The Policy Analysis on Private Pension Tax Treatment

Serious elderly poverty problems are not only personal but also become social problems. The most important cause of the poverty is that people do not accumulate enough money during their working period. To encourage people to prepare enough money Korean government provides tax treatment for the pension savings.

Decreasing public pension's roll and extending private pension by providing tax treatment and subsidy is a global trend. For example, the US provides additional tax treatment limit over age 50 and tax credits to lower income earners. The UK started auto-enrollment for occupational pension from 2012. We analyze and compare the policy effects on pension savings in Korea and those countries.

We find that providing additional tax treatment limit in 2011 gives more incentives to higher income earners for pension savings than lower income earners and changing tax treatment method to tax credit in 2014 decreases lower income earners pension savings incentives because, in many cases, lower income earners do not have tax liabilities. Those properties are commonly observed in the US tax treatment study.

To make up for the weak points, we suggest refundable tax credit method as a policy alternative. We expect that additional facial spending for refundable tax credit will be about 30 billion and most beneficiaries should be lower income earners.