Changes in the Retirement Pension Market Environment and Tax Reform

There is growing a concern for retirement pension schemes due to the financial burdens of public pension under the rapid ageing. In 2014, Korean government also announced “plans for stimulating private pension” to oblige all firms' introduction of retirement pension plans by 2022 for establishing a stronger safety net for retirees.

In this study we investigate problems and remedies of current retirement pension tax systems under various environmental changes surrounding the retirement pension market. We first classifies the environmental changes in the retirement pension market as pension contribution phase and payout phase. Recent changes in the contribution phases are mandatory participation of workers, and eligibilities expansion. Protection of a beneficiary’s right and policies to encourage annuitization are related to the payout phase.

Furthermore, we analyze (i) the effect of changes in the retirement pension tax regime on retirement pension enrollment, (ii) tax benefits according to the mandatory participation of workers, (iii) the impact of relaxation of eligibility requirements for retirement pension enrollment.

We suggest a variety of tax reform to strengthen Old-age income protection. In the contribution phases, financial support reinforcement for low-income and imminent retirement classes, and financial support to reduce financial burden for the small business owners, are required. In pension payout phase, tax incentives to encourage accumulation of retirement assets, and reducing the tax benefits when receiving lump-sum benefits are required.