The effects analysis of private pension subsidy

Old age poverty rate in Korea is 49.6% which is the highest among OECD countries. To deal with the problem, Korean government introduced basic pension which is paid from the government budget. However, basic pension expenditure will become 100 trillion KRW in 2040 that will be a serious financial burden for the government. Moreover, basic pension could not be a fundamental solution for old age poverty problem.

To cope with the aging and old age poverty problem, developed countries such as Germany and New Zealand are giving subsidy to private pension subscribers which gives strong incentive to accumulating pension fund. For example after introducing Riester pension in Germany, the number of private pension subscribers has grown to more than 16 million within 10 years and in New Zealand, during 5 years, after starting to give private pension subsidy, private pension participation rate has been increase from 20% to 65%.

We design a simple private pension subsidy model and assess the policy effect. We find that, if Korea implement the private pension subsidy policy, One KRW subsidy will lead 2 to 3 KRW pension savings and increased pension saving will reduce old age poverty rate up to 6%p. We also find that though the government will need to spend up to 10 trillion KRW a year to practice the policy that spending will be smaller than basic pension expenditure.

We also provide detail suggestions such as criterions of subscribers and some rules for financial institutions and government to implement the policy in Korea.