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## The Ageing Tiger: Retirement Challenges in South Korea

A defining feature for most workers in South Korea is mandatory retirement at a very young age - often in their mid-1950s, if not earlier - followed by low-paying contract jobs. Indeed, South Korea (henceforth Korea) is the only Organisation for Economic Cooperation and Development (OECD) nation that permits employers complete freedom to set any age for mandatory retirement.

Early contractual mandatory retirement, supported by government policy, has remained unchanged over the past several decades notwithstanding significant demographic, labour market and other changes in Korea.

Consequently, working lives in Korea are among the longest in the OECD, with 70 being the average age at which Koreans end employment. This is because contractual mandatory retirement forces workers at an early age into a second career of low paying and precarious jobs (taxi driver, security guard, parking lot attendant, entrepreneur, short-term contract work, etc.).

In many OECD nations, contractual mandatory retirement has been eliminated or limited in the past two decades. Australia, Britain, Canada, New Zealand and the United States have banished forced retirement altogether, while Japan has effectively set age 65 as the age of retirement. In the European Union, retirement cannot be imposed before the age of pension eligibility, usually 65 or higher.

Korea is the world's most rapidly ageing country due to many years of low fertility and increases in longevity. The figure below illustrates the speed at which nations are ageing by showing the number of years required to reach selected percentages of population 65 and over.

Korea is unique in regard to mandatory retirement because its policy makers, employers and workers hold deep-seated views about three aspects of retirement.

First, Korean labour market partners believe that forcing workers to retire from their first career increases the number of jobs for younger workers. However, it is now well recognized in the economic literature, and from the experience of other nations, that retiring older workers will not create employment positions for young people in the economy as a whole. To argue otherwise is the "lump of labour fallacy" - that there are a fixed number of jobs in the economy.

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Second, Korean employers, but also government officials, believe that older workers are less productive than younger workers. However, this belief is not in keeping with extensive global research that shows no direct relationship between age and productivity. Moreover, there is no evidence that any specific age marks the beginning of a decline in work-related abilities, especially in white collar jobs.

Lastly, Korean attitudes are shaped by a seniority wage structure that provides annual increases in compensation for workers, so that older workers earn significantly more than younger workers. Not surprisingly, employers prefer to retire older workers and replace these with newly hired lower paid younger workers. However older workers are willing to accept peak wages in return for working past the age of mandatory retirement.

In light of the pressing demographic trends and increases in old-age poverty, in early 2013 the Korean National Assembly enacted legislation that will gradually impose 60 as the age of contractual mandatory retirement on all employers beginning in 2016.

The legislation is opposed by employers, and it is unclear to what extent they will be able to opt out or find means to by-pass it, either formally or informally. Even if the new law is wholly implemented, contractual mandatory retirement at age 60 will not significantly alter the income dynamics and insecurity of many older workers.

The forthcoming reforms are a step in the right direction, but to be effective will need to be fully executed, and be followed by further increases in the age of contractual mandatory retirement.

Figure 1: Years required to reach selected percentages of population 65 and over

Country	Reached Year			Time Taken	
	7%	14%	20%	7%→14%	14%→20%
France	1864	1979	2019	115	40
Sweden	1887	1972	2011	85	39
Australia	1939	2012	2030	73	18
USA	1942	2014	20130	72	16
Italy	1927	1988	2008	61	20
UK	1929	1976	2020	47	44
Germany	1932	1972	2010	40	38
Japan	1970	1994	2006	24	12
Korea	2000	2019	2026	19	7
China	1995	20125	2035	30	10
Canada	1943	2011	2041	68	30

## Acknowledgements

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