

IGP Country Profile

Korea





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Customary employee benefits

Background

Since Social Security provides a moderate level of benefits, private benefit plans are adopted to supplement Social Security benefits. Employers also recognize that private benefits may help to decrease high turnover and raise employee morale. With support and encouragement from the Government, private benefit plans are being accepted.

Group term life and retirement insurance are basic and standard employee benefits in Korea. Most Korean companies stipulate the provisions concerning the Retirement Allowance System in the bylaws of the organization.

Labor law highlights

- Companies can buy insurance for funding retirement benefits.
- Flexible work hours are available.
- Multiple Trade Unions were allowed in 2011.
- Employers are not obligated to pay workers on strike, and unions calling for wages during strikes may be punished.
- Employers are allowed to fill job slots vacated due to strikes. The legalization of using substitute workers during strikes has significantly weakened the unions' bargaining power and allows employers to run their business as usual.

Companies cannot pay wages to full-time union leaders as of 2002.

Death benefits

Death benefits are provided in the form of one-year, automatically renewable term insurance with optional riders such as accidental death, accidental injury, or accidental hospitalization.

The rates for such riders may be a flat amount for all employees or determined by salary, age, and gender. The minimum number of participants is 30. For groups with less than 30 lives, sometimes a group contract can be written for renewals and/or subsidiary spin-offs.

The employer generally pays all the premiums, which are tax deductible. Company contributions in excess of KRW 700,000 per insured per year are considered taxable to the employee.

Group insurance products can be designed to supplement the Government's mandatory plan. The Government plan covers 80% of statutory medical expenses, and supplementary plan will cover 90% of the employee's cost (remaining 20% of statutory costs and 100% of non-statutory costs).

Accidental death is the main coverage. Other life riders and medical riders can be added to the plan. (Riders are listed below.)

Eligibility

A minimum number of employees is required for a group policy to be issued. For example: 30 employees

All employees may be insured provided they are between the ages of 15 and 82. If a new business is an affiliate/related business with an existing policy, a minimum of employees lives is required, e.g., 5 employees.

Contributions

Generally, the employer pays the entire premium. It is possible, however, for the employer and employee to share the premium.

Premiums may be paid monthly, quarterly, semi-annually, or annually; with annually paid premiums being the most common.

Riders

In addition to the main coverage, accidental death, life, and medical riders can be added to the plan based on the need.

The benefit may be a flat amount for all employees, or it may be determined by salary, age, and gender.

The list of riders includes, but is not limited to:

- Accidental injury – benefit paid based on the degree by grades (3%-100% disability)
- Industrial accidental death and disability
- Death and disability by disease – over 80% of total disability by any cause except for accident
- Nursing care
- Specific illness diagnosis (critical illness)
- Cancer diagnosis and treatment
- Inpatient/outpatient benefits
- Hospitalization – KRW 10,000 for each day of hospitalization after first three days

Disability benefits

Employer-provided life insurance can provide optional riders such as accidental death, accidental injury, or accidental hospitalization.

The benefit may be a flat amount for all employees, or it may be determined by salary, age, and gender.

The list of riders can include, but is not limited to:

- Accidental Injury – benefit paid based on the degree by grades (3%-100% disability)
- Industrial Accidental Death and Disability
- Death and Disability by Disease – over 3% of total disability by any cause except for accident
- Nursing Care
- Specific Illness Diagnosis (Critical Illness)
- Cancer Diagnosis and Treatment
- Inpatient/Outpatient Benefits
- Hospitalization – KRW 10,000 for each day of hospitalization after first three days

Please see Death Benefits.

Medical benefits

The National Health Insurance Corporation is a single insurer that provides health insurance to the entire population effective July 1, 1989.

Employer-provided life insurance can provide optional riders for medical care.

The list of riders can include, but is not limited to:

- Accidental injury – benefit paid based on the degree by grades (3%-100% disability)
- Industrial accidental death and disability
- Death and disability by disease – over 3% of total disability by any cause except for accident
- Nursing care
- Specific illness diagnosis (critical illness)
- Cancer diagnosis and treatment
- Inpatient/outpatient benefits
- Hospitalization – KRW 10,000 for each day of hospitalization after first three days

Please see Group life benefit plans.

Group medical plans that include coverage for family members may be offered. Please see Sample employee benefit plans.

Retirement benefits

Group term life and pensions are basic and standard employee benefits in Korea.

The vast majority of Korean companies stipulate the provisions concerning the retirement allowance system in the bylaws of the organization.

Retirement insurance

Eligibility

Generally, a company must have a minimum of five employees. Sometimes plans for companies with fewer than five employees can be offered.

Benefits

Approximately 70% of companies provide the minimum required (30 days per year of service) under the Labor Standard Law. Others provide gradually increasing rates.

Corporate pension plan

Background

A corporate, or occupational, pension system was introduced in the Republic of Korea on December 1, 2005, under the **Employee Retirement Benefit Security Act (ERBSA)**.

The goal of ERBSA was to enable the development of a true second pillar occupational pension system to meet the needs of a changing culture, growing financial markets, and an aging society. This was accomplished by introducing a retirement pension system that provided enhanced benefit security through external funding.

This law allowed Defined Benefit (DB) and Defined Contribution (DC) corporate pension plans for the first time in Korea to replace mandatory severance pay plans, which dated back from the 1950s. The government set a goal of having all companies to convert to ERBSA-approved plans by the end of 2010.

The severance pay system was not effective as a retirement income source.

Before ERBSA was adopted, there were only severance pay (SP)

plans, also called “retirement allowance” or “termination indemnity” plans, which were intended to meet retirement income needs.

Companies were not required to fund these payments externally or make regular contributions, raising concerns about the security of benefits in case of company bankruptcy.

The benefit from a severance pay plan was almost always paid in a lump sum at termination, and financial vehicles to roll over the lump sum benefits did not exist. Moreover, advanced payments were often made upon an employee's request and employer's acceptance, which enabled employees to withdraw severance pay benefits during service.

As a result, employees have tended to spend severance pay benefits before retirement and were left with insufficient income upon retirement. Another concern is the retirement age for the national pension is gradually increasing and will reach age 65 by the year 2033.

The average corporate retirement age is 60 according to the National Statistical Office. Severance pay plans did not have to be externally funded, further limiting their effectiveness as a source of retirement income.

In 2010, ERBSA started to transition companies towards the new retirement plans and away from the traditional severance pay system. After 2010, Severance pay plans could not be externally funded through existing retirement insurance or retirement trust contracts.

Since funding retirement insurance or retirement trust contracts is no longer allowed, employers would have to implement corporate pension plans for tax benefits on retirement assets.

As of 2011, the only funding vehicles for retirement plans are external funds for DB and DC corporate pension plans.

Employees participating in the corporate pension scheme (Defined Benefit or Defined Contribution plans) can receive their retirement benefit as a lump-sum or as an annuity.

In 2012, the **Individual Retirement Account (IRP)** was introduced as a private individual pension system to complement the national pension scheme, and it was mandated that retirement benefits be transferred into IRP accounts.

IRPs are designed so that individuals can manage their retirement benefits independently. Both the individual and the employer can make contributions to the account, but only the individual can make investment choices. To encourage employees to save money for retirement, the funds generally could not be withdrawn until the employee reached the age of 55.

Mandatory implementation of corporate pensions

On July 26, 2012, ERBSA mandated that companies **established on or after that date** must contribute to a corporate pension plan – either defined benefit, defined contribution, or an Individual Retirement Plan (IRP) – within one year of their establishment. The implementation was phased in started with companies with 300 or more employees.

2024 legislation considered **that all** companies established in South Korea – including those established before 2012 – should contribute to a corporate pension plan, including defined contribution, defined benefit, and individual retirement pension plans.

It is expected that corporate pensions would be mandated for all companies and implemented in stages based on company size beginning in 2025.

Current status of multinational companies with Korean subsidiaries and the corporate pensions market

DC plans are generally favored by company headquarters of multinational companies, while Korean management of multinational companies and Korean unions tend to favor DB plans.

Korean-based companies may very well follow the lead of foreign-based multinational companies, although it would not be surprising if they adopted both DB and DC plans and have employees choose the plan that fits their objectives.

The trend towards DC appears to be taking place in many countries. This is true in some Asian countries such as Hong Kong and Singapore, but there are other Asian countries where DB plans are more prevalent, such as Japan.

While DC plans are often implemented at subsidiaries of multinational companies where there is a strong drive towards DC

plans from the corporate headquarters, some employers favor DB plans because the statutory minimum benefit level for both SP and DB are the same (number of years of service multiplied by final 3 months' average wage), thus easier to obtain the majority employee consent for plan implementation.

Foreign-based multinational companies are most likely to make the transition from the current severance pay system to a corporate pension plan: defined contribution (DC) or defined benefit (DB) plan. This is because regional offices and headquarters are already familiar with corporate pensions and often have global pension policies in place.

Many employers, whether foreign multinationals or Korean-based, have transitioned to either a DB or DC plan because of the loss of tax deductions and inability to externally fund SP plans. It is anticipated that more employers will transition in the future for the same reasons mentioned previously.

Employees are gaining more knowledge about corporate pensions.

As time passes, employees will be increasingly knowledgeable about corporate pension schemes. They will also have more information on retirement benefits offered by other companies.

An employer who waits to establish a corporate pension plan can provide the same or higher retirement benefits compared to its competitors who may have been among the first to adopt a corporate pension plan.

Employee communication will be the key during implementation.

During the plan implementation process, employees will always ask "Which plan would be a better choice?" Since majority employee consent is required for the implementation of a corporate pension plan, assuring employees that the new pension plan is better or at least the same as the current SP plan is the key for successful implementation of the plan.

Funding

The only funding vehicles for retirement plans are external funds for defined benefit and defined contribution pension plans. The employer is free to choose between them. Internal funding is being discouraged through gradual tax increases.

As of 2022, **defined benefit plans** are required to be 100% funded. The minimum funding requirement is equal to the full amount of the regulatory liability, which is the higher value between the termination liability (the benefits owed if all members leave) and the actuarial liability.

If a defined benefit plan's funding drops below 100%:

- The plan sponsor must inform employees.
- Benefit payments are distributed based on the funding level, and the plan sponsor pays the remaining amount directly.
- If the funding decreases to less than 95%, the plan sponsor must develop a "financial stabilization plan" to address the shortfall within three years.

With a **defined contribution plan**, the employer makes contributions to an employee's individual account, and investment risk is borne by the employee.

Government initiatives to promote funded plans

- Working to replace the lump-sum severance system with mandatory pensions. In the past, Internal book reserves were often used to fund severance pay plans.
- Offering incentives for small and medium-sized companies to implement employee pension plans.
- Phasing in a mandate that all employers provide ERBSA-funded retirement plans. Increasingly, employers are encouraged or required to fund corporate pension plans through external means, such as insurance or trust-based arrangements.

Korea's corporate pension system is shifting towards fully funded arrangements, particularly for defined benefit plans, and moving away from unfunded severance pay systems.

Legislative news

Labor laws

In 2024-2025, South Korea introduced several amendments to its labor laws that will affect organizations and their employees.

The following is a summary of the key issues:

Salary and wages

- **Minimum wage increase**

The national minimum wage was increased to KRW 10,030 per hour on January 1, 2025.

- **Definition of ordinary wage**

December 2024, the South Korean Supreme Court decided that “fixedness” is no longer the criterion for classifying a payment as ordinary wage. Instead, the focus is on whether wages are paid regularly and uniformly for contracted working hours.

- **Penalties for wage delays**

Employers now risk up to triple damages for intentional or repeated wage delays, with interest penalties also applying to current employees.

Parental and family leave

- Longer leave for paternity

- Leave for absences due to miscarriage, stillbirth, and fertility-related treatments.

Workplace safety and compliance

Serious Accident Punishment Act (SAPA): is a statute that holds business owners and management liable for serious workplace accidents resulting in death or severe injury. In addition to the penalties, the statute focuses on the prevention of accidents through rigorous safety measures. Enforcement has been expanded to include small and medium businesses, with stricter inspections and more accountability for management.

Pay equity and age discrimination

- Increased enforcement of gender pay transparency; companies are required to audit and disclose their pay structures.
- Wage systems, whereby salaries decrease with age, have been ruled as potentially discriminatory.

Trends

Employee benefits trends

Current trends in employee benefits in South Korea show a significant movement toward increased employee protection, improved work-life balance, and wage transparency.

Key developments

Reforms to wages and compensation

- Increase to minimum wage:

As of January 1, 2025, the national minimum was increased to KRW 10,030 per hour and KRW 2,096,270 per month.

<https://linksinternational.com/minimum-wage-in-south-korea>

- Enforcement of policies that discourage gender inequity.
- Wage practices that foster age discrimination ruled as discriminatory.

Employee wellbeing

There is an increasing emphasis on employee wellbeing through benefits, programs, and initiatives that provide or support:

- Work/life balance
- Mental health
- Parental and Family Leave
- Wellness and wellbeing programs
- Benefits for childcare and onsite daycare
- Subsidies for education
- Charitable giving, matching of employee donations
- Wellness Programs
- Gym memberships
- Supplemental health plans to complement the National Health Insurance Services
- Meal allowances
- Gender and pay equality

Typical employee benefits plans

IT company

Group term life

Ordinary Death: 2 x Annual Salary

AD&D Rider: 3 x Annual Salary

Accidental Injury Rider: 3 x Annual Salary

Group medical plan (including coverage for family)

Inpatient Benefit: KRW 10,000,000

Nursing Care Benefit: KRW 20,000 per day within 365 days

Manufacturing company

Group term life

Ordinary Death: 1 x Annual Salary

AD&D Rider: 1 x Annual Salary

Accidental Injury Rider: 1 x Annual Salary

Group medical plan (including coverage for family)

Inpatient Benefit: KRW 10,000,000

Nursing Care Benefit: KRW 30,000 per day within 365 days

Cancer Diagnosis: KRW 20,000,000

Trading company

Group term life

Ordinary Death: 1 x Annual Salary

AD&D Rider: 1 x Annual Salary

Accidental Injury Rider: 1 x Annual Salary

Group medical plan

Inpatient Benefit: KRW 10,000,000

Nursing Care Benefit: KRW 30,000 per day within 365 days

Cancer Diagnosis: KRW 20,000,000

Financial services

Group term life

Ordinary Death: 3 x Annual Salary

AD&D Rider: 3 x Annual Salary

Accidental Injury Rider: 2 x Annual Salary

Group medical plan (including coverage for family)

Inpatient Benefit: KRW 10,000,000

Nursing Care Benefit: KRW 20,000 per day within 365 days

Cancer Diagnosis: KRW 30,000,000

Useful links

Demographic information and macro-economic indicators

[CIA World Factbook](#) (please select the country to review)

[World Bank Group](#) (please select the country to review)

[Ministry of Health and Welfare](#)

[National Pension Service](#)

[National Health Insurance Service](#)

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