

# Understanding Korea's Retirement Pension System:

ABK's Guide for Foreign-Invested companies



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## Understanding Korea’s Retirement Pension System: A Guide for Foreign-Invested Companies

As Korea continues to attract foreign investment, many international companies operating locally face unfamiliar regulatory landscapes — especially when it comes to employee benefits. One area that often raises questions is Korea’s retirement pension system. Whether you're setting up operations or expanding your team, understanding this system is essential for compliance and long-term workforce planning.

### What Is the Retirement Pension System?

Korea’s retirement pension system is a legally mandated framework designed to ensure financial security for employees after retirement. It replaces the older severance pay system and encourages long-term savings through structured pension plans.

There are three main types:

Type		Description
Defined Benefit (DB)		Employers guarantee a fixed pension amount based on salary and years of service.
Defined Contribution (DC)		Employers contribute a fixed amount; final benefit depends on investment performance.
Individual Retirement Pension (IRP)		Voluntary plan for individuals, often used to supplement DB or DC plans.

*Most foreign-invested SMEs enroll in the DC plan due to its flexibility and lower long-term liabilities.*

### Legal Requirements

- **Mandatory Coverage:** All companies with five or more employees must adopt a retirement pension plan.
- **Contribution Rate:** Minimum 1/12 of the employee’s annual wage must be contributed annually.
- **Vesting Period:** Employees become eligible after one year of continuous service.

## What Foreign Companies Should Know

Foreign employers often ask: Does this apply to expatriate staff? Yes—if the employee is under a Korean employment contract, the retirement pension obligation applies regardless of nationality.

However, a special exemption may apply if the employee is continuously covered by the pension system of the home country.

## Strategic Considerations

- **Outsourcing Support:** Many foreign firms partner with local accounting providers like ABK to manage pension compliance, reporting, and employee onboarding.
- **Tax Efficiency:** Contributions are tax-deductible for employers, and employees benefit from deferred taxation on returns.
- **Employee Retention:** Offering a well-managed pension plan can enhance your value proposition to local talent.

## Retirement Pension Providers (2025)

Key Features		2025 IRP Return Rate
<b>KB Kookmin Bank</b>	Stable management, highest return among commercial banks	7.44%
<b>Hana Bank</b>	Global asset allocation and pension-specialized products	6.98%
<b>Shinhan Bank</b>	ESG-based investment strategy and diverse pension portfolios	6.85%
<b>IBK Industrial Bank of Korea</b>	Tailored pension management for SMEs	6.72%

*Note: Banks primarily offer principal-guaranteed products for stability, but performance-based products are gradually expanding.*

## Frequently Asked Questions for Foreign Employees

Question	Answer
Do foreign employees need to enroll in the retirement pension system?	Yes. If employed under a Korean contract, nationality does not exempt them from participating.
Does the visa type affect pension eligibility?	Yes. Long-term visas (E-7, F-2, F-5, F-6) qualify for DB/DC plans. Short-term visas (E-9, H-2) require enrollment in Departure Guarantee Insurance.
How is the pension received after leaving the company?	Retirement pension is paid to the employee's account. Departure Guarantee Insurance is received at the airport or via remittance.
What are the employer's obligations?	Upon employee retirement or resignation, the employer must apply for benefit payout within 14 days.

## How ABK Can Help

Navigating pension setup, contribution schedules, and regulatory filings can be complex. ABK acts as your outsourced accounting department, ensuring full compliance while optimizing your internal resources. From plan selection to monthly reporting, we provide end-to-end support tailored to foreign-invested enterprises.

## Sources

- Ministry of Employment and Labor ([www.moel.go.kr](http://www.moel.go.kr))
- Korea Retirement Pension Association ([www.krpa.or.kr](http://www.krpa.or.kr))
- KB Kookmin Bank, Hana Bank, Shinhan Bank, IBK Industrial Bank of Korea IRP product disclosures (2025)

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