

THE EMERGENCE OF OCCUPATIONAL PENSIONS IN KOREA

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Abstract

The Republic of Korea (South Korea) has one of the world's largest economies, based upon 2004 GDP, but no occupational pension system until now. Defined benefit and defined contribution plans are allowed for the first time beginning December 1, 2005 as replacements for existing mandatory termination indemnities. With a rapidly ageing population, a national social security pension system that promises double what can be delivered at current contribution rates, and the rapid decline of the Confucian system where children take care of elders, an occupational pension system that works is badly needed. Time will tell but the new Korean occupational system has some interesting twists, actuarially and otherwise, and in this paper I shall review the past, the present and what the future may hold for a dynamic, innovative society that is being forced to face a rather sudden and rapidly changing demographic structure and the retirement issues that are emerging equally as rapidly.

INTRODUCTION

A new occupational, or “corporate” (as the Korean law calls it) pension law (the Employee Retirement Security Act or “ERSA”) was passed by the Republic of Korea (South Korea) National Assembly on December 29, 2004. It will allow for private sector defined benefit (DB) and defined contribution (DC) pension plans for the first time in the one of the world’s largest economies (10th largest based on 2004 GDP according to the Korean Ministry of Commerce, Industry and Energy but 11th to 15th largest based upon other sources or definitions of GDP). The law will require many regulations to be issued by the ministries of labor, finance, and other governmental agencies before, and after, the December 1, 2005 effective date; importantly, on tax issues, funding rules for defined benefit plans, and fiduciary obligations. What follows is the situation as of the end of April 2006 as marketing has just begun and as all the usual suspects - employers, employee groups, financial institutions, consultants, system providers, and others - are jockeying for position, for control of a share of the new Korean pensions market.

ERSA is limited legislation in many respects and it should be considered a beginning to solving the pension crisis facing Korea, which is not unlike crises being faced by many other aging, developed countries. But the situation in Korea may be more serious than most because of an overambitious social security system, the lack of private sector occupational pensions in the past, and a population that is aging at a very rapid pace.

It should be noted that employees of the government in Korea and certain other groups are covered by generous defined benefit plans which is not unlike the evolving pension situation in the United States, United Kingdom, and other countries where most private sector workers appear to fare poorly in comparison to governmental workers. This article is focused on the private sector (which includes a number of “government entities” that were taken over during the 1997-1998 financial crisis, or are otherwise under government control, and operate as private corporations).

I will begin with a look at the Korean retirement system as it has existed before ERSA followed by a review of the new law, options to be considered by employers, and some of the issues to be resolved.

KOREAN RETIREMENT SYSTEM BEFORE THE EMPLOYEE RETIREMENT SECURITY ACT (ERSA)

The Korean retirement system before ERSA consisted of the following,

- National Pension Scheme (social security),
- mandatory “retirement allowance” plans, and
- personal pensions.

The National Pension Scheme began in 1988 and its primary features are:

- target pensions of 60% of final salary for the average worker with 40 years in the system,
- a normal retirement age of 60, and
- a funded system with a 9.0% contribution rate (split equally between employers and employees).

If it seems to you that a 9.0% contribution rate is too low to support 60% of final salary at age 60, you are right. Government studies confirm that the scheme, which was intended to be a funded scheme, will run out of money between 2030 and 2040 and pay as you go funding was not contemplated nor will it be practical. The reasons, in addition to poor planning at the start, are demographic and startling: Korea now has

- (1) the world's lowest birth rate,
- (2) the world's fastest aging population, and
- (3) life expectancy nearly equal to or higher than that of many advanced countries.

The problem is that all of these changes have happened so quickly; a kind of tidal wave and in conjunction with Korea's economic miracle. Thus, the National Pension Scheme as envisioned in the early 1980's, was based on an economic, demographic and social vision of Korea that very rapidly has ceased to exist.

The mandatory retirement allowance (RA) plans, which are intended to be replaced by the occupational pensions, provide lump sum termination indemnities similar to those in Italy, Brazil and other countries, with features as follows.

- **Minimum Benefit** Final average monthly salary (3 months) x years of service paid as a lump sum immediately upon termination. Some Korean companies provide "progressive" and/or "top-up" benefits which are greater than the mandatory minimum.
- **Defined Benefit System** RA plans are technically considered defined benefit plans under IAS 19 and FAS 87 unless accrued benefits are consistently paid out to employees at the end of each year (called "advance payments") which is a practice followed by a number of Korean companies.
- **Lump Sum Driven** Tax laws in Korea provide a significant incentive for employees to take a lump sum, and everyone does.
- **Limited Use for Retirement** Studies show most retirement allowance benefits (about 80%) are paid upon termination before retirement (or as advance payments) and are used for purposes other than directly providing retirement income.
- **Funding** RA plans may be internally (book reserve) funded, externally funded, or both, with tax exemption up to certain limits for internal funding.

Although the phrase “retirement allowance” is a misnomer and does not adequately describe what are really severance pay or termination indemnity benefits I will use the legal name of retirement allowance or “RA” in this paper.

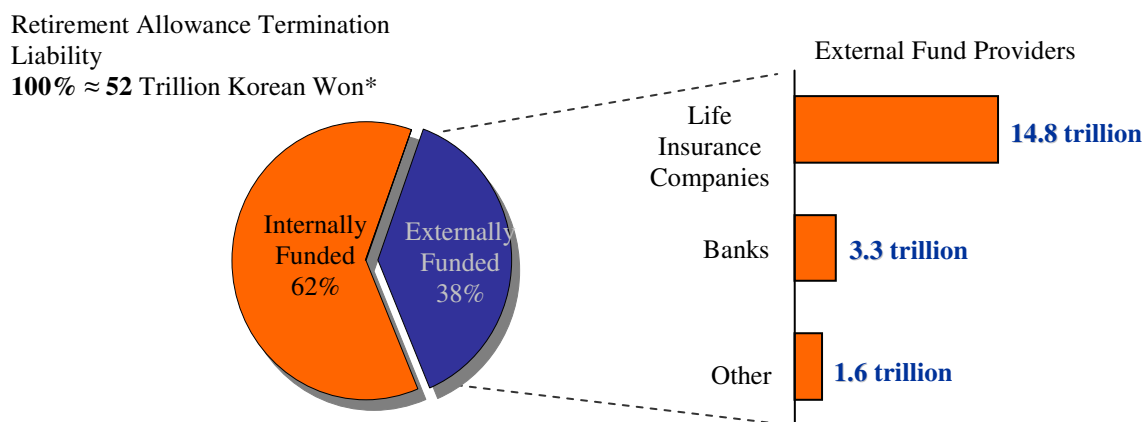
While the primary goal of ERSA is that employers replace RA plans with DB and DC plans, the retirement allowance system was begun in the early 1960’s and is an entrenched employee benefit in Korea notwithstanding its many drawbacks. Replacing mandatory RA plans with DB and DC pension plans (it will be up to employers to choose with, however, employee consent required) will not be easy, and that explains the very limited nature of the initial DB and DC options allowed under ERSA. The DB and DC plans look like RA plans; something that many hope will change over time.

What will likely drive the change to occupational pensions is the phase out of tax deductions for internally funded RA plans combined with the phase out of the external funding vehicles which presently exist for these plans which are fixed income vehicles available from insurance companies (“retirement insurance”) and banks (“retirement trust”).

Additionally, if regulations are strong enough, the elimination of the current tax incentive (virtually no tax) to take a lump sum under an RA plan, combined with incentives to annuitize under DB and DC plans may help in gaining employee acceptance of the new corporate pensions. Finally, external funding requirements for DB and DC plans under ERSA ought to give employees a greater sense of security that they will actually receive benefits; which has not always been the case with the retirement allowance system.

The approximate current funded status, and market share of fund providers, of externally funded mandatory retirement allowance plans (employers with 30 or more employees at the end of 2004) is shown on the following chart (sources: Ministry of Labor and Samsung Life).

Chart 1. Funding of Mandatory Retirement Allowance Plans (Employers with 30 or more Employees)



* 43 billion euros; 56 billion USD

Retirement allowance plans for employers with 5 to 30 employees, a very substantial part of the working population, might add roughly another 30 to 50 trillion KRW of termination liability, and are not included in the chart. Most of these small employers do not externally fund their RA plan liabilities.

“Termination liability” means the total amount which would have to be paid out if all workers covered by retirement allowance plans terminated employment as of the measurement date, a Korean pension accounting standard discussed later in this paper.

Personal pensions are similar to IRAs in the United States with a tax exempt contribution limit of about 25 million KRW (2,688 USD at 930 KRW to one USD) per year. They are not widely used and retirement allowance benefits cannot be rolled over to a personal pension account.

To round out the picture Korea has the world’s seventh largest life insurance market including variable life and annuity products. Many Koreans are relying on these products for wealth accumulation and retirement needs. With this in mind the Financial Supervisory Service (FSS) is studying measurements of solvency for Korean insurance companies with a view towards developing a risk based capital approach.

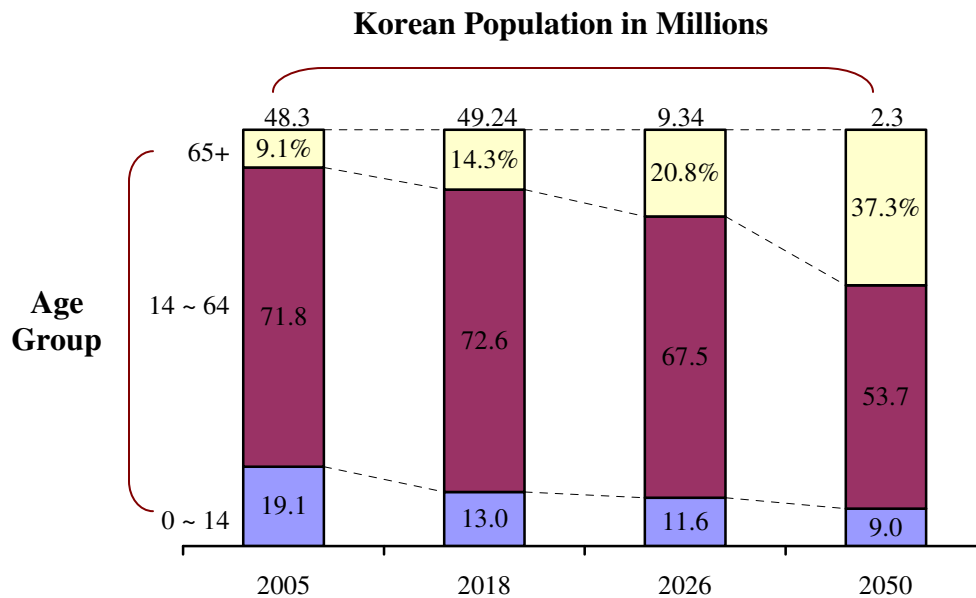
RATIONALE FOR ADOPTION OF THE NEW KOREAN EMPLOYEE RETIREMENT SECURITY ACT

To summarize, a number of factors have led to the passing of ERSA:

- Recognition that the National Pension Scheme (NPS) cannot deliver promised benefits at a 9.0% contribution rate (at least 15% to 20% would likely be needed if benefits are not cut and the retirement age is not raised);
- A rapidly aging population (see the following chart) with, possibly, the world’s lowest birth rate;
- The rapid decline of extended family care for elders, and the growth of individualism;
- The need to provide for a gradual transition from mandatory retirement allowance plans to corporate pensions of the type prevalent in Japan and in such countries as the United States, Germany, Canada and the United Kingdom; and
- The need to transition much of the internal book reserve funding under the RA system to external funding in order to provide greater security for employees and provide additional capital for Korean financial markets (although as Professor Klaus Heubeck has written, with regard to Germany, internally funded book reserve systems remain a viable way of meeting pension liabilities).

The rapid aging of the Korean population is shown in the following projections made by the National Statistical Office of Korea (January 2005).

Chart 2. Projection of Aging of the Korean Population



While most developed, and some undeveloped, countries are aging, Korea is aging at one of the fastest rates, if not the fastest.

SUMMARY OF ERSA

ERSA is relatively simple (however, regulations may change that) and provides limited choices for employers. Briefly, there will be three practical options for employers:

- Continue a mandatory retirement allowance (RA) plan,
- Adopt a defined benefit (DB) pension plan in place of an RA plan, or
- Adopt a defined contribution (DC) pension plan in place of an RA plan.

If an employer chooses a DB or DC plan it will be possible (and necessary in many cases) to retain the RA plan for benefits accrued to the date of change.

A fourth option is to allow employees to choose either a DB plan or a DC plan which means the employer would end up sponsoring two pension plans.

It is likely that employers with union and non-union groups or with several subsidiary companies may choose DB plans for some and DC plans for others.

Over time, regulations and amendments to the law may increase the options such as allowing an employer to offer both a DB plan and a DC plan with minimum benefits and contributions

reduced to reflect coverage under two plans. In choosing among pension plan options employers will also need to address some difficult issues arising from the transition from RA to DB plans or RA to DC plans, a subject generally beyond the scope of this paper. As might be expected, one of the big questions is whether DB or DC plans will predominate.

The following chart presents a brief comparison of mandatory retirement allowance, defined benefit, and defined contribution plans under ERSA, again, based upon information available at the end of April 2006.

Chart 3. Comparison of Retirement Allowance with Occupational Pensions

	Retirement Allowance	Defined Benefit	Defined Contribution
Minimum Benefit (if lump sum)	<i>Average of Final 3 Months' Salaries x Service</i>	<i>Average of Final 3 Months' Salaries x Service</i>	<i>Account Balance</i>
Funding (Employer)	<i>Internal and/or External (5 year limit on the latter)</i>	<i>External Funding with Internal Funding Through Solvency Ratio</i>	<i>Full External</i>
Funding Basis	<i>Employer Discretion</i>	<i>Actuarial or Non-actuarial Determination</i>	<i>8.3 Percent of Salary Each Year (min.)</i>
Tax Consequences (Generally EET for DB and DC Plans)	<i>Deduction for Internal Funding up to 40 Percent of Expense (to be phased out starting in 2006); Deduction for External Funding Ends on December 31, 2010</i>	<i>Full Deduction for External Funding</i>	<i>Full Deduction for External Funding</i>
Withdrawals Before Retirement or Termination	<i>Advanced Payments Allowed (data is limited but as many as 30 percent of employers may make advance payments on a regular or irregular basis)</i>	<ul style="list-style-type: none"> • <i>No Advance Payments</i> • <i>Loans up to 50 Percent of Accrued Benefit</i> 	<ul style="list-style-type: none"> • <i>No Advance Payments</i> • <i>Loans up to 50 Percent of Account Balance</i> • <i>Hardship Withdrawals</i>

Chart 3. Comparison of Retirement Allowance with Occupational Pensions *(continued)*

	Retirement Allowance	Defined Benefit	Defined Contribution
Benefit Form	<i>Lump Sum</i>	<i>Lump Sum/Annuity</i>	<i>Lump Sum/Annuity</i>
Portability to an IRA	<i>No</i>	<i>Yes</i>	<i>Yes</i>
Assets	<i>Fixed Income Securities through Retirement Insurance/Trust Contracts; Korean Securities Only</i>	<i>Fixed Income and Equity Funds to be Available from "Providers" (life companies, banks, securities firms and others); Including Global Securities. Limit on the Percent of Equities per Formula to 66²/₃% of Total Assets</i>	<i>Fixed Income and Equity Funds (at least three) from "Providers" with a 40 Percent Limit on Equities in an Employee's Account Balance and One Fund Must Provide a Guarantee of Principal and Interest; Employees Select from Among the Funds as in U.S. 401(k) Plans</i>
Employee Consent Requirement	<i>No</i>	<i>Yes</i>	<i>Yes</i>

While the benefit form under a corporate pension must include an annuity option the annuity would be purchased from an insurance company with the lump sum as a single premium.

Note that nothing in the law prevents an employer from offering a DB plan with an annuity formula (e.g. 1.5% of final average pays times years of service) or, possibly, even a cash balance pension plan as long as an employee can choose the minimum lump sum DB plan benefit.

Employee contributions (tax exempt up to some limit) will be allowed under DC plans but it is not clear if they will be allowed under DB plans.

It is expected that the very significant tax based incentive to take a lump sum and spend it which exists under RA plans will not apply under DB or DC plans once regulations are issued.

Whether RA, DB or DC, full vesting occurs after one year of service.

Plan options, funding of DB plans, financial accounting and retirement age issues will be in the forefront of employers' concerns in the coming months.

PLAN OPTIONS FOR EMPLOYERS/ PROS AND CONS

Employers have the following options, with comments on each.

(1) An employer could decide to continue to provide a mandatory RA plan.

- *A “do nothing” approach.*
- *The simplest and easiest solution for now, particularly if regulations are not clear and formalized.*
- *But the employer will lose current tax advantages for internal funding. Forty percent of internal funding expense for RA plans has been tax deductible; however, this is expected to be phased out (a reduction to 30% or 35% is expected to be approved for 2006, with likely further reductions such as 20% in 2007, 10% in 2008, and 0% in 2009).*
- *Externally funded, retirement insurance/trust contracts currently used to fund RA plans must end within 5 years and no new retirement insurance or trust contracts are allowed after November 30, 2005 for employers who had not set up such a contract before then.*
- *Possible negative effect on employees’ perception.*
- *At best, a short term solution.*

(2) Adopt a DB plan in place of an RA plan.

- *Most similar to a retirement allowance plan, the easiest to explain to employees, and strongly favored over DC plans by unions although some unions do not want to give up the retirement allowance plan.*
- *More flexible funding levels including the retention, for some number of years, of a certain level of internal book reserve funding, compared to a DC plan.*
- *Ability to merge the RA plan into the DB plan so that the new DB plan covers past and future service; but also giving rise to an unfunded past service liability.*
- *Possible volatility in financial statement expense (see below).*
- *Simpler annual administration than a DC plan.*
- *Transition from an RA plan to a DB plan should be simpler than a transition to a DC plan.*

(3) Adopt a DC plan in place of an RA plan.

- *Requires 8.3% (one-twelfth) of annual salary to be contributed to each employee's account (full external funding).*
- *The ultimate benefit depends upon investment performance from funds offered by the employer and selected by the employee.*
- *A complex recordkeeping system is necessary which is the provider's problem but which can also affect employers.*
- *Investment education is required to be given to employees.*
- *More complex transition issues (than DB) from RA plans; for example, what to do with accrued retirement allowance benefits at the date of adoption of a DC plan.*

(3) Give employees a choice of a DB or a DC plan

- *I.e., some employees will choose DB and some will choose DC.*
- *Reduces the employee consent issues.*
- *But can employees be expected to make an informed decision; and the employer will be sponsoring two pension plans instead of one which may be impractical.*
- *Nevertheless, serious consideration is being given to this option with a provision for an employee to make a change at some future date under circumstances that preclude anti-selection (not an easy design issue).*

Surveys made by Samsung Life along with anecdotal information gleaned from many pension conferences sponsored by providers and the government, and attended by employers and union leaders, point towards adoption of more DB plans than DC plans, but not right away. Adoption of corporate pensions will be slow according to most experts.

TRANSITION FROM MANDATORY RETIREMENT ALLOWANCE PLANS TO CORPORATE PENSIONS

One of the most difficult problems facing Korean employers is how to transition from the mandatory retirement allowance system to a corporate pension plan. The answer will depend upon several factors including, among others, the extent to which an employer has externally funded a retirement allowance plan and whether or not advance payments were routinely granted. Following are the main options to be considered.

Transition to a DB plan

Option1 - The RA plan can be merged into the DB plan and the DB plan would cover all past and future service. For example,

- retirement insurance assets would be transferred to a DB corporate pension fund, and
- benefit payments would be subject to a solvency (accumulation) ratio: if the solvency ratio is less than 100% then the benefit is payable partly from plan assets and partly from the employer.

An employee consent issue may arise with this approach since no advance payments would be allowed from the single DB plan which had assumed RA plan liabilities. Loans for specific hardship purposes would be allowed but that will not be a substitute for annual advance payments for those employee groups who have been able to receive them.

Option2 - The DB plan would cover future service only and the RA plan would cover service only up to the date of adoption of the DB plan. For example:

- an employee has 7 years RA plan service at date of adoption of a DB plan;
- the employee completes 10 more years in the DB plan and then retires;
- his benefit from the RA plan equals his accrued RA benefit indexed for salary increases (final monthly salary x 7 years);
- the benefit from the DB plan equals final monthly salary x 10 years; and
- the amount of benefit payable from RA and DB external funds is subject to solvency (accumulation) ratios.

Under this approach the RA plan accrued benefits could be paid early as advance payments.

Transition to a DC plan

A DC plan by its very nature would apply to future service only with a minimum contribution of 8.3% of annual salary to each employee's account. But, what about RA benefits attributable to service up to the date of adoption of the DC plan? The law is not clear on this point and regulations are required. However the following options seem reasonable.

Option 1 - Leave the RA plan in place for service up to the date of adoption of the DC plan but with accrued RA benefits indexed for salary growth. Thus,

- the RA plan would continue to be internally and/or externally funded,
- but, there will be a likely loss of tax advantages for internal funding, and retirement insurance/trust contracts can be funded for only five years from December 1, 2005.

Option 2 - Convert the RA plan to a DB plan for past service and the DC plan applies to future service. This means

- a frozen DB plan for past service but with salary indexation, and
- a DC plan for future service.

Option 3 - One DC plan and no RA plan by fully funding the RA plan at date of change and transferring assets to the new DC plan. Thus, DC plan participants start with account balances equal to accrued RA benefits. Alternatively, fully funded accrued RA benefits could be paid to employees in cash as advance payments, which could be rolled over to an IRA.

This option is only suitable where an employer has sufficient cash to fully fund the RA plan liabilities.

Whether DB or DC the transition issue is a major one as employers contemplate adoption of an occupational pension system with some very different rules than the termination indemnity system that has existed for almost 50 years.

PROGRESSIVE AND TOP-UP BENEFITS

Most of this paper is written from the perspective that employers will provide the minimum DB and DC plan benefits specified in ERSA. However, some employers have provided “progressive” and “top-up” benefits in their RA plans and may carry these benefits over to a corporate pension; although some employers are hoping adoption of a corporate pension will give them a reason to end progressive and top-up benefits.

Progressive benefits mean that as service increases more than one year of credited service is granted. For example, an RA plan could provide a lump sum by crediting one year for the first 10 years of service, 1½ years for the next 10, and 2 years for each year thereafter. So, a 30 year employee would receive a lump sum equal to 45 times final average monthly salary instead of the 30 times minimum.

Top-up benefits means that executives are provided with higher than the minimum RA benefit according to some formula. For example, a senior manager could receive two years of credited service for each year as a senior manager and one year for each year of service below senior manager level. Many top-up variations are possible.

Progressive and top-up benefits could be provided under DB or DC plans according to one source at the Ministry of Labor although there may be a conflict between this position and a sentence in ERSA itself, which seems to say there shall be no differentiation in benefits within a given business.

This is an area to be watched carefully for those employers with progressive and top-up RA benefits who want to transition to a corporate pension.

FUNDING DEFINED BENEFIT PLANS

One might expect that funding of the new Korean defined benefit plans would be required to be done on an actuarial basis, and that full funding, however defined, would be the goal. After all, the 1997-1998 financial crisis led to numerous employer insolvencies and many workers never received their full retirement allowance benefits. The new law was supposed to solve this problem by encouraging, through tax incentives and mandatory external funding, the switch from mandatory retirement allowance plans to defined benefit and defined contribution plans. But, after eleven months of deliberating the Ministry of Labor (ERSA is their law) decided upon the following for employers who adopt DB plans:

(1) the DB plan could be funded using an actuarial method (entry age normal, projected union credit etc.) or a nonactuarial method;

and (2) no matter what funding method in used, plan assets at year end must be equal to 60% or more of “plan liabilities”.

However, the FSS opposed the Ministry of Labor position and insisted on an actuarial determination of DB plan contributions and liabilities. It appears that the FSS has won the first round but the issue may not be settled.

A DB plan’s liability for the purposes of the “60% solvency test” is the greater of the termination liability as currently calculated for RA plans (i.e. total amount of benefits owed if all employees immediately terminated) or the actuarial liability of the DB plan on a going concern basis. The latter has not been defined and it would presumably be left up to employers and actuaries to come up with something reasonable.

While some providers were dismayed with the Ministry of Labor’s position to allow a non-actuarial method of funding DB plans along with the 60% solvency test it was a practical one. First, there may not be enough trained actuaries in Korea to make the necessary actuarial calculations if a large number of employers choose to adopt DB plans. Second, the 60% funding ratio gives employers the kind of funding flexibility they enjoyed with retirement allowance plans. Over time the 60% funding ratio is almost surely to be increased; otherwise one of the primary goals of ERSA will not be met.

One interesting regulation from the Ministry of Labor (MOLAB) covers funding requirements if an employer chooses (and employees consent) to merge the retirement allowance (RA) plan into a new defined benefit (DB) plan so that the DB plan covers all past and future service.

It's a bit complex but workable, assuming it is as currently understood. The procedure is as follows.

- (1) Determine the average past service of the covered employee group. There are five categories given by MOLAB for this calculation as can be seen from the following chart.

Chart 4. Solvency Ratio Required When RA Plan is Merged into DB Plan

		Average Past Service Years of Covered Employees				
		Less Than 1 Year	1 ~ 3 Years	3 ~ 6 Years	6 ~ 10 Years	More Than 10 Years
End of Plan Year	1	60%	30%	20%	15%	12%
	2	-	60%	40%	30%	24%
	3	-	-	60%	45%	36%
	4	-	-	-	60%	48%
	5	-	-	-	-	60%

- (2) If, for example, the average past service of ABC Company employees at date of adoption of a DB plan covering past and future service is 5.7 years the company would fall under the third category (3 -6 years).
- (3) Based upon the average past service the employer will have from 1 year to 5 years to reach the 60% solvency ratio. If in the third category (3 – 6 years of average past service) the employer will have 3 full years to get to 60%; i.e. at the end of the first year plan assets must be 20% or more of plan liabilities, 40% or more at the end of the second year, and 60% or more at the end of the third year.
- (4) Plan liabilities may be calculated, as we discussed earlier, on an actuarial or non-actuarial basis.
- (5) Benefit payments are tied to the solvency ratio. So, if assets are 20% of plan liabilities at the end of year one and an employee terminates or retires sometime from the end of year one to the end of year two he would receive 20% of his benefit from the plan and 80% from corporate assets.
- (6) Several points remain to be resolved by MOLAB. One is what happens during year one when an employee terminates or retires but the employer has not yet made a contribution and there were no retirement insurance or trust assets that would otherwise have become assets of the new DB plan? In that instance it must be that the entire benefit would have to be paid from corporate assets.

Note that merging the RA plan into the DB plan gives employers needed time (but is it enough?) to get to the 60% solvency ratio. If the DB plan applies to future service only the employer has to be at 60% or higher at the end of year one. But that should not be a problem because the liability at the end of year one reflects only a single year of benefit accruals if the DB plan covers future service only. Funding on an actuarial basis, anticipating salary increases and decrements, ought to get the employer to 60% quite easily.

Further clarification from MOLAB is required on this regulation.

FINANCIAL ACCOUNTING

Korean based companies generally do not follow IAS 19, FAS 87 or other actuarially based standards on accounting for the cost of retirement allowance plans. However, the Korean Accounting Standards Board (KASB) is considering adoption of IAS 19 or a version of it in the near future (Korea follows Japan and the United States in many respects and here the KASB is probably looking at the Japanese standard).

Such a change may not be of great concern to employers who want to adopt a DB plan. The reason is that the current Korean accounting standard requires a balance sheet liability equal to the total amount of benefits that would have to be paid if all employees terminated as of the measurement date, less any externally funded assets. An unfunded DBO under IAS 19, for example, may not be significantly different from this number based upon some model calculations made at Samsung Life, except, perhaps, where progressive and/or top-up benefits are provided.

Korean subsidiaries of European Union, United States, United Kingdom and other multinationals generally comply with IAS 19, FAS 87, and other such actuarially based standards for their Korean RA plans, except where annual advance payments are the rule.

Given what has happened in other countries some Korean employers are concerned that adoption of a DB plan will have an adverse effect on their financial statements.

RETIREMENT AGE

The Korean social security normal retirement age is currently 60 and is scheduled to be increased to be 65 for those born after 1968. Most Korean companies have a normal retirement age of 55 which could be applied to DB and DC plans under ERSA. However, there will very likely be a labor shortage in the future due to demographic changes and if the country's financial forecasts for economic growth are to be met the normal retirement age must be increased. Therefore, should employers raise the normal retirement age if and when a corporate pension plan is established? What are the cost and other consequences of raising the retirement age and is this an opportunity to introduce a phased retirement system? Some companies are addressing this issue and have recently raised normal retirement to age 58.

CONCLUSION

In summary, this paper presents the situation at the end of December 2005 as Korea is attempting a sea change in the delivery of retirement income to its citizens. I have briefly described the new pension law and touched on some of the major problems to be faced by the country, employers, and employees in establishing a secure and affordable three pillar system. The tough questions are: Can a successful occupational pension system be implemented and can it be done in time-meaning the race between the accumulation of retirement assets and the rapidly aging population? All we can say now is that ERSA is a first, limited step in changing the country's retirement system and that, at least, should be of great interest to our profession. Of particular note is that while many financial institutions are preparing, and have started selling, products and services for the new corporate pension market, there may not be, at present, sufficient numbers of pension consultants and actuaries in Korea to assist in the complex work that must be done.