The Gradual Retirement Plan as an Age-Friendly Model for the Korean Economy

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1. Introduction

Modern society is facing various problems due to longer longevity owing to the advancement of the medical science and quality of life. South Korea has already entered ‘aging society’ since 7.2% of the national population was aged over 65 in 2000. ‘Aging society’ is defined as the society in which the proportion of population over 65 reaches 7% conceptually. The society is called ‘aged society’ when it exceeds 14%, ‘super-aged society’ when it exceeds 20%. South Korea’s ‘aged population’ has already reached 10%. Considering the rate of increase, Korea is expected to have 14.4% of population over 65 in 2018. In addition, extremely low birth rate, which was 1.08 in 2005, accelerates the transition to ‘aged society.’ Only 19 years will take for Korea to become ‘aged society,’ and another 9 years will be needed to become ‘super-aged society’. This would be an unprecedentedly fast changing rate in the modern history. For France, for example, it took 115 years, 85 years for Sweden, and 24 years for Japan from an aging to an aged society.

The benefit of aging population is the lengthening individual’s life span. The disadvantage it is having more aged working population and decreasing of productivity. To cope with the problem of rapid aging population, Korean society and economy need to be adjusted accordingly. More attention must be paid to older employees and their careers in the workplace. Benefits of healthcare and insurance should be provided for senior citizens. Older
workforce could have been offered opportunities for economic activities in spite of retirement. Along with that, extended hiring of the aged generation would ease the lack of labor in the aged society and devoting to financial clearance of the social welfare system including public pension.

For that reason, the gradual retirement has been an emerging issue in the field of employment stability and extension. To address aging workforce issue, a wage peak program has also been discussed. However, it couldn’t be expanded to wider industries due to relatively long implantation time and limited government support to smaller-sized companies. In addition, the wage peak system is not the fundamental solution but a temporary expedient. With growing political attention to aging workforce, Korean government is researching on the adequate options and setting relevant policies. For instance, the government is considering an institutionalization of labor aged over 50 to shorten the working hours with financial support from the government. To contribute the research, I focused on the gradual retirement program in the advanced countries such as Germany and Japan. The case studies provide key insights for Korean government to select effective gradual retirement program implementation strategy for Korea.
The discussion for the needs of gradual retirement has started in the end of 1970s in Germany and it has been highlighted through ADVANCED-AGE-STUDY in 1980s. In 1990s the study focus was shifted to utilize gradual retirement as a possible solution for financial instability of the national pension.

The trait of German gradual retirement system is the dual modules made of a combination of employment insurance and national pension. The reason for having this unique model is to divide the budget systematically by its goal and function. In terms of employment insurance, the gradual retirement is used under the name of partial early retirement systems which is replacing existing early retirement system. Employment insurance can support senior citizen’s job security while it reduces insurance costs due to large scale of early retirement. From national pension side, the gradual retirement is utilized as partial pension program which is replacing early retirement old-age pension program. These two modules has different age guidelines for its application and making it possible to cover around 10 years of gradual retirement program.
Gradual Retirement Plan in Japan

The continued employment benefits for the aged is a Japanese system to support the extended employment with the similar goal of gradual retirement. The discussion has started after mid 1970s and the Aged Employment Security Law was in effect in 2006 after its registration in 2004.

The Japanese gradual retirement is a supplement of the peak salary work-share program, which is an extended employment supporting model related to unemployment insurance system. The continued employment benefits for the aged is playing the role as the preparation of unemployment since it is supporting the payment functionally. This system is based on the stabilization of labor-management relations and functioned to preserve payment rate even after the decrease of earning when the labors become 60, likewise continuous employment program or the peak salary work-share program. In this case, The continued employment benefits for the aged do not require easing of the work or changing of the formation of employment. According to this, re-employment system is mainly used, which is relatively flexible when it comes to treatment including practical payment system. Also, the working hour is mainly full-time-work.
<table>
<thead>
<tr>
<th>Country</th>
<th>Model</th>
<th>The minimum age of qualification</th>
<th>End of transition period</th>
<th>Supplementary Income or Other support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>The aged part time model linked the Employment Insurance partial pension linked the National Pension</td>
<td>Age 55</td>
<td>Age 60, 62, 63, 65</td>
<td>70% of previous earnings</td>
</tr>
<tr>
<td>Japan</td>
<td>The continued employment benefits for the aged (高年齢雇用継続給付金)</td>
<td>Age 60</td>
<td>Age 65</td>
<td>Pension support (1/3, 1/2, 2/3) based on working hours and reduced payment level Based on salary at 60; ➢ if it is less 61% of previous income, support 15% ➢ If it is between 61~75% of previous income, support less</td>
</tr>
</tbody>
</table>
Gradual Retirement Plan in Korea

As a preparation for the aged-society, Korea has been trying to develop more aged-friendly business model to increase and to maintain the aged-labor’s economic activities simultaneously gaining organizational competitiveness.

<Figure 2> Age-Friendly Business Model

\footnote{Jiman Lee (2006)}
As shown in figure 2, the age-friendly business model consists of 5 sub-elements. I will focus on the peak salary work-share program in this study. As stated above, wage peak system is criticized as it is not a continual resolution but merely a temporary expedient. Likewise, I would not pick aged-friendly administration of business model as a sustainable module. Therefore, I suggest the model based on gradual retirement instead of the one based on wage peak system.

<Figure 3> Age-Friendly Business Model based on Gradual Retirement
Based on the model, it is needed that all 5 elements are connected well into a system to create a synergy effect. Separately from system itself, it is also important to have proper environment which can make benefits both to the government and to the enterprises. Below is Korean economic and social environment from the perspective of gradual retirement implementation.

First, Korean labors retire mostly around age 54 (Workers 52.3, Non-wage workers 56.5) and they spent another 13~14 years working in abysmal conditions before real retirement. (Korea Labor Institute, 2003) It causes old
age poverty due to failure from self-employment or financial difficulty from
unofficial work only as well as psychological or emotional maladjustment.
Hence gradual retirement can ease the burden of labor for older aged by
loosening working hours while it can provide employee a job security with
government support to the company. For example, supporting partial pensions
can be a possible way to implement it.

Second, Korean National Pension has a plan for the old-age pension to
extend pension payment schedule to 65 gradually. But improved labor market
for the aged workforce is a prerequisite for the payment extension. Without
any sources of income after retirement, employees rely on their pension for
their household. Having no additional income for an extended amount of
time can cause greater problem for aged population in the long run. I insist
that gradual retirement can be utilized as a system to support the long term
and extended employment, which also compensates the defect of delaying the
pension receiving age.

Above two reasons are valid enough to introduce the gradual retirement.
Along with that, I suggest unemployment insurance model and gradual
retirement model related to the national pension system. What we expect by
this system is to get employment stability for aged people and supporting
extended employment by easing the lack of labor in the aged society. The
proper strategy for human resource management of the aged-friendly business
model is broadening overall fulfillment section.

♥. Conclusion

Ability to overcome the expected economic and social shock of coming
aging society is required for our country and individual companies. In this
study, I suggested the way to introduce the gradual retirement for Korea
through foreign case studies. In case of Korea, to fight with the unstable
employment and coming lack of labor, we suggested the gradual retirement
plan related to employment insurance and national pension and aged-friendly business model based on it for both individual and the country.

Since the models for the individual, enterprises and the country are organically connected, the goals of aged-friendly business model based on the gradual retirement pursuits can be met only when it is approached to the comprehensive synthetic dimension effectively.