Old-age Poverty and Old-age Income Security in Korea

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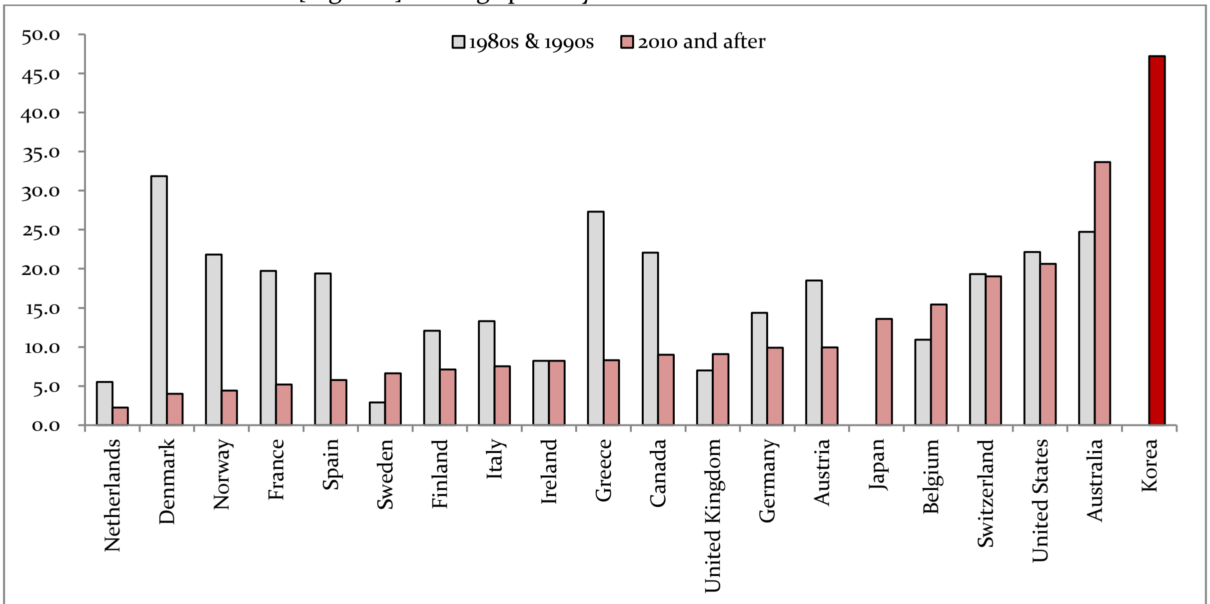
Introduction

Old-age income security involves a mesh of intertwined issues pertaining to income redistribution between generations, across different life-cycle phases, and among groups of different income levels. Most elderly people rely to one extent or another on transfer income as they see their earned income shrink or taper off in their years after retirement. It stands to reason, then, that, apart from health expenditure, it is old-age income protection that accounts for the largest share of social spending. But the old-age poverty rate remains extremely high in Korea—higher in fact than in just about any other OECD country—as old-age income security, for which resort was had to filial piety during the years of rapid industrialization, has yet to become a solidarity-based formal social protection system.

Old-age poverty and public transfers for old-age income support

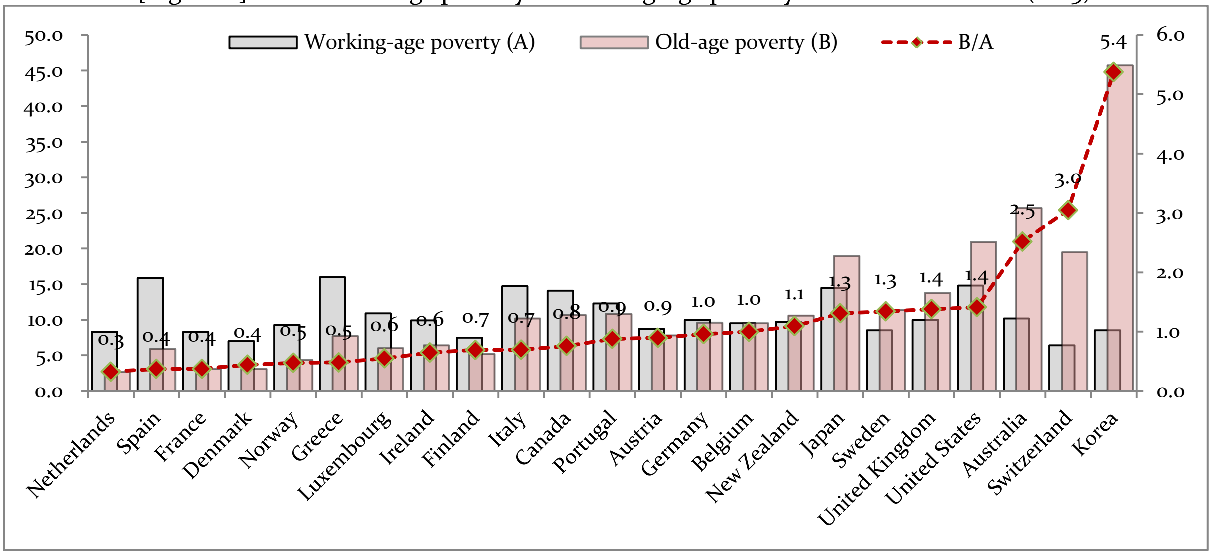
With the threshold set at 50 percent of the median, Korea's old-age poverty rate was 47.2 percent in 2013, 13.5 percentage-points higher than Australia's, the next highest. When 40 percent of the national median income was used as the threshold, the old-age poverty rate was as low as 8 percent in Australia, compared to 38.7 percent in Korea. Also, in most OECD countries, the old-age poverty rate was not much higher than the working-age poverty rate. In some of these countries, the ratio of the old-age poverty rate to the working-age poverty rate was even below one, compared to 5.4 in Korea (see Figure 2). Korea's exceedingly high old-age poverty rate suggests that income redistribution has not been taking place as much as it should across life-cycle phases, between generations, and among economic classes.

[Figure 1] Old-age poverty rates in OECD countries



Source: LIS (Access key workbook, www.lisdatacenter.org)

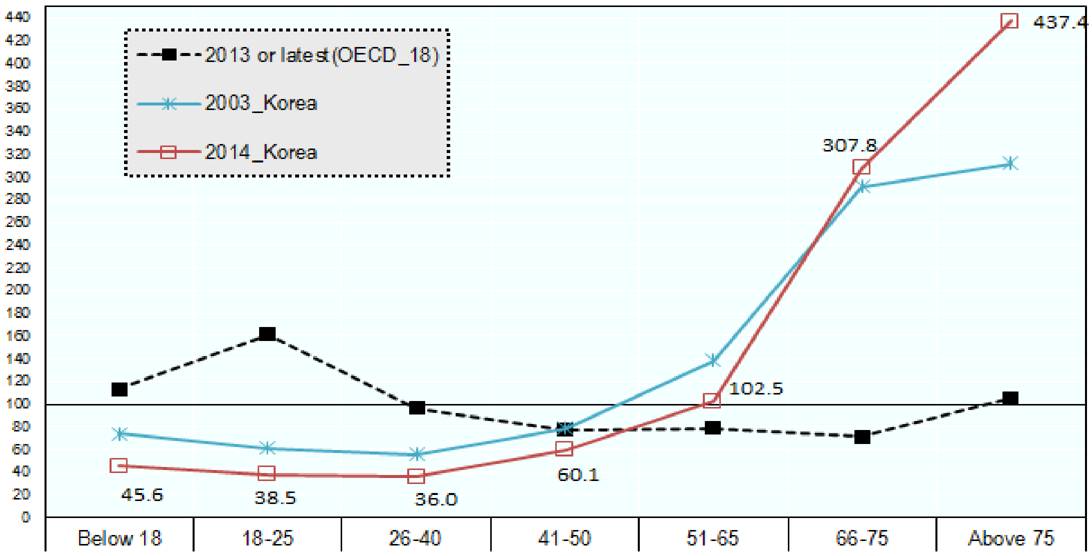
[Figure 2] Ratio of old-age poverty to working-age poverty in OECD countries (2015)



Source: OECD Statistics (Income distribute and poverty. stats.oecd.org)

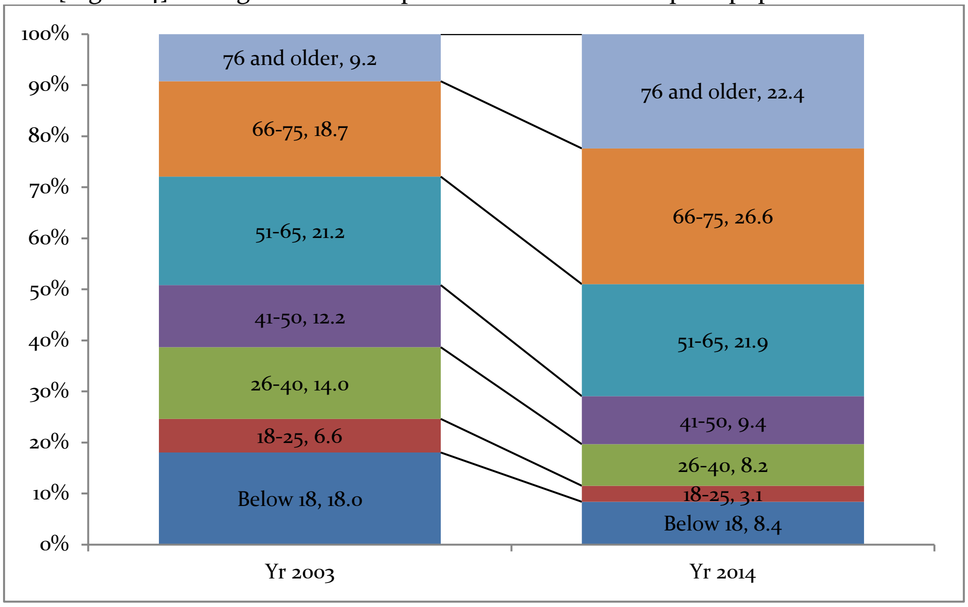
As Figure 1 shows, poverty rates tend to remain relatively stable over the life cycle in most of the OECD countries, while in Korea they begin to increase steeply as people turn 51, the average age at which Koreans retire from their career jobs. Moreover, with the Korean population rapidly aging, people 65 and older have been increasing as a share of those regarded as poor, from 27.9 percent in 2003 to 49.0 percent in 2014.

[Figure 3] Poverty risks for different age groups; composition of the population in poverty



Source: OECE-OECD. (2015). In It Together: Why Less Inequality Benefits All. P. 25.

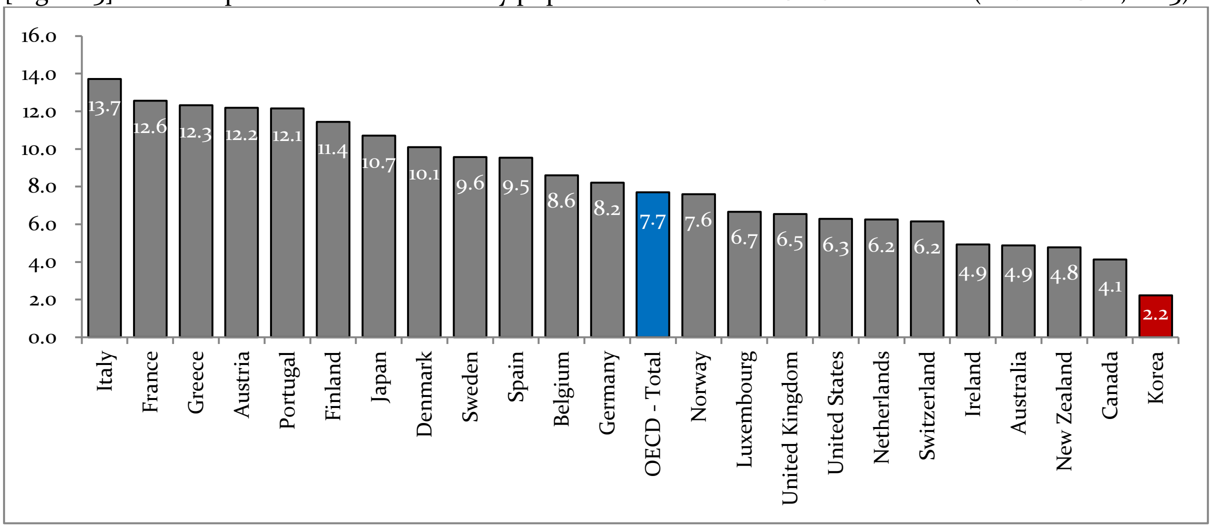
[Figure 4] Changes in the composition of the income-poor population



Source: National Living Conditions Survey (2003); Welfare Needs Survey (2014)

Old-age public transfers as a share of GDP was 2.23 percent in 2013, far lower—even given the difference in the proportion of the old-age population between Korea and elsewhere—than the OECD average of 7.7 percent.

[Figure 5] Public expenditures on the elderly population in selected OECD countries (as % of GDP, 2013)



Source: OECD Statistics (Social Expenditure Aggregate Data: branch—old age, stats.oecd.org

This study looked at OECD countries and how much as a share of GDP they spent on old-age income security around the time the proportion of their elderly population reached 14 percent. Those OECD countries that saw the proportion of people 65 and older reach 14 percent of the total population during the period between 1980 and 2013 spent 6.51 percent of GDP on average on old-age income security. For those among the OECD countries where the elderly as a share of the total population reached 14 percent as early as before 1980, public spending on old-age income support averaged at 7.05 percent of GDP in 1980. In Korea, where in 2013 those 65 and older accounted for 12.2 percent of the total population, only a couple of percentage points shy of the 14-percent mark, public old-age income support amounted to only 2.23 percent of GDP, which is around one-third the average share of GDP other OECD spent on old-age income support by the time their elderly-to-total population ratio reached 14 percent.

[Table 1] Public expenditures on old-age income support as % of GDP for OECD countries in the year when the 65-plus population reached 14 percent

Country	Year in which the share of the 65-plus population reached 14 percent	Expenditure on old-age income support as % of GDP at the time when the 65-plus population reached 14 percent	-
France	1990	9.22	
Italy	1987	9.12	
Greece	1991	8.88	
Finland	1994	8,81	
Spain	1991	7.40	
US	2013	6.28	
Swiss	1984	5.79	
Netherlands	2004	5.56	
Australia	2011	5.05	
Japan	1994	4.87	
Luxembourg	2007	4.85	
Portugal	1992	4.74	
Canada	2009	4.04	
Average	-	6.51	
Country	Year in which the share of the 65-plus population reached 14 percent	Expenditure on old-age income support as % of GDP in 1980	Share of the 65-plus population in 1980
Austria	1970	9.99	15.4
Germany	1974	9.69	15.5
Sweden	1971	7.55	16.3
Denmark	1979	6.96	14.4
Belgium	1977	5.93	14.3
Norway	1977	5.09	14.8
UK	1975	4.17	15.0
Average	-	7.05	
Country	Year in which the share of the 65-plus population reached 14 percent	Expenditure on old-age income support as % of GDP in 2013	Share of the 65-plus population in 2013
Korea	2017	2.23	12.2

Note: The old-age expenditures for the countries whose old-age population reached the 14-percent mark in the 1970s are 1980 figures, as the OECD began providing its data on public expenditures in 1980.
Source: OECD Statistics (Social Expenditure Aggregate data: branch—old age, stats.oecd.org); Author's recalculation of CWSD (Version 25-2, 2014)

Income composition in elderly-headed households

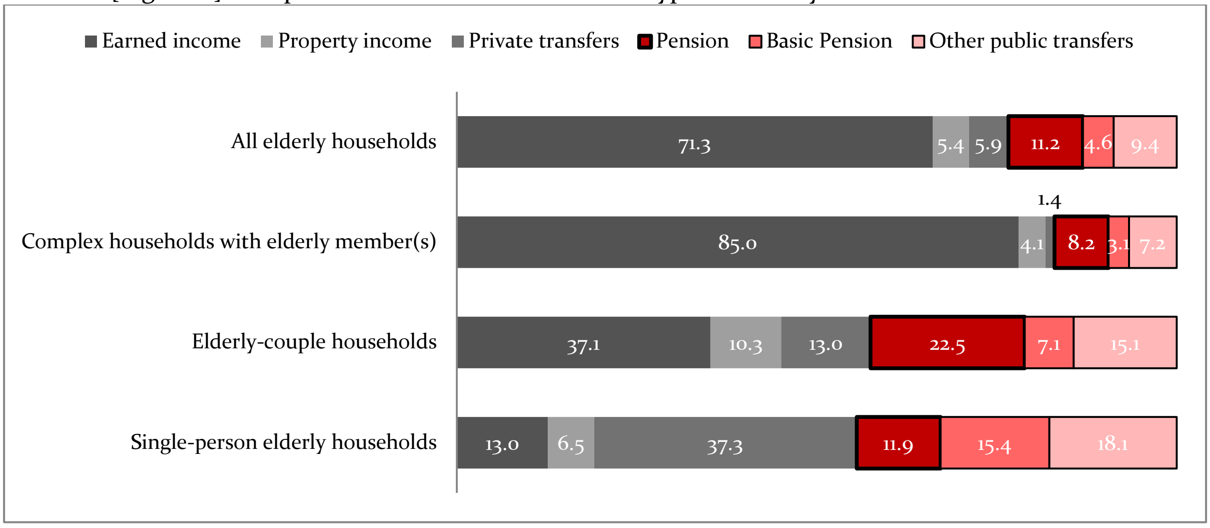
Public pension, basic pension and other public income transfers taken together accounted for 45.4 percent of income for single-person elderly households and 44.7 percent of income for elderly-couple households in 2013 in Korea. Pension benefits accounted for as little as 11.9 percent of income for single-person elderly households and 22.5 percent for elderly-couple households.

In 2003, public pension benefits as a share of income of those aged 65~74 were 90.6 percent in the Netherlands, 88.5 percent in France, 86.7 percent in Germany, 85.9 percent in Sweden, 81.1 percent in Italy, 72.1 percent in the UK, and 62.9 percent in Ireland[1], all much higher than in Korea where, of all elderly households, 41.3 percent were in receipt of benefits from public

[1] Grech, A. (2010). Assessing the sustainability of pension reforms in Europe. (Doctoral dissertation. London School of Economics and Political Science)

pension plans (including public occupational pension schemes), 70.7 percent from basic pension, and 9.5 from basic social security.

[Figure 6] Composition of income for different types of elderly households in Korea



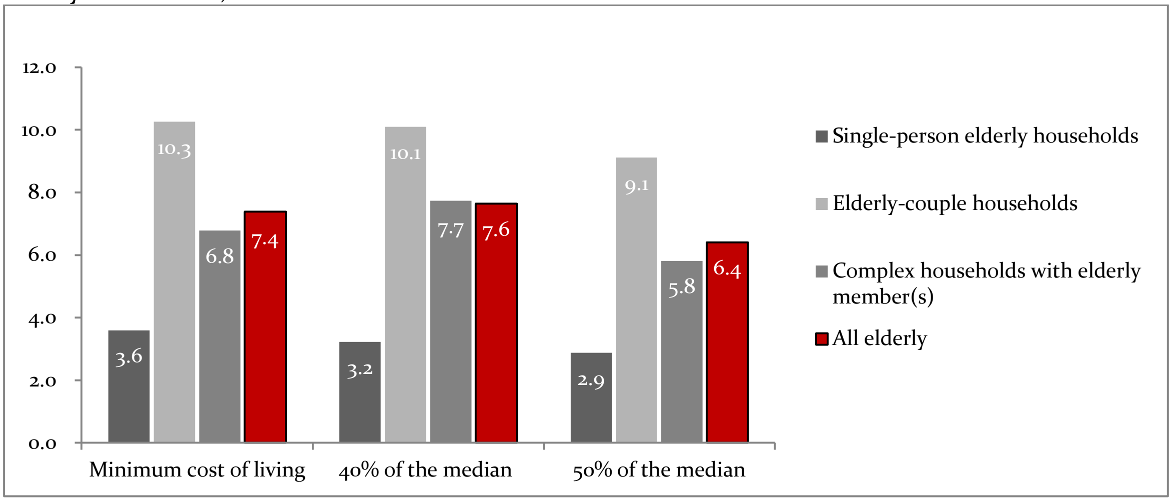
Source: Author's recalculation and reconfiguration of data from the 2014 Welfare Needs Survey

[Figure 7] % in receipt of public transfers for different types of elderly households in Korea

Source: Author's recalculation and reconfiguration of data from the 2014 Welfare Needs Survey

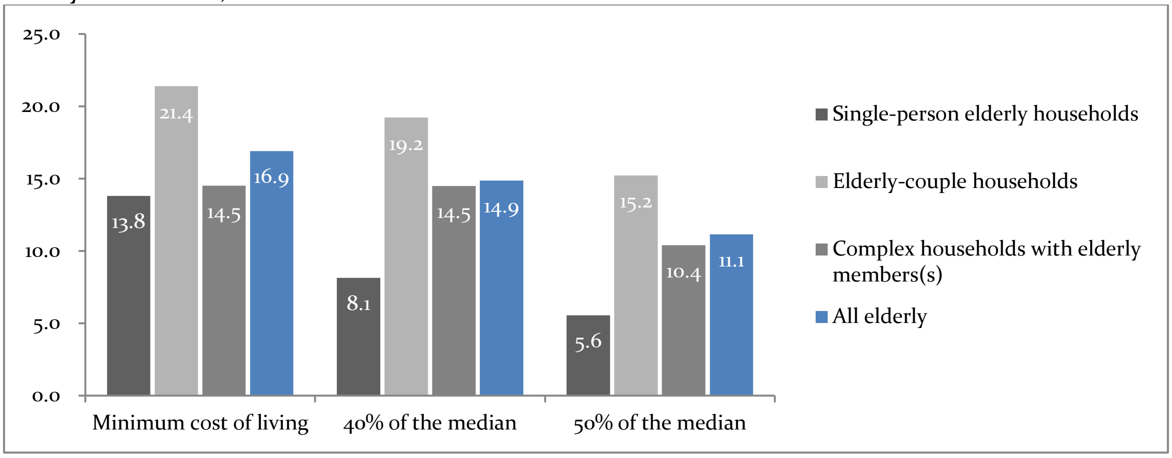
Those with a public pension income of more than the minimum cost of living accounted for 7.4 percent of the elderly in Korea; as few as 6.4 percent of the elderly population had a public pension income of over 50 percent of the median income. Those whose all public income transfers—including public pension (National Pension), basic pension and the Basic Social Security benefits—amounted to more than the minimum cost of living accounted for 16 percent of the elderly; 14.9 percent and 11.1 percent of the elderly had a total public transfer income above 40 percent and 50 percent, respectively, of the national median income.

[Figure 8] % of the elderly whose pension income exceeds different poverty lines (for different types of elderly households)



Source: Author's recalculation and reconfiguration of data from the 2014 Welfare Needs Survey

[Figure 9] % of the elderly whose public transfers exceed different poverty lines (for different types of elderly households)



Source: Author's recalculation and reconfiguration of data from the 2014 Welfare Needs Survey

High old-age poverty rate, low public transfer income

Why does Korea's old-age poverty rate remain so persistently high? There are several reasons.

Firstly, the National Pension, the centerpiece of Korea's old-age income security, started out as a funded system while most its European counterparts were established as pay-as-you-go schemes. One of the characteristics of a funded plan is that those participating in it cannot, even in old age, receive benefits from it until it reaches maturity and thus in many cases are left exposed to poverty risks.

Secondly, the National Pension has been expanding its coverage in such a way that the last to be made eligible to participate in it were those at most risk of old-age poverty, with some of them still left outside the coverage. As of December 2017, an estimated 44.19 percent of the population aged 18~59 (14.421 million people) were those who, at one time or another, did not pay into the National Pension system.

Thirdly, industrial polarization, the dual labor market structure, and labor market instability all have been at play. Most of those among the economically active population who do not participate in or pay into the National Pension are workers at firms with 5 or fewer employees, non-regular workers, self-employed individuals or own-account workers who in their old age are likely to have no steady income sources other than public old-age income support. Statistics show that as of the end 2017, the rate of participation in the National Pension was 72.0 percent for those working at firms with 5 or fewer workers, compared to over 90 percent for those working at larger firms; and 54.9 percent in non-regular employees, compared to over 90 percent in regular employees. Even for those participating in the National Pension, the rising labor market uncertainty may reduce the period over which they pay into it. The average period over which Koreans will have paid into the National Pension is expected to reduce over time after peaking at 24.8 years in 2020. The EU average number of years for which workers participated in public pension plans was 38.6 in 2010.

Fourthly, the low labor market participation rate in women, the high poverty rate in women, and gender-insensitive pension entitlement are some of the factors behind the high old-age poverty rate of women in Korea. The labor market participation rate for women aged 15~64 in Korea was 59 percent in 2017, the lowest or one of the lowest in the OECD and lower by 26.7 percentage-points than Sweden's 85.7 percent, the highest. In 2014, women accounted for 81.3 percent of the elderly living alone in Korea, and 76.2 percent of single-person elderly households were estimated to be poor.

Fifthly, public pension benefits alone are not enough to live on above the poverty line. Pubic old-age income arrangements in Korea altogether do not add up to even half the median income. The average amount of public pension benefits paid to retirees in 2017 was around KRW500 thousand, which was about 30 percent of the median per capita income. Pensioners who have paid for 20 years or longer into the National Pension are in receipt of KRW892 thousand a month on average. However, considering that these pensioners are those whose pension rights predate, and who therefore are little affected by, the two rounds of reforms that would cut the benefit level for later participants, future pensioners of comparable years of contribution are unlikely to receive benefits that are larger in present-value terms. The average amount of basic pension benefits paid out in 2017 was KRW202.6 thousand, equivalent to 12.3 percent of median per capita income.

Sixthly, as the past reforms of the National Pension, geared toward preserving the financial stability of the pension fund, have clearly suggested, decision-making in policies concerning old-age income security in Korea tends to a large extent to be conservative. In some major OECD countries, contribution rates for public pension schemes are as high as close to 20 percent of earned income. In comparison, Korean workers contribute only 9 percent of their salary to the National Pension (4.5 percent paid by the employee and another 4.5 percent by the employer). As the general direction of the reforms taken in the past years on the National Pension was toward a combination of increases in the pensionable age, reduced income replacement rates and limited increases in the contribution rate, it is hard to expect that old-age poverty rates will decline to any substantial extent even after the scheme's maturity.

[Table 2] Financing old-age income protection in selected countries

	Employee contribution rate	Employer contribution rate	Self-employed	Government
Germany	9.3 percent of an earned income of 850 euros or more; reduced rate for an earned income of less than 850 euros	9.3 percent; 15 percent for an employee with an earned income of less than 450 euros	18.6 percent	-
France	6.9 percent for social insurance; 3.1~8.1 percent for mandatory retirement pension	-	17.9 percent	Social insurance contribution payments for long-term unemployed people and those with career breaks
Netherlands	17.9 percent	-	17.9 percent	Provision of all subsidy payments to guarantee the national minimum standard of living
Sweden	No contribution to universal pension; 7 percent for NDC	No contribution to universal pension; 10.21 percent for NDC	No contribution to universal pension; 17.21 percent for NDC	All costs for universal pension; employer contribution to NDC schemes for civil servants
UK	12 percent for social insurance; additional 2 percentage-points for high-wage earners	13.8 percent for social insurance (including industrial accident insurance and unemployment insurance)	A weekly fixed rate of 2.25 pounds + 9 percent for high-income earners + 2 percent	Subsidies for making up deficits in social insurance; asset-tested benefits and non-contributory benefits

Note: This table includes contributions to old-age pension only (disability pension and survivors' pension are not included here).
Source: ISSA. (2018). Social Security Programs Throughout the World: Europe, 2018. SSA Publication No. 13-11801 (Author's reconfiguration)

Lastly, the old-age poverty in Korea is in large part a consequence of the absence of social consensus about the state taking over from the family the responsibility for old-age support. The issues surrounding the projected deficits of the National Pension are in essence a concern about the current working generation passing their burden to the next. The argument is that to keep this from happening, it is essential to raise the contribution rate, cut benefits and adjust the pensionable age. But this reasoning is, at least in part, invalid. The principle of intergenerational solidarity in the framework of a well-established welfare state states that the responsibility individuals had of caring for their elderly parents in the context of extended families is replaced with a social responsibility whereby the current working-age generation as a group supports the elderly as a whole. However, old-age income protection in Korea is still in such a state that current workers are expected to and do assume the dual responsibility of supporting their elderly parents and preparing for their own old-age (see Figures 6 and 7). Thus, it is not entirely fair to view the current generation as passing the buck to the next. To be sure, even many of the welfare states in Europe have moved to strengthen the element of individual responsibility in old-age income security, taking reform steps that instituted notional defined contribution plans and enhanced mandatory severance pay schemes, but without compromising the principle that everyone in old age should be entitled, through society-wide intergenerational and intergroup consensus, to at least a minimum standard of living.

Concluding remarks

Reducing Korea's old-age poverty rate requires examining the success cases of solidarity-based, universal social security systems in such advanced welfare states as the Netherlands, the UK, Ireland, Canada and Australia, where, despite their relatively low levels of spending on old-age income protection, old-age poverty rates have been kept at relatively low levels. Their welfare mix approaches and public old age income support systems should be looked into in depth if Korea is to move on to establishing its own workable solutions on which to build social consensus. Also important would be to facilitate mutual understanding and concessions between stakeholder groups and to convince the general public of the need for solidarity in old-age income security.