



BASIC OLD AGE PENSION



**MINISTRY FOR HEALTH
WELFARE AND FAMILY AFFAIRS**

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Carnation of heart For our parents



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Their lives
of hard work and sacrifice
have made today's Korea.



We will pay you back with the Basic Old-age Pension

Today's elderly dedicated their lives to raising their children and social development. They have not prepared enough for their retired lives while the care from children has been on decline. This has caused many elderly to suffer economic hardship. The national pension, the core of national social security, falls short of resources to cover the elderly population.

The Basic Old-age Pension is designed to enhance the elderly welfare by providing a monthly pension payment to the elderly in need. It will support the healthy and stable old life especially when the National Pension System remains premature for a wide range of coverage.

Your concern and care for this system will be appreciated in the meaningful process of caring for our elderly and we will do our best to lay the foundation for elderly welfare with the Basic Old-age Pension that would ensure the prosperous life for the elderly.

Until the day when all our parents become happy
we will repay your hard work and sacrifice with the
Basic Old-age Pension.

♥ What is the Basic Old-age Pension?

It is a system intended to pay a certain amount of pension per month to the 60% of total elderly population (as of 2008) to repay their hard work for bringing up their children and contribution to national growth.





You worked hard

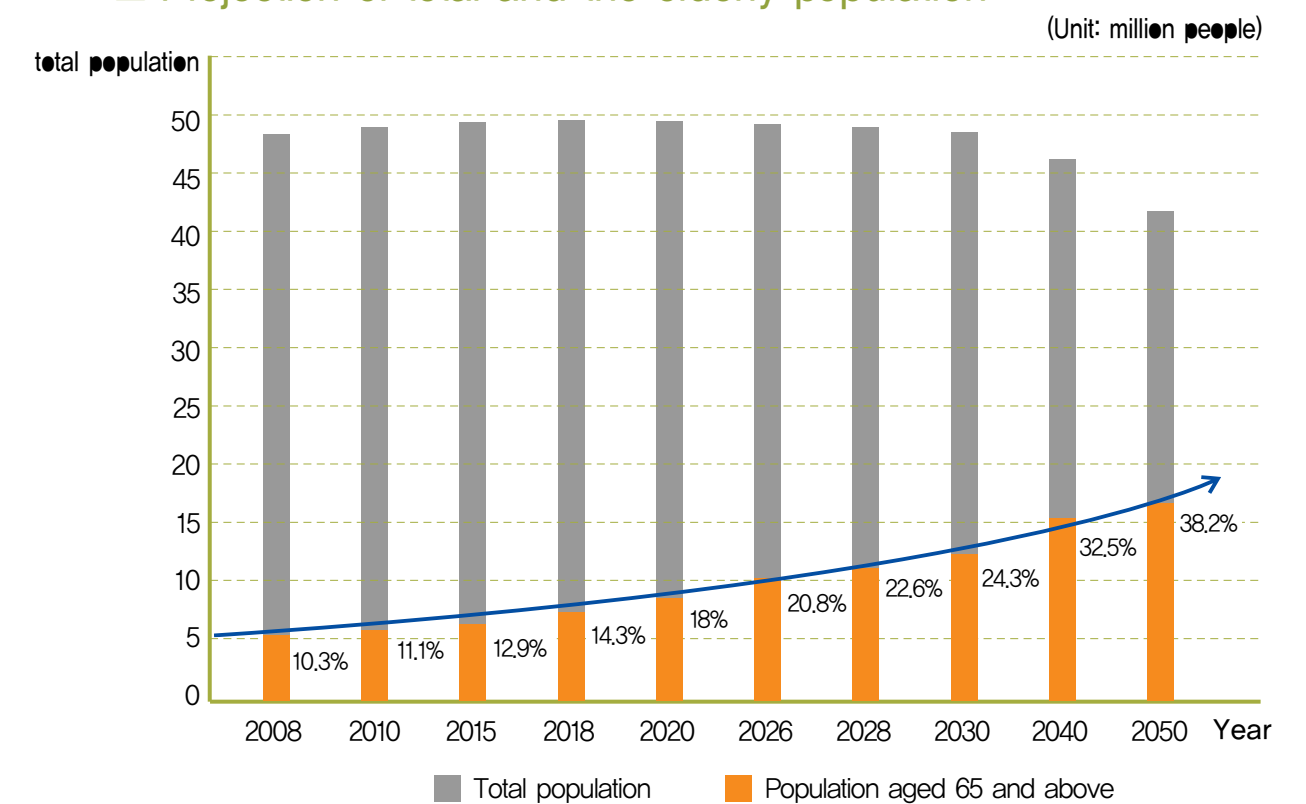
It was your sweat that has fostered Korea's today.
It was your sacrifice that has brought up the children.

Background

1. Expanding elderly population due to a rapidly aging society

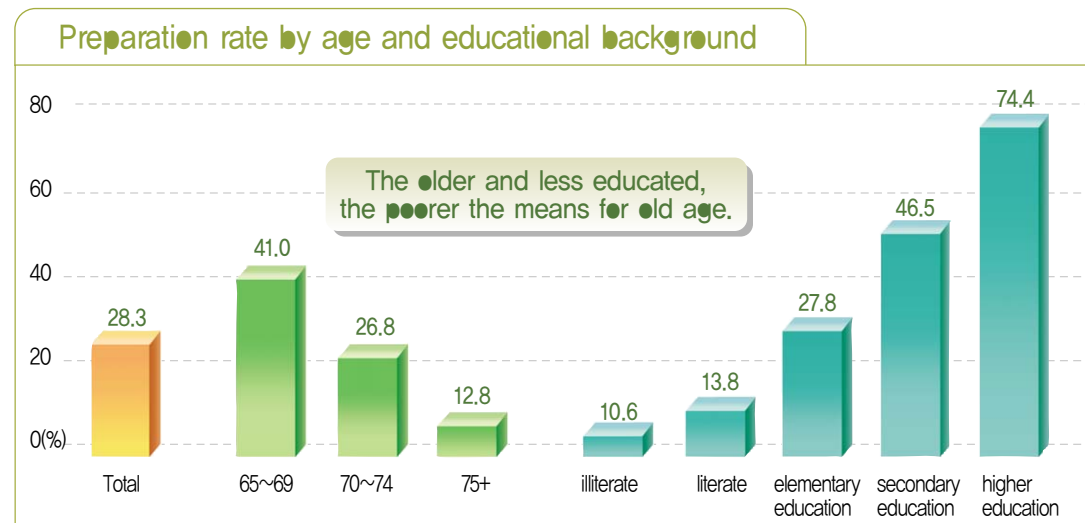
- Population aged 65 and above is expected to exceed 5 million in 2008, 7 million in 2018, and 11 millions in 2028.
 - From the year around 2020 when the baby boomers reach old age, the elderly population will increase by one million every 2 to 3 years.
- Korea's population is aging rapidly. Korea is projected to become an aged society by 2018 as the elderly portion of total population, currently standing at 10%, will increase to 14% and then enter a super-aged society by 2026 with over 20% of elderly population.

■ Projection of total and the elderly population



2. Insufficient self-preparation for the later years

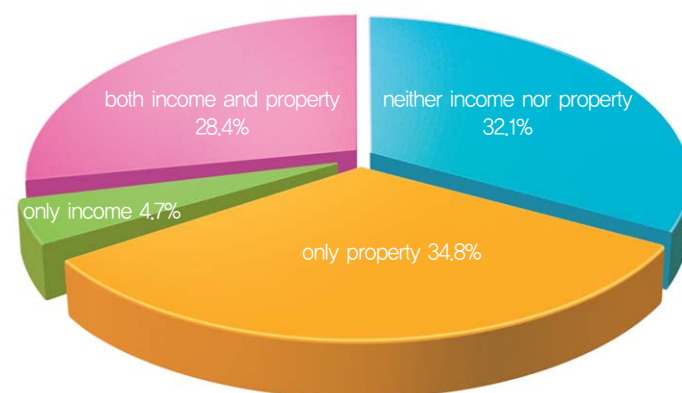
- Only 28% of the elderly would be able to support themselves and the rest 72% would face difficult old lives.
- The older and less educated, the poorer the means for old age.



※ Data : 『2004 Study for the elderly life and their welfare needs』, Korea Institute for Health and Social Affairs, 2005

- According to the 2004 study on national living status, 32% of the old population are living under minimum living expense
- As many as 32.1% of old households have no income and properties. (Korea Institute for Health and Social Affairs, 2007)

Holding of income and property by the elderly

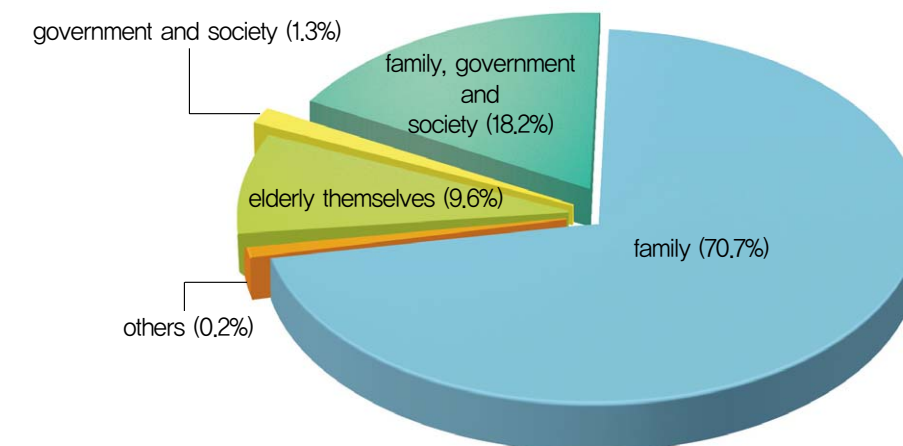


※Data : 『2006 Study on income and property of the elderly』, Korea Institute for Health and Social Affairs, 2007

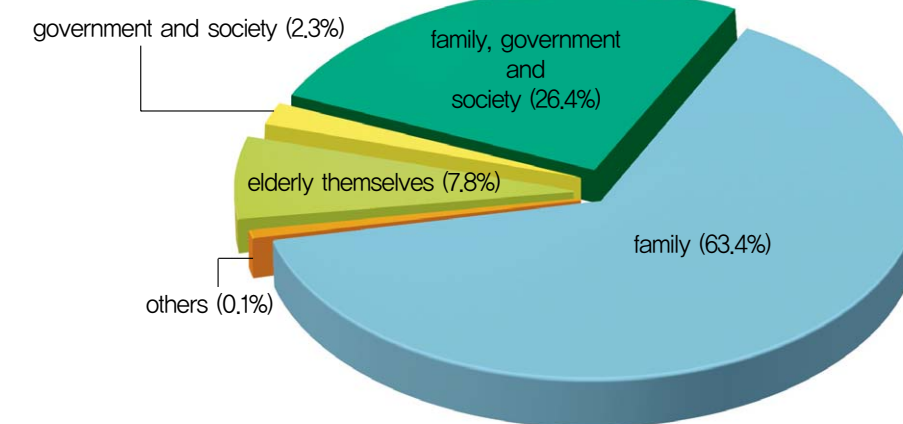
3. Weakening awareness of elderly care and support

- People who consider support for old parents as their responsibilities are fewer than before while they call for governmental and social action for the elderly welfare.

Perception on who should support the elderly



Year 2002



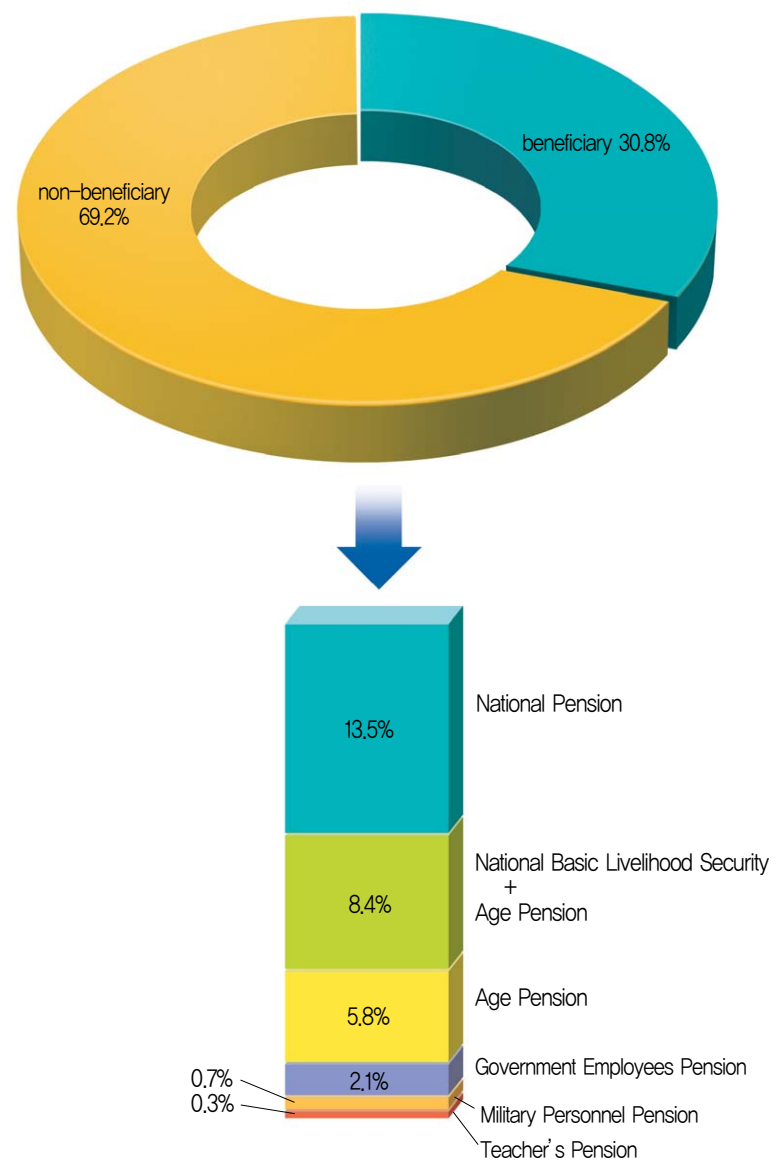
Year 2006

※Data: 『Social index survey』, Korea National Statistical Office, 2002, 2006

4. Lack of national system for old age income security

- Because the pension system in Korea is not mature enough, only 30.8% of population aged 65 and above benefit from public old-age income security schemes such as National Pension.

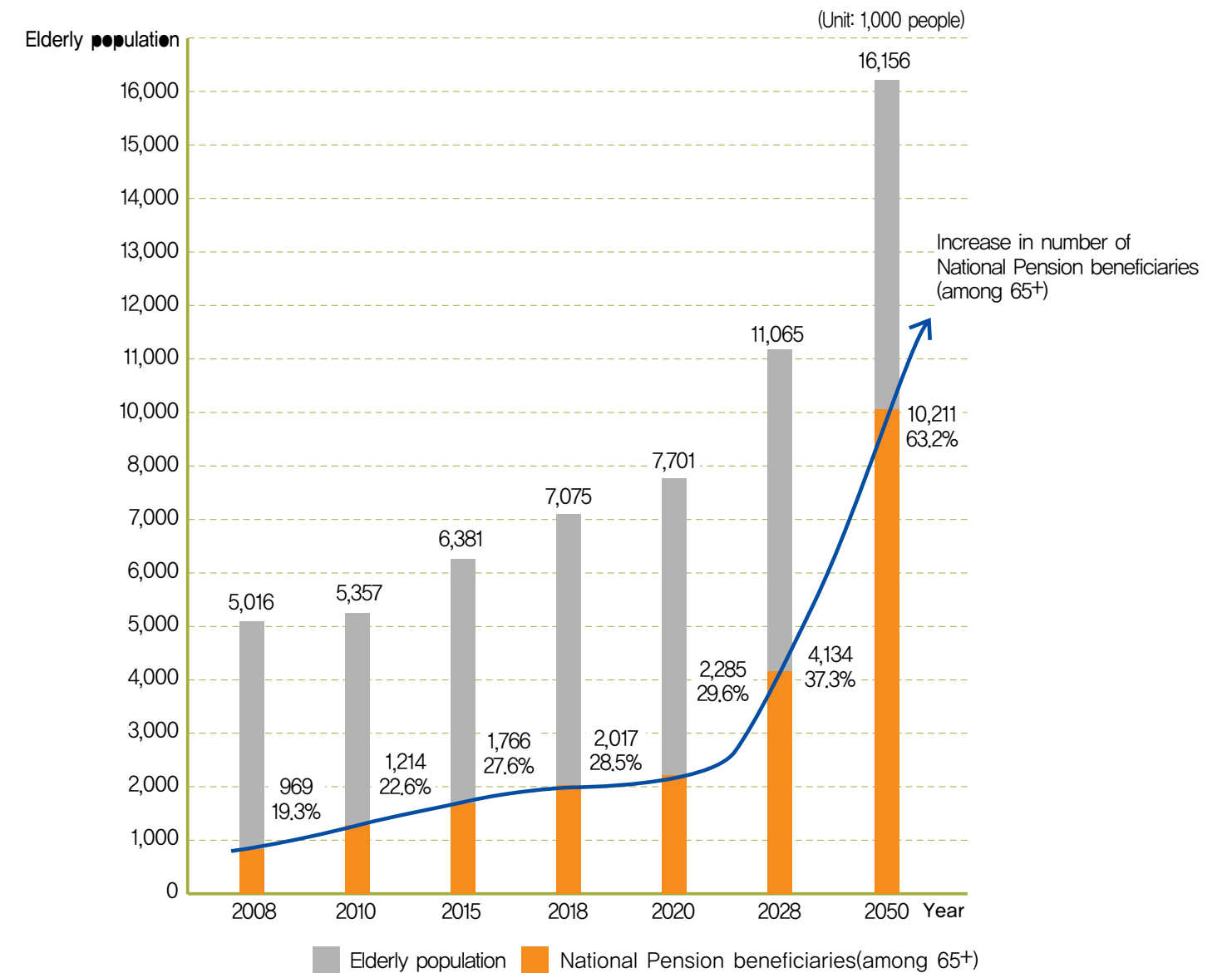
Beneficiary rate of public income security among those aged 65 and above



※Data : 『Social Index Survey』, Ministry for Health, welfare & handy affairs, 2007

- Though the number of beneficiaries of National Pension, the core system of old-age income security, is growing rapidly, the increase in elderly population has outpaced the pension expansion. The situation calls for a new system to protect those excluded from income security benefits.

Estimates of increase in National Pension beneficiaries (based on the 2008 budget, among those aged 65 and above)



※ Source : National Pension Service

Hope,
Trust,
Love,

The Basic Old-age Pension will be a big help for you

Overview of the System

1. Pension for the elderly in need

■ Recipients

- In 2008, the Basic Old-age Pension will be given to the bottom 60% of the elderly aged 65 and above in terms of income and property. The total recipients will reach 3.01million.
 - From January 2008, it has been paid to the elderly aged 70 and above (born before Dec. 31, 1937).
 - From July 2008, it will be expanded to cover those aged 65 and above.
- In 2009, it will be expanded to 70% of the elderly aged 65 and above, benefiting about 3.63 million people



■ Baseline level for eligibility

- The government sets and announces the baseline level of income and property to be eligible for Basic Old-age Pension every year.
- The baseline level for 2008 is monthly income of 400,000 Won for a single household and 640,000 Won for the couple.
 - The monthly "recognized income", is calculated by adding property converted to monthly amount at an annual interest rate of 5% (8% for financial property) to monthly income.
 - Only the income and property of a person and spouse are counted and income and property of the person responsible for supporting the elderly (such as children) are not considered.
 - As for the old couple, 1.6 times of the baseline amount for a single household is applied.

Category	Baseline amount	Eligible	
		Income only	Property only
A single household	400,000 won	400,000 won or less	96,000,000 won or less
A couple household	640,000 won	640,000 won or less	153,600,000 won or less

- The baseline amount for 2009 will be set to benefit the bottom 70% of the elderly and will be announced in September 2008.
 - The baseline amount for 2010 and after will be announced every September, considering the maturity of National Pension.

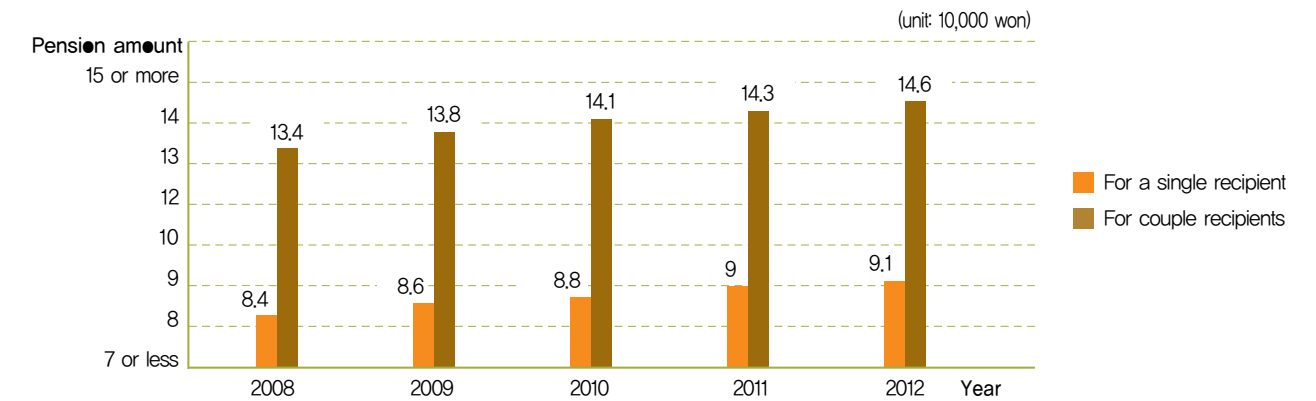
■ Extent of income and property taken as recognized income

- Earned income, business income, interests income, rent, pension income, and agriculture subsidy are recognized as income. But private transfer income such as allowances received from a person responsible for support does not count.
- Property includes house, land, building, financial asset, and lease deposit receivable. The lease deposit payable and loans are considered a liability and subtracted from total property value.
 - When an old person donates his/her property to others, the donated property is deemed owned by the old person for the next five years. The rule aims to stop the elderly from giving out his/her property intentionally to qualify for the Basic old-age Pension and ending up without any property left to the person.
- The income and property value are calculated based on the public records and unofficial income from side jobs or temporary income are not included.
 - Income and property of one's child(ren) under the name of an old person will be considered as income and property of the old person.

2. Annually increasing pension benefits

- The Basic Old-age Pension amount is 5% of average monthly income (A value) of National Pension participants.
- In 2008, the pension payment is 84,000 Won for a single person and a couple receives 134,000 Won (67,000 won for each with 20% reduction of a single recipient payment)

■ Projection of the Basic Old-age Pension benefits



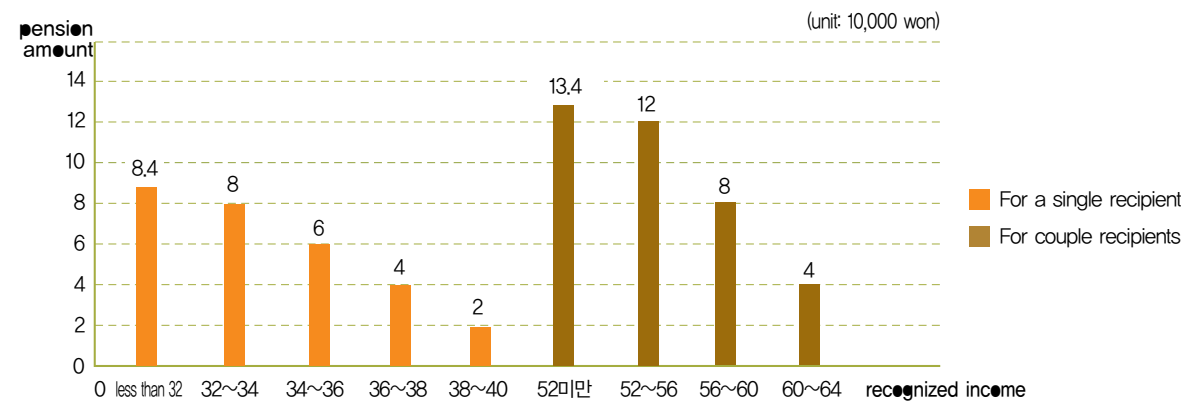
- The pension payment will increase annually as the average income of the National Pension participants goes up every year.
- The pension payment will be increased in phases up to 10% of the average monthly income of National Pension participants by 2028.
 - Timing of the increase will be discussed in the Pension Improvement Committee that will be established within the National Assembly in 2008.



3. The higher the recognized income, the less the pension amount

- Some elderly with higher income and property value will receive reduced amount.
 - The amount of pension benefits will be reduced by 20,000 won (40,000 won unit for couple recipients) based on the difference between the baseline amount and the person's recognized income.
 - The rationale for reduced pension is to prevent those who make just enough money to qualify for the pension from ending up with more income when receiving the whole amount of pension, compared to those who cannot receive pension with income or property slightly higher than the baseline amount.

■ Differentiated amount of pension benefits based on the recognized income



| Example of income reverse between recipients and non-recipients |

- If Mr. Hong with recognized income of 380,000 won receives the whole payment, his total income will be 464,000 won. But Mr. Kim and Mrs. Lee with recognized incomes of 420,000 won and 440,000 won respectively do not qualify for pension payment and their income will stay unchanged. This explains the reverse of recognized income caused by pension payment.
- To prevent the income reverse, Mr. Hong will be given the reduced amount of 20,000 won for the recognized income of 380,000 won. And those with recognized income worth 40,000 won will receive 360,000 won of pension.
- The reduced pension is necessary because the income reverse is likely as long as the pension does not cover the entire elderly population.

Recognized income before pension payment(A)		Mr. Hong : 380,000 won	Mr. Kim : 420,000 won	Mrs. Lee : 440,000 won
In case of whole pension	pension amount(B)	84,000 won	-	-
	recognized income(A+B)	464,000 won	420,000 won	440,000 won
In case of reduced-pension	pension amount(C)	20,000 won	-	-
	recognized income(A+C)	400,000 won	420,000 won	440,000 won

4. Differentiated government subsidy according to the financial situation of cities / counties / districts

- The government provides differentiated subsidy to special self-governing provinces, cities (si), counties (gun), and districts (gu) within the extent of 40~90%, considering proportion of elderly population and financial situation of each local government.

Category		Proportion of elderly population		
		less than 14%	14%~20%	20% or more
Financial Self-sufficiency level	90% or more	40%	50%	60%
	80%~90%	50%	60%	70%
	less than 80%	70%	80%	90%

- Financial Self-sufficiency level is calculated by totaling the revenues such as local tax, non-tax revenue, local share tax, local fiscal compensation tax, and autonomous district control grants and then dividing the total with the total budget of general account.

$$\text{Financial Self-sufficiency level} = \frac{\text{local tax revenue, non-tax revenue, local share tax, local fiscal compensation tax, autonomous district control grants}}{\text{General account total budget size of general account}} \times 100\%$$

- Upper level local governments (metropolitan cities and provinces) and lower level local governments (other cities, counties, and districts) will share the residual expense after the government subsidy and the allocation rate by each autonomy will be decided by relevant ordinances after consultation with the Minister for Health, Welfare and Family Affairs in advance.

■ 2008 government subsidy status

Subsidy rate	40%	50%	70%	80%	90%
the number of cities, counties, districts	3	27	108	41	52



Expense share ratio between upper and lower level local governments

City · Province	Upper level local government expense share ratio	Lower level local government expense share ratio	Note
Seoul ¹⁾	50%	50%	For six lower level local governments (autonomous districts), the upper level local government takes 5% additional expense ratio. (Dongdaemun, Seongbuk, Eunpyeong, Seodaemun, Mapo, Dongjak)
Busan ²⁾	50~90%	10~50%	The upper level local government shares 50% for 2008
Daegu	60%	40%	
Incheon			
Kwangju			
Daejeon			
Ulsan			
Gyeonggi	20%	80%	The upper level local government shares 30% for 2008
Gangwon			
Chungbuk			
Chungnam			
Jeonbuk			
Jeonnam			
Gyeongbuk			
Gyeongnam			

※ Expense share for Jeju Special Self-governing Province is unnecessary since it is a single autonomy.

1) Basically, the upper-level local government shares 50% of the total expenses and takes additional 5% for a lower-level local government that satisfies both of the following two conditions. ① when the lower-level local government's level of meeting financial needs in the district is below the average of lower-level autonomies under the same upper-level local government ② when the number of elderly population exceeds the average of lower-level local governments and the proportion of elderly population out of the total population in the district is higher than that of the upper-level local government

2) Based on the financial self-sufficiency level and the proportion of the elderly population of a lower-level local government, the upper-level local government accounts for 50 to 90 % of expenses with lower-level local governments. The upper-level government happens to bear 50% for all lower-level local governments for 2008.

5. Systematic and professional operation of the Basic Old-age Pension

- Ministry for Health, Welfare, and Family Affairs oversees the basic old age pension.
 - What the Ministry does includes enactment and revision of legal guidelines, provision of differentiated subsidy, procurement and distribution of public records, establishment of yearly survey plan, evaluation and improvement of the system.
 - The Ministry also provides information necessary for the selection of beneficiaries and post services through the information system.
- Local autonomies manage the recipient application, payment, follow-up, financial allocation.
 - Metropolitan cities and provinces oversee city/county/district on the finance control and allocation
 - City/county/district manage the recipient application, payment, follow-up, financial allocation.
- National Pension Service develops and maintains the information system, procures/processes/provides public records, manages the Basic Old-age Pension record, and collects application.

“We designed the user-friendly simple, efficient Basic Old-age Pension.”

- With 3.01 million eligible in 2008 and 3.63 million in 2009, we designed the system to make the process simple and efficient.
 - We identified income and property of applicants based on administration records (IRS income and property filing)
 - There is no difficulty in finding out the income of applicants as they are inactive economically.
 - To encourage post-retirement old age work, the income from participating in the old-age employment project does not count as income.
 - We established the system where the records relating to income and property are provided from the Ministry for Health, Welfare and Family Affairs to local autonomy upon the submission of application.
 - It reduces the expense and work loads of the front line offices
 - The record differences that could arise between administration records production and application time can be corrected on the spot through meeting with applicants.
 - We built an information network to enable financial information to be shared among local autonomies, the Ministry, and financial institutions.
 - Any changes to recipient rights and pension amount caused by change of income and property records are automatically updated.
 - We renew the administration records periodically, verify ownership change, and notify to the staff in charge to improve the efficiency of follow-up work and prevent fraudulent receipt.
 - As a result, 88.4% of applicants answered that the process is easy
 - 39.4% of respondents said that it took 10 minutes or less to have their application processed while 42.2% said that it took 10 to 20 minutes.
- ※ 「The results of telephone survey」, Korea Institute for Health and Social Affairs, December 2007

With people's big trust

We will do our best for operation of the Basic Old-age Pension

2009

2008

2007

2006

2005

2004

2003

Procedure in building the system

- For elderly population aged 70 and above, we accepted applications from October 15, 2007 and paid pension from January 2008.
- For elderly population aged 65~69, we plan to accept applications from April 2008 and pay pension from July 2008
- The government proposed the national pension reform bill to stabilize the National Pension finance as population ages rapidly. (Jun, 2004)
 - Contribution rate 9% → 15.9%(2030), Pension benefit level 60% → 50%(2008)
- A bill calling for the introduction of basic pension was proposed to resolve the long-term financial instability of the National Pension and help the elderly excluded from old-age income security benefits. (Dec, 2004)
 - Option 1: set the income replacement level of the basic pension at 20% and reduce that of the National Pension to 20%
 - Option 2: set the income replacement level of the basic pension at 10% and reduce that of the National Pension to 40%
- The introduction of the Basic Old-age Pension was proposed to discuss the measures to resolve a blind spot of old-age income security and national pension reform.(Jun, 2006)
 - Adoption of the Basic Old-age Pension : pay 80,000 won to the bottom 45% of the old population
 - Contribution rate after National pension reform : 9% → 12.9%(2017), Pension benefit level : 60% → 50%(2008) → 40%(2028)
- Survey on the income and property status was conducted in August and September 2006 to procure basic data required to design the Basic Old-age Pension system. (Aug~Sep, 2006)
- The Basic Old-age Pension bill was proposed that would provide differentiated amount of pension for 60% of total elderly population. (Dec 7, 2006)
- The National Assembly Standing Committee passed the revised bill of the Basic Old-age Pension that would pay 5% of monthly average income of National Pension participants to 60% of the elderly. (Dec 7, 2006)
- The Basic Old-age Pension bill was passed in the Legislation and Judiciary Committee of the National Assembly. (Mar 30, 2007)
- The Basic Old-age Pension bill to resolve the blind spot of National Pension and old age poverty was passed at the Plenary Session of the National Assembly. (Apr 2, 2007)
 - From 2008, we began to pay 5% of monthly average income of National Pension participants to 60% of the elderly as a monthly pension.
 - But the National Pension bill was rejected
- The Basic Pension Law was revised to expand the coverage to 70% of the elderly in 2009 and gradually increase the pension amount up to 10% of monthly average income of National Pension participants by 2028. (Jul 2007)
 - The National Pension law was also revised to reduce the pension benefit level from the current 60% to 50% by 2008 and to 40% by 2028. The contribution rate will stay unchanged.



Smile Big!

We will pay you back with the Basic Old-age Pension



Status of pension operation

1. Recipients by area, sex and household type

(As of Feb.'08)

Region	Total	Sex		Household type		
		Male	Female	A single recipient	Couple (a single recipient)	Couple recipients
Total	1,947,211	560,734	1,386,477	1,302,404	172,331	472,476
Seoul	246,809	66,579	180,230	177,544	19,396	49,869
Busan	319,373	40,137	99,236	95,918	13,830	29,625
Daegu	84,913	23,600	61,313	57,920	7,901	19,092
Incheon	85,584	24,440	61,144	57,857	7,185	20,542
Kwangju	44,841	11,895	32,946	30,798	3,844	10,199
Daejeon	43,865	12,543	31,322	29,890	3,491	10,484
Ulsan	26,493	6,728	19,765	19,385	2,204	4,904
Gyeonggi	311,442	88,052	233,390	213,732	25,137	72,573
Gangwon	90,412	27,852	62,560	58,287	8,658	23,467
Chungbuk	82,710	25,376	57,334	52,365	7,141	23,204
Chungnam	123,933	38,399	85,534	76,749	11,148	36,036
Jeonbuk	125,534	37,605	87,929	80,381	11,830	33,323
Jeonnam	170,291	51,855	118,436	106,352	17,343	46,596
Gyeongbuk	184,103	55,289	128,814	117,342	17,284	49,477
Gyeongnam	163,223	44,949	118,274	110,547	14,632	38,044
Jeju	23,685	5,435	18,250	17,337	1,307	5,041

* Couple(a single recipient) means that his/her spouse is not qualified for the pension at his/her age.

Expected Effects

2. Recipients by pension amount

(As of Feb.'08)

Classification	Total	20,000 won	40,000 won	60,000 won	67,000 won	80,000 won	84,000 won
Total	1,947,211	26,481	30,103	31,370	429,124	20,530	1,409,603
A single recipient	1,302,404	10,093	11,659	12,743	-	16,666	1,251,243
Couple (a single recipient)	172,331	3,209	3,531	3,367	-	3,864	158,360
Couple recipients	472,476	13,179	14,913	15,260	429,124	-	-

※ 67,000 won pension type is not applicable to a single recipient and couple (a single recipient)

※ 80,000 and 84,000 won pension types are not applicable to couple recipients.

3. Recipients by income and property

(As of Feb.'08)

Classification	Total	have neither income nor property	have only property	have both income and property	have only income
Total	1,947,211(100%)	900,645(46.2%)	776,603(39.9%)	250,398(12.8%)	22,437(1.2%)

4. Recipients by National Pension receipt amount among Basic Old-age Pension beneficiaries

(As of Feb.'08)

Classification	National Pension amount							
	Total (number)	100,000 won or less	200,000 won or less	300,000 won or less	400,000 won or less	500,000 won or less	600,000 won or less	640,000 won or less
Total (number)	100,283	29,444	65,231	4,917	628	59	4	0
A single recipient	50,731	24,697	23,918	1,934	181	1	0	0
Couple (a single recipient)	24,752	1,855	20,427	2,091	337	40	2	0
Couple recipients	24,800	2,892	20,886	892	110	18	2	0

※ The above figures include the number of Basic Old-age Pension (pension for the poor elderly) as of December 31, 2007.

• The Basic Old-age Pension is necessary for the bright future of our society

- The beneficiaries of public old age income security will increase
 - The proportion of beneficiaries out of those aged 65 and above has increased from 30.8% in late 2005 to 57% as of January 2008
 - The figure is expected to soar to 78.9% in 2008 and to 90.4% in 2009
- It will contribute to the stable old age living and social unity.
 - By paying a monthly pension to the elderly in need, it will improve the family relations, social activities, recreational activities, and access to medical treatment.
 - ※ The 22.4% of the persons with chronic diseases are suffering financial difficulty.
 - In particular, it will help the elderly who live alone and suffer from financial hardship, chronic disease and limited social activities.
 - It will contribute to social unity by securing stable life for the elderly, the population group of highest poverty rate in our society.
- It will give a boost to traditional open markets, neighborhood markets, and the like where the elderly shop frequently.
 - The increase of purchasing power by the elderly would energize the industry for the elderly-friendly products.
 - ※ Elderly households have an average "propensity to consume" of 97.4% while the figure stands at 79.2% for non-elderly households.



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