

**OPINION**

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# Investment Performance and Asset Management of Domestic Defined Contribution Plans

The domestic retirement pension system, introduced to replace the severance pay scheme, comprises two types: the Defined Benefit (DB) plan and the Defined Contribution (DC) plan. Accordingly, the amount of retirement benefits under both types is expected to be broadly comparable to severance pay. If the rate of return on DC plans matches the rate of wage growth, the benefits from the two systems converge.

In 2024, returns on DC plans outpaced wage growth. This was largely due to participants increasing their allocations to performance-linked investment products, which benefited from rising stock prices. Although overall returns on DC plans improved, the majority of participants still earned less than the wage growth rate. This underscores the need for continued enhancements in DC plan asset management.

Sustaining the growth of DC plans requires stronger institutional support for participants' investment decisions. Measures such as default options and robo-advisor-based management are already in place, and additional approaches—such as collective investment schemes—may be considered in the future. Meanwhile, firms operating DB plans face extra costs when returns fall short of wage growth. One potential approach would be to redirect these additional costs into contributions to DC plans, thereby providing employees with greater benefits.

With the recent rise in participants and favorable investment returns, the accumulated funds in Defined Contribution (DC) plans have grown rapidly. This trend is not unique to Korea. In the United States, the number of DC plan participants surpassed that of Defined Benefit (DB) plans in the early 1990s, and by the late 1990s, assets held in DC plans exceeded those in DB

\* All opinions expressed in this paper represent the author's personal views and thus should not be interpreted as Korea Capital Market Institute's official position.

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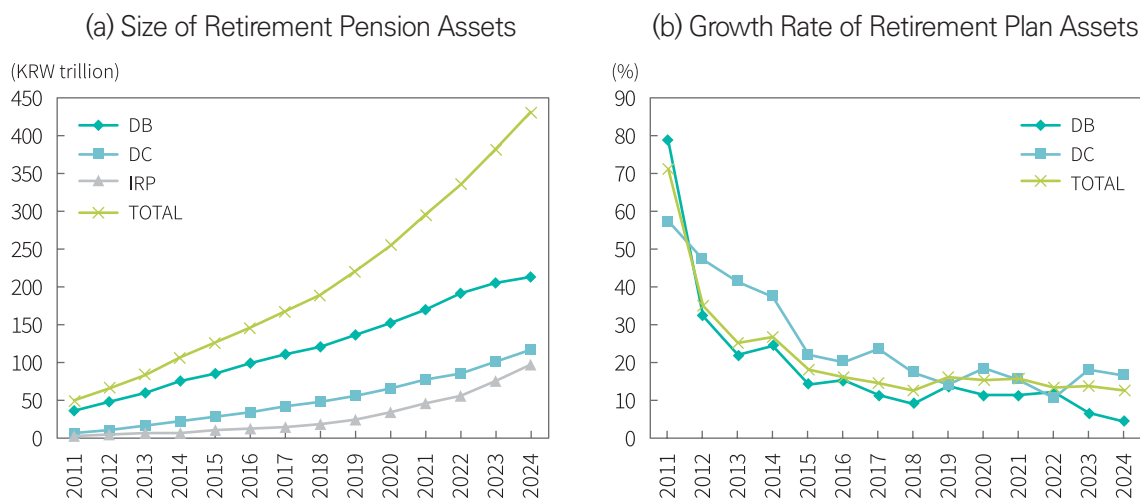
plans. In the United Kingdom, DB plans remained dominant in terms of participation until 2019, after which DC plan participants outnumbered them.

This paper examines the characteristics and performance of DC plans in Korea and explores policy and institutional directions to ensure their sustainable growth.

### DC Plans and Rates of Return

At the end of 2024, retirement pension reserves stood at 431.7 trillion won, representing a 12.9% increase from 382.4 trillion won at the end of 2023 (see <Figure 1>(a)). Reserves in DC plans rose by 16.8%, from 101.4 trillion won in 2023 to 118.4 trillion won in 2024. By contrast, reserves in DB plans increased by only 4.5% over the same period, rising from 205.3 trillion won to 214.6 trillion won.

<Figure 1> Size and Growth Rate of Retirement Plan Assets



Source: Financial Supervisory Service

The retirement benefit of a DC plan consists of annual contributions plus investment returns. In a DC plan, the employer guarantees only the annual contributions. By contrast, a traditional DB plan provides retirees with a fixed benefit equal to a set percentage of their salary, with the employer bearing the full cost. Because a DB plan guarantees the level of benefits payable after retirement, the scope of the employer’s obligation is broader. Moreover, since a traditional DB plan must continue payments until the retiree’s death, the employer assumes both longevity

risk and investment risk. As a result, DB plans impose a heavy and unpredictable financial burden on companies, which has led to a sharp decline in their adoption.

In Korea, DB plans calculate retirement benefits in the same manner as the traditional severance pay system. The benefit is determined by multiplying the final monthly salary by the number of years of service. Consequently, reserves for DB plans grow in line with wage increases rather than investment returns. If the investment return on a DB plan falls short of the wage growth rate, the employer must cover the shortfall by making additional contributions proportional to the existing reserves. Thus, the investment return of a DB plan does not directly affect retirees' benefits but instead influences the employer's funding burden. Conversely, if the investment return exceeds the wage growth rate, the difference multiplied by the reserves can be deducted from contributions in the following year. Moreover, since Korean DB plans provide retirement benefits as a lump sum upon retirement, there is no longevity or investment risk once the employee leaves the company.<sup>1)</sup>

Meanwhile, the retirement benefit of a DC plan consists of annual contributions—equivalent to one month's salary per year of service—made by the employer, plus investment returns. If the investment return of a DC plan matches the wage growth rate, the retirement benefits from DC and DB plans are equivalent. When the return exceeds the wage growth rate, a DC plan can provide higher benefits than a DB plan; when it falls short, the benefits are reduced accordingly. In other words, the investment return of a DC plan is directly tied to the growth or decline of retirement reserves.

DC plans offer two major advantages. First, companies that find it difficult to adopt DB plans opt for DC plans to ensure the stability of employees' retirement benefits. From the employer's perspective, although Korean DB plans are less costly than traditional DB plans, they still impose a heavier financial burden than DC plans. Second, employees participating in DC plans can potentially earn higher returns, thereby receiving greater retirement benefits than under the severance pay system or DB plans.

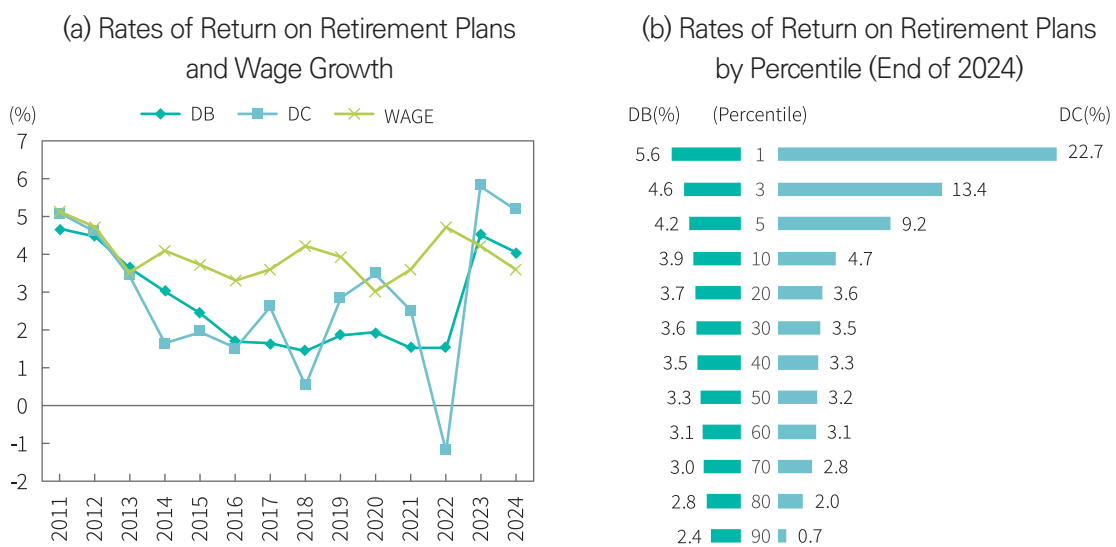
In 2024, as in 2023, the investment returns of DC plans exceeded the wage growth rate, supported by the strong performance of performance-linked products, and also outperformed DB plans (see Figure 2(a)). As a result, DC plan participants experienced greater growth in their retirement assets compared with those under the severance pay system or DB plans.

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1) Retirement benefits are paid as a lump sum, but employees may opt for installment withdrawals.

In June 2025, the Ministry of Employment and Labor and the Financial Supervisory Service released their annual report on the management of retirement pension reserves.<sup>2)</sup> The report analyzed the distribution of returns by pension type and provider. For DC plans in 2024, the top 20% of participants achieved returns exceeding the average wage growth rate of 3.6% (see Figure 2(b)). Overall performance was favorable, but many participants still earned less than the wage growth rate. For DB plans, only about 30% recorded returns above the average wage growth rate, meaning that most sponsoring companies had to make additional contributions to maintain funding levels. To address this challenge, both DB plan sponsors and DC plan participants need to focus on achieving higher returns.

**<Figure 2> Rates of Return on Retirement Plans and Wage Growth**



Note: Agreed Contribution Increase Rate

Source: Ministry of Employment and Labor, Financial Supervisory Service (2025), Indicator Nuri e-Nara Indicators

### Directions for Improving Asset Management in DC Retirement Plans

Employees who participate in DC plans should be able to receive greater retirement benefits than those in DB plans or lump-sum severance schemes, as compensation for bearing investment risks. It is therefore essential to provide active support to DC plan participants in managing their assets to enhance returns. Broadly, two main directions can be pursued to

2) Ministry of Employment and Labor · Financial Supervisory Service (2025), Analysis of Retirement Pension Fund Management in 2024.

improve the investment performance of DC plans. First, employers adopting DC plans may offer additional contributions. Second, institutional measures can be strengthened to support participants who individually bear investment risks.

First, plan sponsors could provide additional contributions to DC plans.<sup>3)</sup> Companies operating DB plans may at times incur extra costs depending on investment returns. Therefore, firms considering a transition to DC plans could estimate the potential additional costs associated with maintaining a DB plan and provide an equivalent amount in advance to DC plan participants.<sup>4)</sup> Employers may choose either to make payments directly to individual employees or to manage the funds collectively at the company level and distribute the returns upon retirement.

The second approach involves strengthening institutional support for DC participants' asset management. For those who struggle with investment decisions, default options and robo-advisory services have already been introduced. In addition, the growth of Target Date Funds (TDFs) offers a useful alternative for participants facing difficulties in making investment choices. One key challenge for DC participants is adjusting asset allocation in response to market conditions, and TDFs can be particularly beneficial in this regard. As of the end of 2024, KRW 5.1 trillion of DC plan assets were invested in TDFs, representing 21.4% of the KRW 23.9 trillion invested in funds.

To diversify the investment risks borne individually by DC participants, collective investment schemes have also been introduced. For instance, the Retirement Pension Fund for Small and Medium Enterprises pools participants' contributions and provides uniform returns to all members. This expands risk-sharing beyond the current framework, where risks are shared only within the same fund. Looking ahead, it may be worth considering a system in which pension providers directly manage pooled assets across participants, thereby enabling broader risk-sharing and fostering competition among asset managers.

Currently, many DC participants feel constrained by traditional fund-based investment methods and are increasingly allocating a significant share of their retirement assets to ETFs.

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3) This approach may be particularly appropriate when a company seeks to transition to a DC retirement plan but employees are reluctant due to the investment risks involved.

4) It is similar to the matching contributions in the U.S. 401(k) retirement system. In a 401(k), employees contribute a portion of their income to their retirement account, and these contributions are tax-deductible when filing income taxes. In other words, the account is funded entirely by employees' own income. To encourage participation, employers make additional contributions proportional to employees' contributions in the form of matching contributions.

Although no official statistics exist on the scale of retirement assets invested in ETFs, a recent report (published in June 2025) shows that, as of the end of 2024, assets under management in the top five mutual funds and ETFs invested with retirement savings amounted to KRW 6.2 trillion and KRW 6.3 trillion, respectively.<sup>5)</sup> This suggests that a substantial portion of retirement assets is already allocated to ETFs. Therefore, broadening the range of investment products available to participants would greatly enhance the asset management of DC plans.<sup>6)</sup>

The share of DC plans is steadily increasing, presenting both challenges and opportunities for employees. DC participants must now bear the investment risks that were previously shouldered by employers under DB plans. At the same time, DC plans offer the potential to accumulate greater retirement wealth than DB plans. The experience of 2023 and 2024 clearly demonstrated this potential. Going forward, these developments underscore the need to strengthen asset management support for DC participants, ensuring that the growing role of DC plans translates into sustainable and equitable retirement security.

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5) Ministry of Employment and Labor · Financial Supervisory Service (2025), Analysis of Retirement Pension Fund Management in 2024.

6) Although the share of performance-based products has recently increased, KRW 356.5 trillion—equivalent to 82.6% of the total retirement pension assets of KRW 431.7 trillion—remains invested in principal and interest-guaranteed products. In the case of DC plans, KRW 90.8 trillion, or 76.7% of the total KRW 118.4 trillion, is allocated to such products. However, the rate of return on principal and interest-guaranteed products in DC plans is considerably lower than in defined benefit (DB) plans. As of the end of 2024 (2023), the return on DC-type principal and interest-guaranteed products was 3.51% (3.87%), compared with 3.81% (4.26%) for DB-type products. Until 2022, returns on DC-type principal and interest-guaranteed products were slightly higher or nearly the same, but since 2023, DB-type products have outperformed for two consecutive years. Therefore, improving the performance of DC plans requires not only expanding the share of performance-based products but also raising the returns on principal and interest-guaranteed products.