

Redistributive Effects of South Korea's 2025 National Pension Reform: Accounting for Income-Related Gaps in Contribution Histories and Life Expectancy

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Abstract

This paper evaluates the redistributive role of South Korea's National Pension Scheme (NPS) by examining inequality in individual lifetime net transfers, defined as the present value of lifetime pension benefits minus lifetime contributions. Using microsimulation based on the Korean Labor and Income Panel Study (KLIPS, 1997–2022), we estimate lifetime earnings and construct present values of contributions and benefits under the statutory formula. Relative to the current system, we compare the enacted 2025 reform with the 2023 reform draft (Proposals 1–6). We diagnose the emergence of net contributors using the sign structure of lifetime net transfers and quantify distributional effects using the Mean Log Deviation (MLD; $GE(0)$) as the primary index, complemented by the Theil index and the Gini coefficient. We decompose the MLD into between- and within-cohort components and, within cohorts, into income-group components. We further impose income gradients in contribution histories and life expectancy from administrative statistics. The results show that the current system and the 2025 reform generate no net contributors and only modest changes in inequality. In contrast, draft scenarios that raise the pensionable age can create net contributors—especially among the self-employed and non-regular workers—and increase inequality in lifetime net transfers. Incorporating income gradients shifts inequality from between-cohort to within-cohort, with within-cohort income gaps becoming the dominant driver. These findings highlight the need to center reform evaluation on distributional consequences that account for heterogeneity in contribution histories and life expectancy, beyond average contribution–benefit ratios.

Keywords: National Pension Scheme, redistributive effects, lifetime net transfers, microsimulation, contribution histories, life expectancy inequality

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