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New face of Korean retirement benefit plans

By Alice Miller and Hun-Mook Lee

With a rapidly aging society, Korea has been forced to deal with the issue of retirement benefits. An Act has been created to answer the needs of millions of employees working for companies that do not offer any retirement benefits, called the Employee Retirement Benefit Security Act (the Act). The Act was enacted in January 2005 but is just now becoming a reality in Korean workplaces.

Application and establishment

The Act applies to all workers who are full time employees with over one year of service. This Act disallows differentiation of benefits for employees within the same business and benefits may not be transferred to others. If an employer sets up a retirement benefit scheme or makes a change to an existing scheme, the employer must obtain the consent of the trade union or the approval of the majority of employees if no trade union exists. All benefit scheme establishments and changes must be approved by the Minister of Labour. An employer may choose to establish a Defined Benefit Retirement Pension Plan or a Defined Contribution Retirement Pension Plan and if no plan is established, a Severance Pay System is deemed to be established.

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Severance Pay System

An employer who sets up a Severance Pay System shall pay an employee who retires 30 days or more of average wages for each year of consecutive service. Under certain circumstances, this severance pay may be paid to the employee prior to retirement, whereby a new account will begin after the early payment. The employer must pay the employee severance pay 14 days after the payment becomes due.

Defined Benefit Retirement Pension Plan

An employer who sets up a Defined Benefit Plan must set forth specific rules that govern the plan. These rules must include matters concerning the trustee, the period of participation, the level of benefits, the Plan's financial soundness, types of and eligibility for benefits, and termination or suspension of benefits. Specifically, these Plans shall calculate benefits similarly to the Severance Pay 30 days average wage system and growth shall be the larger of the estimated present value of expected expenses and revenues for employer contributions on a yearly basis or the expected expenses required to pay the benefits for the full period of pension holder participation. Additionally, benefits must be paid to employees, as an annuity or lump-sum if requested by the employee, who retire, are over 55, and participated in the Plan for over 10 years.

Defined Contribution Retirement Pension Plan

As with the Defined Benefit Plan, a Defined Contribution Plan must set specific rules. The rules include the clear statements that the employer must contribute a minimum of one twelfth of the employees' annual wages in cash and that an employee may contribute an additional amount in cash, that employer contributions shall be regularly paid at least once per year, and that the employer will pay the employee contributions within 14 days after the employee has left employment. Early termination is allowed if listed in the Plan rules. The employee may choose, at a minimum annually, the investment structure from a minimum of three clearly stated structures, with all information included about these structures, which is suggested by the employer.

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