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RECENT REFORM OF THE PUBLIC PENSION SYSTEM IN KOREA

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Ⅰ. Introduction

Korea has two criteria of public pension programs: the National Pension Scheme(NPS) for the general public and the Special Occupational Pension plans(SOP). While the former comprises the private employees, the self-employed and the local residents, the latter includes the Government Employees Pension Scheme(GEPS), the Military Personnel Pension Scheme(MPPS) and the Private School Personnel Pension Scheme(PSPPS).

While the GEPS and the MPPS had been implemented as early as 1960 and the PSPPS in 1975, the NPS was first introduced in 1988 and had been gradually extended to become universal for all private sector in April 1999.

Korea belongs to the countries which have experienced drastic political, economic, social, cultural and demographic changes within a relatively short period of one generation. The rise in the standard of living resulted from the rapid economic development caused the increase of the average life span of Koreans by 30 years in about 40 years, while the fertility rate sinks at 1.19 as of 2013, the lowest in the world, suggesting a striking decrease in the number of economically active population.

The NPS has a short history of less than 30 years. However, attempts have been made to reform it to cope with drastic changes over the past years, even though the scheme was already reformed in the late 1998 to secure financial stability. In this regard, no one can deny the necessity to reform the GEPS, considering that the retired civil servants receive 2.4 times what they pay in premiums, compared with 1.7 times for other pensioners and that the deficit has reached 9.8 trillion won($8.4 billion), with 2.5 trillion won($2.1 billion) ($1=1,100 Korean won as of end May, 2015) in taxes is expected to be used to make up for the deficit in 2014.

The Civil Service Pension Reform Bill passed the National Assembly on May 29, 2015 after seven months of boisterous debate and turbulent negotiations, paving the way for the government to reduce subsidies for pensions paid to retired public officials as a way to alleviate the mounting national debt and tax burdens.

Various surveys have showed that the changes to the civil service pension will save the government 333 trillion won ($303 billion) over the next 70 years.

The reform will raise the contribution rate of public service pensions from 7 percent to 9 percent in the next five years, while reducing entitlements from 1.9 percent to 1.7 percent in stages over 20 years. It would also delay the first payment of public pensions by pushing back the retirement age from 60 to 65.

While most of the details had been agreed upon via special committees and negotiations, the parties have been at loggerheads over the opposition's demand that the civil service pension reforms be linked to revisions that would increase annuities from the national pension.

In connection with the civil servants' pension reform endorsement, the parties voted to establish a special parliamentary committee and an organization encompassing the social sector to discuss ways to give a face-lift to the national pension fund.

Both bodies will be active until the end of October and the special committee could be extended for 25 more days if necessary.

This paper suggests policy measures in order to design a sustainable old-age income protection system in the coming super-aged society of Korea.

Ⅱ. Demographic Change and Income Security in Korea

The emergence of the welfare states in East Asia, especially the four 'tiger' states, Korea, Taiwan, Hongkong and Singapore, poses interesting characteristics. Among these are the Confucian values of the societies, the particular role played by the state, and the unique economic conditions, including the impact of productivist or developmental social contexts (Klassen & Yang 2010).

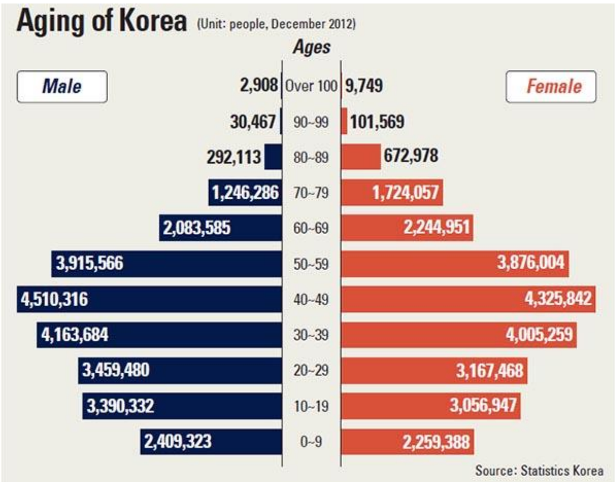
Even among the four Asian tigers, with their economic miracles during the past several decades that allowed them to join the ranks of the developed nations, Korea is appraised as extraordinary. Along with its economic progress, from an impoverished and devastated country in the 1960s, Korea's effort to become an emerging welfare state is significant.

Although established in a short time, and still immature in some respects, it now faces a population that is ageing at an unprecedented rate. As the pressures from an ageing population mount, the traditional old-age income support system, partially built upon inter-family transfers, is proving inadequate (Chung, Yun, Park, Na, & Hong 2000: 87-88).

Population ageing

The speed of population ageing in Korea is unprecedented. From a population profile that resembled a pyramid (that is, with many younger individuals and few older individuals) in 1990, the profile gradually changes to a diamond shape between 2010 and 2030 (with a large middle-aged population), and then will change to an inverse pyramid by 2050 with relatively few individuals under the age of 50. Figure 1 shows the situation in December 2012.

<Figure 1>



This demographic trend in Korea is partially due to increases in life expectancy, but primarily due to a steep decline in fertility rates (from around 6.0 in 1960 to 1.1-1.2 in the past decade) caused by economic growth and improving health conditions, family planning progammes, and the changing role of women in the labour market. By 2050, the median age of the population of Korea is projected to be 54 years, making it the most elderly population in the world. In contrast, in 2005, Japan had the oldest median age at 42.9 years, while Korea's stood at 35.1 years (United Nations 2007: 66).

The State-mandated pension

The first state-mandated pension in Korea began in 1960 for government employees, including the military personnel. A separate plan for those serving in the military was carved out in 1963 resulting in one scheme for government workers (GEPS) and a second for those in the military (MPPS). These were designed to secure the loyalty of state workers, especially to the authoritarian governments of the 1960s and 1970s. Private school teachers were covered under the PSPPS implemented in 1975.

These plans have recently become unsustainable in the face of an ageing population and their benefits have slowly been decreased, notwithstanding protests. Nonetheless, more drastic cost-cutting measures for these plans are essential to ensure a balance between revenues and expenditures (Klassen & Yang 2010).

In the early 1970s, the military government initiated plans to establish a pension scheme for all private sector workers, prodded by two sets of conditions. The first was the need to mobilize domestic capital in support of the state's effort to further rapid industrialization, especially in the heavy machinery and chemical products sectors. The second condition was the need to appease political opposition to the authoritarian regime by demonstration that benefits did accrue to the working class from the state-led development strategy. Not surprisingly, the pension scheme was primarily designed to be an effective system to mobilize savings, rather than a social security for the elderly of the time. The oil shock in 1973 as well as resistance from the business community, along with a lack of demographic pressures, delayed the implementation of this central feature of the welfare state for more than a decade. In 1988 in response to emerging demographic trends and a crisis of legitimacy, the government implemented the NPS for the general public. The NPS was ambitious, permitting eligibility at age 60 for full benefits and providing a replacement rate of 70 percent of lifetime income, while keeping the contribution rate as low as 3 percent. A decade later in 1998, it became obvious that the plan would be unsustainable as more workers reached eligibility age, so the age of entitlement was increased to 61 by 2013 and then gradually to 65 by 2033.

Retirement allowances

The retirement (or severance) allowance system in Korea was first introduced in 1953 under the Labour Standards Act as a way to guarantee income for retired workers voluntarily quitting or dismissed. During the industrializing phase of Korea, the allowance served both as unemployment insurance for the jobless and old-age income security for the retired, since neither a public pension scheme nor the unemployment insurance programme existed until 1988 and 1995, respectively. Initially the allowance was only compulsory for larger enterprises with 30 or more workers. Since April 1975 for companies with 16 or more workers, since December 1987 with 10 or more workers. Since March 1989, it applied to employers with five or more workers and since December 1, 2010, it applies to all employers, even they employ only one worker. The severance allowance, which gives at least 30 days of wage for every year of service at the rate of average wage over the last three months is of a unique character of the Korean labour law.

As demographic conditions began to change and a wave of retirement began to loom, the government enacted on December 1, 2005 the new law which enabled the firms to replace the retirement allowance with a more typical corporate pension plan. Many of the larger enterprises are slowly gravitating towards pensions, while small and medium-size enterprises continue with allowances. At the same time, the government also allowed companies, especially small ones, to create individual retirement accounts for employees. The retirement allowance - rather than pensions - has provided retiring workers with an immediate lump-sum cash payment, which has mitigated, at least in the short run, the economic consequences of mandatory retirement at an early age. Most 'retired' workers need to obtain a second career, either as self-employed, or more commonly in low-paid temporary and contract positions.

The retirement allowance has been critical as start-up capital or as an initial financial cushion to temper the short-term household cash flow impacts of the transition from the primary to the, invariably precarious, secondary labour market (Klassen & Yang 2010).

Ⅲ. The History of the NPS and Other Old-age Income Security Programmes

The National Pension Scheme(NPS) is the key programme in the entire old-age income support system of Korea. However, it is not sufficient to focus only on the NPS in understanding the changing nature of Korea's old-age income security. First, the NPS is not mature, with limited number of retired workers yet eligible to receive. Second, the NPS has been downsized twice and is still under further reform pressure due to financial instability. In this context, other complementary income security measures have been designed to fill the gap in income security. Thus, the notion of 'multi-pillar' is useful for understanding the old-age income security system (Kim, Soo Wan 2010).

Initial development of the old-age income security system (1953 to 1998)

The initial development of Korea's old-age income security system was characterized by the independent introduction and separate growth of different schemes. The first one was the retirement allowance or severance pay rules introduced in 1953 in the Labour Standards Act. The retirement allowance was implemented, when no other system was in place, to secure income during unemployment.

The generous SOP comprising The GEPS (1960), the MPPS (1963) and the PSPPS (1975) served as a means to compensate for the relatively lower wages of public sector workers and for the lack of a retirement allowance comparable to private sector workers. It was only in 1988 that the NPS, a comprehensive public pension scheme for private sector workers, was introduced. Based on the principle of social insurance, the NPS was designed to serve as the sole system providing old-age income for private sector workers. Therefore, the strategy was for the employers' financial responsibility for the retirement allowance to be gradually converted in to contributions to the NPS, although this planned conversion was annulled in 1998. The strategy to integrate the two was clear if one considers that the national pension system was for companies with five or more employees, the same coverage for severance pay since March 1989. Labour unions strongly opposed the planned conversion of the retirement allowance system into the NPS, and hence the plan was eliminated in the 1998 pension reform (Kim, Soo Wan 2010).

Searching for modernization and introduction of zero-pillar (1999-2003)

The first systematic review of the relationship between public and private pensions was made by the International Bank for Reconstruction and Development (IBRD), when it proposed integrated development and improvement measures for the public and private pension systems as a condition for the second structural adjustment loan during the 1997-98 financial crisis in Korea (World Bank 1998a & 1998b). This led to the establishment of the Commission for Improving the Public and Private Pension Systems, in December 1998. The commission highlighted long-term fiscal instability, narrow coverage and inequality as reform issues concerning the NPS. As for the Individual Pension, the low sign-up and high cancellation rates were pointed out as major problems. One of the important recommendations was to change the severance pay into a corporate pension system. Based on these recommendations. the Tripartite Commission of Korea took up as their agenda the improvement of the severance pay system and the introduction of a retirement pension system, with discussions continuing from July 2001 to July 2003. However, no consensus was reached on the specific model and procedure to convert retirement allowance into a retirement pension. Finally the Commission ultimately delegated the issue to the government (Kim, Soo Wan 2010).

Emergence of the multi-pillar system (2003-onward)

In autumn 2003, the Ministry of Health and Welfare submitted a pension reform bill to the National Assembly designed to ensure the financial stability of the NPS. The main suggestion of the bill was an increase in the contribution rate and a reduction of the benefit level, based on the report of the National Pension Development Committee that analysed the result of the actuarial valuation on the National Pension funds. However, the government's bill was criticized by many pension experts and opposition parties for its unilateral emphasis on financing problems without due attention to addressing old_age poverty. In 2004, the opposition party made a structural pension reform proposal to introduce a universal basic pension funded by the general tax. As a result, discussions about reforming the NPS led naturally to the building of a multi-pillar system.

In the meantime, the Ministry of Labor submitted a bill to the National Assembly that would permit employers to convert existing severance pay arrangements into a corporate pension plan. This legislation, passed at the end of 2005, allowed employers, and workers, the option of retaining the severance pay system. According to this act, companies can convert the existing severance pay system to a corporate retirement pension based on the labor-management mutual agreement. From this point, it is appraised that a modernized multi-pillar system was built in Korea (Kim, Soo Wan 2010).

Ⅳ. Korea's Pension System Overview and Reform Directions

For an individual with 40 years of contributions, pension benefits were designed to replace 60 percent of earnings until 2007. Due to pension reform, the replacement has been reduced to 50 percent in 2008 and then will be reduced 0.5 percent every year until making 40 percent from 2009 to 2028. The earnings measure used for computing benefits is a weighted average of individual lifetime earnings, adjusted for wage growth, and economy-wide earnings over the previous three years, adjusted for price inflation. Pension benefits are indexed to price inflation.

Introduction

Before the introduction of the National Pension Scheme (NPS) in 1988, there was only a very minimal social assistance program for the general public in Korea - the livelihood protection scheme introduced in 1960. It was composed of some in-kind benefits and a small amount of flat rate cash. There was, however, a pension program introduced in the same year for government employees, from which the military personnel pension was separated in 1963. In 1975, yet another public occupational pension was implemented, this time for private school personnel.

It was 1988 when the National Pension Scheme (NPS) was introduced against the background then of a rapid economic growth and the consequent growth in welfare needs. Modeled after the employees' pension of Japan in the 1970s, the NPS was close in form to the early German pension before its reform in 1957. Accordingly, the benefit level was quite high: 70 percent of the earnings replacement rate for a participant with a 40-year contribution period(Kim, Seong Sook, 2011).

Coverage

Those participating in any of the three public occupational pension schemes account for about 7 percent of the workforce aged between 18 and 59. More than two-thirds of them are with the government employee pension scheme.

The number of participants in the government employee pension, which had been on the increase, took a downward trend from 1998 with the International Monetary Fund (IMF) bailout onward until 2000 before bouncing back. Meanwhile, the pensioners of this scheme increased sharply during the time of the financial crisis. The abrupt increase in the number of retirees was due largely to the fact that participants with a 20-year contribution history could become eligible for retirement pension without any age restriction. The pension dependency ratio of the government employee pension scheme has gone beyond 20 percent in recent years and will keep increasing over time commensurate with increases in the number of pensioners.

Contribution and Benefit

Until 2009, the contribution rate had been kept the same for all three public occupational pension schemes at 17 percent of monthly basic salary (excluding bonus and extra allowances). According to the revised law of 2009, however, it was lowered over the three years between 2010 and 2012 to 14 percent of taxable income. The previous contribution rate was equivalent to 11 percent of total taxable income. The change in the law therefore means an increase in contribution payment of 3 percent of taxable income in real term. The maximum contribution period has been kept to 33 years from the beginning of the schemes. The minimum contribution period required for all three pensions is 20 years.

Before the revision of the Government Employees Pension Act in 2009, the pension amount one was promised after 20 contribution years was 50 percent of the average salary over the last 3 years before retirement and after 20 years of contribution, the additional annual accrual rate was 2 percent. As the maximum number of contribution years is 33, the maximum pension amount was 76 percent of three-year-average salary (50% + 2.0% x 13 years). However, the benefit was reduced by the 2009 reform. The accrual rate is changed to 1.9 percent for any one-year participation, and the average income is based on total working years instead of three years before retirement. The vested benefit rights of the existing affiliated are protected. The change in benefit level by the 2009 revised law is not applicable to the military personnel pension scheme.

There was no specific pensionable age before 1996. Any retiree with a 20-year contribution history could claim pension benefits upon retirement. The pensionable age was introduced in 1996 and over time raised to 60. However, it would further increase to 65 for newly employed officials after the enforcement of the revised law in 2009. No specific pensionable age is yet applied to the military personnel pension. The index of benefit was either consumer price index (CPI) or income, within ±2% difference between two, but changed to CPI only from 2015 (Kim, Seong Sook, 2011).

Financial Situation

The government employee pension is financed through contributions, returns from its fund operation and government subsidy. The other two public occupational pension schemes are financed in a similar way. In the case of the military personnel pension, because its fund was exhausted in 1973, government subsidy has gradually increased. The financial status of the Private School Personnel Pension Scheme (PSPPS) is much better than that of the other two, because it started much later, in 1975.

The government employee pension began running deficits in 1993, and since then its financial imbalance has been getting worse. In particular, with a rapid increase in the number of pensioners in 1998 and 1999, deficits also increased abruptly. In 2001, the government started to subsidize the scheme, and the size of subsidy to prevent the occurrence of fund deficit has been getting bigger.

Although the financial status of the private school personnel pension is relatively better than that of the other two pension schemes, all three have been financially unsustainable, and thus the reform was essential to strengthen the financial stability of the schemes. As a result, the 2009 reform for the government employee pension and private school personnel pension was performed through a near 10-year process of controversies. However, it is found as much insufficient to establish the long-term financial stability of the schemes (Kim, Seong Sook, 2011).

Equity between the National Pension and Special Occupational Pensions

Though the Special Occupational Pension Schemes (SOP) were reformed in 2009, they are still more generous than the National Pension Scheme (NPS) in terms of accrual rate and pensionable age. The benefits of the SOP can be defined as a mix of pension and severance allowance. Accordingly, it may be improper to directly compare its benefit level with that of the NPS, but the relatively higher benefit level of the public pensions and their insufficient funds have been criticized by many of those who have to pay more tax to support them. One of the solutions is to separate the benefits of the SOP into two parts; one corresponding to the NPS and the other to an occupational retirement pension. However those participating in such pension schemes will certainly resist such a reform. If the universal basic pension is introduced in Korea, the structural reform of all of the public occupational pension schemes can be reviewed. After they were reformed in 2009, another reform is expected in the foreseeable future (Kim, Seong Sook, 2011).

Ⅴ. The Government Employees Pension Scheme(GEPS) – History and Reform Efforts

Introduction

Like Korea, about half of OECD countries have a separate pension scheme for their civil service (Palacios & Whitehouse 2006). In most of these nations, however, the pension benefit gap between the civil service scheme and the national scheme is not so large. In contrast, the benefits and eligibility requirements of the GEPS are superior to that of Korea's national pension and resemble the situation in France and Germany, where state workers have more generous income security arrangements (Bae, Jun-Ho 2010).

Development after introduction

The Government Employees Pension Scheme(GEPS) legislation was enacted on 1 January 1960. The legal basis was Article 27 (currently Article 77) of the National Civil Service Act, dated from 1949, which stipulated that the "government shall pay pension as stipulated by the law, when the public servants retire after a sustained period of faithful service or when they were relieved of office or deceased because of injuries or illness resulted from official duty". The coverage of the GEPS has been comprehensive since its introduction, including national and local civil servants in general administration, teachers and administrative staff in public education, police and fire services, general and special postal services, as well as judges and prosecutors. In this regard, the Korean system differs from those of the United States or Japan, where the pension scheme for central or federal government employees and the scheme for local government employees are separated. It also differs from the pension scheme of Germany that separates state workers into different pension plans depending on job requirements. The GEPS, however, covers only those who have worked for a sustained period of time and therefore does not provide benefits for temporary civil servants and elected officials (Bae, Jun-Ho 2010).

<Table 1> Major changes in civil service pension

Year	Summary of the major changes
1960	Government Employees Pension Act is enacted
1962	Retirement age (60 years of age) is withdrawn
1967	Contribution rate hikes to 3.5% from 2.3%
1970	Contribution rate hikes to 5.5%; survivor's pension lump sum payment is introduced

1975	Benefit cut is introduced; upper limit on vesting period is extended to 30 years
1980	Vesting period is extended to 33 years; income replacement rate upper limit is hiked (70%→75%)
1982	Government Employees Pension Service established
1988	Survivor's pension is increased (from 50% to 70% of retirement pension)
1991	Retirement allowance is introduced
1996	Retirement age (60) is introduced for those employed after 1 January 1996; contribution rate hikes to 6.5%
1999	Contribution rate hikes to 7.5%
2001	Retirement age comes into effect for those employed after 1995; price indexation is made; pensionable earnings basis is changed from final defined salary to final three years average defined salary; contribution rate hikes to 8.5%, government deficit financing stipulation is established in case of deficit in retirement benefit and survivor's benefit accounts; reserve fund stipulation is established
2003	Price indexation and salary indexation are combined; indexing rate is settled to less than 2% points in comparison to salary increase rate (only if salary increase rate is more than 2% points larger in comparison to price increase rate)
2005	Benefit cut under income test is enforced; benefit cut is below one-half
2008	Government Employees Pension Reform Bill is passed

Source: Government Employees Pension Service

<Table 1> shows the major modifications that have occurred in the GEPS since its introduction in 1960. It is to note that the establishment of the Government Employees Pension Service in 1982 to deal with the administration and management of the GEPS and its funds. While the Pension Service administers the GEPS, the Ministry of Government Administration and Home Affairs (MOGAHA) is responsible for the reform and enforcement of the scheme.

The radical reforms that became effective in 2001 mandated that if the GEPS account falls into fiscal deficit because of expenditure increases in the retirement and survivor benefit accounts, central and local governments have to finance the deficit. The fiscal balance of the GEPS benefit account is predicted to show a large deficit in the near future because of the large number of pensioners, so the new law would change the main GEPS revenue financing from contribution financing to tax financing. Additional reforms at the same time introduced a benefit reduction to GEPS pensioners who were reemployed in the public sector by decreasing GEPS benefits by half regardless of the amounts. The reform was a result of pressure from public opinion for GEPS benefits being available at any age, and at age 60 for those hired after 1996 (for those with 20 years of contributions). However, the Constitutional Court deemed this reform unconstitutional, and ruled that it must be eliminated by 2003, so the government introduced new reforms that effective from 2005 introduced an income test on young pensioners who find employment in the public sector, which had the same effect as the earlier unconstitutional legislation (Bae, Jun-Ho 2010).

Reform efforts in the past

As shown in <Table 1>, the GEPS was modified on a number of occasions to improve benefits by measures such as abolishing a minimum eligibility age, widening of the pensionable earning basis, and a mitigation of pension benefit requirements. Other reforms, especially after 1995, have sought to secure fiscal stability including a hike in the contribution rate and a moderation of the benefit increase. Especially the two reforms carried out between the end of 1995 and 2000 were to be noted. The 1995 reform increased the retirement age to 60 for those starting after January 1996. With the 2000 reform, indexation began to include a CPI component and the minimum eligibility age (for employees up to 1995) was pushed back one year for every two years starting at age 50 in 2001; the pensionable earnings basis was also expanded, The contribution rate has been raised, starting in the 1970s, to reach 6.5 percent in 1996, 7.5 percent in 1999, and 8.5 percent in 2001. Notwithstanding these reforms, if the GEPS continues as it is, the current total government burden ratio of 12.7 percent of pensionable income in 2009 will rise to 35 percent in 2029, to 45 percent in 2049, and will likely increase the burden on both the government budget and the national economy (Bae, Jun-Ho 2010).

Ⅵ. Recent Development to Reform GEPS

The ruling Saenuri Party unveiled late October 2014 its pension reform plan, which aims to increase the age of the eligible pension recipients to 65 from the current 60. The draft also called for raising the proportion of contribution from 7 percent of the salary to 10 percent.

Until that time, retired public servants start receiving pensions at age 60, while the majority of Koreans begin receiving payments at age 65 under the National Pension Scheme (NPS).

The Korean government is injecting a huge amount of public funds each year to bolster the pension system for public officials, a slippery slope that officials warn could deplete the pension reserves, unless a drastic overhaul is implemented

The controversy surrounding a plan to reform the Government Employees Pension Scheme (GEPS) was spreading following a mass protest held near the National Assembly early November 2014.

More than 110,000 members of various labor unions including 60,000 belonging to the Korean Government Employees Union, which was not recognized by the Government, participated in the rally. The protesters also included a large number of members of the Korean Teachers and Education Workers Union that was also not recognized, as well as recognized government employees’ and teachers’ unions.

The ruling Saenuri Party was appealing to the government employees to participate in sharing the pain in consideration of the numerous common people who cannot even benefit from the

National Pension. The main opposition New Politics Alliance for Democracy (NPAD), for its part, was standing by its earlier position that the issue needs "social consensus" while admitting the need for a sweeping reform.

Retired public employees receive a monthly average of 2.19 million won($2,000), compared with 870,000 won($790) for recipients of the national pension system, which covers those outside the civil service, military and education sectors. This means retired civil servants receive 2.4 times what they pay in premiums, compared with 1.7 times for other pensioners.

As such, the deficit was snowballing. The government poured 2 trillion won($1.8 billion) into the scheme 2014 to make up for the shortfall in the public employees' pensions. If unchecked, the shortfall would increase to 7 trillion won($6.4 billion) by 2020. The nation could no longer afford to ignore what was shaping up to be a fiscal catastrophe.

The reform direction is simple: Pensioners should contribute more and receive less. The Korea Pension Association (KPA)'s suggestion called for increasing premiums from 7 percent of income to 10 percent by 2026, which was a 43 percent rise. In addition, the pension payouts should be cut by 34 percent.

The plan would also gradually raise the age at which pensioners start to receive payments, to 65 by 2033. In all, the KPA suggested that all the public pensions, including those for soldiers and teachers, should be unified with the national pension scheme by 2055.

The KPA worked out the proposal at the request of the ruling Saenuri Party and there should be more discussions before the government and the ruling party forged a public consensus.

Meanwhile, the Saenuri Party late October outlined a plan to overhaul the pension system for government employees, which envisioned implementing measures for better fiscal soundness than one proposed earlier by the Ministry of Government Administration and Home Affairs.

The party's plan called for adopting an income redistribution scheme to narrow the gap in pension payouts for high- and lower-ranking officials in what appears to be a move to placate unionized civil servants.

The reforms to the civil service are aimed at reducing the public debt. Aggregate debt levels of public companies amount to about 520.5 trillion won ($470 billion) while total government debt, the sum of central and local government debts, stands at about 570 trillion won($518 billion), the latest Finance Ministry tallies showed.

"Paying less and receiving more" scheme no longer tenable

The gist of the bill is no different from what the ruling Saenuri Party and the main opposition NPAD agreed on in early May, requiring government officials to pay more and receive less. Specifically, the overhaul plan obliges them to contribute 9 percent of their monthly income to their pension scheme, raising the rate from the current 7 percent over the next five years, while cutting their pension payment rate to 1.7 percent from 1.9 percent over the next two decades.

With the passage of the pension reform bill, the government will be able to save about 333 trillion won($303 billion) over the next 70 years. But the overhaul plan faces criticism for being cosmetic because it allows incumbent civil servants to maintain their vested interests. In fact, despite the overhaul, the government is supposed to finance more than 1.65 quadrillion won($150 trillion) through 2085 to keep the debt-ridden pension system afloat. Next year alone, more than 2 trillion won($1.8 billion) in taxpayer money is needed to subsidize the pension scheme — 6 billion won($5.5 million) a day.

Even so, it carries great significance that the rival parties hammered out a compromise through dialogue and concessions with the participation of all stakeholders. It might be reasonable for them to go for second best when it is impossible to make the best choice.

The main parties agreed to establish a special parliamentary committee and a social consultation body to explore ways to revamp the broader national pension system and help resolve our elderly poverty problem. This agreement is also laudable, considering that it will open the way for discussing such crucial issues as tax hikes and welfare expansion in earnest.

All previous governments since President Kim Dae-jung pushed for pension reform, but to no avail, in the face of resistance from public officials and politicians' irresponsible acts. But failing to overhaul the debt-ridden public servant pension system this time would result in a national disaster.

Stakeholders in this reform allegedly number nearly 4 million — 320,000 existing pensioners, 1 million civil servants and their families. Their systematic and strong resistance might be understandable, given that the reform means depriving them of vested interests.

Almost all opinion polls show that about 60 to 70 percent of respondents supported the reform. So it was not too much to say that the urgency of pension reform had won national consensus.

True, the current pension structure to "pay less and receive more" is no longer tenable. The pension deficit amounted to 15 trillion won over the past decade, and the figure for the coming decade could reach 55 trillion won. Last year alone, the government had to make up for a 2.5 trillion won deficit from taxpayers' money. Another failure to reform the civil servant pension scheme would result in passing these huge liabilities on to our descendants.

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