

# Korea Corporate Pension Update

Issue 7, 2021 Q1

'Korea Corporate Pension Update' is written objectively to promote greater market knowledge on investment aspects and transparency in Korea corporate pension market. In preparing this report at times, we have relied upon data provided by third parties including regulators and data suppliers. This report is organized in three sections: 1. Pension Market, 2. Service Providers, and 3. Investment Products.

## Pension Market (as of December 2020)

Following analysis is based on data published by Financial Supervisory Service Pension Portal.

### DB

- Investment ratio of Principal & interest guaranteed ("PIG") products and return seeking products are 95.5% and 4.5% respectively. Asset invested in return seeking products has decreased since 2019, mostly in Banks (-996 bil).
- In terms of AuM by provider channel, DB asset is distributed evenly in the manner of a descending order by Banks, Life insurances, and Securities.
- Although 60% of the total retirement pension asset is DB asset, the DB asset ratio is decreasing continuously, due to the steady rise in DC adoption and increase IRP assets (2019 IRP asset ratio 11.6% -> 2020 IRP asset ratio 13.6%).

### DC

- 82.6% of DC assets are invested in PIG products, and only 17.4% are invested in return seeking products. Unlike DB, not only total asset invested in return seeking products but also investment ratio grew in each and every channel. (2019: 16.4% -> 2020: 17.4%)
- Banks manage two thirds of the entire DC market asset. However, asset invested in Banks decreased by 0.7%p while that in Securities increased by 1.0%p since 2019.
- 48.7% of Securities assets are invested in return seeking products, which is larger than other channels.

Figure 01. Korea Corporate Pension Market Overview

(Unit: KRW bil, %)

Investment type	Asset under Management			Total	Weights
	DB	DC	IRP		
Principal & interest guaranteed	146,949	52,847	25,235	225,031	89.2%
Return seeking	6,982	11,130	9,171	27,283	10.8%
Total	153,931	63,977	34,405	252,313	100%
Weights	61.0%	25.4%	13.6%	100%	

DB ~ by provider channel	PIG	Return seeking	Total	Weights
Banks	60,904	2,990	63,894	41.5%
Securities	30,860	2,747	33,607	21.8%
Life insurances	44,038	1,214	45,252	29.4%
F&M insurances	11,147	31	11,178	7.3%
Total	146,949	6,982	153,931	100%
Weights	95.5%	4.5%	100%	

DC ~ by provider channel	PIG	Return seeking	Total	Weights
Banks	38,265	4,422	42,687	66.7%
Securities	5,382	5,118	10,500	16.4%
Life insurances	7,668	1,466	9,134	14.3%
F&M insurances	1,532	124	1,656	2.6%
Total	52,847	11,130	63,977	100%
Weights	82.6%	17.4%	100%	

## Service Providers – DB (as of December 2020)

The Service Provider study covers 9 major service providers in DB and DC respectively, which are top 3 largest administrative asset managers in each service provider channel (Banks / Insurances / Securities).

### Principal & Interest guaranteed portfolio

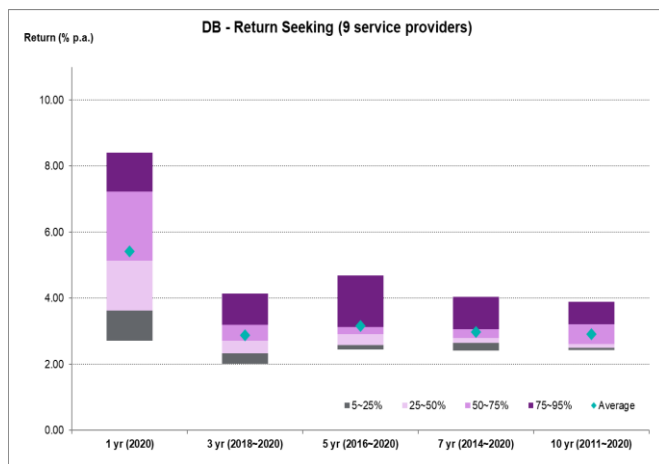
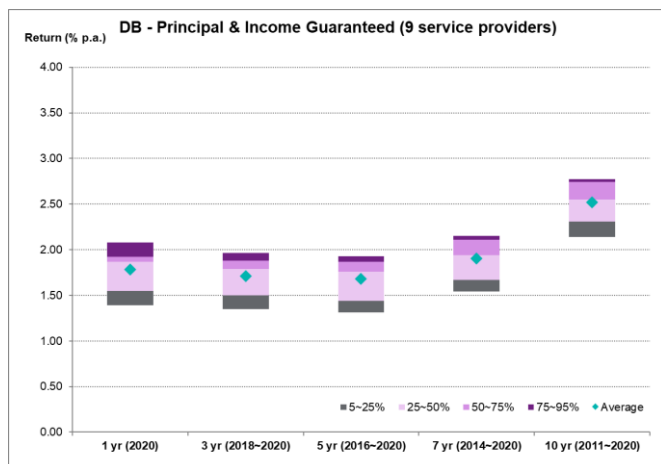
- Average 1-year return of 9 major service providers is higher than 3-year and 5-year return due to the increase in promised interest rates.
- Compared to Banks whose main product is short term deposits, Insurances with sales right of own PIG product and Securities with large sales volume of high-yielding ELB products have higher returns by 30-50bp.
- Samsung Life manages the largest DB PIG asset among all providers by adding 3,997 bil since 2019. However, the difference is not significant without the assets from affiliates.

### Return seeking portfolio

- Despite a strong rebound in 2020, 1-year return decreased for Korea Investment Securities, Samsung Life, and MiraeAsset Life compared to 2019.
- MiraeAsset Life, a new entrant to the top 3 Insurance providers, showed relatively worse short-term returns compared to Samsung Life and Kyobo Life.
- Asset size of return seeking products of Banks decreased as investment has shifted from return seeking products to PIG products. Decline was most visible in Shinhan Bank (-710 bil), followed by Hana Bank (-190 bil) and IBK (-40 bil).

Figure 02. DB - ‘Principal & Interest Guaranteed’ and ‘Return Seeking’

Service Provider	Principal & Income Guaranteed portfolio						Return Seeking portfolio					
	AuM (KRW bil.)	Return (% p.a.)					AuM (KRW bil.)	Return (% p.a.)				
		1yr (2020)	3yrs ('18-'20)	5yrs ('16-'20)	7yrs ('14-'20)	10yrs ('11-'20)		1yr (2020)	3yrs ('18-'20)	5yrs ('16-'20)	7yrs ('14-'20)	10yrs ('11-'20)
Shinhan Bank	10,946	1.6	1.4	1.4	1.6	2.3	1,047	4.2	3.0	3.0	2.6	2.5
Hana Bank	9,129	1.5	1.5	1.4	1.7	2.3	595	3.0	2.3	2.4	2.4	2.5
IBK	8,733	1.3	1.3	1.3	1.5	2.1	165	6.5	2.7	2.6	2.7	2.6
HMC Securities	12,291	2.1	2.0	1.9	2.1	2.8	393	5.1	1.9	2.9	3.1	3.2
MiraeAsset Daewoo Securities	5,257	1.9	1.9	1.9	2.1	2.8	795	3.6	2.2	2.5	2.4	2.4
Korea Investment Securities	4,011	1.9	1.9	1.9	2.1	2.7	521	7.2	3.6	3.1	2.8	3.7
Samsung Life	27,368	1.9	1.8	1.8	1.9	2.4	475	7.6	4.5	5.3	4.6	4.0
Kyobo Life	5,184	1.8	1.7	1.7	1.9	2.6	465	9.0	3.2	3.7	3.2	2.6
MiraeAsset Life	3,702	2.1	2.0	2.0	2.2	2.7	244	2.5	2.5	2.9	3.1	2.7



## Service Providers – DC (as of December 2020)

### Principal & Interest guaranteed portfolio

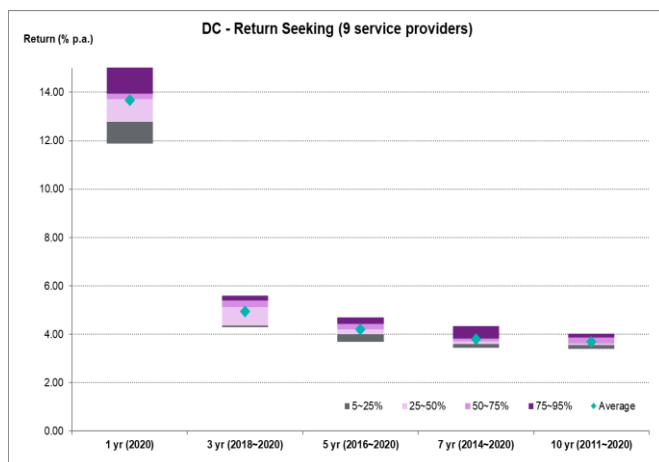
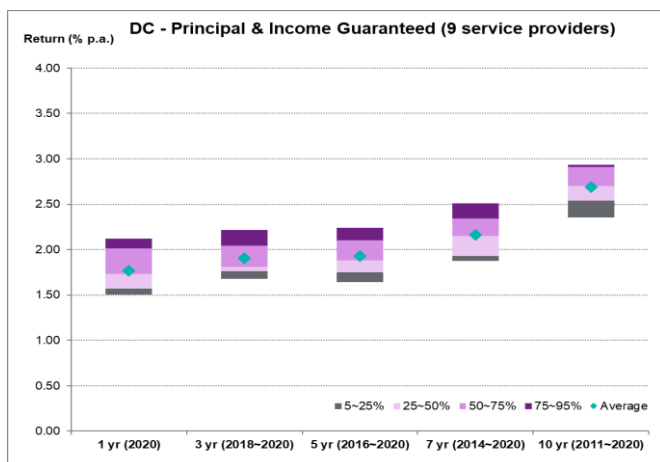
- 1-yr return rate decreased since 2019 in all 9 providers. Decrement was greater among Securities compared to Banks and Insurances.
- Introduction of savings bank deposit products was welcomed as it was anticipated to bring up PIG return. Despite the steep increase in asset invested in the savings bank deposit products, the decrease in the promised interest rate in 2020 triggered lower short-term returns compared to 2019. In fact, Mirae Asset Daewoo Securities and Samsung Securities demonstrated lower 1-yr PIG returns than the top 3 Bank providers.

### Return seeking portfolio

- 1-yr return rate increased by 4.0%p to 10.2%p since 2019 among all 9 providers.
- For Securities, asset allocation over PIG and return seeking assets is almost equivalent. Despite the recent return volatility, asset allocation pattern has not changed at both individual provider level and provider channel level.
- Unlike DB, there is no significant difference in short-term and long-term returns between provider channels.

Figure 03. DC - ‘Principal & Interest Guaranteed’ and ‘Return Seeking’

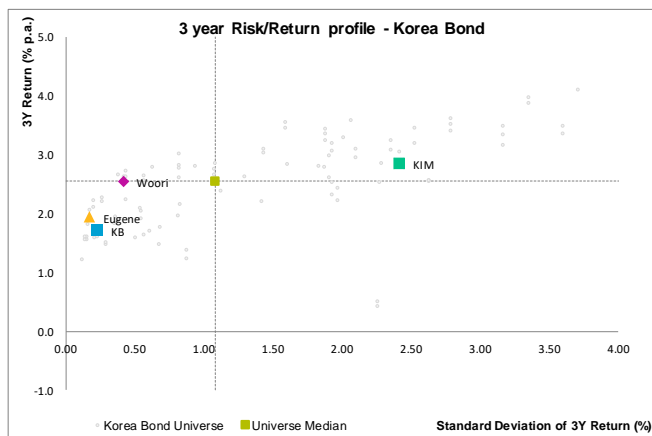
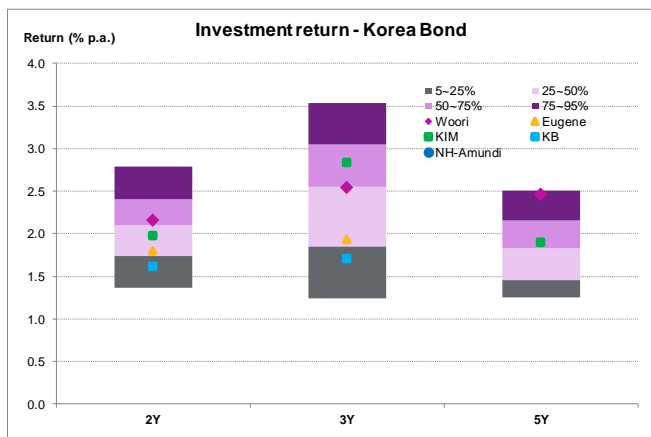
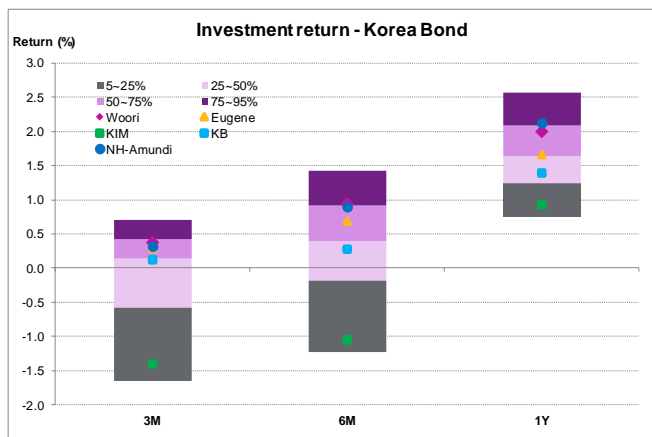
Service Provider	Principal & Income Guaranteed Portfolio						Return Seeking Portfolio					
	AuM (KRW bil.)	Return (% p.a.)					AuM (KRW bil.)	Return (% p.a.)				
		1yr (2020)	3yrs ('18-'20)	5yrs ('16-'20)	7yrs ('14-'20)	10yrs ('11-'20)		1yr (2020)	3yrs ('18-'20)	5yrs ('16-'20)	7yrs ('14-'20)	10yrs ('11-'20)
KB Bank	7,912	1.6	1.7	1.7	1.9	2.5	1,112	11.4	4.3	3.7	3.6	3.6
Shinhan Bank	7,276	1.7	1.8	1.8	2.0	2.6	1,249	12.8	5.2	4.4	3.8	3.6
IBK	7,554	1.6	1.7	1.6	1.9	2.5	396	16.1	5.1	4.4	3.8	3.4
MiraeAsset Daewoo Securities	1,958	1.5	1.8	1.9	2.2	2.7	2,499	13.4	5.5	4.7	4.2	3.6
Korea Investment Securities	861	1.8	2.0	2.1	2.4	2.9	755	13.7	4.4	3.7	3.4	3.8
Samsung Securities	709	1.5	1.8	1.9	1.8	2.3	802	12.6	4.3	4.0	3.6	3.4
Samsung Life	3,919	2.1	2.1	2.1	2.3	2.8	619	13.7	4.7	4.1	3.7	3.9
Kyobo Life	1,785	2.0	2.0	2.1	2.3	2.9	468	15.4	5.4	4.2	3.7	4.1
MiraeAsset Life	720	2.2	2.3	2.3	2.6	2.9	255	14.0	5.7	4.7	4.4	3.9



# Investment Products – Korea Bond (as of December 2020)

Figure 04. Retirement Korea Bond funds

Universe	AuM	Return (%)					
	(KRW bil.)	3M	6M	1Y	2Y	3Y	5Y
<b>Range of the universe</b>							
5th Percentile	56	0.70	1.42	2.57	2.79	3.54	2.51
25th Percentile	16	0.42	0.92	2.09	2.41	3.05	2.15
Median	2	0.14	0.39	1.64	2.10	2.55	1.83
75th Percentile	0.1	-0.58	-0.19	1.25	1.74	1.85	1.46
95th Percentile	0.0	-1.66	-1.23	0.75	1.37	1.24	1.25
<b>Number of data (#)</b>	<b>228</b>	<b>218</b>	<b>203</b>	<b>170</b>	<b>127</b>	<b>103</b>	<b>54</b>
Top 5 largest funds	AuM	Return (%)					
	(KRW bil.)	3M	6M	1Y	2Y	3Y	5Y
Woori High Plus Bond Feeder 1 (bond) C-P	403	0.38	0.95	2.01	2.16	2.54	2.46
Eugene Champion ST Bond Feeder (Bond) C-P2	273	0.30	0.69	1.67	1.79	1.93	-
KIM Retirement Pension Feeder 1 (Government bond) C	246	-1.40	-1.04	0.93	1.98	2.84	1.90
KB Star Strong Short Term G.B. Securities Feeder (Bond) C	124	0.12	0.28	1.39	1.61	1.71	-
NH-Amundi 2 Years Maturity Matching Feeder (Bond) C-P2	94	0.33	0.90	2.13	-	-	-



The Investment Products study covers three mandates which are Korea Bond, Korea Bond-Balanced(60+% invested in bonds) and Korea Equity.

**Mandate**

- With 5 new additions over H2 2020, the total number of funds increased to 228.
- Average return decreased due to increase in the market interest rate during H2 2020.

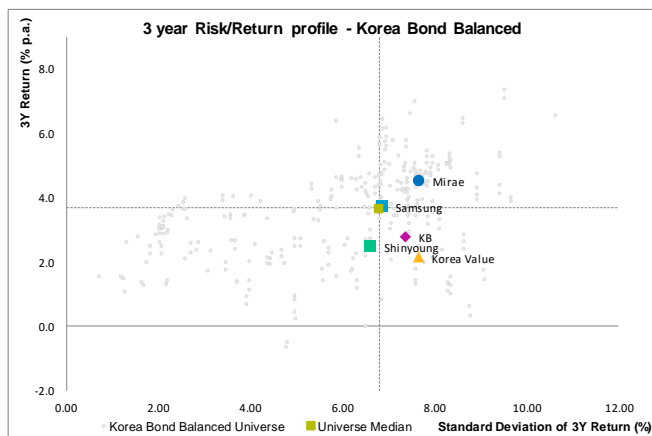
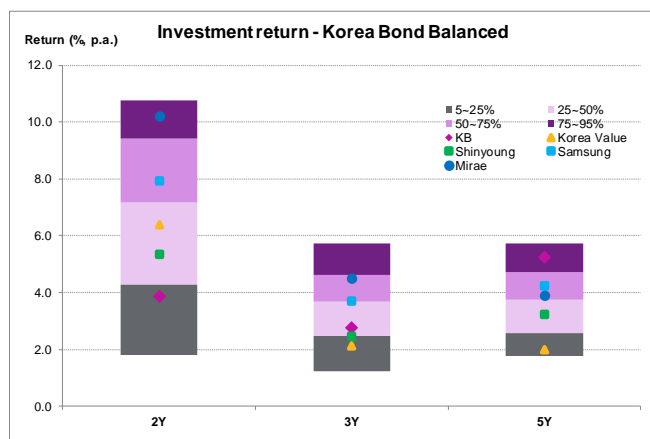
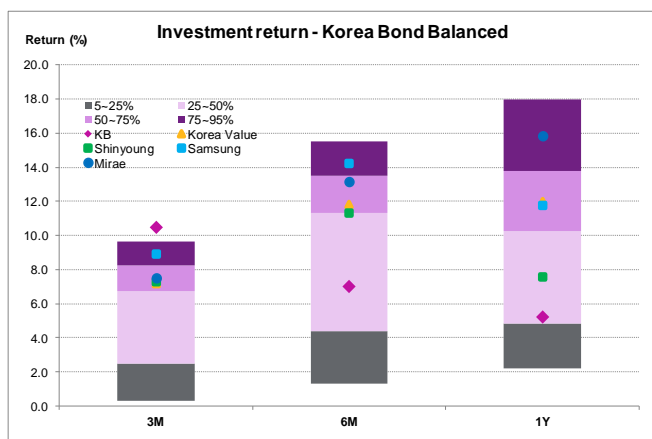
**Top 5 largest funds**

- KB fund has newly entered and ranked #4, replacing the MiraeAsset fund.
- AuM of top 5 funds increased slightly. Two of top 5 funds are short-term bond or short-term government bond funds.

# Investment Products – Korea Bond Balanced (as of December 2020)

Figure 05. Retirement Korea Bond Balanced funds

Universe	AuM (KRW bil.)	Return (%)					
		3M	6M	1Y	2Y	3Y	5Y
<b>Range of the universe</b>							
5th Percentile	37	9.64	15.49	17.98	10.75	5.74	5.73
25th Percentile	5	8.27	13.51	13.76	9.41	4.61	4.71
Median	1	6.73	11.32	10.25	7.16	3.69	3.74
75th Percentile	0.2	2.49	4.37	4.86	4.29	2.49	2.59
95th Percentile	0.0	0.29	1.33	2.21	1.79	1.22	1.78
<b>Number of data (#)</b>	<b>406</b>	<b>399</b>	<b>381</b>	<b>363</b>	<b>346</b>	<b>307</b>	<b>193</b>
<b>Top 5 largest funds</b>							
	AuM (KRW bil.)	3M	6M	1Y	2Y	3Y	5Y
KB Dividend 40 Feeder (Bd-balanced) C	1,142	10.49	7.03	5.22	3.90	2.77	5.25
Korea Value 10 year Feeder1 (Bd-balanced) C	496	7.20	11.80	11.98	6.41	2.14	2.01
Shinyoung Div. 40 Feeder (Bd-balanced) C	478	7.28	11.34	7.57	5.37	2.48	3.24
Samsung Korea Representative 40 Feeder1 (Bd-balanced) C	275	8.91	14.24	11.79	7.95	3.72	4.25
MiraeAsset Retirement Plan 40 Feeder1 (Bd-balanced) C	189	7.52	13.15	15.84	10.23	4.52	3.93



### Mandate

- Due to steep increase in H2 2020 equity market, half of the bond balanced funds also recorded two-digit returns.

### Top 5 largest funds

- There is no significant change to the top 5 AuM funds lists except for MiraeAsset Retirement fund newly ranked as #5.
- All funds except for KB had two-digit return rate during H2 2020 due to strong rally of “non-contact” beneficiaries, such as semiconductor, internet, etc.

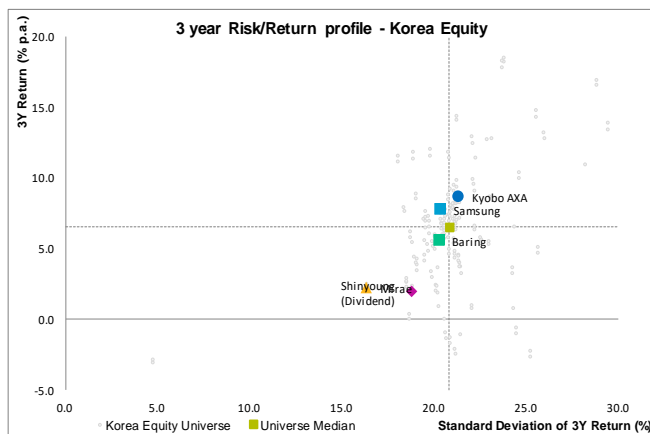
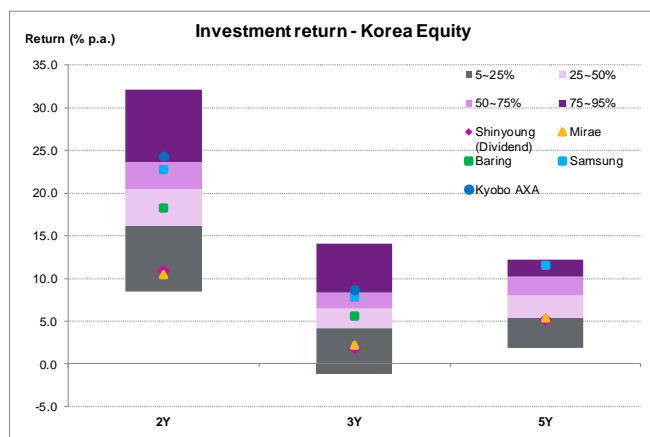
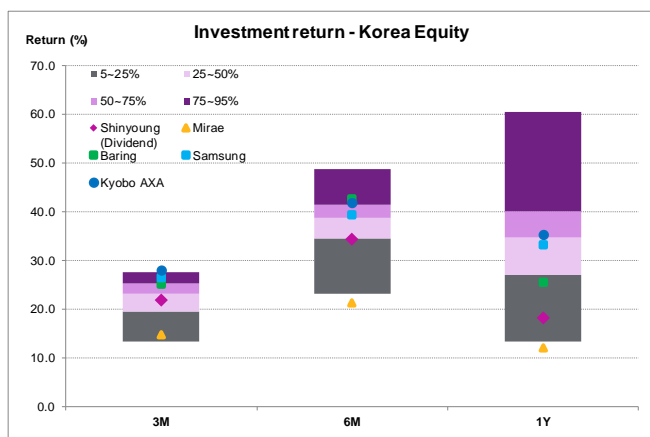
# Investment Products – Korea Equity (as of December 2020)

Figure 06. Retirement Korea Equity funds

Universe	AuM (KRW bil.)	Return (%)					
		3M	6M	1Y	2Y	3Y	5Y
<b>Range of the universe</b>							
5th Percentile	22	27.46	48.71	60.54	32.12	14.08	12.19
25th Percentile	4	25.15	41.38	39.99	23.64	8.40	10.19
Median	0.5	23.02	38.74	34.64	20.48	6.51	8.02
75th Percentile	0.1	19.39	34.53	27.05	16.18	4.13	5.40
95th Percentile	0.0	13.25	23.15	13.30	8.51	-1.08	1.86
<b>Number of data (#)</b>	<b>357</b>	<b>315</b>	<b>298</b>	<b>274</b>	<b>252</b>	<b>180</b>	<b>70</b>

Top 5 largest funds	AuM (KRW bil.)	Return (%)					
		3M	6M	1Y	2Y	3Y	5Y
Shinyoung Retirement Pension Dividend Equity Fund C	197	21.73	34.30	18.16	10.83	1.91	5.20
Mirae Asset Dividend Premium Feeder 1 (Eq-balanced) C	164	14.60	21.23	11.95	10.40	2.24	5.36
Baring High Dividend Feeder (Equity) C-P2	92	24.97	42.57	25.48	18.21	5.56	-
Samsung Retirement Pension Index Feeder 1 (Equity) C	74	26.40	39.36	33.12	22.72	7.77	11.55
Kyobo-Axa Power Index Feeder 1 (Equity) C-Pe	65	27.95	41.80	35.22	24.31	8.67	-



## Mandate

- Despite the decrease due to COVID19 during 2020 Q1, median annual return of equity funds reached as high as 35%, owing to the rally led by liquidity.

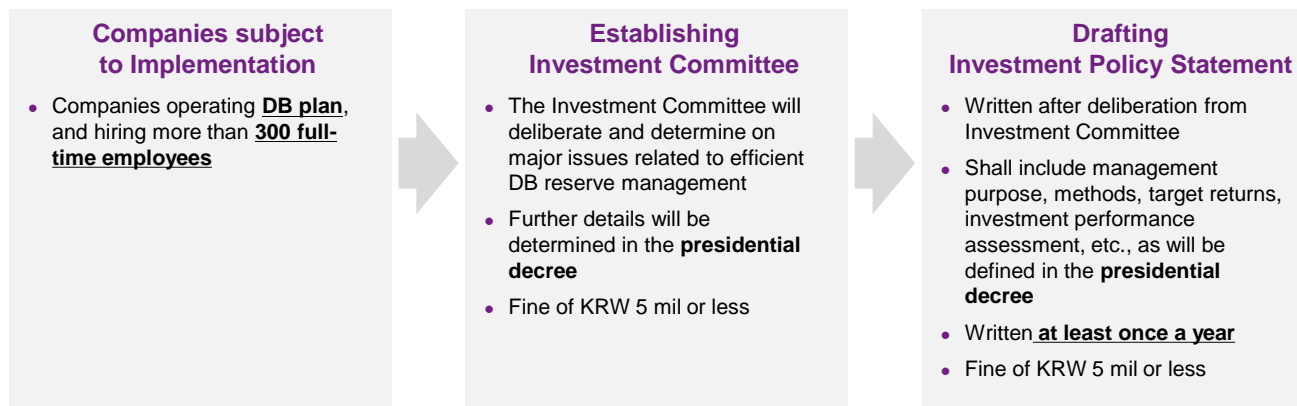
## Top 5 largest funds

- AuM of top 5 funds increased since Q2 and Kyobo AXA index fund newly entered as #5.
- There was no change in top 3 funds being dividend funds. Samsung fund and Kyobo AXA fund, which are index funds, had greater 1-yr and 2-yr returns compared to other funds.
- Even between similar dividend funds, 1-yr and 2-yr returns were nearly double the others.

# ERBSA (Employees' Retirement Benefits Security Act) Amendments Resolution

Resolution of ERBSA Amendments by Environment and Labor Committee has been processed. As the legislation is likely to be passed during March or April, we would like to introduce major relevant changes.

## Mandating Investment Committee and Investment Policy Statement (IPS)



## Reinforced responsibilities on Minimum DB reserve level

Case	Current	Amendments
<b>DB reserve underpinning 95% of the statutory minimum</b>	<ol style="list-style-type: none"> <li>Prepare Financial Stabilization Plan and preserve for three years.</li> <li>Notify the employees' representative and pension provider of the Financial Stabilization Plan</li> <li>Fine of KRW 5 mil or less</li> </ol>	No change
<b>Failing to resolve the deficiency in accordance to Financial Stabilization Plan</b>	N/A	Imposition of fine of KRW 10 mil or less on the company

## Adoption of Retirement Pension Trust Plan for small and medium sized companies

- Companies can adopt Retirement Pension Trust Plan with agreement of employees' representative.
- Korea Labor Welfare Corporation offers plan administration, asset management and education services on behalf of the current pension providers.
- Government supports part of plan administration costs.

## Expansion of retirement pension plan employee communication entrustment

- Companies are allowed to outsource employee communication to professional education organizations in addition to the pension providers.

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