The Future of Retirement
It's time to prepare

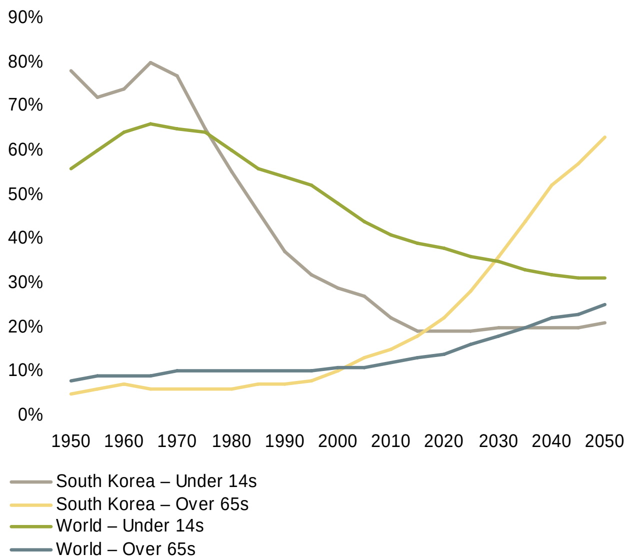
Fact Sheet
South Korea

The fifth annual **HSBC Future of Retirement** Report builds on from the previous year's reports where they explained and explored the current attitudes and behaviour towards retirement. Whilst for many in South Korea retirement is viewed as a new age of opportunity, the next issue that needed to be expanded upon was how South Korean families envisage funding and supporting their retirement years. The report explores how South Korean families are responding to the new responsibility of being increasingly accountable for their pension provision. The report also identifies the current preparedness gap – the feeling shared by the vast majority of South Korean people that they are currently doing too little to actively prepare for a comfortable retirement.

Demographic Trends in South Korea

South Korea – like most countries of the world – is facing the problem of an ageing population. As can be seen from the chart below, in around 2010 South Korea can expect to see the number of dependent adults surpass the number of dependent children for the first time.

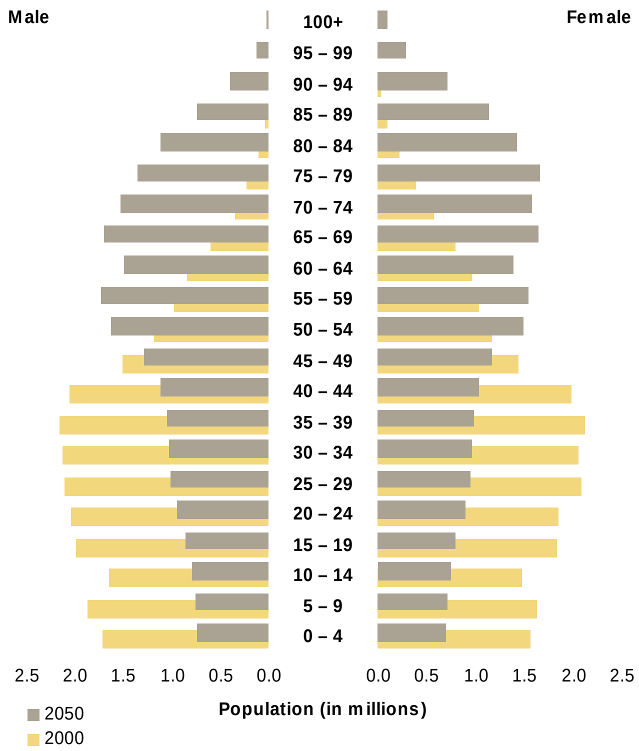
Figure 1 – The ageing South Korean population



Source: UN World Population Prospects: The 2008 Revision, Population Database

In South Korea's population pyramid, it is clear that in the year 2000 (the yellow section of the chart), the bulging sections of the population were aged between **30-40 years**, however, as we fast forward to 2050 (the grey section of the chart), this bulge swells to **age 60** and beyond. This growing demographic challenge poses many questions for Governments and individuals as to how to fund retirement.

Figure 2 – The changing demographic profile of South Korea



Source: U.S. Census Bureau, Population Division

The Pension Pillars

In looking at the future of retirement, the World Bank has established a model with three pillars of pension provision: the state, occupational and the individual – each pillar has a differing level of importance within a country, but together these pillars encompass a country's total pension provision. In South Korea, the state has traditionally played an important role in pension provision. The findings reveal that South Korean's are amongst the most likely to have embraced the need to save for themselves. Like in Japan, retirement is seen as a strong motive to saving

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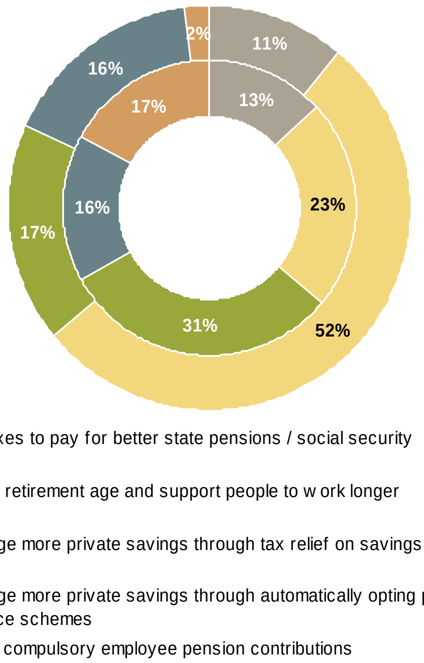
by **45%** of South Koreans, compared with **23%** globally.

The Pillars	Pillar 1: the state	Pillar 2: occupational	Pillar 3: the individual
South Korea	Mandatory pay-as-you-go National Pension System (NPS) providing for retirement at age 60, which will be increased to 65 until 2033. The state-entitlements are earnings related.		Voluntary personal pension arrangements have been available in Korea since 1994.

Meeting the Demographic Challenge: The Path to Pensions Reform

Over half the respondents (52%) in South Korea thought that the Government should increase the retirement age and support people working longer. The second most popular was the voluntary approach as 17% of those surveyed favoured encouragement to save through further tax relief on long-term savings. This clear preference for working longer and tax relief may highlight the fact that many in South Korea accept that the increase in life expectancy will inevitably lead to longer working lives. Equally, having sustained high savings rates, the appetite to keep saving may be waning: a trend already well established in the more mature economies in Europe and North America.

Figure 3 – What the government should do in supporting and financing an ageing population (South Korea's results are the external ring; global results are the internal ring)



The Conditions for Realising Successful Retirement Planning

In line with all the countries in the 2009 survey, the research revealed a major preparedness gap in South Korea. This reflects the shift towards personalised savings and pension provision, which increases the uncertainty around retirement outcomes. The findings reveal an alarming **98%** of people do not know what their retirement income will look like. Only **2%** of survey respondents in South Korea currently feel well prepared for retirement. Along with their near neighbours Japan, this ranks among the least prepared in our global survey.

Figure 4 – Levels of preparation

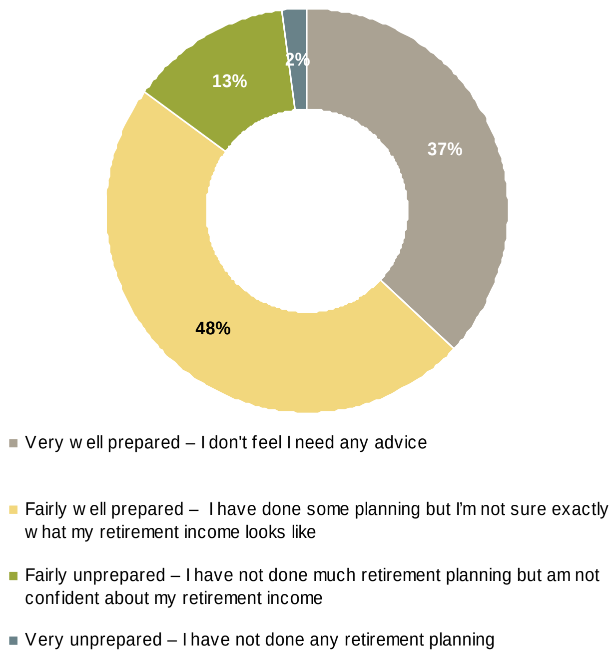


Figure 5 – Understanding of finances

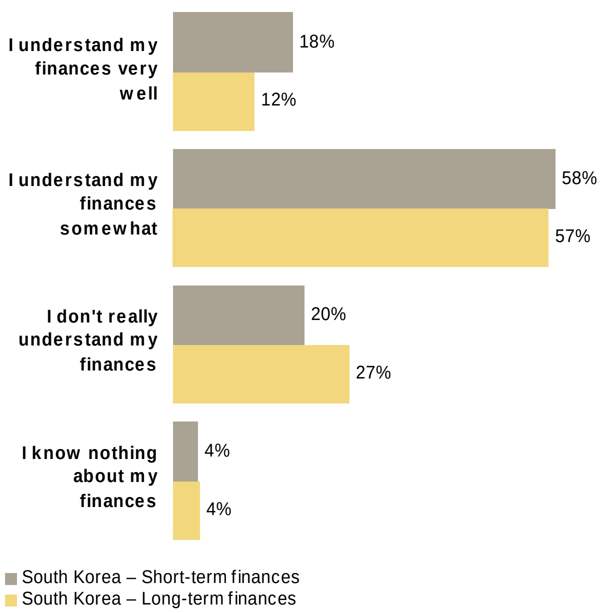
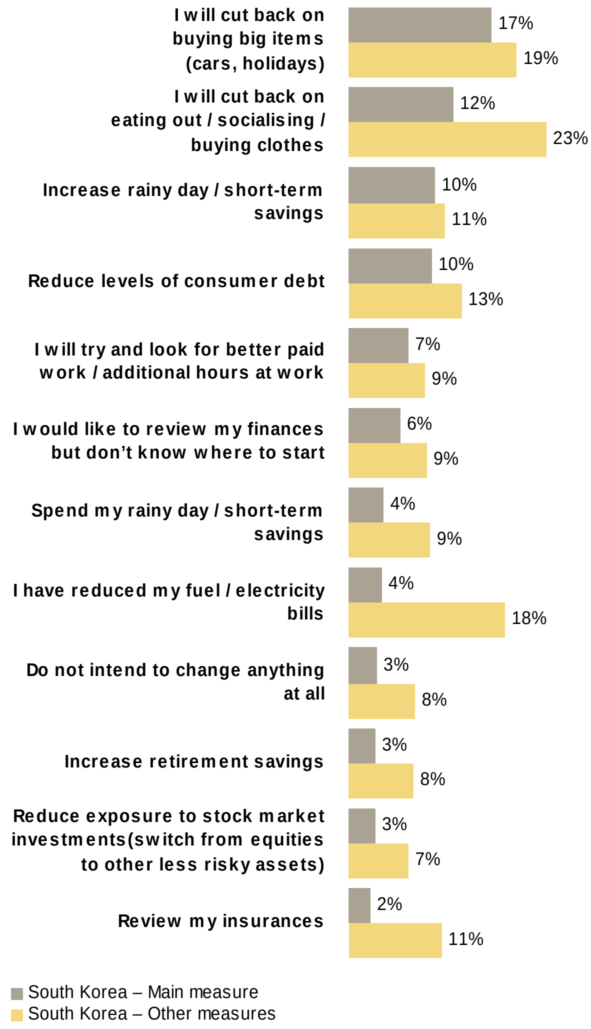


Figure 6 – Coping methods to survive the economic downturn



The feeling of being unprepared is driven in part by people's lack of understanding about their long-term finances. Whilst **18%** of South Koreans felt they understood their short -term finances very well, only **12%** are as confident about their long-term finances.

The Preparedness Gap

These low levels of understanding of finances in South Korea highlight that the 'preparedness gap' is possibly linked to a lack of access to both financial advice and guidance. **42%** of the people surveyed had never accessed any general financial education, whilst **54%** of people have never accessed any form of professional financial advice. Given the responsibilities people now face in planning for their retirement, this lack of financial education and guidance could become a major impediment. Therefore, the need to develop personal finance education programmes is paramount in order to help people better understand their finances and plan adequately for their retirement.

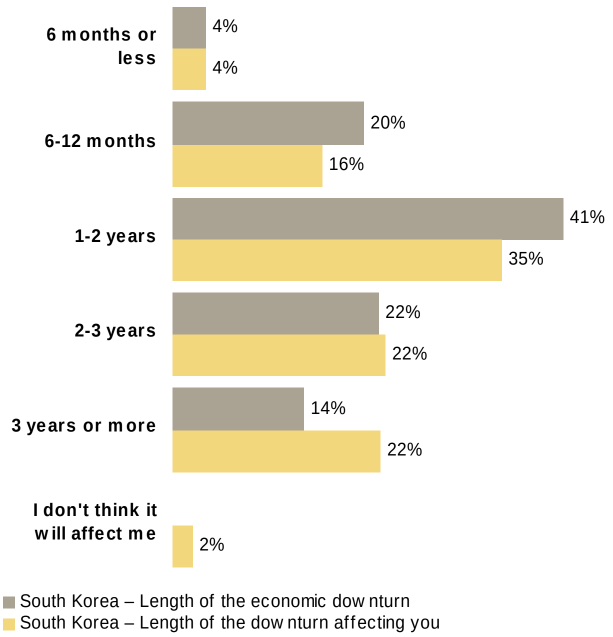
The Economic Downturn

Over the last 18 months the economic downturn has had a significant impact on people's finances as well as their attitudes. The IMF expects South Korea to remain in recession throughout 2009 and many survey respondents agreed with this view. However, people in South Korea – along with other mature economies – are generally more pessimistic than the global picture. Only **24%** of South Korean people think the downturn will last less than 12 months compared to **36%** who think it will last more than 2 years. This may reflect the fact that South Korea's export-led economy has been particularly affected by the current downturn.

Many in South Korea also felt that the downturn would continue to affect them long after their economy emerges from recession. This could reflect concerns over an anticipated lingering impact on job prospects or returns on their savings or investments.

When viewing survival strategies adopted by people in South Korea to cope with the downturn, it is clear that people are reducing expenditure on both large and small purchases, whilst also paying down debt. About one-third will cut back on spending and attempt to build up short-term savings. Cutting back on debt also figures highly in Korea. 1-in-10 people say they will seek financial advice to help them make sense of the choices facing them at these difficult times.

Figure 7 – The length of the downturn



Concluding Remarks

Like most countries, South Korea is faced with an ageing society. In response, individuals are increasingly taking more responsibility for funding their retirement. Having amassed huge assets – in excess of $200bn – during the past decade through the NPS, South Korea still faces the challenge of widening access to financial advice and education in order to enable families to better understand their longer term finances and plan accordingly.

In response to the current economic downturn, South Koreans are adopting survival strategies. Most of the coping strategies adopted to date reveal a greater focus on cutting back on spending. However, the current economic downturn is also forcing some households in South Korea to delay their retirement plans. Overall, with the population aging rapidly, there is an increasing need for retirement planning and advice.