

National Pension Plan Has 'Blind Spots'

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The greatest problems of the current national pension system are "unstable finance" and its "blind spots." The opposition parties in the National Assembly's Special Committee on Pension Reform also believe that true pension reform will not be possible without resolving these two issues.

The blind spot problem is indeed serious. One out of three people subject to pension subscription remain unsubscribed. In particular, of regional subscribers except for wage earners, one out of two are outside the national pension system, most of whom are low income class.

Under the current national pension system, small contributions made by pensioners now will give big returns to them later, explains the National Pension Service. Consequently, the poor, who have to worry about making a daily living now, are excluded from the chance to receive benefits in the future.

"Most of those unsubscribed to the national pension are people in potential poverty, who desperately need pension benefits in later life. Without them, the national pension system aimed at achieving income redistribution and social security will lose its meaning," pointed out professor Kim Yong-ha of Soonchunhyang University.

Only 36 Percent of Irregular Workers are Covered

Kim Dae-chul (38) is a part-time worker at construction sites and earns 30,000 to 60,000 won a day, which adds up to less than one million won a month. His monthly earning is less than the minimum cost of living for a family of four, 1.17 million won. Making matters worse, his income changes seasonally making it all the more difficult for him to sustain his family.

Under the current system, Kim has to subscribe to the national pension plan and pay 81,000 won monthly. "The government says that if I pay now, I will get four to five times what I paid later. But how can I afford to pay 80,000 won when it is hard enough to make a living for the family?" complains Kim.

As Kim's case illustrates, the national pension is a pie-in-the-sky for the poor.

According to the Korea Institute for Health and Social Affairs, 16.88 million people were subject to the national pension system as of December 2003.

Among them, 11.12 million people (65.8 percent) actually subscribed to the national pension plan. The remaining 5.76 million people (34.1 percent) will not receive any pension benefits after retirement.

Most micro-business owners or non-regular workers have no interest in the national pension system.

Park Se-won (39) runs an iron factory in Busan. He has six employees, but only one has the four major workers' insurance coverage including the national pension plan.

Park said his workers do not want to subscribe to the national pension system because the monthly contribution of 108,900 won is burdensome for workers earning a mere 1.2 million won a month. He added that he had suggested to his employees that the company will pay a portion of the contribution, but they asked to give the money to them instead.

The problem is that such micro-business owners, daily workers, dispatched workers, and service workers are in the low-income bracket and are likely to fall into poverty after retirement.

Out of 5.48 million irregular workers, only two million are subscribed to the national pension plan, posting the subscription rate of mere 36 percent.

The situation is worse for part-timers working in micro-businesses with less than five employees. Only 7.8 percent of them are covered by the national pension, leaving most of them with insecure futures.

One official at the National Pension Service admitted that it does not make sense to levy pension fees on people incapable of paying for the purpose of guaranteeing secure post-retirement after 30 to 40 years.

Blind Spot Issue Calls for Immediate Attention.

The problem of blind spots is also an urgent task for us to resolve. Korea Development Institute estimates that as of 2005, 78 percent of people 60 and over do not receive national pension benefits, and eight out of 10 elderly live in the blind spots of the system. Moreover, if the current system is sustained, one in three elderly people will remain outside the pension system even after 40 to 50 years.

Cho Jun-haeng, researcher at Korea Pension Research Center, said that although the national pension plan guarantees twice the interest rate of regular savings, people are unaware of this fact and avoid subscribing to the pension plan.

Many point out that there must be measures for the poor whose incomes are less than the minimum cost of living and thus unable to pay the pension fees.

Examples of such measures include the basic pension system proposed by the opposition parties and the filial piety pension system suggested by the Health and Welfare Minister Rhyu Si-min.

Jeong Gyeong-bae, head of Korea Welfare Economy Research Institute, said introducing a “minimum pension system” is a feasible option which provides the minimum benefits to those with no contribution records.

Advanced Nations Do Not Have Blind Spot Problems

Advanced countries, which have long adopted a post-retirement pension plan equivalent to Korea’s national pension plan, are free from the blind spot issues.

That is because most of them have introduced basic pension plan that guarantees the minimum livelihood of the elderly. Whether it is the Swedish model, which collects taxes to dole out to the elderly, or the British model that runs basic pension scheme under insurance-like payment system, they share the common objective.

Most of experts on Korea’s pension system predict that Korea, too, will have to adopt such basic pension system in the long run.