

THE REPUBLIC OF KOREA - AN OVERVIEW OF EMPLOYEE BENEFITS

State and Mandatory Benefits	State benefits for private sector employees are provided from the National Pension Scheme (NPS) and from National Health Insurance (NHI). Normal retirement age is 60, increasing in stages to 65 between 2013 and 2033. The NPS provides a basic pension plus an earnings-related pension based on an average accrual rate of 1.5% of earnings, up to an earnings ceiling of KRW 3.75 million from July 2011. The maximum accrual is 50% of final earnings, reducing in stages to 40% from 2028. The NPS also provides survivors' and disability benefits. Employers are required to provide either a severance pay plan or a corporate pension plan which can be either defined benefit (DB) or defined contribution (DC). Medical care is provided through government-approved associations. Patients are required to pay a contribution towards the cost of medical care. This is 20% for in-patient hospital treatment and between 30% and 50% for out-patient treatment.
Typical New Pension Plan	Multinational companies typically provide defined contribution pension plans, which include the severance payment required on leaving service. Benefits are provided as a pension or lump sum. Advance withdrawals are not permitted but loans may be given for house purchase or medical treatment. Lump sum benefits on withdrawal can be rolled over into an individual retirement account. Most employers also provide an insured lump sum death benefit, typically 24 months' basic pay. Medical insurance can be provided to cover the patient's share of medical expenses
Typical Costs	Employers and employees both contribute 4.5% of earnings to the National Pension System and 2.665% for National Health Insurance, up to an earnings ceiling. Employers' contributions to a pension plan must be at least 1/12 th of basic salary (8.34%). Employees can make additional voluntary contributions.
Tax Implications	Contributions to the NPS are tax deductible. Employer contributions to DC plans are tax deductible. Employee contributions are tax deductible up to KRW 4 million a year, including contributions for individual pensions. Investment earnings are tax free. Up to 2010, allocations to a book reserve to finance retirement benefits and severance payments were tax deductible up to a maximum of 25% of the GAAP liability in 2011, reducing by 5% a year until 2016. From 2011 retirement benefits must be provided from funded pension plans to be tax deductible. Severance pay and benefits from pension plans are taxed as income. NPS pensions are taxed as income (excluding survivors' and disability benefits).
Labour Law Issues	Employers with more than five employees must provide severance pay of at least 30 days' pay for each year of service to employees who leave service for any reason.
Pooling Potential	Insured benefits can be included in multinational pooling arrangements.
International Financial Reporting	International Financial Reporting Standards will be adopted from 2011 and companies will be required to account for their retirement benefit liabilities under IAS 19. Earlier adoption was permitted from 2009. Unlisted companies are not permitted to use IFRSs.
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