Financial Services Commission
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Press Release

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PROPOSALS TO STIMULATE CORPORATE PENSION PLANS AND FAIR COMPETITION

Background

Corporate pension plans are one of the important financial schemes to help retirees lead a financially stable life after retirement. In order to prepare for the rapidly aging population and supplement insufficient public pension plans, it is necessary to stimulate corporate pension services in Korea. In fact, the development of Korea's corporate pension system remains lukewarm as corporate sponsors still run a severance pay system in parallel with pension plans and they feel the burden of making contributions to a pension fund managed outside the company.

The Financial Services Commission (FSC) and the Ministry of Employment and Labor (MOEL) have come up with the following proposals to reform corporate pension plans, based upon what we have discussed at a T/F, which was created on May 28, 2010 as a public-private partnership with the FSS, the industry and the academia to invigorate pension services and encourage fair competition in the market.

Major Reform Plans

1. Easing regulations on corporate pension fund management

For Defined Contribution (DC) plans and Individual Retirement Accounts (IRAs), the government will revise related regulations to allow up to 40% of the pension funds to be invested in collective investment securities such as equity-type funds or hybrid funds.*

*Under current regulations, DC plans and IRAs are forbidden to invest in equity-type or hybrid funds.

However, we have decided to continue to prohibit direct investment in equities, considering employees' limited financial knowledge and asset management capability, and to ensure that pension assets are managed safely.

For Defined Benefit (DB) plans, we will keep the current rules of investment ratio (30% for equities, 50% for equity-type or hybrid funds) as the current caps of risk asset investment are sufficient enough to ensure the safe management of the pension funds.

With the revision of related regulations, we expect to give pension subscribers a broader range of choices and reflect their risk appetite in designing an investment portfolio. It is also expected to boost return on investment of the pension funds and thereby contribute to the development of Korea's capital markets.

2. Limiting the ratio of corporate pension providers' own products

Currently, pension service providers – banks, insurers, and securities firms – largely include their own products into principal-guaranteed products that they are selling. In order to prevent pension service providers from engaging in excessive competition such as offering unreasonably high interest on their own products, the government will revise related regulations to limit the ratio of pension service providers' own products. The ratio will be limited to 70% of the total principal-guaranteed products and gradually lowered further over time, and the new limit will be applied only to new contracts made after the revision of regulations. However, DB plans less than KRW 2 billion, DC plans/IRAs less than KRW 50 million will be exempted.

3. Strengthening pension service providers' obligations of public disclosure

The government will require pension service providers to separately disclose the rates of return on principal-guaranteed products and products with performance-based dividends since returns on performance-based products temporarily fluctuate depending on market conditions and thereby may distort the overall rate of return on the investment. We will also require pension service providers to disclose their rate of return on a monthly basis to provide more timely information.

4. Clarifying the criteria for prohibited sales practices

The Guarantee of Workers' Retirement Benefits Act prohibits any act of employers that forces their employees to sign a pension plan contract with a certain service provider; however, the criteria for such prohibited practices remain unclear. The government, therefore, will specify prohibited practices under the supervision regulation as follows: any act of exploiting superior positions in business relationships and share ownership; threatening financial disadvantage; or using coercive expression in order to force a pension contract

5. Expanding tax benefits

The current income tax deduction, which adds pension savings to the sum when setting a deduction limit, does not provide sufficient incentive for employees solely turn to corporate pension plans. Currently, up to KRW 3 million a year can be deducted from the sum of pension savings and employees' contributions to DC plans. The tax law was revised to deduct up to KRW 4 million a year from 2011.

We will also consider the proposal that would allow income tax deductions respectively for both pension savings and corporate pension plans.

6. Strengthening registration requirements for corporate pension providers

The government will consider strengthening registration requirements for pension service providers in order to ensure the quality of corporate pension service.

We will subdivide professionals needed for operating and managing corporate pension funds into more specific categories by their tasks (pension planners, actuaries, investment consultants, and fund managers, and customer relations managers) and strengthen the requirements for them.

The government will also strengthen material conditions for pension service providers to conduct a record keeping business and review the qualification on a regular basis.

7. Providing stronger incentives for pension subscribers

In order to encourage more employees to choose pension plans over a lump sum payment of severance pay, the government plans to revise the current tax system to give more tax benefits to pension subscribers.

Upcoming Schedules

Proposals	Measures	Authorities	Time
1. Easing pension fund management regulations	MOEL Enforcement Supervision Regulation	MOEL/ FSC	1H2011
2. Limiting the ratio of corporate pension providers’ own products	Supervision Regulation	FSC	
3. Strengthening public disclosure obligations	Supervision Regulation	FSC	
4. Clarifying the criteria for unfair business practices	Supervision Regulation	FSC	
5. Etc. (1) Expanding tax benefits (2) Strengthening registration requirements for corporate pension providers (3) Providing stronger incentives for pension subscribers	 Amended law Amended law Amended law	 MOEL/MOSF MOEL MOEL/MOSF	2011~

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