

Population Aging and Changes in the Roles of Public and Private Transfers

Nam-hee Hwang
Associate Research Fellow, KIHASA

Introduction

While caring in the past for parents in old age was mostly regarded as a family responsibility, today the rapid advancement of population aging and the growing welfare needs have brought to the fore the importance of public transfers in old-age income support. The 2014 *Survey of Living Conditions and Welfare Needs of Older Koreans* finds that when asked who should be held responsible for provisions for one's old age, only 14.8 percent of the surveyed answered "one's adult children" or "oneself and one's adult children," while as much as 52.9 percent picked "the government" or "oneself and the government." These figures suggest a significant rise over the recent years in people's expectation of the government's role in old-age income support.

Transfer here refers to a flow of economic resources between individuals or from the government to individuals. Private transfers take place largely between individuals in the context of family, for example, between children and parents; public transfers occur on the societal level as a result of government programs like the National Basic Social Security and public pension schemes. The 1997 financial crisis helped bring such socioeconomic issues as poverty and income distribution to the forefront of public attention. Since then, with the introduction of the National Basic Social Security in 2000 and the Basic Old-age Pension in 2008, Korea's welfare system has greatly expanded.

As public transfers are widely regarded as affecting private transfers, it is important to understand what the effect of one is on the other. If the effect of government interventions is to reduce private transfers, the result of the public policy in question may turn out to be less than intended. Although the effect of public redistribution programs on private transfers has been a persistent social issue in many advanced countries with a long history of public pension schemes, for a long time there were no methods for quantifying transfers between individuals and those from the government to individuals, and the question remained unanswered as to whether public programs really had crowding-out effect on private transfers. In these circumstances, the recent development of the National Transfer Accounts established a groundwork for understanding generational economy, providing a basis for measuring resources allocation across different age groups.

The National Transfer Accounts system provides a useful approach to measuring lifecycle deficits and age reallocations. As it measures intergenerational economic flows in a way consistent with the System of National Accounts, the National Transfer Accounts approach provides information for analysis of future risks such as financial burdens of households and the government. In the framework of the National Transfer accounts, simulation projections using age profiles of consumption, labor income, asset holdings and tax payments provide a rich source of information that can be used for policy applications.

Using NTA estimates for the years 2000, 2006, 2009, and 2011, this study is aimed at

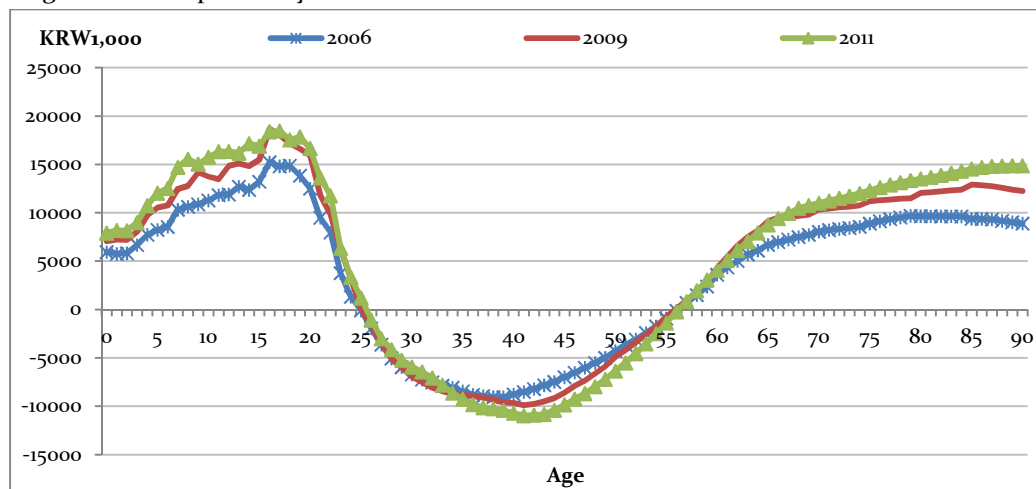
understanding the roles of public and private transfers in old-age income support in Korea.

Generational economy and the National Transfer Accounts

Population aging is known to increase those with lifecycle deficits, those who consume more than they produce. It is generally considered that few, if any, of children aged 19 and under and older people aged 65 and over take part in economic activities, whereas there is not much difference in terms of how much they consume as compared to people aged 20~64. For this reason, increases in the elderly population are seen to add to strains on the working-age population.

Figure 1 shows the scale of lifecycle deficits, estimated based on the National Transfer Accounts, for ages 0~90. Here, a positive lifecycle deficit means that consumption is larger than production. Conversely, a negative lifecycle deficit implies production is larger than consumption. The per capita lifecycle deficit for 2011 was KRW14.77 million for those aged 0~19, -KRW3.965 million for ages 20~64, and KRW11.723 million for ages 65~90.

<Figure 1> Per capita lifecycle deficit for Koreans

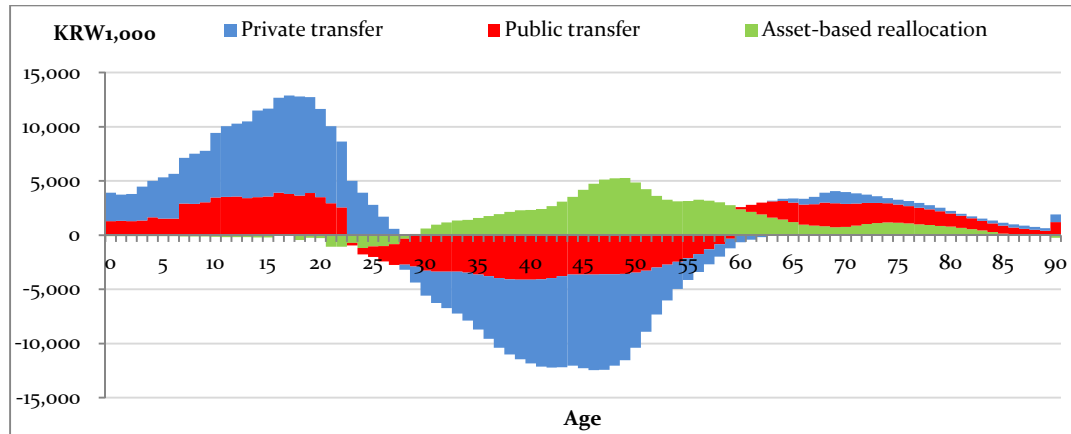


Source: Author's calculations using the National Transfer Accounts

The mechanisms by which to finance lifecycle deficits include asset-based reallocation, private transfer, and public transfer. Since asset-based reallocation is a process through which people save during their working years and use the assets thus accumulated in their years after retirement, children of young ages, who rarely are in a position to accumulate assets, tend to use private and public transfers for consumption. As shown in Figure 2, children aged 19 and younger tend to rely exclusively on private and public transfers to fill their lifecycle deficits, while the old-age population finance their lifecycle deficits with asset-based reallocations. Per capita private transfers and per capita public transfers in 2011 estimation were KRW10.126 million and KRW4.894 million, respectively, for those aged 0~19, and KRW2.237 million and KRW6.463 million for the elderly population. The per capita values of asset-based reallocations for the two age cohorts stood in 2011 at (-)KRW0.249 million and KRW3.023 million. The per capita values of private and public transfers for people aged 20~64 were (-)KRW3.933 million and (-)KRW2.740 million, while per capita asset-based reallocations for the same age group was estimated at KRW2.753 million. These mechanisms, practiced to fill lifecycle deficits, are called

age reallocations.

<Figure 2> Lifecycle reallocations, public transfers, and private transfers for Koreans, in per capita values



Note: The estimates are as of 2011

Source: Author's calculations using the National Transfer Accounts

Expansion of welfare policies for older Koreans

The Ministry of Health and Welfare's social welfare spending, of which old-age-related spending is a part, increased from KRW6.5301 trillion in 2006 to KRW26.2993 trillion in 2011, compared to the increase in the Ministry's health spending from KRW3.6038 trillion to KRW7.2701 trillion. Expenditure on elderly Koreans as a share of the Ministry's total spending increased rapidly over the years, from 4.0 percent in 2006 to 8.9 percent in 2008, and to 11.1 percent in 2011.

<Table 1> Expenditures of the Ministry of Health and Welfare, in KRW100 million

	2005	2006	2007	2008	2009	2010	2011	2012
Total expenditure	84,917	101,339	116,594	248,863	269,367	310,195	335,694	366,928
Social welfare	51,676	65,301	81,544	191,501	228,560	239,322	262,993	290,973
Basic social security	46,410	53,418	65,759	72,644	79,731	72,865	75,168	79,028
Support for the socially vulnerable	1,744	5,353	7,202	8,430		8,933***	10,512***	11,880
Public pension		673	5	68,694	81,732	95,811	109,106	124,415
Child care, family and women		269	351	15,978	18,565	22,022	25,600	30,999
Elderly	3,395	4,065	5,690*	22,058*	42,145**	35,166	37,306	39,040
Other social welfare programs	97	1,522	2,537	3,697	6,387	4,535	5,301	5,611
Health	33,241	36,038	35,050	57,362	67,807	70,863	72,701	75,955
Health care	2,119	3,788	3,940	11,823	15,797	17,037	15,599	15,842
National Health Insurance	31,122	32,250	31,110	45,539	52,040	53,826	57,102	60,113

Note: 1) * support for the elderly and the under-20 population; **support for the elderly and disabled people;

***support for children and disabled people

2) The significant increases in elderly welfare expenditures after 2007 are traceable to the introduction of the Basic Old-age Pension in January 2008 and the Long-term Care Insurance in July the same year

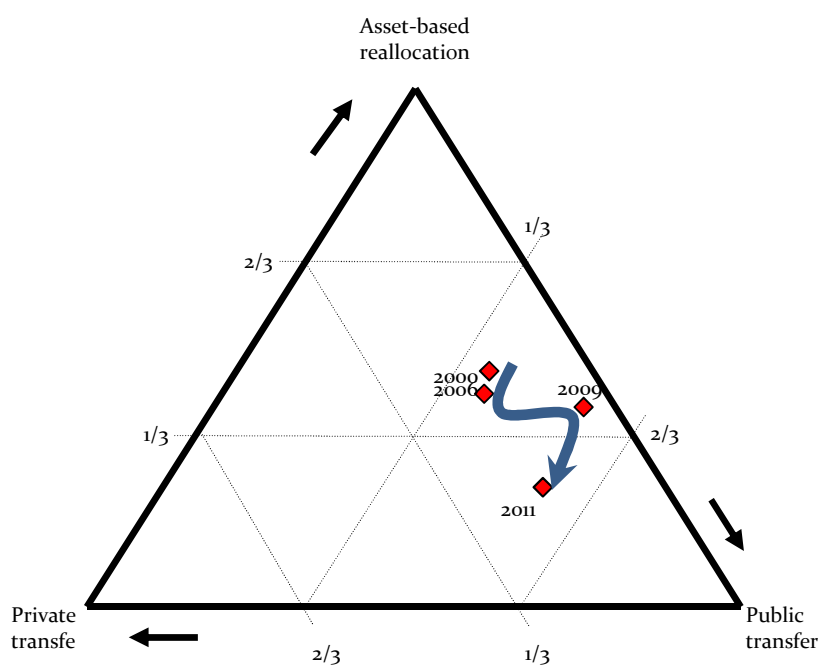
3) The public pension figures for 2007 and before account for only benefits paid out to farmers and fishermen, while those for 2008 and after include benefits for full old-age pensioners in the National Pension system.

Source: *Health and Welfare White Paper* (for the years 2006~2012), Ministry of Health and Welfare

Changes in public and private transfers to older Koreans

Estimates of National Transfer Accounts help gauge the extent to which each of asset-based reallocation, public transfer, and private transfer takes up old-age income support. With the increase in 2008 in welfare spending on elderly Koreans, Korea's system of old-age support has undergone a significant change. The three sides of the triangle in Figure 3 represent, respectively, asset-based reallocations, public transfers, and private transfers, which together constitute the whole of age reallocations. Asset-based reallocations over the recent years have constantly shrunk as a share of the total, from over 40 percent in the years 2000~2009 to 26 percent in 2011, whereas both the proportion of public transfers have grown continuously from the 37~38 percent range in the years 2000~2006 to over 54 percent during the years 2009~2011. The growth that public transfers have gained after 2009 can be attributed to increases in government spending on welfare programs for the elderly. Private transfers as a share of old-age income have increased by a narrow margin from 16 percent in 2000 to 19 percent in 2006. Their proportion in old-age income shrank to as little as 6 percent in 2009 and then swelled in 2011 to 19 percent. The decline of private transfers observed during the years 2007~2009 is traceable to the global economic crisis, which has likely constrained the ability of households to support their elderly members.

<Figure 3> Changes in the old-age support system: years 2000, 2006, 2009, and 2011



Note: The left side represents the share of asset-based reallocation, the right side the share of public transfer, and the base the share of private transfer

Source: 1) Data for the year 2000 are from the official website for the National Transfer Accounts (<http://www.ntaccounts.org>)
 2) The data for the years 2006, 2009, and 2011 are authors calculations based on the National Transfer Accounts

The results point out that there is no evidence of public transfers crowding out private ones.

Private transfers are known to be motivated by either altruism or exchange. Exchange-motivated private transfers are presumed to be made with the expectation of reciprocity. Conversely, the altruism hypothesis states that people find satisfaction from the recipient's increased utility. Korea's case of private transfers is one in which the altruistic motive has been diminishing, giving way to the exchange motive.

Conclusion

This study finds no indication that the recent growth in the government's old-age income support has crowded out private transfers, which suggests that increases in public transfers to older Koreans means not a shift of support responsibilities from the family to the state, but an increased amount of old-age income that may well lead to a higher standard of living. Further increases in government old-age income support will have to take prudent steps to forestall conflicts concerning intergenerational resource distribution. This will require in-depth, broad-based social discussion of the vulnerability of old age and justification for income-support interventions for older people. Also, the relationship between private transfers and public transfers as discussed in this paper is by no means conclusive; more definitive clarification of the relationship should be based on time-series on a larger scale.