Korea: Balancing Economic Growth and Social Protection for Older Adults

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Population aging in Korea is projected to be the most rapid among Organisation for Economic Co-operation and Development (OECD) countries between 2000 and 2050. However, social spending in Korea remains low, reflecting Korea’s relatively young population, limited health and long-term care insurance coverage, and immaturity of its pension system. As these factors evolve in coming years, social spending in Korea is likely to rise toward the OECD average. Sustaining economic growth requires policies to mitigate the impact of rapid population aging by providing social protection for the elderly population. Korea confronts difficult challenges in balancing economic growth and social protection for the elderly population, whereas also ensuring efficiency in social spending.

Key Words: Income equality, National health insurance, Long-term care insurance, Asian financial crisis

Korea’s economic development since 1960 has been among the most rapid ever achieved. However, Korea’s high growth orientation has dealt a heavy blow in many sectors by the 1997 Asian financial crisis, which led to a massive economic crisis. Rising unemployment and growing inequality and poverty were catastrophic throughout Korean society; the financial turmoil was especially hard on lower income and elderly citizens. The crisis accelerated the process of transition from the precrisis “developmental state” to the “democratic-welfare-capitalist state” (Lee, 2004) or “inclusive developmental welfare state” (Kwon, 2007), in the context of the government’s welfare reforms. These changes shaped social welfare in the country as it entered the global century.

As Korea has become more similar to high-income countries, its potential per capita growth rate has slowed from about 7% in 1995 to close to 4% at present; it is projected to fall further due to rapid population aging. According to Organisation for Economic Co-operation and Development (OECD) simulations, Korea’s public spending on health and long-term care might rise to 6%–9% of GDP by 2050, the largest such increase in the
OECD countries, whereas pension outlays could account for another 8% or more. Sustaining economic growth requires policies to mitigate the impact of rapid population aging by providing social protection for the elderly population. In addition, more revenue may be required to cover the cost of greater economic cooperation with North Korea. Economic deterioration and chronic food shortages in the North during the past decade suggest that integration costs may be enormous; although the population of North Korea is half that of the South, its per capita income is only about 6% as large (Jones, 2009).

This article begins with an overview of Korean demographic trends and explores public policy issues regarding aging, including income inequality and poverty, work, pensions, and health and long-term care. In the process, it discusses the difficult challenges facing Korea as it attempts to balance economic growth and social protection for the elderly population in a burgeoning global market. Korean gerontological research efforts are also briefly introduced.

**Population Aging**

Population aging in Korea is projected to be the most rapid among OECD countries between 2000 and 2050. Korea’s population will peak at 50 million in 2020 and then decline about 15% by mid-century (Table 1), even as the proportion of the older population grows. The median age, 20 years in 1960, reached 38 in 2010 and is likely to be nearly 50 in 2030, suggesting fundamental changes in the country’s socioeconomic structure. Moreover, the proportion of the population aged 65 and older is expected to double from 7% in 2000 to 14% by 2018; in contrast, this transition is projected to take 71 years in the United States and took 115 years in France. In only 8 more years (compared with up to 40 years in major European countries), by 2026, the proportion of the elderly population in Korea will increase from 14% to 20%. The increasing number of older persons will boost the elderly dependency ratio from the second lowest among OECD countries in 2000 to the fourth highest by midcentury, the largest increase among these countries.

The “compressed population aging” in Korea has been driven by increasing life expectancy and falling fertility. Life expectancy increased by 24 years, from 55 years in 1960 to 79 years in 2010. A more important factor is the fall in the fertility rate, from 6.0 in 1960 to 1.5 in 2000 and 1.2 in 2010, the lowest level in the OECD countries. This 20% decline may have resulted from heightened economic uncertainty in the wake of the 1997 Asian financial crisis and the 2008 global financial crisis. The average age of marriage for women increased from 26.5 in 2000 to 28.9 in 2010, as young people looked for greater financial security prior to starting families due to the cost of raising children. Educating children, the largest item in the household budget, absorbs 18% of household income on average. Another factor limiting the birth rate is the difficulty of combining child rearing and work; a significant number of Korean women withdraw from the labor force at the time of marriage or childbirth. The participation rate for women of childbearing age (25–54 years) has steadily increased over the years, but it was the third lowest in the OECD countries in 2010, 62%, well below the OECD average of 70%. Given the prime-age Korean male employment rate of 86%, female employment rates lag behind those for males in every category, leading to an employment gender gap that is the seventh highest in the OECD countries. Of Korean women aged 25–64 years who have completed tertiary education, only 60% were in the workforce in 2010; this percentage is only 3% more than those with an upper secondary degree. For the OECD countries, however, the employment rate for women with tertiary education is 78%, reflecting the higher opportunity cost of not working for women with higher education. The gender wage gap—the largest in the OECD countries at 38%—may also discourage women from entering the labor force. Korea is now confronted with the dual challenge of promoting women’s labor force participation while trying to boost its fertility rate.

**Public Policy Issues**

*Income Inequality and Poverty*

Korea has experienced a significant rise in income inequality and poverty, despite its strong economic recovery. The ratio of the top income decile to the bottom has risen from 6.6 in 1990 to 10.2 in 2010. The Gini coefficient on a nationwide basis has gradually increased from 0.295 in 1998 to 0.311 in 2011. The increase in income inequality is related to the expanding proportion of nonregular workers, who are paid about 30% less than regular workers, to more than one third of the workforce. Rising inequality has contributed to an increase in
the rate of relative poverty to 14.6% in the mid-2000s, the sixth highest in the OECD countries and well above the OECD average of 10.6%.

The relative poverty rate—based on the income threshold of 50% of the national median—for households that include elderly persons has risen from 27% in 1991 to 38.8% in 2006, nearly five times higher than the national average of 8.1%. Moreover, 38.5% of the elderly persons were in absolute poverty, with an income below the minimum cost of living. The high rate of poverty is partly explained by the relatively recent introduction of the National Pension System; only one fifth of those aged 65 and older receive benefits, which tend to be rather small, given the short contribution period. In addition, many poor elderly persons are not eligible for the National Basic Livelihood Security (NBLS), public assistance program because they have working-age children, although many of those children cannot or will not support their parents (Jones & Tsutsumi, 2009).

Since the advent of rapid industrialization and Korea’s entrance on the world stage as an economic power, there has been a weakening of three-generation households in Korea. In 2011, elderly persons living alone or with a spouse accounted for 68% of households with an elderly person, compared with only 27% of elderly persons living with one of their children. Still, three quarters of the elderly people receive financial support from their children and one quarter earn income from their own and/or their spouse’s employment (Chung et al., 2012). Older women have a higher risk of poverty in later life. Seok and Lim’s (2007) secondary analysis of data from the 2004 Living Profile and Welfare Service Needs of Older Persons national survey found that older women’s poverty rate was 10% higher than men’s, their average income was only about a third of men’s, and older women were more dependent on public assistance and private transfers from their children than their male counterparts.

### Work

Labor force participation in Korea remains high relative to the OECD average for men aged 50 and older and for women aged 60 and older. For the 65-and-older age group, the participation rate is 30% compared with an OECD average of 13% in 2011. The average effective age of retirement for men in Korea is 71, the second oldest among OECD countries. Although likely to remain in the labor force, these older workers also tend to retire early from their main career, at around age 55. Average employment tenure peaks at 11 years in the 45–49 age group—well below most other OECD countries where the peak is in the 55–64 age group—and then falls sharply. About three quarters of departing employees become self-employed, primarily in services with low productivity.

The early departure of employees reflects the importance of seniority in determining wage levels. A worker with a tenure of 25 years in a firm earns almost three and a half times more than a newly hired employee and has less education on average. Mandatory retirement enables firms to dismiss workers as seniority-based wages surpass...
their productivity; the average age of mandatory retirement was 57.3 years in 2011. Older workers are also challenged by the skills required in Korea’s increasingly knowledge-based economy. The proportion of the 55–64 age cohort with tertiary education was only 13% in 2010, compared with 65% for the 25–34 age cohort, the third highest among OECD countries. The education gap between age cohorts is the largest among OECD countries, leaving older workers at a competitive disadvantage. In addition, 65% of workers aged 50 and older are in physically demanding jobs such as manual work, which tend to be low paid (Jones & Tsutsumi, 2009).

Thus, older workers in Korea retire from their career/job in their early 50s and continue working for about 10 more years until leaving the labor force altogether. In reality, older people who continue to work after the mandatory retirement age in Korea are likely to be those in financial need, whereas relatively well-off persons retire earlier. The Korean government encourages older persons to work longer and has made it a priority to create jobs for older persons. However, structural constraints on older Korean workers in gaining reemployment, and their undesirable working conditions even when they do so, are well documented. Gradual or alternative retirement arrangements with reduced working hours are often involuntary, if not almost nonexistent. Older workers may have no choice but to take irregular jobs, which leads to social exclusion from the primary labor market. In summary, although the desire to work after retirement is relatively high among Korean older people, the labor market for them is very limited. This situation has been conceptualized by Park (2003) as “downward labor adjustment” or the “marginalization of older workers.” Evidence from qualitative research also suggests that successful reemployment after retirement can be achieved only by “self-transforming” after “identity devaluation” by “lowering the self” and accepting second best rather than aiming for the best (Yang, 2011).

Pensions

The National Pension System (NPS), which was introduced in 1988, is expected to increase the income of the elderly population in the coming decades; however, the number of contributors to the NPS leveled off at about a third of the working-age population in 2010. Half of the male working-age population are contributors compared with only a quarter for women. Along with the occupational pensions associated with the civil service, military, and private school teachers, the proportion of the working-age population who contribute is almost 40%. However, the percentage remains low, reflecting the large number of self-employed persons and nonregular workers in Korea compared with the OECD average of 63.4%. The long-term projections of the NPS assume that less than half the elderly population will receive NPS pensions in 2030, so it does not expect a significant expansion in coverage. As the forces of industrialism make further inroads in Korea and more workers are included in the ranks of regular workers in larger firms, it is possible that pension rates will improve as the number of small firms and self-employed workers continues to decline. For now, lower incomes among older Koreans will remain problematic for individuals living in poverty as well as the country as a whole. The relationship between work and welfare is painted in bold relief in Korea.

In addition to the low level of coverage, there is a risk for contributors that pension benefits will be relatively small. In its long-term projections, the NPS assumes that the average contribution period of beneficiaries in 2030 will be 17.6 years, increasing only gradually to 20.7 years by 2050. With an annual accrual rate of 1.5%, the replacement rate for a worker in 2030 who had earned an average income and had contributed for 40 years, would be 26% of his/her working life wages, less than half the targeted replacement rate of 60%. Unfortunately, such an income is close to the minimum cost of living, which is set at 20% of the average wage. Moreover, there is likely to be significant variation among beneficiaries, in particular between salaried and self-employed workers, in their contribution periods and amounts. In sum, the low level of coverage, short average contribution period, and small payments by the self-employed increase the risk that the NPS will not reduce poverty among older persons. Thus, Korea will still have to grapple with erosion in the standard of living for its elderly population in the decades ahead. Coupled with shifts in living arrangements and other changes in Korean society, older adults may face dire circumstances as they attempt to maintain their sense of identity and their viability (Yoon, 2009).

Given the difficulty of substantially extending the coverage of the NPS, the Korean government
recently introduced a means-tested universal pension, the basic old-age pension system; however, at 5% of the average wage, it is well below the minimum cost of living (20% of the average wage). This benefit spreads resources very thinly for more than 70% of the older population while doing little to reduce poverty among the elderly population. A larger benefit that specifically targeted low-income elderly population would be more effective.

Health and Long-term Care

National Health Insurance (NHI) aims to provide universal coverage, with 63% of the population insured as employees and 34% as self-employed. The insurance for the 3% of the population receiving benefits from the National Basic Livelihood Security (NBLS) program, is covered by Medical aid.

NHI provides coverage for 39% of total health expenditures. The key private-sector funding source for health care is out-of-pocket payments by patients, accounting for 34% of total outlays. These payments include copayments for services covered by NHI and full payment for noncovered services; the copayment rate is 20% for hospital care and 30%–60% for outpatient care. The government’s objective has been to achieve universal NHI coverage at low cost by minimizing benefits and excluding some diseases and diagnostic procedures. Consequently, the NHI provides relatively comprehensive but shallow protection in case of illness. The system may also pose barriers to access for the poor since copayments are unrelated to income and the cap on total copayments is rather high.

Although out-of-pocket payments may discourage frivolous demands and limit costs, they also restrict access to care in the case of catastrophic or chronic illness and for those unable to afford even modest copayments. In addition to penalizing low-income households, out-of-pocket payments create a substantial burden on those with chronic health problems. Out-of-pocket payments thus reduce both necessary and unnecessary health care.

Out-of-pocket payments by patients accounted for 4.6% of Korean household consumption in 2007, the third highest among OECD countries. High out-of-pocket payments are inequitable and regressive because they do not depend on income, resulting in inequality in the economic burden of illness and increased poverty (Jones & Urasawa, 2012). The proportion of households below the national poverty line, defined as the minimum cost of living, rises from 10.8% to 12.5% if health care spending is included (Kwon, 2009).

In July 2008, Korea introduced a Long-Term Care Insurance (LTCI) system. Elderly persons applying for long-term care are visited by NHI staff, who assess their ability to perform 52 activities of daily living. The appropriate level of care is then determined by the NHI, taking into account physician opinions. With increasing awareness of LTCI, the proportion of older adults who have applied for benefits reached 12.3% in 2010, with 45.9% deemed to be eligible. Benefits are provided as services, rather than cash, except where long-term care facilities are unavailable. The proportion of elderly persons receiving benefits increased from 1.4% when LTCI was introduced to 4.4% in 2010. Of this number, about a third are in institutional care, subject to a 20% copayment. LTCI is financed by the central and local governments (30%) and premium payments (55%). To maintain the stability of LTCI in the face of the rising number of eligible elderly persons, the premium was increased by more than half to 0.35% of income in 2010. The goal is to provide wider and more equitable access to long-term care services within the constraints of fiscal sustainability.

Perhaps the biggest challenge facing Korea’s health care system is the rapid increase in spending. Despite shortfalls, per capita public spending on health care, has expanded at a 10.1% annual rate (adjusted for inflation) since 1981, well above the OECD average of 3.6%. A cross-country OECD analysis projects that public spending on health care will rise by 3%–5% of GDP in Korea over the period to 2050, the largest increase among OECD countries. Given the tendency for medical expenses to increase with age, rapid population aging in Korea is projected to increase public health care outlays by 1.6% of GDP, double the 0.7% expected in the OECD area. Health care expenditures per capita are three times higher for those aged 65 and older than for younger people (Jones, 2010).

Continued health spending growth at a double-digit pace in an economy with a potential growth rate of 4% is not sustainable in the long run. It is essential to restrain spending on health care to avoid impacting other spending priorities and to limit the burden of taxes and social charges. As long as the system remains based on fee-for-service
payments to private profit-seeking suppliers, Korea remains particularly vulnerable to sharp increases in health care spending. Therefore, a number of structural reforms—changing the payment system, reducing the overuse of drugs, shifting long-term care out of hospitals, promoting healthy aging, and introducing gatekeepers—are urgently needed to increase the efficiency of the health care system and to slow the rise in spending.

Research

Aging has become a major research theme in almost all disciplines, including biomedical science, engineering, and behavioral and social science. The Federation of Korean Gerontological Societies (FKGS), which consists of four member societies (Korean Gerontological Societies, Korean Society for Bio-Gerontology, Korean Geriatrics Society, and Korean Association for Geriatrics Psychiatry), has grown to become a center for academic research in the field of gerontology and geriatrics and represents Korea in the world scientific community (www.koreangerontology.org). The FKGS has organized the 20th IAGG World Congress of Gerontology and Geriatrics to be held in Seoul in June, 2013 (www.iagg2013.org).

Since 2009, the Korean government has been building the High-tech Medical Cluster, a high-tech research and development project aimed at fostering the domestic medical industry, so it can become a new driving force of national growth. From 2009 to 2038, a total of $8.6 billion ($3.7 billion for research facilities and operation and $4.9 billion for research and development) will be committed to the field of biology, engineering (nanotechnology), and information technology to develop new drugs and high-tech medical devices. The national government, including the Ministry of Education and Technology, Ministry of Health and Welfare, and Ministry of Knowledge and Economy, will provide research and development grants. As a major research funding source, the National Research Foundation of Korea (www.nrf.re.kr) provides grants for scientific research and educational programs and strongly encourages international collaboration.

The Korea Institute for Health and Social Affairs (KIHASA), a think tank under the auspices of the Prime Minister’s Office, engages in policy research on health and social welfare and conducts a number of national surveys on the life and health of Korean people (e.g., Survey on Livelihood and Welfare Needs of the Elderly, Survey on Livelihood and Welfare Needs of the Disabled, National Health and Nutrition Survey). Access to the micro data is permitted for research purposes by submitting applications to KIHASA (www.kihasa.re.kr).

Longitudinal, internationally comparable data on aging are also available in Korea. Table 2 describes three longitudinal data sets on aging. The Korean Longitudinal Study of Aging (KLoSA) is a nationally representative sample of more than 10,000 Koreans who are at least 45 years of age. (Its age cutoff reflects earlier retirement practices in several Asian nations.) It was first conducted in 2006, with biennial follow-up waves since then. The KLoSA interviews all age-qualifying individuals in a household and includes a rich set of questions regarding economic standing, physical and psychological health, demographics, and the social network of aged persons. The RH KLoSA defines variables to be as similar as possible to those of the RAND HRS to allow users to make comparisons among the RH ELSA, RAND HRS, and all other RAND harmonized datasets (https://mimicdata.rand.org/meta).

The Korean Retirement and Income Study (KReIS) is also a nationally representative longitudinal survey, first conducted in 2005, with biennial follow-up waves since then. The initial survey sample was approximately 5,100 households, from which Korean residents aged 50 or older and their spouses or legal partners were selected (N = 8,567). The questionnaire covers economic status, employment, retirement and preparation for it, physical and mental health status, and family relationships among middle-aged and older adults (www.nps.or.kr, panel@nps.or.kr).

Hallym University has conducted a longitudinal study on the quality of life of the elderly population in Korea. With support from National Research Foundation of Korea, the Hallym Aging Study (HAS) was first conducted in 2003, with consecutive biennial follow-up surveys in 2005, 2007, and 2009. A total sample of 2,500 (aged 45–64: n = 700; aged 65 or older: n = 1,800) was drawn from Seoul (metropolitan city) and Chuncheon (medium-size city in a mixed urban and rural area). Access to the micro data is permitted for research purposes by submitting applications to Hallym University Institute of Aging (http://web.hallym.ac.kr/~aging).
Conclusion

Rapid population aging in Korea between 2000 and 2050 is expected to increase public expenditures on pensions, health care, and long-term care. Social spending in Korea, currently 7.5% of GDP, remains well below the OECD average of 20%, reflecting Korea’s relatively young population, the limited coverage of health and long-term care insurance, and the immaturity of the pension system. As these specific factors evolve in coming years, social spending in Korea is likely to rise toward the OECD average. Indeed, social spending in Korea grew at an annual rate of 14% between 2000 and 2007, the fastest among OECD countries.

Korea now confronts difficult challenges in seeking to balance economic growth and social protection for the elderly population. Economic growth serves to create jobs and generate revenues necessary to fund social spending for older persons. Yet, increases in social spending have sharply increased tax burdens in many OECD countries, weakening work incentives and slowing growth. Because cross-country OECD research suggests that increased social protection spending accompanied by higher taxes can reduce growth, necessitating a trade-off between efficiency and social spending, it is critical to ensure efficiency in social spending in Korea.

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References


Table 2. Longitudinal Data Sets About Older Persons in Korea

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<td>Demographics and family characteristics, economic and social status, physical health, mental health, and social network</td>
<td>The first two waves of data available on RAND Survey Meta Data Repository (<a href="https://mimicdata.rand.org/meta">https://mimicdata.rand.org/meta</a>)</td>
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<tr>
<td>Korean Retirement and Income Study (KReIs; 2005, 2007, 2009, 2011)</td>
<td>Nationally representative samples of households with at least one family member aged 50 and older and household members aged 50 and older years</td>
<td>Demographic and family characteristics, economic status, employment, retirement, retirement preparation, physical health, mental health, and family relationships</td>
<td>Micro data available for research purposes by applying to National Pension Research Institute (<a href="mailto:panel@nps.ozk.or.kr">panel@nps.ozk.or.kr</a>); currently, the first three waves of data are available</td>
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<td>Hallym Aging Study (HAS; 2003, 2005, 2007, 2009)</td>
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<td>Demographics and family characteristics, economic and social status, physical health, subjective well-being and mental health, cognitive function, family relationships, social support, and social activity</td>
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