



Canadian Labour Market and Skills Researcher Network

Working Paper No. 93

The Future of Contractual Mandatory Retirement in South Korea

Thomas R. Klassen
York University

February 2012

CLSRN is funded by the Social Sciences and Humanities Research Council of Canada (SSHRC) under its Strategic Knowledge Clusters Program. Research activities of CLSRN are carried out with support of Human Resources and Skills Development Canada (HRSDC). All opinions are those of the authors and do not reflect the views of HRSDC or the SSHRC.

The future of contractual mandatory retirement in South Korea*

Thomas R. Klassen

Department of Political Science, and School of Public Policy and Administration
York University, Toronto, Canada

Abstract

Although contractual mandatory retirement at a specified age has been eliminated, or limited, in many Western nations, the practice remains widespread in other parts of the world. In South Korea (henceforth, Korea) most workers are subject to contractual mandatory retirement, often while still relatively young; that is, in the 50s. Korean retirement policies are deeply rooted in the belief by policy makers, employers and unions that mandatory retirement creates jobs for young workers. In addition, because worker compensation is linked to age, employers argue that the seniority-based wages paid to older workers are excessive. Notwithstanding the opposition to reforming retirement policies, Korea faces a rapidly aging population that will require modifications to existing retirement arrangements. Moreover, greater emphasis on human rights, and efforts to reduce age-based discrimination in employment, will add to the pressures to increase the age of contractual mandatory retirement.

Keywords: *Mandatory Retirement, South Korea, Age Discrimination, Population Aging*

JEL classification: *J26, J14 and J78*

* The research for this working paper was conducted while the author was an invited Visiting Researcher at the Korea Labor Institute, in Seoul, South Korea, from June to August 2011. The financial support of the Institute and the assistance of colleagues in Korea are deeply appreciated. The analysis and conclusions in this paper are those of the author, and do not necessarily reflect the views of the Korea Labor Institute. Comments are welcome to tklassen@yorku.ca

Executive Summary

In the past several decades a number of Western nations, including Canada, the United Kingdom and the United States have eliminated contractual mandatory retirement. Most Western nations have sought to extend working lives in light of demographic trends and pressures from an aging population on welfare state programs. In many non-Western nations, contractual mandatory retirement is still widespread, and particularly so in East Asia. In South Korea (henceforth, Korea) nearly all workers face contractual mandatory retirement, many at young ages; such that the average retirement age is 55. Most of those who are retired are forced to stay in the labour market, primarily in low-paying and precarious employment in the service sector or as small entrepreneurs, where many remain until their late 60s or into their 70s.

Notwithstanding that economic theory suggests – and that the experience of other nations reinforces – that mandatory retirement does not create jobs for youth, most policy makers, employers and unions in Korea believe that there is a direct connection between mandatory retirement and youth employment. Moreover, because most firms have seniority-based wages, and because workers are hired and promoted as a cohort, employers argue that the wages of older workers exceed their contribution to the firm.

Korea's population is aging rapidly, and this, among other factors, has recently generated debates on contractual mandatory retirement. Although most workers approaching contractual mandatory retirement ages express a wish to remain with their employer (even at lower wages), no consensus has emerged among employers, labour and government.

The analysis of this paper suggests that altogether eliminating, or at least increasing, contract mandatory retirement in Korea would not have significant labour market or workplace impacts. That older workers are willing to accept limits on compensation implies that a mutually agreeable trade-off between workers and employers is possible. However, there are barriers to legislative reforms because age-based distinctions are deeply rooted in employment practices and workplace arrangements in Korea.

The growing attention to discrimination in employment, including that which is age-based, may provide an opportunity to some retirement reforms to occur. In any case, the demographic trends, and shifts in the labour market from manufacturing to service employment, mean that retirement policies will need to be reformed in the short and medium term.

The scholarly literature and the experience of other nations point to two possible roads for Korea. One involves incremental reforms of contractual mandatory policy, while the other entails a wide-ranging increase of legislated retirement ages, with a timetable to eliminate the practice altogether. While the second option is less desirable for employers, who will always prefer to determine retirement ages rather than have this set by government, such an approach is no less risky than the first in allowing necessary adjustments in response to demographic trends and labour market shifts.