

2013 Workshop of Center for Intergenerational Studies

Intergenerational Transfers and Old-Age Security in Korea

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C O N T E N T S

Introduction

Patterns of Intergenerational Transfers

Characteristics of Donor and Recipient

Deteriorating Familial Support

Policies for Old-Age Security

Part-01 | Introduction

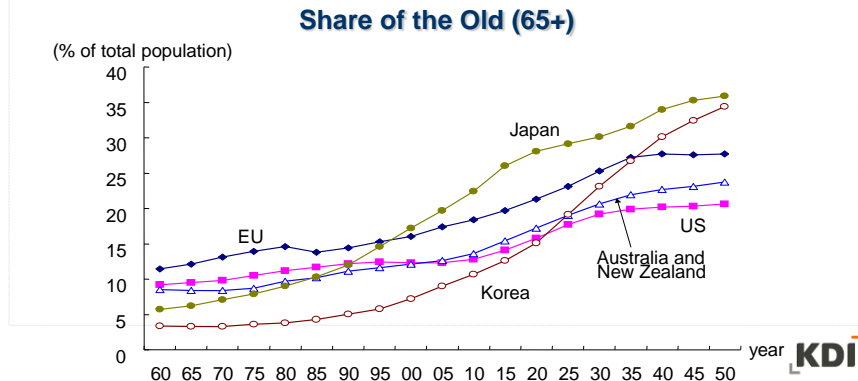


Some Gloomy Facts about Korean Elderly

- **Elderly poverty rate of Korea is 45.1%** while the average of 30 OECD countries is 13.5% (OECD, *Pensions at a Glance 2011*).
- As of 2010, **17.4% of the elderly** (aged 60 or older) **live alone** without any family members.
- **Elderly suicide rate** (per 100,000 persons) of Korea in 2010 is 80.3, which is **4 times as high as that of OECD 25 countries** (20.9).

Motivation

- ❖ Traditional **Familial Support Mechanism Faces Big Challenges.**
 - ❖ Children's financial transfers and coresidence have been crucial to the old-age security in Korea.
 - ❖ But familial support is deteriorating with rapid population ageing and cultural transition toward individualism.



Purpose and Questions

Investigating the Patterns and Motivations of **Adult Children's Transfers to Elderly Parents in Korea to Evaluate Their Role in Familial Support Mechanism**

- ◆ How much money is transferred between children and their elderly parents? Korea vs. U.S.
- ◆ Which parents benefit more from their children?
- ◆ Which child gives more to the parents?
- ◆ How is familial support mechanism going?
- ◆ What should households and government do for old-age income security?

Data

- ◆ **KLoSA (Korean Longitudinal Study of Ageing)**
 - 10,254 middle/old-aged Koreans (aged 45 or older) in 2006
 - Family section includes family transfers between the respondent and each child/parent.
- ◆ **KLIPS (Korean Labor and Income Panel Study)**
 - 5,000 Korean households and their members (aged 15 or over) in 1998
 - Since its 4th survey in 2001, financial transfers given to and received from the respondent/spouse's parents have been reported.
- ◆ **KReIS (Korean Retirement and Income Study)**
 - 5,110 Korean households (8,664 persons aged 50 or older and their spouses) in 2005
 - Financial help given to and received from family members (both coresident and noncoresident) has been reported.
- ◆ **HRS (Health and Retirement Study)**
 - 7,607 U.S. households (12,652 persons aged 51-61) in 1992
 - Financial help given to and received from children/parents has been reported.



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Part-02

Patterns of Transfers



Inter-Vivos Transfers: KLoSA Data

❖ Annual Transfer Receipt from Children

- The respondents' and children's age 70 and 42 on average.
- 40% receive transfers; average transfer is 1,040,000 won.
- Conditional mean (median) is 2,600,000 (1,000,000) won.

❖ Annual Transfer Gift to Children

- 11% give transfers; average transfer is 850,000 won.
- Conditional mean (median) is 7,490,000 (3,150,000) won.

❖ Annual Net Transfer Receipt from Children

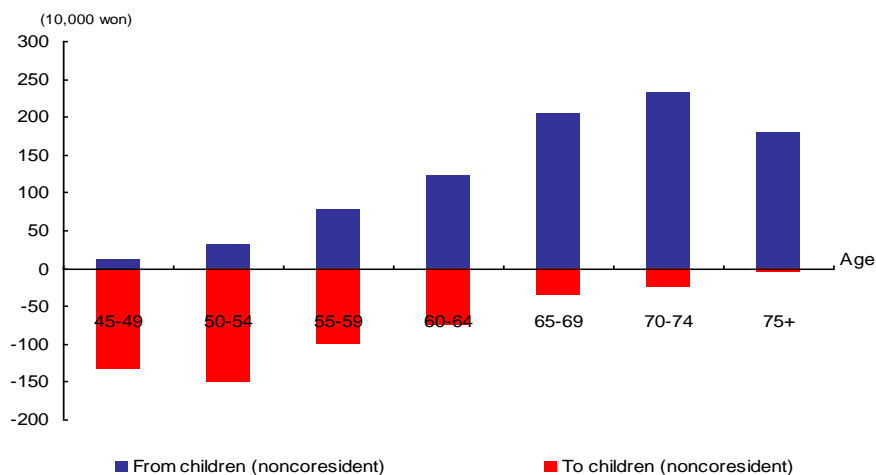
- Average net transfer receipt is 190,000 won.

❖ Annual Net Transfer Gift to Their Own Parents

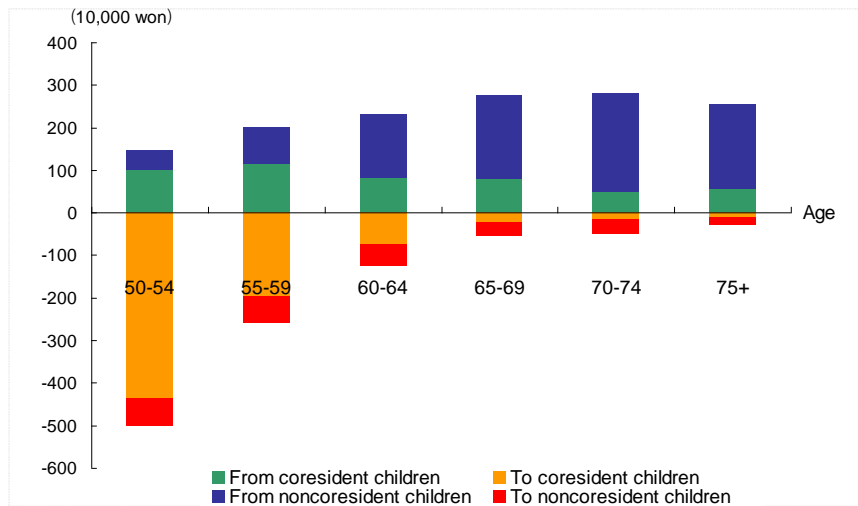
- The respondents' and parents' age 52 and 79 on average.
- Average net transfer gift is 460,000 won.



Inter-Vivos Transfers: As Parents Age (KLoSA)



How about Coresident Children? (KReIS)



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Inter-Vivos Transfers: Korea vs. U.S.

(in 2005 dollars)

| Dataset | Number | Fraction>0 | Mean | Mean>0 | Median>0 |
|--------------------------------|--------|------------|---------|---------|----------|
| To Parents or Parents-in-Law | | | | | |
| KLIPS 2005 | 3,112 | 62.4% | \$1,197 | \$1,917 | \$1,172 |
| HRS 1994 | 1,985 | 16.5% | \$117 | \$1,190 | \$659 |
| From Parents or Parents-in-Law | | | | | |
| KLIPS 2005 | 3,112 | 22.6% | \$572 | \$2,531 | \$976 |
| HRS 1994 | 1,984 | 5.7% | \$107 | \$3,241 | \$1,318 |

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Whose Parents? Husband's or Wife's?

(10,000 won in each year)

| KLIPS Data | To husband's parents | | To wife's parents | | From husband's parents | | From wife's parents | |
|------------|----------------------|----------------------|-------------------|----------------------|------------------------|----------------------|---------------------|----------------------|
| Year | %>0 | Mean>0 (Median>0) | %>0 | Mean>0 (Median>0) | %>0 | Mean>0 (Median>0) | %>0 | Mean>0 (Median>0) |
| 2001 | 53.1 | 115 (50) | 40.0 | 72 (30) | 16.6 | 162 (50) | 13.5 | 104 (40) |
| 2002 | 57.5 | 137 (70) | 47.1 | 69 (40) | 15.9 | 178 (50) | 14.5 | 150 (50) |
| 2003 | 59.8 | 140 (100) | 49.8 | 87 (50) | 18.3 | 513 (50) | 15.5 | 93 (50) |
| 2004 | 65.8 | 178 (100) | 57.4 | 77 (50) | 21.3 | 222 (50) | 19.8 | 140 (50) |
| 2005 | 64.4 | 150 (100) | 55.9 | 85 (50) | 19.5 | 208 (50) | 18.3 | 144 (50) |

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Inheritance Receipt: Korea vs. U.S.

(in 2006 dollars)

| Dataset | Number | Fraction>0 | Mean>0 | Median>0 |
|------------|--------|------------|-----------|----------|
| KLoSA 2006 | 6,171 | 2.4% | \$157,665 | \$52,325 |
| HRS 1992 | 7,538 | 28.1% | \$73,021 | \$28,738 |

- ❖ Korean parents used to concentrate their bequest on a child (usually their eldest son) in return for his old-age support.

- The eldest son has usually undertaken the responsibility to support parents and celebrate Confucian memorial services for ancestors.

- ❖ But expectations about future inheritance receipt and gift are quite similar for Korea and the United States.



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Who leaves What as an Inheritance? (KLoSA)

| Relationship of donor | # cases (%) | Form of inheritance | # cases (%) |
|--------------------------------|-------------|--------------------------|-------------|
| Father | 99 (67.8) | Real estate | 137 (93.8) |
| Spouse | 28 (19.2) | Cash or financial assets | 5 (3.4) |
| Mother | 12 (8.2) | Insurance settlement | 2 (1.4) |
| Father-in-law or mother-in-law | 4 (2.7) | Pension settlement | 1 (0.7) |
| Other relative | 3 (2.1) | Other | 1 (0.7) |
| Total | 146 (100.0) | Total | 146 (100.0) |

The most common case of inheritance in Korea:

- **Who?** The father
- **Leaves what?** House or land
- **To whom?** The eldest son
- **Why?** Because he takes care of his elderly parents.



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The Eldest Son: Big Donor and Big Recipient

| Major financial supporter among children (KReIS) | % | Main recipient of bequests ever left (KReIS) | % |
|--------------------------------------------------|-------------|----------------------------------------------|-------------|
| Eldest son | 53.6 | Eldest son | 52.6 |
| Firstborn and only son | 9.8 | Other cases | 47.4 |
| Non-firstborn but only son | 5.5 | Evenly to every child | 17.6 |
| Non-only son but eldest son | 38.4 | Eldest daughter | 15.5 |
| Other children | 46.4 | Non-eldest son | 9.3 |
| Other son | 10.8 | Non-eldest daughter | 3.5 |
| Daughter with no brother | 6.7 | Social organization | 0.6 |
| Daughter with 1 brother | 15.6 | Sibling | 0.1 |
| Daughter with 2+ brothers | 13.3 | Fraction of donor households | 31.7 |

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Theory

❖ A Simple Model of Familial Transfer

- Donor has altruistic preference for recipient's welfare:
 $U_d = U(C_d, s, V(C_r, s))$, $\partial U / \partial V > 0$, C : consumption, s : services.
- Exchange motive presents if $\partial U / \partial s > 0$ and $\partial V / \partial s < 0$.
- Transfer changes budget constraints: $C_d = I_d - T$ and $C_r = I_r + T$.
- Since C_r is a normal good, $\partial T / \partial I_d > 0$.

❖ Transfer Motives and Transfer Derivatives

- **Altruism**: $\partial T / \partial I_r < 0$.
- **Exchange**: $\partial T / \partial I_r < 0$ or $\partial T / \partial I_r > 0$ (ambiguous)
 - If $T = ps$ (p : implicit price of service), then $\partial s / \partial I_r < 0$ and $\partial p / \partial I_r > 0$.
- If altruism dominates, public transfers will crowd out private transfers.
- Empirical literature comes to mixed conclusions.

Which Parents Benefits More from Children?

| | (10,000 won) | | |
|-----------------------------------------------------------|--------------|------------|-----------|
| Sum of net annual transfer from every child | (1) | (2) | (3) |
| Age | 31.7 *** | 32.6 *** | 32.9 *** |
| Age squared | -0.2 *** | -0.2 *** | -0.2 *** |
| Female | 40.5 * | 38.2 * | 37.8 * |
| Annual income/10 ³ | -15.6 *** | -15.3 *** | -14.9 *** |
| Annual income squared/10 ⁶ | 0.1 ** | 0.1 ** | 0.1 ** |
| Net worth/10 ⁶ | -644.2 *** | -637.2 *** | -646.8 ** |
| Number of daughters | 14.3 * | 2.9 | 3.8 |
| Number of sons | 34.6 *** | 23.4 ** | 23.7 ** |
| Number of grandchildren | | 7.6 * | 7.2 * |
| Children's generation will be better off | | | 91.8 ** |
| Government will provide old-age support | | | -67.0 * |
| Data: KLoSA (n=6,474 families); Adjusted R ² = | .0412 | .0416 | .0427 |

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Coresident Children and Noncoresident Children Differ

| Net annual transfer (1,000 won) from | Coresident children | Noncoresident children |
|------------------------------------------|-----------------------|------------------------|
| Net transfer from coresident children | | -0.04079 *** |
| Net transfer from noncoresident children | -0.05471 *** | |
| Living with spouse | -1370.7 *** | 912.1 *** |
| # Household members aged 0-4 | 1089.9 *** | -720.4 *** |
| # Household members aged 5-9 | 320.6 | -350.7 ** |
| # Household members aged 10-19 | -1466.2 *** | -84.5 |
| # Household members aged 20-39 | -416.4 *** | -100.0 |
| # Household members aged 40-64 | 26.5 | -745.1 *** |
| # Household members aged 65 or older | -345.5 * | -280.1 *** |
| Number of sons | -17.7 | 250.3 *** |
| Number of daughters | -31.2 | 152.2 *** |
| Caring for grandchild almost entirely | 920.8 *** | 1981.6 *** |
| Data: KReIS (n=8,629 respondents) | R ² =0.204 | R ² =0.107 |

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Family Caregivings in Korea (KReIS)

| Caregivings for: | Grandchildren (N=3,290 households that have grandchildren) | Sick parents (N=1,431 households whose parents are alive) |
|------------------------------------------------------------------------|------------------------------------------------------------------|-----------------------------------------------------------------|
| Proportion of caregiving households | 14.7% | 7.0% |
| Mean (median) caregiving hours per week | 54 (49) hours | 37 (21) hours |
| Proportion of caregivers who had to quit or reduce work for caregiving | 15.2% | 26.3% |
| Proportion of caregivers who receive money for caregiving | 33.2% | - |
| Mean (median) amount of money received for caregiving per month | 360,000 (300,000) won | - |



Which Child Gives More? Family F.E. (KLoSA)

| Net annual transfer from each child (10,000 won) | Total | Regular | Irregular |
|-----------------------------------------------------|----------------|-----------------|-----------------|
| Eldest child | 20.6 | 22.9 *** | -2.2 |
| Son | 31.3 ** | 22.7 *** | 8.5 |
| Years of education | 9.1 *** | 6.5 *** | 2.6 |
| Home ownership | 33.3 ** | 34.0 *** | -0.7 |
| Working | -2.8 | 31.2 *** | -34.0 ** |
| Giving in-kind transfer to parents | -11.5 | -10.2 | -1.3 |
| Receiving in-kind transfer from parents | 82.2 *** | -2.4 | 84.6 *** |
| Observations: 6,299 (2,052 families) | | | |
| R-squared (within families) | .020 | .044 | .012 |



Part-04 | Deteriorating Familial Support



Main Retirement Plan by Age Cohort

| Expected Main Income Source | 50s | 60s | 70s up |
|-----------------------------|------|------|--------|
| Earnings | 34.3 | 26.3 | 12.8 |
| Child's Help | 6.2 | 18.7 | 37.9 |
| Public Pension | 20.1 | 17.9 | 10.0 |
| None | 16.9 | 17.3 | 21.5 |

Main Source of Korean Elderly (60+) Income

| Income Source | 1980 | 1995 | 2003 |
|--------------------|------|------|------|
| Labor ↑ | 16.2 | 26.6 | 30.4 |
| Property ↑ | 5.5 | 9.9 | 9.9 |
| Private Transfer ↓ | 75.6 | 56.6 | 31.4 |
| Public Transfer ↑ | 2.0 | 6.6 | 25.6 |

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Composition of Korean Elderly (65+) Income

| Income Source | Single Elderly | | Married Elderly | |
|------------------|----------------|------|-----------------|------|
| | 2005 | 2009 | 2005 | 2009 |
| Labor | 15.1 | 12.5 | 34.1 | 36.3 |
| Property | 8.8 | 10.3 | 14.1 | 15.1 |
| Private Transfer | 52.6 | 49.0 | 29.7 | 25.9 |
| Public Transfer | 23.5 | 28.2 | 22.7 | 22.7 |

Data: National Surveys for Measuring Minimum Living Expense

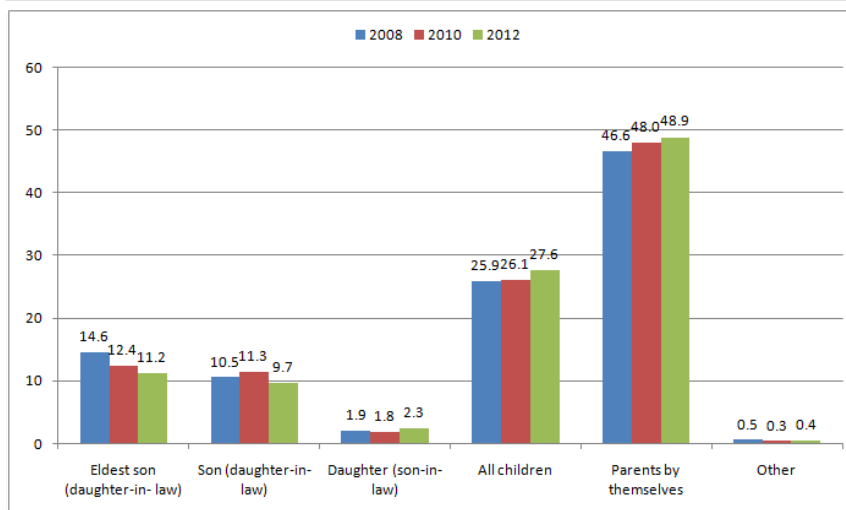
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Changes in Familial Support Mechanism

| Coresident or Supporter for | Your Deceased Parents (%) | Your Living Parents (%) | Changes (% point) |
|-----------------------------|---------------------------|-------------------------|-------------------|
| Alone by Themselves | 18.6 | 34.5 | 15.9 |
| The Eldest Son | 70.6 | 45.2 | -25.4 |
| Other Sons | 6.5 | 13.8 | 7.2 |
| Daughters | 2.8 | 4.1 | 1.4 |
| All Children Together | 1.5 | 2.5 | 1.0 |

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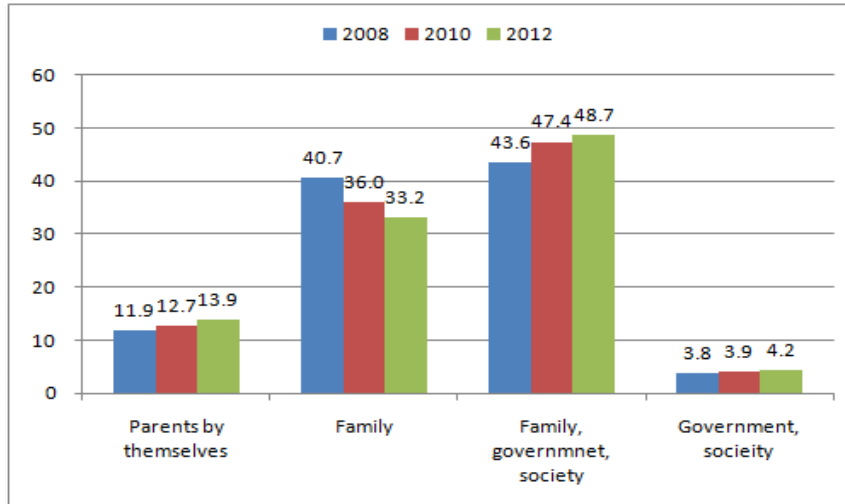
Who is the main supporter of your parent(s)?



Data: Statistics Korea, Social Surveys (each year)

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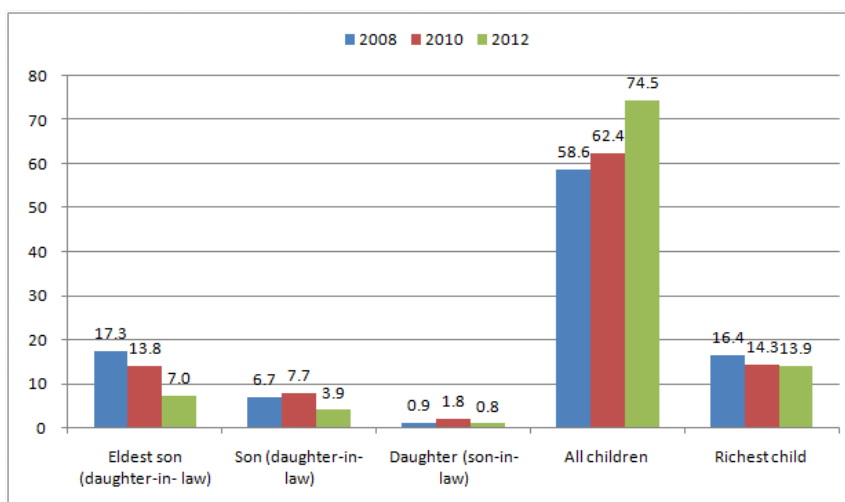
Who should take care of elderly parents?



Data: Statistics Korea, Social Surveys (each year)

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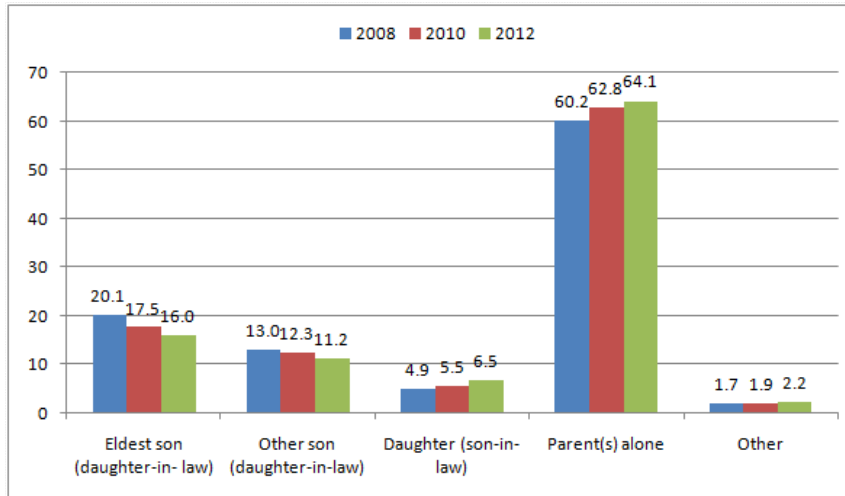
Among family members, who should?



Data: Statistics Korea, Social Surveys (each year)

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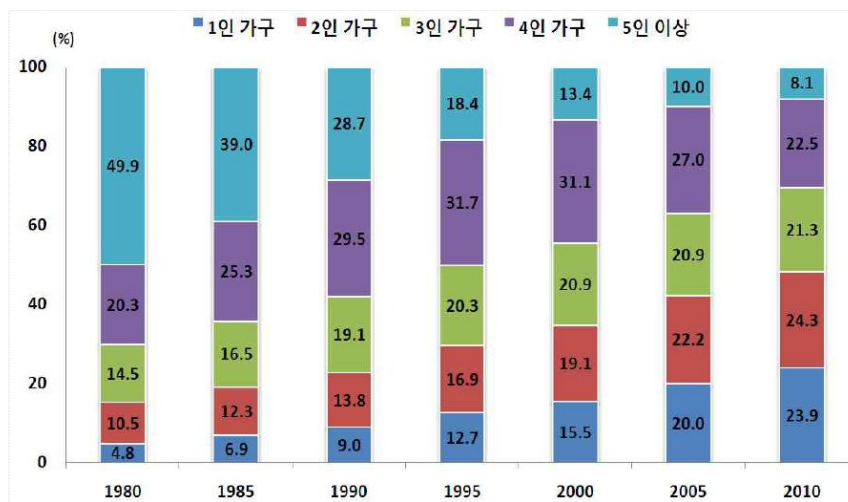
Who lives with your living parent(s)?



Data: Statistics Korea, Social Surveys (each year)



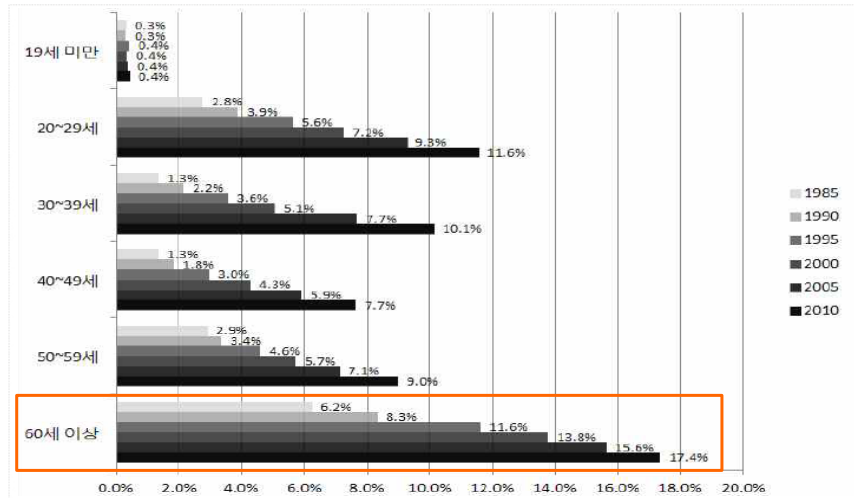
Family Size is Getting Smaller



Source: Statistics Korea, 2011.



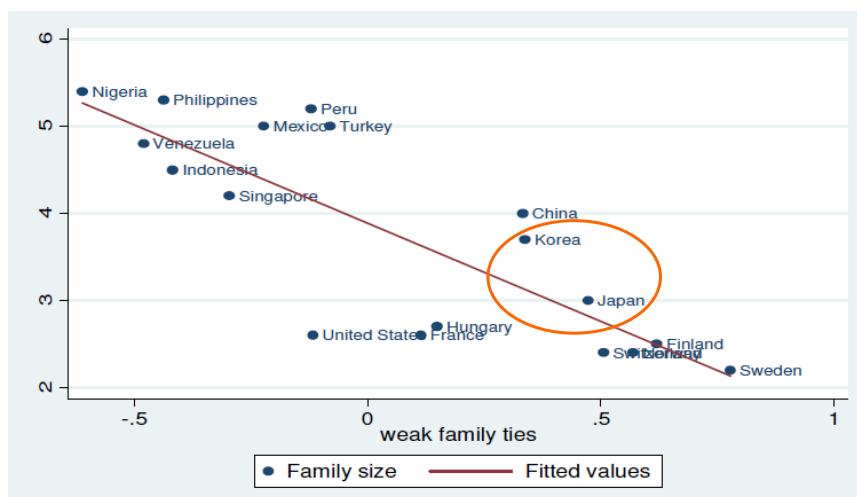
Single-Person Households are Increasing



Source: Census data (each year)

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Smaller Family Size, Weaker Family Ties



Source: Alesina and Giuliano, The power of the family, *Journal of Economic Growth*, 2010.

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Part-05

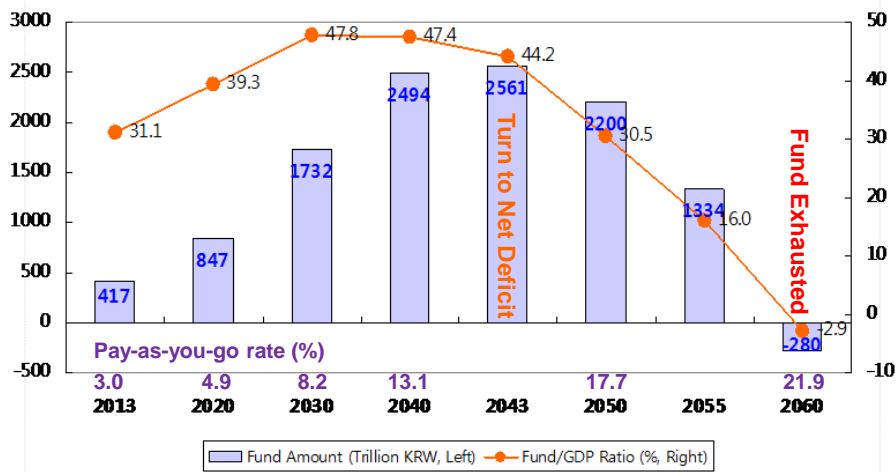
Policies for Old-Age Security

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Current Income Security Systems in Korea

| | | | | |
|---------------------------|-------------------------------------------------------------------------------------------------------------------------------|---------------|---------------------------------------------------------------------------|----------------------------------------------------------------|
| 3 rd pillar | Individual pension(1.62 million insured persons, Dec. 2009) | | | |
| 2 nd pillar | Retirement Pension (3.49 million insured persons, Feb. 2012) | | Public Occupational Pensions (1.39 million insured persons, Dec. 2010) | |
| 1 st pillar | National Pension (19.89 million insured persons, Dec. 2011) | | | |
| 0 pillar | Basic Old Age Pension(Tax-based and means tested, 70% of the elderly aged 65 and over, 3.80 million beneficiaries, Dec. 2011) | | | |
| | National Basic Livelihood Security (1.47 million beneficiaries, Dec. 2011): poverty households | | | |
| Covered Groups | Employees | Self-employed | Others | Civil servants, Private school teachers and Military personnel |

Projected National Pension Fund Balance



Source: National Pension Fund Evaluation Committee, 2013. 3.

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Intergenerational Fairness Issues

❖ Intergenerational Redistribution via National Pension

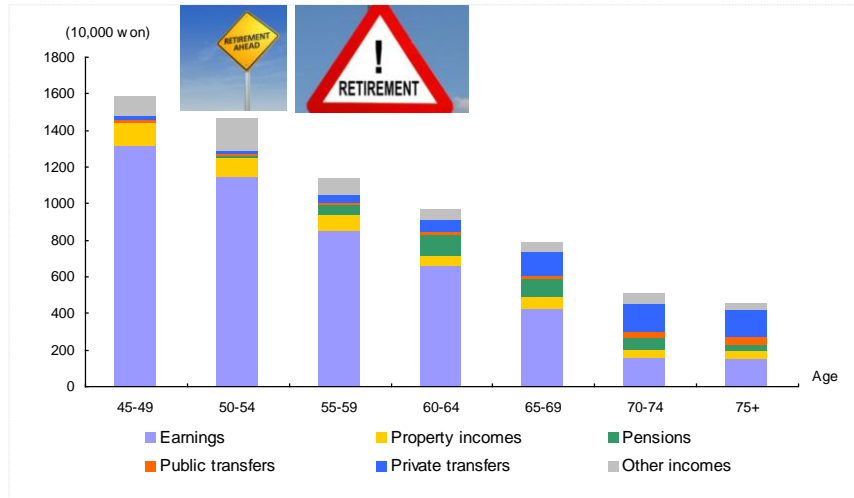
- NP reforms toward reducing generosity:
 - Earnings replacement ratio: 70% → 60% (1st reform, 1997) → 40% (2nd reform, 2007)
 - Contribution rate: 3% → 6% (1993) → 9% (1998)
 - Pensionable age: 60 → 65 (1998)
- Still, NP is generous for “current” generation.
 - Expected benefit-cost ratio for average pensioner = 1.8

❖ We Exploit Next Generations?

- (Yes!) We must reduce the current generosity of NP far more!
- (No!) This is a way of “intergenerational solidarity”!
 - Current generation (e.g. “baby-boomers” born in 55-63) supports their elderly parents but does not expect their children’s help.

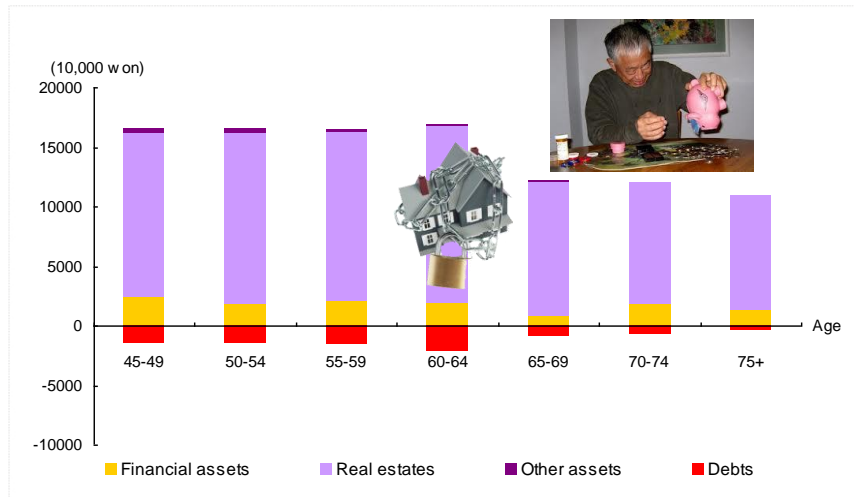
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Average Income of Koreans by Age



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Average Wealth of Koreans by Age



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Korean Elderly Income by Income Quintile

| Age 65+ (10,000 won) | Lowest quintile | Second fifth | Middle fifth | Fourth fifth | Highest quintile |
|-------------------------|--------------------|-----------------|-----------------|-----------------|---------------------|
| Earning | 0 (2.1%) | 6 (5.9%) | 39 (15.2%) | 183 (32.0%) | 1418 (53.3%) |
| Property income | 1 (2.8%) | 10 (10.4%) | 15 (5.9%) | 38 (6.6%) | 257 (9.7%) |
| Pension benefit | 0 (0.8%) | 9 (9.2%) | 37 (14.1%) | 53 (9.3%) | 361 (13.6%) |
| Public transfer | 8 (39.7%) | 12 (11.8%) | 46 (17.8%) | 69 (12.1%) | 54 (2.0%) |
| Private transfer | 11 (53.9%) | 62 (62.6%) | 120 (46.6%) | 225 (39.3%) | 502 (18.8%) |
| Other income | 0 (0.4%) | 0 (0.1%) | 1 (0.2%) | 4 (0.7%) | 69 (2.6%) |
| Total | 21 | 99 | 259 | 573 | 2661 |

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Single elderly are more likely to be in poverty

| Type of household | Population % | All household members | | Elderly members | |
|-----------------------------------|-----------------|-----------------------|--------------|-----------------|--------------|
| | | <0.5 median | <0.25 median | <0.5 median | <0.25 median |
| Single elderly w/o working agers | 4 | 70.9 | 17.5 | 70.9 | 17.8 |
| Married elderly w/o working agers | 8 | 45.1 | 6.8 | 47.1 | 7.0 |
| Elderly w/ working agers | 16 | 15.4 | 2.4 | 18.7 | 3.2 |
| Working agers w/o elderly | 72 | 8.3 | 1.8 | | |
| Total | 100 | 15.0 | 3.0 | 44.2 | 8.7 |

Note:

1. Working agers are 18-64 years old; Elderly are 65+ and spouses.
2. Poverty (extreme poverty) rate: <0.5 (0.25) median income equalized and individualized.
3. According to the Household Survey of Statistics Korea, elderly poverty rate in 2010 is 47.1% by a criterion of 0.5 disposal income, whereas total poverty rate is 14.9%.
4. Household poverty rate (by a criterion of 0.5 median equalized income) of each type of household in this table is 63.0%, 36.4%, 14.9%, 8.9% respectively, and 18.7% in total.

Source: Ministry of Health and Welfare, 2011 Survey of Welfare Needs.

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Conclusion

❖ Findings

- Altruism is the main motive of familial transfers in Korea.
- Public transfer (expectation) crowds out private transfer.
- Eldest sons undertake the heaviest burden for parents.
- Child education can hardly be a retirement plan.
- Familial support mechanism has been deteriorating.

❖ Suggestions

- Prepare yourself for retirement! (Don't count on your child!)
- Make child education less burdensome to keep nest eggs.
- Extend employment opportunities for the elderly.
- Enhance long-term saving incentives and reform pensions.
- Encourage the liquidation of residential home for income.
- Target disadvantaged groups giving priority to reducing poverty prevalent among the elderly.