Pension Operations Jeong TaeGyu, visited the UAPF.

We present to your attention the key information about the pension system of South Korea, contained in the speeches of our colleagues.

- **A bit of history**

National pension programs were introduced in Korea in 1988 and implemented in stages. The national pension operator is the NPS, which makes the following payments: old-age pensions, disability pensions, survivor's pensions, and lump-sum pension payments. Collection of mandatory pension contributions (hereinafter referred to as MPC) is also carried out by the NPS at a general rate of 9% (employee/employer at 4.5%). Self-employed individuals pay 9% of the contributions themselves. The MPC rate grew gradually: from 3% in 1988, 6% in the period from 1993 to 1997, to 9% in 1998. According to forecasts, taking into account the planned measures to optimize the pension system, it will grow to 13%. In South Korea, two reforms were carried out in the pension sector:

- the first reform in 1999 (the income replacement rate (IRR) was reduced to 60%, the retirement age was gradually increased from 60 to 65 years),
- the second reform in 2008 (a gradual reduction of the IRR to 40% by 2028).

- **Structure of the pension system**

There are two government agencies responsible for the social security system in the Republic of Korea: the Ministry of Health and Welfare and the Ministry of Employment and Labor. The social security system in South Korea covers the following areas:

Scheme type	Coverage	Contribution rates	Benefit payments	Organization
National Pension Scheme (National Pension)	Employees Self-employed	9.0%	Old-age pension Disability pension Survivor's pension Lump-sum payments	National Pension Service
Health Insurance	Employees Self-employed	7.09%	Medical benefits Maternity benefits	National Health Insurance Service
Employment Insurance	Employees	1.8%	Unemployment benefits Retraining Job search	Employment Centers
Accident Insurance System	Employees	1.47%	Disability pension Survivor's pension Lump sum grants (benefits) Funeral payments	Korea Welfare and Compensation Service
Total		19.36%		

South Korea's pension system is multi-tiered, including:

- a basic pension at the expense of the state, which is received by about 70% of the country's citizens over the age of 64,
- national pension provision (the national pension is paid on a monthly basis throughout life to persons who have participated in the pension system for more than 10 years, provided by the state, is a pay-as-you-go system (DB - with defined benefits),

- old-age pension (corporate pension, depending on the income received),
- individual pension based on private savings.

For certain categories of citizens (civil servants, military personnel and teachers) there is a special occupational pension.

- **Achievements**

The National Pension Fund of Korea is one of the three largest funds in the world in terms of pension assets (pension assets amount to USD 807 billion, according to experts' forecasts, their volume will reach USD 1.4 trillion in 2041). Since 1988, the coverage of the population by the pension system has grown significantly. As of the end of 2023, mandatory pension contributions (MPC) were already made by 21.2 million people, voluntary pension contributions (VPC) - more than 325.4 thousand people. For comparison, in 1988 there were only 4.4 million contributors. The number of beneficiaries has increased 8 times: from 600 thousand in 1993 to 7.6 million at the end of 2023.

- **Digital services**

NPS is actively developing services through digital contactless services (chat bot, mobile office, mobile help desk, mobile application), remote work system (virtualization of internal and external users) using cloud services, and is also introducing other technical innovations. In the period from 2018 to 2024, the 4th generation information technology system is being installed, i.e. NPS is currently at the stage of implementing an information platform that allows providing pension services using artificial intelligence.

Colleagues from the UAPF were shown a consultation in Russian by an NPS "virtual employee" created using artificial intelligence. The NPS virtual consultant can provide information and recommendations that meet user needs in 10 or more languages. According to NPS representatives, with the help of virtual consultants, labor productivity and service quality are significantly increased, operations are optimized, and more depositors will be attracted. With AI taking the market by storm and shaping the future of customer service, it's important to be prepared to embrace these innovative solutions and learn more about them, according to NPS colleagues.

- **Challenges and solutions**

Despite the development of the pension system of the Republic of Korea, there are a number of challenges, which include:

- the growth of the proportion of elderly people due to the increase in life expectancy (in 2018, people over 65 years old accounted for 14% of the total population, according to expert forecasts, in 2051 this share will be 40% of the total),
- low birth rate (the total fertility rate decreased from 0.8% in 2023 to 0.7% this year),
- high poverty among the elderly,
- low contribution rates to the pension system,
- high income replacement ratio (IRR),
- a high proportion of self-employed people, who make up 23.5% of the population, whose true income is difficult to determine.

According to experts, these challenges have a great impact on the stability of the pension system of South Korea and can become a heavy burden for the younger generation. Given the current demographic situation and the lack of timely measures, the reserves of the National Pension Fund of Korea are expected to be depleted by 2050.

Pension System Optimization Measures Planned in South Korea:

- providing a larger number of people with a basic pension,
- implementing measures to prevent the depletion of reserves:
 - 1) increasing the return on funds,

- 2) raising the retirement age,
- 3) increasing the MPC rate to 13%,
- 4) reducing the IRR taking into account the basic pension to 52% (40% - national pension and 12% basic pension), etc.

Let us recall that on September 5, 2024, a signing ceremony of the Memorandum of Understanding was held between the National Pension Service of the Republic of Korea and UAPF JSC. The memorandum was concluded for the purpose of exchanging experience and cooperation on issues related to the development of pension systems, expanding the scope of their coverage, and creates a solid basis for future interaction between UAPF JSC and NPS.

Photos via link:

https://www.enpf.kz/ru/about/press-center/visual-media/section-detail.php?SECTION_ID=82

UAPF was founded on August 22, 2013 on the basis of GNPF APF JSC. The founder and shareholder of the UAPF is the Government of the Republic of Kazakhstan represented by the State Institution Committee of State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan. Trust management of UAPF pension assets is carried out by the National Bank of the Republic of Kazakhstan. In accordance with the pension legislation, the UAPF attracts compulsory pension contributions, employer's compulsory pension contributions, compulsory occupational pension contributions, voluntary pension contributions, as well as carries out enrollment and accounting of voluntary pension contributions formed at the expense of the unclaimed amount of guaranteed compensation for the guaranteed deposit, transferred by the organization carrying out mandatory guarantee of deposits, in accordance with the Law of the Republic of Kazakhstan "On mandatory guarantee of deposits placed in second-tier banks of the Republic of Kazakhstan", ensures the implementation of pension benefits. The Fund also carries out accounting of target assets and target requirements, accounting and crediting of target savings (TS) to target savings accounts, payments of TS to their recipients in bank accounts, accounting for returns of TS in the manner determined by the Government of the Republic of Kazakhstan within the framework of the National Fund for Children program (More details at www.enpf.kz).