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## **The Reform of the Civil Service Pension Programme in Korea: Changes and Continuity**

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## **Abstract**

This paper examines the Civil Service Pension Programme reform in the Republic of Korea in terms of policy processes and programme changes. The Civil Service Pension Programme has been developed within the framework of the developmental state, which has played the leading role in Korea's economic development. Since Korea has undergone structural changes not only in terms of democratization but also in terms of the structural transformation of the economy and demographics, there has been increasing pressure on the reform of the welfare system in general and, in particular, of the Civil Service Pension Programme. The primary aim of this paper is to examine the policy processes behind the Civil Service Pension Programme reform in Korea and, secondly, to determine whether the proposed reform will bring about fundamental changes in the nature of the Civil Service Pension Programme to the overall public pension system in Korea. This paper argues that while the recent reform of the Civil Service Pension Programme will consolidate the financing for the programme, the public pension system will remain by and large the same as before. Nevertheless, this paper maintains that the emerging pattern of the policy process shows a significant change in policy making, as a wide range of stakeholders were able to represent their interest and engage in policy debate through the Committee for the Reform of the Civil Service Pension Programme, resulting in policy compromise with consensus.

## 1. Introduction

The welfare system in the Republic of Korea (hereafter Korea) has evolved over the past forty years from a bare structure with a minimal number of programmes into a number of fairly comprehensive systems. During this time, Korea acquired distinctive social policy characteristics, such as ‘welfare developmentalism’, a policy orientation placing economic development in a high priority in the arrangement of social policy. Based on such policy rationale, Korea’s social policy can be summarized as a developmental welfare state. The Civil Service Pension Programme is one of the typical programmes for such a purpose because it was set to mobilize the civil service to the cause of economic development. It was introduced in 1960 and provided pensions for more than 229,000 retired civil servants in 2007 (Ministry of Public Administration and Security 2008)<sup>2</sup>.

As Korea has undergone structural changes, not only in terms of democratization, but also in the social and economic spheres, the welfare system has been increasingly pressured to change.. In particular, since the older generations in Korea have been rapidly ageing for the last two decades, financing the existing pension programmes has been challenging. While the 2007 reform of the country’s main public pension programme, the National Pension Programme, was carried out to reduce the replacement rate from 60 to 40 percent gradually, the National Assembly is currently reviewing the proposal of the Civil Service Pension Programme reform submitted by the government. The proposal is based on a report by the Committee for the Reform of the Civil Service Pension Programme—an independent ministerial advisory committee composed of policy experts and stakeholders. The report contains the Committee’s policy recommendation to the Korean government, following a two and a half year deliberation.

This paper has two aims. It will examine the policy process behind the reform of the Civil Service Pension Programme in Korea and it will answer whether the proposed reform will bring about fundamental changes in the nature of the Civil Service Pension Programme to the overall public pension system in Korea. We will tackle this question with a two pronged approach: focusing not only on the Civil Service Pension Programme, but also on the public pension system in which it operates, as well as the pattern of the policy process in which political decisions have been made.

In many countries, civil service pension programmes have been the backbone of the institutional configuration of government bureaucracy. Their history traces back to France in 1790, when the professional bureaucracy was first developed in Europe. As described by Max Weber, full-time work and life-time job are core features of the professional bureaucracy (Weber 1968). Civil service pension programmes are one of the policy instruments for managing personnel in the bureaucratic system, and the Korean civil service pension programme is one of the typical examples. Further, in many developing countries, such as Korea, civil service pensions were introduced within the framework of the developmental state. In some countries, such policy framework seized to be employed, while in others it was very successful in achieving economic development. An example of the latter, in Korea the Civil Service Pension Programme played its part in a crucial way throughout the last four and a half decades. As Korea is set to reform the Civil Service Pensions Programme, a careful analysis of its process and outcome provides important policy implications to other developing countries not only in terms of financing public pensions, but also in terms of policy making in that policy makers and the public in many developing countries also contemplate the role of the state in the coming period.

There is a large body of literature emphasizing the critical role of bureaucrats as nuts and bolts of the

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<sup>2</sup> There are two other public pension programmes for specific public sector workers: the Private School Teachers Pension Programme and the Military Personnel’s Pension Programme. They have the same structure as the Civil Service Pension Programme. Since it is expected that they will follow the Civil Service Pension Programme in terms of reform, we choose to focus only on the latter.

developmental state in Korean economic development (Haggard 1988; Kwon 1999; White 1988; Woo, 1991). Here, we define the developmental state as a state that plays a strategic role in economic development with a bureaucracy that is given sufficient scope to take initiatives and operate effectively (Johnson 1999). Economic development is prioritized over other spheres of public policy and the national economy as a whole has priority over the comparative advantage of particular industries. This is a minimalist definition, compared to the conventional one, which also carries with it a heavy load of economic, political and social implications. Although the developmental state has shown an affinity to authoritarian politics, we do not assume that the developmental state is intrinsically opposed to democracy, just as the leading commentators have never denied the possibility of democratic politics within the developmental state (Johnson 1999; White 1998). The underlying reason for which the developmental state can pursue economic development as the overall policy goal without being subject to sectoral interest is because bureaucrats are insulated from the various social interests and pressures (Haggard 1988).

With respect to the Korean experience, strong discipline was maintained in the government. It is also true that there was a strong ethos for modernization among bureaucrats (Yoo 1966). Nevertheless, it was the Civil Service Pension Programme, the country's first public pension programme introduced in 1960, that gave a clear incentive for bureaucrats to have a long term commitment to service and to the economic development of the country in general (Kwon 2006). Designed to provide generous pensions to retired civil service officers, the Civil Service Pension Programme established a twenty-year minimum service requirement. Additionally, in order to reiterate commitment to economic development, the real value of the pensions can only be maintained if the country is economically successful.

The programme's financial situation was stable for the first thirty five years, since the programme operated initially on the basis of a funded system. When it started to provide full-pensions in the 1980s, the financial conditions were still solid. From the late 1990s however, the programme ran into financial difficulties. Revenue from contributions of current employees in civil service and government contributions as an employer could not meet the amount of pension expenditure. Consequently, the government changed the law in 2000 so that it could provide extra financing filling the gap between revenue and expenditure. While this was a demonstration of government support guaranteeing the programme, it gave rise to strong criticism towards the programme's financial structure and, consequently, to calls for its reform.

From 2005 onwards, however, the demand for reform took a different shape. It questioned the rationale of the programme itself, as policy experts began to ask why there should be a separate pension programme for the civil service. Some policy experts argued that civil service pensions should be integrated into the National Pension Programme in which ordinary Korean citizens participate (Kim 2005). In recent policy debates, criticisms toward the Civil Service Pension Programme have been much stronger and have led to a demand for the structural reform of the public pension programmes in general. Further, the then Minister of Health and Welfare of the government, Yoo Shi-min, a political heavy hitter in the Rho Moo-hyun government (2003-2008), argued that the Civil Service Pension Programme was not only unsustainable but also unjustifiable. It was unsustainable because the government could not provide all the necessary financing for the Civil Service Pension Programme in the indefinite future and it was unjustifiable because it privileged bureaucrats compared to other citizens who belonged to the National Pension Programme.

The same issue arose during the debate in the late 1980s, when the National Pension Programme was eventually introduced. At the time, there was no public pension programme for the public at large whereas the Civil Service Pension Programme had been in place since 1960. Social grievances emerged about such inequity. During the presidential election in 1987, which took place for the first time after the democratization<sup>3</sup>, the governing candidate, Rho Tae-woo, promised the National

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<sup>3</sup> The Constitution was reformed in 1987 so that the President would be elected through popular vote

Pension Programme to be introduced in response to the issue. After winning the election in 1987, the Rho Tae-woo government introduced the National Pension Programme. In the end, the equity issue disappeared as different public pension programmes were set for different categories of people.

Why did the issue of equity arise again? More importantly, why did the health and welfare minister openly criticize the government's inaction about the reform of the Civil Service Pension Programme? To answer these questions, it is necessary not only to analyse the structure of the Civil Service Pension Programme but also to look into the decision making process. It is important to note that there has been a strong demand for a more open and deliberative process. While the Civil Service Pension Programme epitomizes the institutional feature of the developmental state, its decision making is characterized by the tightly organized and hierarchical manner in which the top decision makers play key roles (White 1988; Woo-Cumings 1999). Opposition parties, non-governmental policy experts and the public at large were not actively involved in the decision making process. In fact, there were political conjunctures in which different policy stakeholders negotiated diverse interest and opinions and made policy compromises. During the economic crisis of 1997-8, the Kim Dae-jung government was able to forge a social consensus for the reform of the labour market through the tripartite committee on labour, business and government. Nevertheless, such a mode of policy making was short-lived. Afterwards, Korean politics faced the same difficulty of reaching social compromises in policy issues where different social interests conflicted sharply, such as in health care reform (Kwon and Chen 2007). This raised serious doubt as to whether the Korean government could make effective policy decisions on controversial issues with strong authority while incorporating different voices.

The reform of the Civil Service Pension Programme provides a testing case on the issue. In 2006, the Korean government set up the Committee for the Development of the Civil Service Pension Programme (the Civil Service Pension Committee hereafter) to draft a reform plan. The committee was composed of different policy stakeholders of the Civil Service Pension Programme, who took opposing positions toward the reform. As mentioned previously, we examine two dimensions of the reform, its characteristics and the policy process. Consequently, one of the answers we will attempt to answer is whether the experience of this reform points to a new mode of decision making in Korea

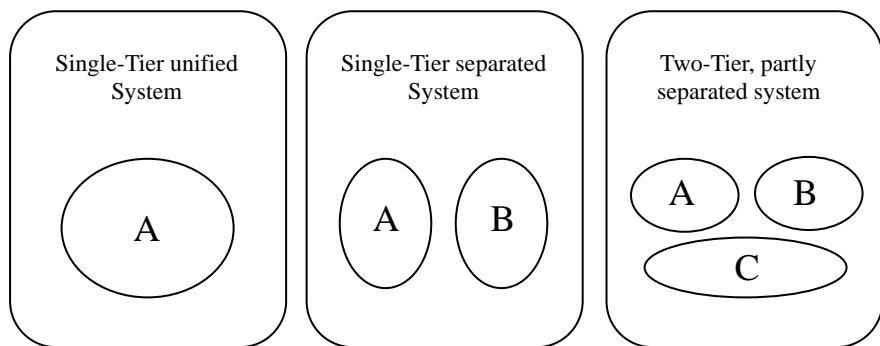
In examining the policy process of reform, this paper focuses on three aspects of decision making. First, we address the involvement of political stakeholders in the reform debate, focusing on the participatory scope of different social actor and the depth of their involvement in policy making. Decision making of the Korean government used to be characterized by the narrowness of participation, since only a small number of government bureaucrats are involved in the decision making process while the remaining social actors remain excluded. Nonetheless, it appears that diverse stakeholders became increasingly involved in the process. In examining whether it represented a significant change in terms of the range of participation of different policy stakeholders, we need to consider the extent of involvement, because broader participation can only make limited impact without necessary depth of involvement.

In our second focus, the paper analyzes the political process in which the compromise made between stakeholders can potentially lead to an effective policy output. While political compromises are made, there still exists the possibility that they can later be derailed, either because they are caught in an institutional bottle-neck or because some actors do not honour their promises. Examining the case of the Civil Service Pension reform will show us whether the new pattern of decision making will have effective impact on policy changes.

## 2. The Structure of the Public Pension System

In order to analyse the reform of the Civil Service Pension Programme within the context of the overall public pension system, it is necessary to elaborate an analytical framework that can incorporate the multi-polar and multi-tier systems of the pension structure. Public pension programmes can have three ideal-typical systems, as presented in Figure 1.<sup>4</sup> The first one is a single-tier unified system, in which the public pension programme covers all citizens no matter whether they are employees in the private sector or civil servants. The second one is the single-tier separated system, in which the ordinary citizens and members of the civil service join in separate pension programmes, the latter not necessarily having the same configurations in terms of the level of contributions and pensions. The third one is a two-tier, partly separated system in which all citizens are covered by a national basic pension programme, while employees in the private sector and members of the civil service have separate second-tier pension programmes.

**Figure 1**  
**Three Ideal-Types of Public Pension Systems**



A: National Pension Programme for all Citizens; B: The Civil Service Pension Programme; C: National Basic Pension Programme

Source: (Kwon and Kwak 2006)

The present Korean public pension system belongs to the second type of ideal-typical systems and is also seen in countries such as France and Germany. While the Civil Service Pension Programme is for members of the civil service, the National Pension Programme is the pension programme for the public at large. Participants pay 9 per cent of their income to the National Pension Programme (employees and employers each pay half while self-employed pay full 9 per cent.) After twenty years of minimum contributions and at the age of 60, the participants receive full old-age pensions. Starting in 2008, the National Pension Programme began to provide full pensions after twenty years in operation. Since it only provided full pensions to those with a twenty-year contribution record, it accumulated a huge amount of the fund equivalent to the government annual budget. Once it starts to pay out pensions, the size of the fund will become smaller (under the current system, it is projected that the fund will be dried out in 2060) (Lee 2007).

The National Pension Programme<sup>5</sup> was first considered for introduction in the early 1970s, but

<sup>4</sup> In Figure 1, private pension schemes are not included. If they are included, there will be another tier on the top of the system in Figure 1. As private pension schemes are normally operated in the market system with many competing insurers, one may put a number of small circles on the top of each system.

<sup>5</sup> The National Pension Programme is designed to have redistributive effect among different groups of income. The initial formula of the National Pension Programme at the time of introduction was the following:

implementation was postponed due to the oil crisis in 1973 and was eventually introduced in 1988. Due to the insurance arrangement, the National Pension Programme began with wage-earning employees, and by 1994 it covered 27 per cent of the working population (Kwon 1999). In 1999, the government expanded the programme to farmers, self-employed, and those with short-term contracts although they had the option of not joining the programme. However, from 2003 onwards, anyone earning an income must participate in the programme. Those who work in public corporations, legally speaking not the civil service, will have to join in the National Pension Programme. Currently, the National Pension Programme has a huge financial reserve, since it just started to disburse full pensions in 2008 because of the requirement for twenty-year contributions. In 2007, the National Assembly passed a government bill, reducing the level of pensions under the National Pension Programme. As to be discussed in the following section of the paper, there is an argument that calls for the integration of the two pension schemes in the Korean debate, which will eventually bring the pension system in Korea to the first ideal-type pension programme. With respect to the third type of Figure 1, the pension systems in the UK and Sweden can be categorised in the third type system.

In the second ideal-type, pension programmes for the civil service take a prominent position for two reasons: it is different from the public pensions for the public in general and the system thereby privileges the members of the civil service often. Though not necessarily true in every case, the civil service pension programmes tend to be more generous than that of ordinary citizens in this type. Often the level of the pensions is higher in civil service pension programmes than in the national pension programme for citizens at large. It is often set to produce a higher internal return rate (the total amount of pensions / total amount of contributions) for the members of the civil service.

Public pension systems of the second ideal-type came to exist for political and administrative reasons. Those in power sought to secure the loyalty of the bureaucracy with generous pension programmes. For example, in 1790 France, when the civil service pension programme was first introduced, its aim was to secure the loyalty of the bureaucracy but considering the professional bureaucracy as a modern governing structure, it also aimed to enhance the effectiveness and efficiency of the government. During the 1790s, in Prussia, the civil service pension programme was the core component of the bureaucracy (Meny 1990:303). After being defeated by Napoleon, Prussia wanted to build an effective bureaucracy in order to transform the country with a modern administration. With the promise of a pension, bureaucrats could commit themselves to the state without worrying about their income security after retirement. When the modern state came to form its basic structure in the 1800s, the state could maintain its autonomy with the professional bureaucracy in the face of emerging social classes such as the bourgeoisie, the working class, and the old land-owners.

Using the three ideal types of public pension systems as an analytical framework, this paper examines policy proposals for the reform of the Civil Service Pension Programme in Korea, as well as the debate surrounding the issue. In the remainder of this paper, we trace back the history of the Civil Service Pension Programme within the context of the developmental state, examining how it acquired

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