

Society in Perspective

Fall 2013

Keeping the National Pension in Good Shape for
Posterity

Happiness in Competition

Suicides in Korea: Policy Issues and Directions

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**Society in
Perspective**

Volume 1

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Keeping the National Pension in Good Shape for Posterity

When in a 1967 *Newsweek* article the American economist Paul Samuelson called America's Social Security "the greatest Ponzi game ever contrived," his reasoning was that the tax base—workers' earnings—would always outsize pension benefits and that in a growing economy with a growing population like America's, the young would always outnumber the aged. Now we are being told that in many parts the world over there will be a severe shortage of workers necessary to support their aged populations.

Thirty-odd years earlier, Keynes had made a bold prediction that the lives of people two to three generations down from his time would become so affluent as to be free of wants. This would push down the marginal utility of income to the point that people would hardly see any reason to engage themselves in economic activities for more than three hours daily. The widely known British economist based his incorrigible optimism on a projection of future economic growth that turned out to be by and large correct. But the range of necessary commodities since then has broadened vastly to include those that commoners in Keynes's times would have thought were commodities of luxury, including healthcare and a variety of services for the aged, whose costs have grown in step with, or even faster than, income. The time Keynes predicted would come has not; and there is little sign that it ever will. Yet, when it comes to the Korean National Pension some seem to assume for our grandchildren's generation the same thing Keynes assumed for his grandchildren's generation, that our posterity will somehow be much better off than we are and thus will be in a much better position than us to foot the bill for what we spend today.

National Pension in a graying Korea

Korea's National Pension, like all other public pension schemes around the world, is an

entitlement program for the aged, with the pensioners' benefits financed by the contributions of current workers. The financial problem of Korea's National Pension is looming large as the number of people receiving pension benefits increases faster than the number of workers who pay into the system to finance those benefits. In 2000, for every person aged 65 or older there were seven workers. If the present fertility trend continues, the number of workers supporting an aged Korean may drop in just two decades to as few as two. What this means is either higher payroll contributions (or taxes for that matter) for workers or lower benefits for retirees, or a little bit of both.

Another important factor at play is the rising longevity. Between 1990 and 2008, life expectancy at 65 for Korean women grew from 16.3 years to 21.0 years and for Korean men from 12.4 years to 16.6 years. The home truth is that the National Pension has to pay benefits to Koreans who are spending an increasing segment of their lives in retirement.



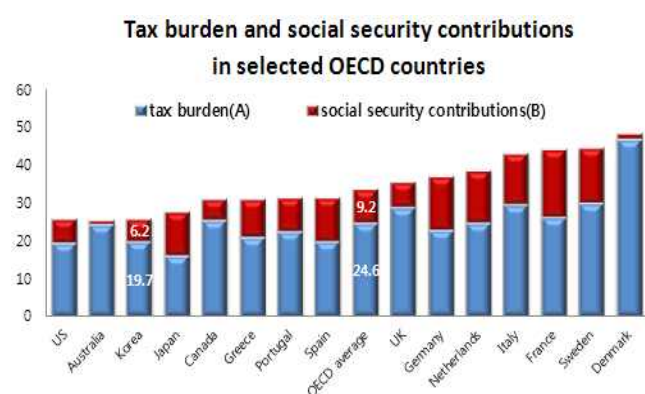
Get used to paying in more, getting less back

Koreans who now receive National Pension benefits get more than the actuarial value of the contributions that they paid and that were paid on their behalf by their employers. Benefit promises are less generous for the workers of the baby boom generation, and today's young generation are bracing for even less. This is because the rules of the National

Pension have changed in response to increasing longevity and decreasing fertility.

Launched in 1988, the National Pension has undergone several rounds of reform. In 1993 the National Pension payroll contribution rate rose from 3 percent to 6 percent and, in 1998, to 9 percent. The income replacement level for an average wage earner with a 40-year contribution history was scaled back from 70 percent to 60 percent in 1999 and to 50 percent in 2008. The figure is scheduled to decrease gradually over time until reaching 40 percent by 2028. Despite all this, the National Pension, the third-largest fund of its kind with reserves upward of KW400 trillion, is projected to run deficits from 2027 on.

Korea's tax burden as a proportion of GDP was 19.7% in 2011. When social insurance contributions, a form of tax and which took up another 6.2% of GDP, are taken into account, the total tax revenue accounts for 25.9%. Compared to the OECD-average tax burden (excluding social security contributions) and tax revenue as portions of GDP, 24.6% and 33.8%, respectively, Koreans are not paying that much in tax.



However, as after 2027 the benefit payouts will outsize the revenues with the Korean Baby Boom generation aging out of the labor force *en masse*, the gap will soon afterwards become so wide as to drain the National Pension of all its reserves by 2060, from which on the financing of the benefits will have to depend in full on workers' contributions. By then the contribution rate may have to rise as high as to 20 percent of before-tax earnings. There is

no telling if in the meantime the fertility situation will take a turn for the better.

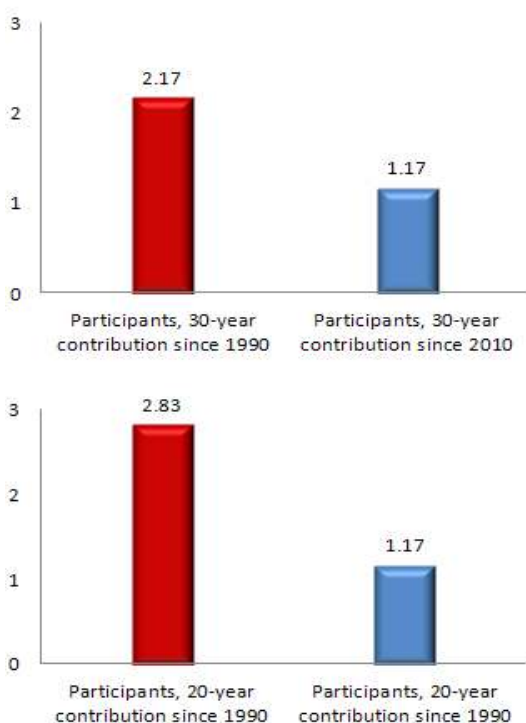
Underlying the rationale of public income transfer programs like the National Pension is the notion of a tacit compact between generations that stretches far beyond the circle of family. When today's workers let the government transfer part of their purchasing power to the aged, they do so with the understanding that the generation after theirs will do the same for them. But given that little in the current global economy suggests that Korea will break itself from the fetters of low-growth anytime soon—or even in the long run—the responsibilities the future generation will have to bear seem onerous, perhaps to the point of engendering political resistance to the existing system. In such a situation a less pressing option would be budget deficits, but this will by no means be any less costly for future generations, as budget deficits, as a rule, lead to increases in public debt, which, in turn, requires the exacting of higher taxes. Add to this the increasing expenditures on health care and various entitlement programs and the National Pension will bear more heavily on the future generations than it does on the current generation.

Inter-generational burden shift

How much one pays into, and how much one gets back from, the National Pension can be couched in terms of cost-benefit ratio. Simply put, the cost-benefit ratio is the present value of benefits one receives from the National Pension divided by the total amount one paid into the system. If a worker paid in contributions over his working years in an amount of 50 million KW and is getting a total of 100 million KW in benefits over a period of twenty years assuming that this is the rest of his life after retirement the cost-benefit ratio would be 2. How long the worker will receive the benefits depends on how long he lives after retirement. If he lives until ninety, he will receive benefits, paid on a monthly basis, longer and in an amount larger in total, which means a higher cost-benefit ratio.

Assume two Korean men, Person A and Person B, aged sixty-three and fifty-three, respectively, both of whom began paying into the National Pension in 1990. When Person A retired at the age of sixty, he would have paid payroll contributions for twenty years; by the time Person B retires, seven years from now in 2020, he will have paid contributions for thirty years. The cost-benefit ratio is 2.83 for Person A and 2.17 for Person B, assuming for both the same contribution rate of 9 percent. An average Korean wage earner of thirty who began paying payroll contributions in 2010 will be getting benefits at a much lower cost-benefit ratio of 1.17. As suggested, most of the talk of late about the National Pension has as its backdrop the aging of the population and, at its heart, the question whether the future generation will have to pay too much for the good of the current generation.

National Pension Cost-benefit Ratio



Will You Still Feed Me When I'm Eighty-Four?

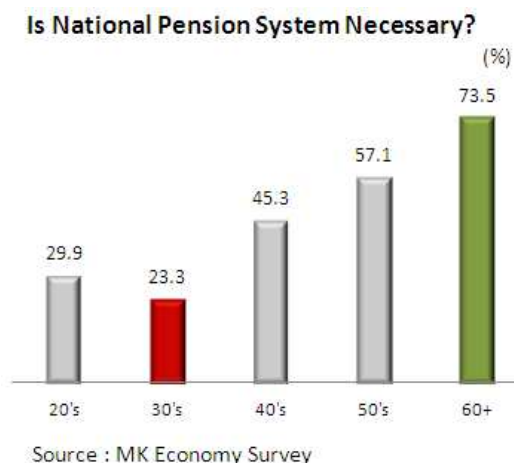
Throughout human history, adult children supported their aged parents. For parents, more children in the family meant having more se-

curity during old age. Most grown-up children in Korea continue to hold a strong sense of filial duty towards their parents; the sense of reciprocity between children and parents runs deep in the Korean psyche. However, as is the case in many countries around the world, there is a growing dimension in life in Korea today that lies beyond the reach of the strong filial duty most Koreans feel for their parents.

Today, raising children is a costly undertaking. A recent estimation suggests that it takes as much as 230 million KW to support a child until she grows old enough for college graduation. Many young and middle-age Korean parents today are willing, if not necessarily able, to support their children not only toward their college graduation but even to the point of graduate school and beyond if need be. If people in previous eras decided to have and raise children out of investment motives for old age, one might today find economic motives for having fewer children or for not having any children at all. Families in Korea are getting smaller, with childless-couple households on the increase. The corollary is that intra-familial support for old parents is on the wane, and more and more elderly individuals will have to have recourse to social arrangements such as the National Pension.

The sense of reciprocity is bound to water down when it extends beyond the circle of family. With the National Pension, those from large families tend to have the impression that in paying into it, they are contributing to the support of not their own parents but someone else's. If through the National Pension, resources are taken from workers to finance at least part of what was once considered an entirely family responsibility, those who benefit most would be families with few or no children, as, were it not for the National Pension, the responsibility for supporting aged parents would have been much heavier on an only-child than a child with siblings with whom it could be shared. However, much more often than not it is children from large families who benefit more from other taxes. For example, in the National Health Insurance, the contributions that the head of a family with one

child pays benefit the children of a larger family more than the contributions that the head of the larger family pays benefit the only child in the first family. There are various other taxes from which large families derive more benefits, which tend to offset their seemingly disadvantageous position in the National Pension.



Work longer, save more, and inherit less... debt

If Korea's old-age poverty rate of 45.1 percent (as compared to the OECD average of 13.3 percent) is something to be taken seriously, there is not much room to scale back the income replacement rate.

A large portion in the population of aged workers would prefer to continue staying in the labor force as long as they could, some even with sufficient resources at their disposal to meet their old age needs. For many recent retirees as well as many of the baby boom generation, retirement means having to adjust to a new status that they are reluctant to take on, as they consider themselves far too healthy and young to be left outside the labor force. In a survey conducted in 2006 as many as 875 thousand people aged 60 and over said they would work provided they were given opportunities. Also, in the same survey most of the older jobless said that they needed a job to make a living. There is no dearth of research evidence showing that there are many older workers who would like to continue

working beyond retirement age if allowed, even on a wage-peak basis.

Spending more years working is not an entirely unattractive option for Koreans, who stand out for their strong bequest motive. When married Koreans keep themselves from having more children than they can handle, they are concerned not so much about their own career and wealth prospects as about their limited financial means to support their children to fare well in the future. By working longer, not only would Koreans be able to withdraw less from the National Pension fund and save more for retirement, but they would in so doing be able to set aside more wealth to hand down to their children.

A Senegalese proverb has it that "when an old man dies, a library burns." We want to have our baby boomer workers in the workforce longer than they are allowed, not only because that way they can be economically more viable, but also because the economy needs their experience. Each of many of the older population is a storehouse of the valuable know-how and expertise that younger workers cannot replace. Given that increases in longevity are accompanied by improvements in the health of the aged, the current definition of the aged will need some redefining.

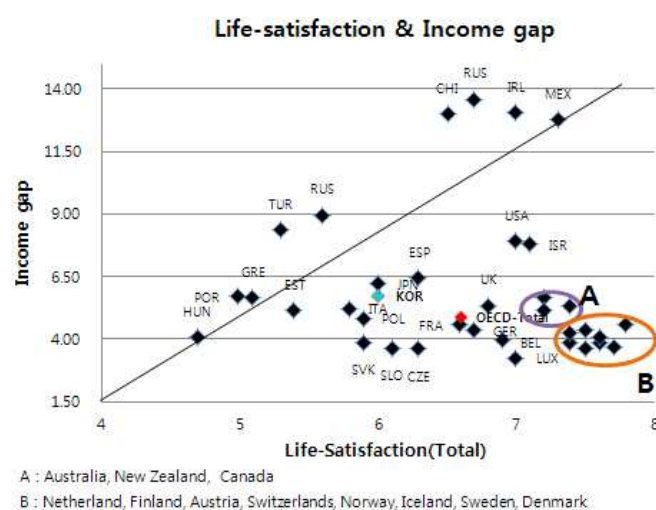
The Korean baby boom generation is a cohort widely heterogeneous in skill, work motive, and health. Increasing jobs for the elderly is important; but it is more important to ensure that they are of a quality that befits the skill and experience of older workers. How affordable the National Pension is for current and future working generations is a matter that needs to be delved into in line with how much opportunity for meaningful work there is and can be for the generation of retirees and older workers. Why not reduce the projected workforce shortage by inducing more elderly people to reenter or stay longer in the labor force. This can work, because the National Pension has never been the most generous Ponzi game ever and, moreover, over everything in Korea lies a dynamism that bears little resemblance to the world Keynes envisioned. ■

Happiness in Competition

The landscape of social surveys is strewn with happiness polls. The recent gain in the popularity of happiness research is due in large part to the widely-felt discontent with market economy and its principles being overly tilted to growth and competition. Those who espouse happiness research say that GDP represents at best a limited scope of prosperity. If people's happiness is at least as important a component of national prosperity as GDP growth, how important to people's happiness are employment rates, long-term unemployment, social security, long working hours, income inequality, and homicide incidents? Further, is self-reported happiness sensitive to these measures in a way that is compelling enough for the government to put it as a primary goal to pursue?

What does the *Better Life Index* say?

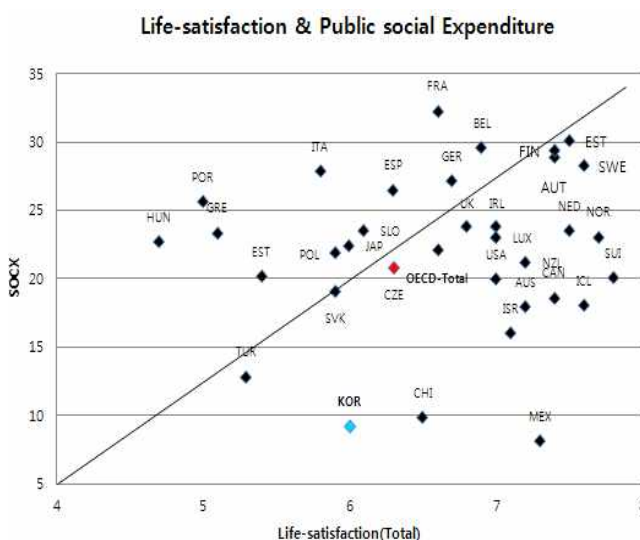
Korea has fared poorly in a number of recent surveys conducted in an attempt to measure and compare national happiness across many countries. Given the present state of Korea's current economic and welfare performance, its place in the OECD's *Better Life Index* is by no means an unexpected outcome.



The indicators that constitute OECD's *Better Life Index* center on self-reported happiness data drawn from the recent Gallup World Poll. The happiness score for Koreans turned out to

be 26th highest, much nearer to the bottom than to the top on a list of 36 countries.

The countries with some of the highest happiness scores in the composite index include Norway, Sweden, the Netherlands, Denmark, and Finland, all of which are large welfare states that spend a higher proportion of GDP on social programs than the OECD average of 21.7 percent. The connection between social expenditure and the happiness measure becomes less consistent as such countries with lower-than-average social expenditures as Iceland (16.4 percent), Mexico (7.7 percent in 2011), and Ireland (15.8 percent) are also among those that fared well on the list. For France, Spain, Italy, Greece and Portugal, people's happiness levels are much lower than suggested by their social expenditure as a percentage of GDP far exceeding the OECD average. Perhaps the seemingly inverse connection between per-GDP social expenditure and self-reported happiness found in these countries, except for France, is traceable to the impact of the recent economic crisis, which has been particularly severe in the Southern European region. What's also of note is that the self-reported happiness scores in Portugal, Greece, and Spain have dropped since 2006, from 5.4 to 5.0, from 6.4 to 5.1, and from 7.1 to 6.3, respectively. Contrary to expectation, the connection between self-reported happiness and how much of GDP the governments spend turns out to be hard to pin down.

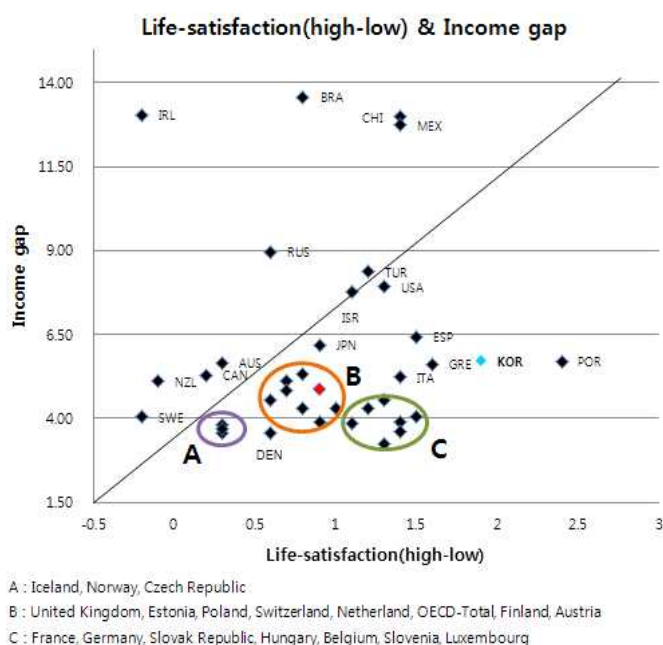


How is employment rate—those engaged in gainful activities as a proportion of the population aged between 15 and 64—connected to self-reported happiness? Having a job is considered an important source of one's self-esteem and a major source of the wherewithal to support those for whom one cares the most. Those with a higher-than-average employment rate and a higher-than-average self-reported happiness level include Iceland, Switzerland, the Netherlands, Norway, Sweden, New Zealand, Australia, Denmark, Germany, Canada, Austria, and Finland, whereas Japan, the Russian Federation, Luxembourg, Belgium, Czech Republic, Israel are some of the examples where a lower-than-average happiness level corresponds to a higher-than-average employment rate. The group of countries with a lower-than-average employment rate and a lower-than-average happiness level includes Korea, Portugal, Chile, Spain, Italy, Hungary, Greece, and Turkey.

Long-term unemployment does not reveal a meaningful connection with happiness. If there is anything Korea can boast of in the *Better Life Index*, it is its long-term unemployment rate, which is virtually zero. Also, Ireland's high long-term unemployment rate (8.5 percent, 4th highest) does not seem to have kept its people's self-reported happiness from rising above the OECD average. The level of job insecurity is very high in Korea, with one in every four workers working on a short-term contract of under 6-months. Greece, the 3rd least happy country in terms of self-reported happiness score, happens to be the one with the highest job security, whereas such countries with a high self-reported happiness level as Sweden, Denmark, and Finland have a job insecurity level higher than the OECD average.

As for income inequality, there is throughout the countries surveyed, including Korea, a general tendency among those in the top income quintile to report a significantly higher happiness level than do those in the bottom quintile. This suggests that the connection between income and life satisfaction has as its part some elements that are comparative in nature. For many people, how much they

make is less of a source of satisfaction than how much more they make than others. The ratio of top-to-bottom quintile income is measured to be 3.69 for Norway, 4.05 for Sweden, 4.32 for the Netherlands, and 3.68 for Finland, all of which are well below the OECD average of 4.87. The Scandinavian countries have large welfare states that through redistribution keep income inequality low. Of the 36 countries surveyed, 19 are with a top-to-bottom quintile ratio above the OECD average, and 9 out of these 19 countries are found to have a self-reported happiness score higher than the OECD average. People in the most and third most unequal societies, Brazil and Mexico, are found to have reported a higher happiness level than the OECD average. The poorest 20 percent in Sweden, Ireland, and New Zealand—the last two of which belonging to the group with a higher-than-average self reported happiness level and a higher-than-average top-to-bottom quintile ratio—are found to be happier than their top 20-percent counterparts. One of the noteworthy things that the *Better Life Index* shows about Korea is that the difference in self-reported happiness level between its richest and poorest quintiles is strikingly similar in scale to the differences found in such crisis-hit economies as Portugal, Italy, Greece and Spain—the happiness gap in Korea is larger than in any other country bar Portugal.



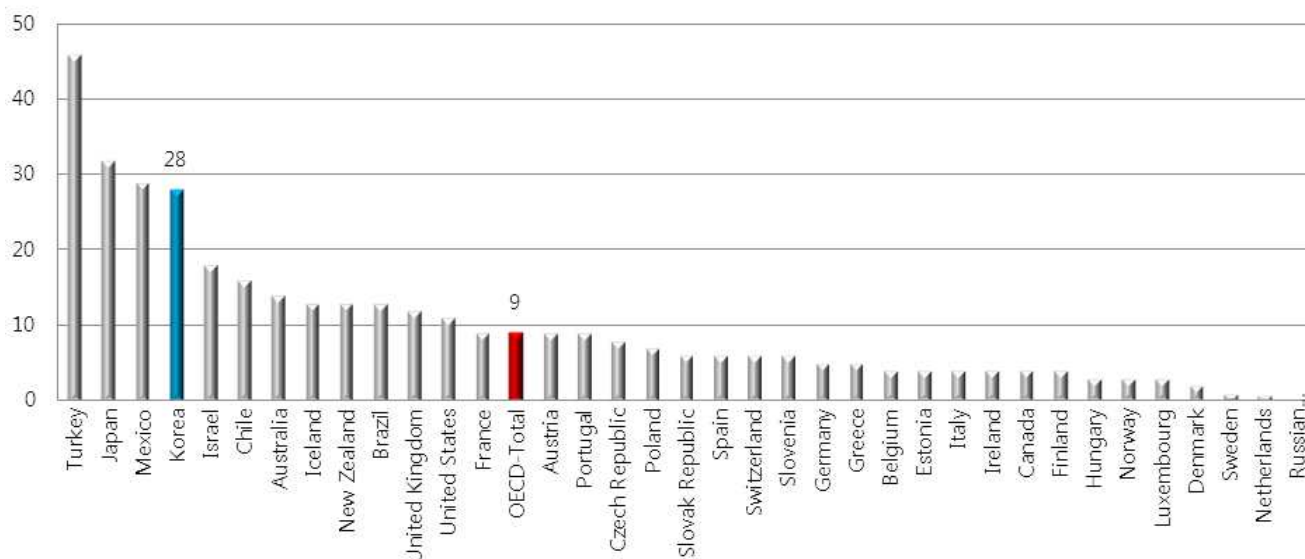
Koreans put in more hours working than people just about anywhere else in the world. “Working very long hours” leaves little time for leisure, self-cultivation and family life. Also, as things that people feel as joyous often happen outside work such as when they spend time with their friends, devoting too many hours to work can have an untoward effect on happiness. There is an unmistakable tendency throughout the Nordic countries of self-reported happiness being associated with a low percentage of workers working overtime. But “working very many hours” does not seem to push down self-reported happiness in many other countries, a prominent example of which is Hungary, where, despite as little as 3 percent of employees “working very long hours,” the happiness score is the lowest at 4.70.

ported happiness to other objective measures making up the composite index seems to be controversial at best.

In Sweden, Ireland, and New Zealand, it was those in the bottom 20 percent who reported a higher happiness level than the richest 20 percent. From this emerges the question whether, if given an option, people in the richest segment in these societies would choose to become happier even at the cost of bringing their economic status several notches down to the bottom. The point of this question is not so much whether money outweighs happiness in value as how often happiness is something people pursue as an end.

Sometimes increases in GDP may be attributable to economic activities that involve working extra hours, which can be inimical to happiness. But put in consideration in relation

Employees working very long hours, Value, Total



Happiness revisited

What does then the happiness measure used in the *Better Life Index* imply for Korea? Not only are the Nordic social democratic countries among the most affluent in the world, they seem to be the happiest societies today. Also, in most of the countries covered in the *Better Life Index*, the rich reported a higher average life satisfaction score than did those in the bottom quintile. But the connection of self-re-

with happiness, the measure of “working very long hours” engenders questions concerning the complicated problem of having to identify individual-level causes and effects of working extra hours.

Much of the thought clustered about happiness research seems to assume that by allocating resources in ways self-reported happiness measures suggest, government policy can work toward adding to people’s happiness, an assumption which leaves little room to account

for how, Mexico, for instance, with a whopping 29 percent of its working population “working very long hours,” the highest homicide rate, and only a single-digit percentage of GDP going into redistribution programs, comes in at 10th place on the self-reported happiness ranking and at 1st on the self reported happiness ranking for the top income quintiles in the 36 countries.

The self-reported happiness score for Korea, at 6.0, is a far cry from Switzerland’s 7.8. Is there any way to make sense out of the 1.8-point difference? Consider Mexico and Switzerland. An average family in the top income quintile in Switzerland is 1.75 times richer than its counterpart in Mexico, but their self-reported happiness scores are the same at 8.0, at the very top of the ranking. Now, consider Mexico and Korea. The household net adjusted disposable income for Korea’s top quintile is measured to be 32,860 USD, an amount similar to Mexico’s 32,756 USD. The two countries fared about the same in some of the measures used in the *Better Life Index*, such as “air pollution”, “water quality”, “employees working very long hours,” “job security,” “dwellings without basic facilities,” and “housing expenditure”; and in most, if not all, of the rest, it is Korea that fared better by significant margins than the other. With the self-reported happiness measure embedded in the *Better Life Index*, however, the law of transitivity no longer holds. This makes it difficult to see not only how Switzerland, Korea, and Mexico ended up 1st, 27th, and 35th, respectively, in the composite index ranking, but also how self-reported happiness can work to measure national prosperity in a way that happiness researchers say GDP cannot.

We do of course use in everyday conversations with our friends and families such expressions as ‘I’m so very happy,’ ‘I couldn’t be happier,’ and whatnot, but when asked by a surveyor of what number in a scale of one to ten would best describe the degree of satisfaction you have with your life, would you at that moment be able offhand to come up with the number you think is the best fit? The point is that although we can all claim to

have the first-person authority on, or first-person access to, how we feel about our lives, we may not necessarily be authorities in estimating our happiness. Also, without enough knowledge of up to what point our happiness, or anyone’s, can rise, we have no choice but to rely on the conditions under which people of certain classes and backgrounds in our society say they are happy with their lives. We have, at best, limited access to knowing how happy we as individuals or as a society can possibly become. Trying to rank national happiness levels by self-reported happiness scores is not unlike trying to rank the different cultures of different countries by asking people in each country how satisfied they are with their own culture.



Growth over self-reported happiness

As we have seen from the cases of Portugal, Greece, and Spain, economic recessions can invite a cut in self-reported happiness. Eliminating potential sources of unhappiness is a matter that has to do with looking after economic health and supporting GDP growth. Given that employment rates are strongly connected to self-reported happiness levels across virtually all the countries included in the

Better Life Index, policy-makers may want to create jobs that will contribute to the economy more than make-work jobs can. In fact, the most pronounced of the goals that the President of Korea articulated in her inaugural address earlier this year was one of bringing the employment rate above 70 percent, a task which the Korean government is zeroing in on.

Happiness rankings often make headlines in newspapers in Korea. We Koreans read about Korea's happiness ranking in which we cannot claim to take pride, shake our heads, and, without brooding over it, move on, for there are so many other things in life that outweigh self-reported happiness.■

Suicides in Korea: Policy Issues and Directions

By Sang-young Lee *et al.*

Korea Institute for Health and Social Affairs,
106pp.

The number of suicides per 100,000 people in Korea has been rising sharply since the mid-1990s. By 2010, as many as more than 33 people in every 100,000 Koreans took their lives by their own hands. This is an astonishingly large number compared to the OECD average of 12.9. Not only is Korea's suicide rate the highest in all OECD countries, but it has been increasing at a pace that has never been observed in any other OECD country. According to a report released by Statistics Korea, the country's national statistical authority, suicide is now the fourth leading cause of death in Korea, topped only by cancer, cerebrovascular diseases, and heart diseases. The increase in the suicide rate for the Korean population in the past decade is attributed in large part to a marked increase in suicide among the middle-to-old age groups. More Koreans aged between 20 and 39 die from suicide than from any other cause.

The authors of *Suicides in Korea: Policy Issues and Directions* look into the dismal problem Korea is fronted with, drawing on the relevant literature and seeking to identify its relationship with various socioeconomic factors from GDP growth to unemployment to default rate, and from income inequality to fertility rate.

Among the interesting observations the authors draw from their international comparison of OECD countries are that the more unequal a society is, the lower its suicide rate tends to be, and that, as most of the least unequal societies of the world are also among the most wealthy, suicide as a social problem may be more intense in rich countries. Also, the assumption that social capitals can work effectively in reducing suicide rates is not entirely convincing to the authors. Nevertheless, they find that at least in the case of Korea there is

a consistently positive relationship between changes in the suicide rate and changes in the ratio of the top 10 percent's share of income to the bottom 10 percent's share.

The 1997 Asian economic crisis and the global financial crisis that has taken place a decade after it are seen here as two watershed points that accompanied protruding changes in the rich-poor gap and in the suicide rate. Although suicides take place much more often among men than among women in most countries around the world, it is during the years around the two crises when Korean society saw big spikes in suicides among men and, as a result, the male-to-female suicide ratio rise to 2. Also worthy of note is that the suicide rate in Korea is higher for people not working than those in work, and higher in non-urban areas than in urban areas.

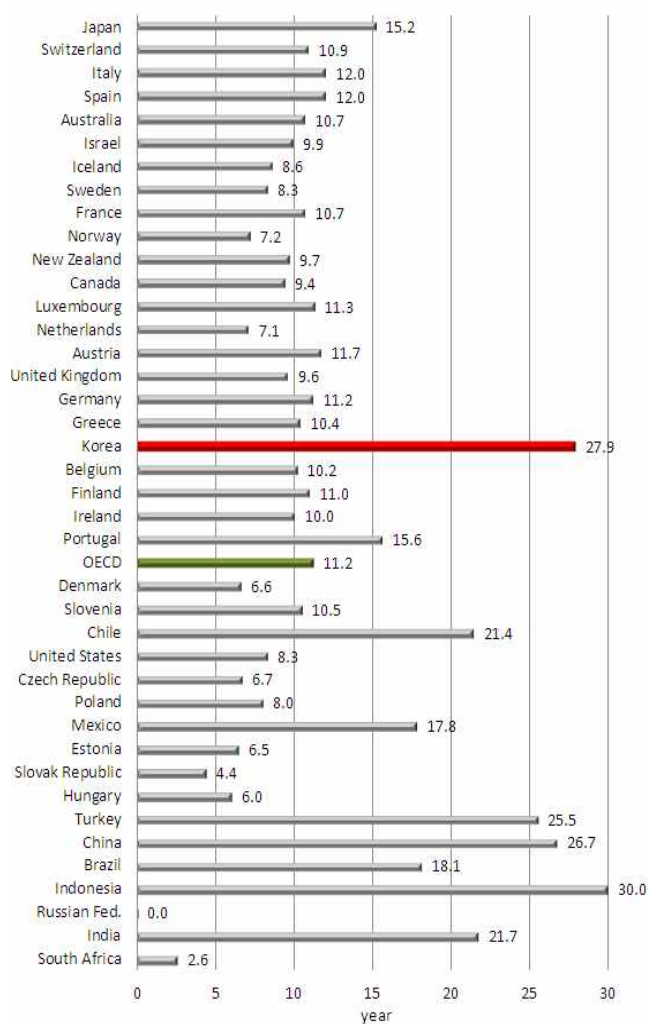
As a way to prevent potential suicides, the authors offer a number of clear-headed policy suggestions to help Koreans who are struggling with mental depression, emotional pain, bad credit, or job loss.■



Thumbs up

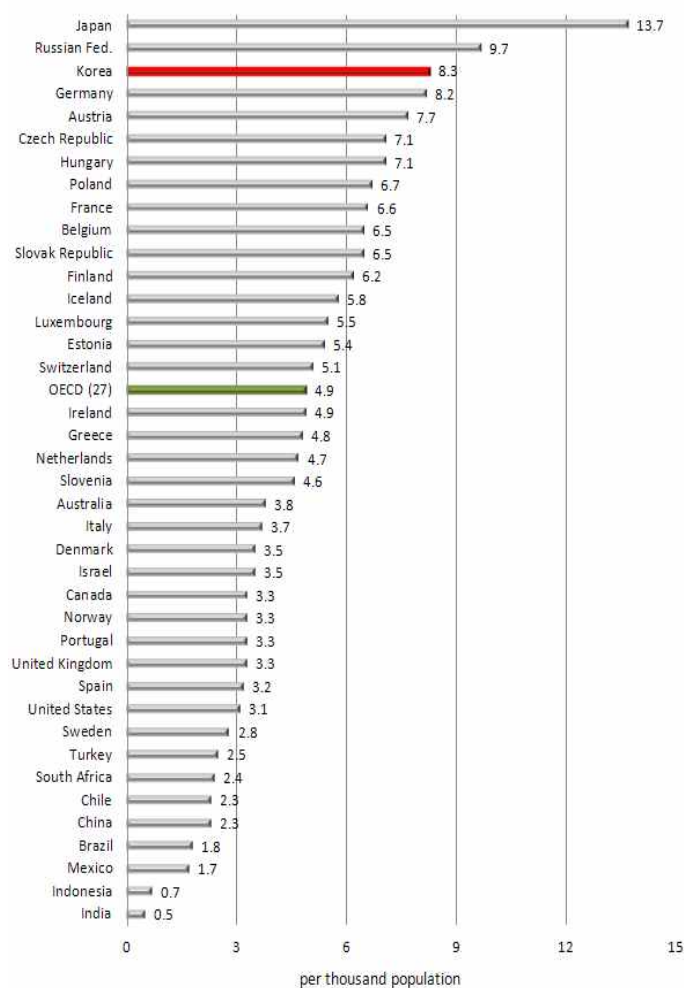


Life expectancy at birth, years gained 1960-2009



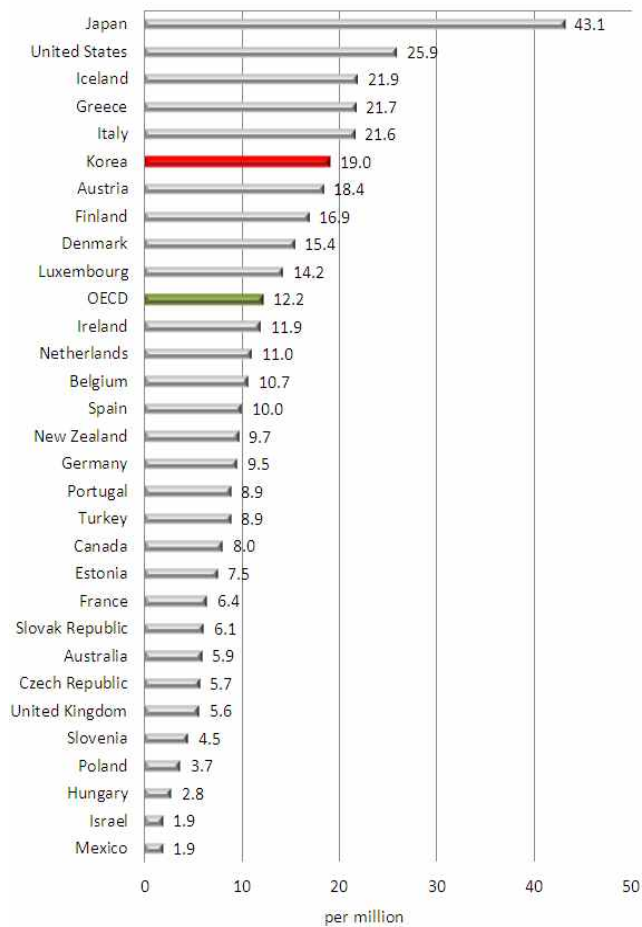
Source : OECD Health Data 2011

Hospital beds, 2009 (or nearest year)



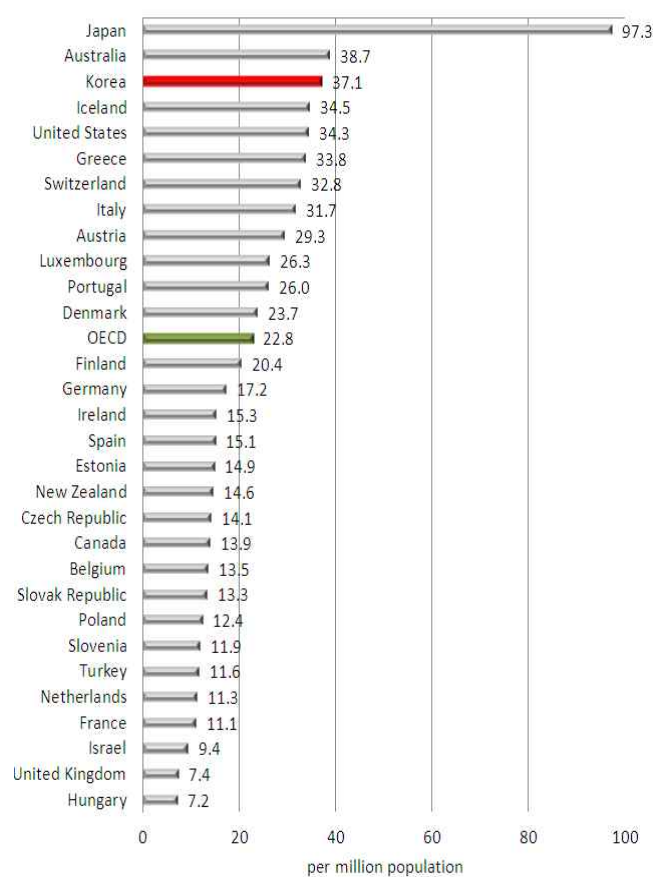
Source : OECD Health Data 2011

MRI units, 2009 (or nearest year)



Source : OECD Health Data 2011

CT scanners, 2009 (or nearest year)

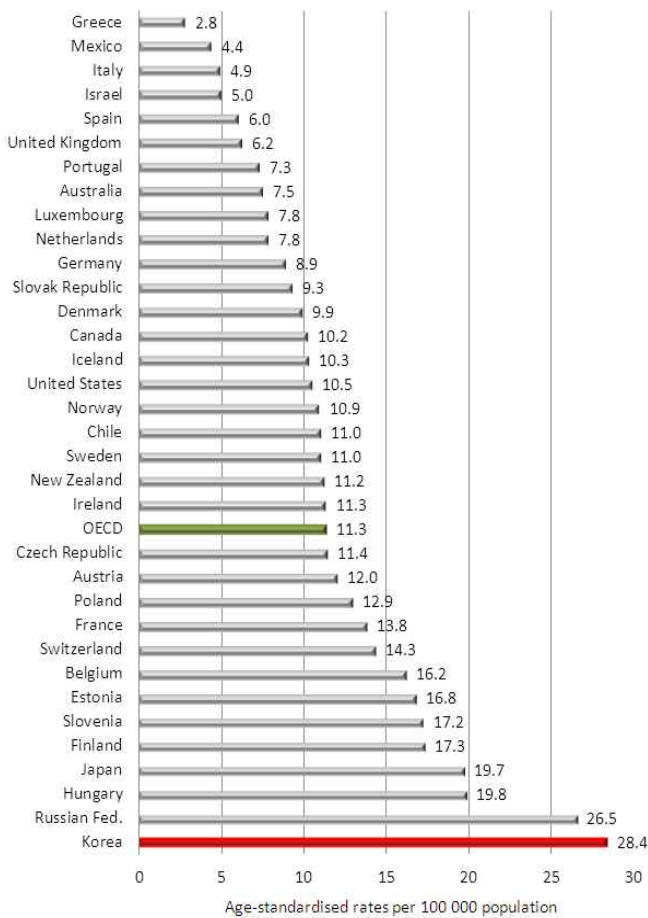


Source : OECD Health Data 2011

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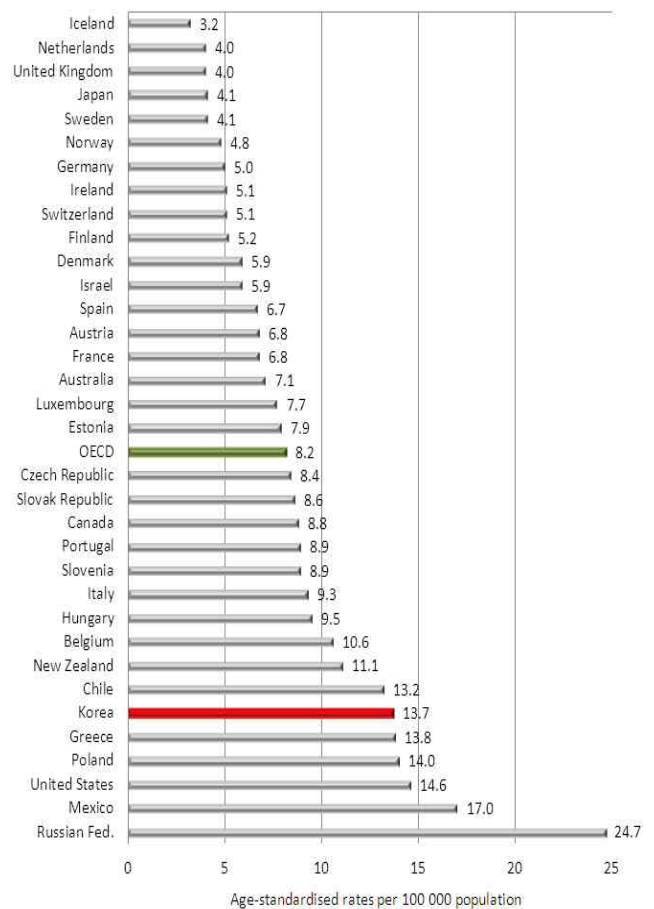


Suicide mortality rates, 2009 (or nearest year)



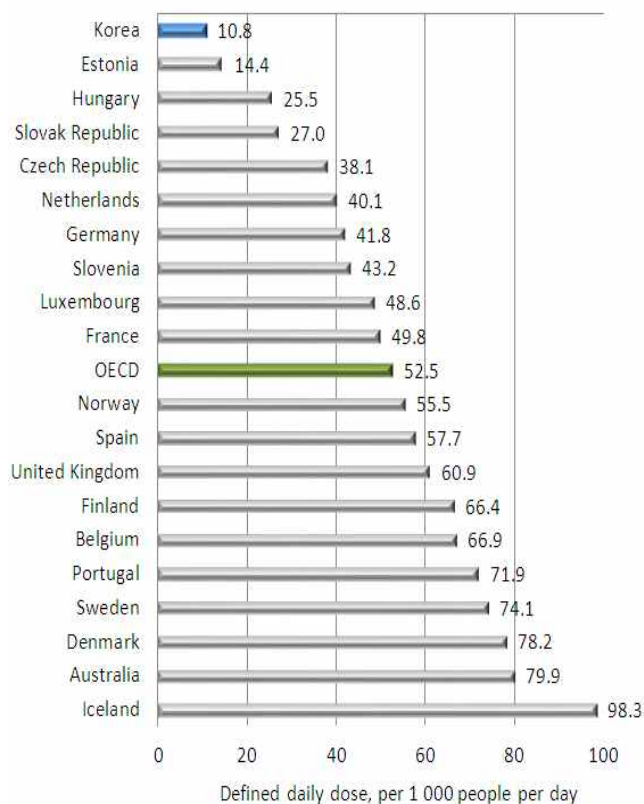
Source : OECD Health Data 2011

Transport accident mortality rates, 2009 (or nearest year)



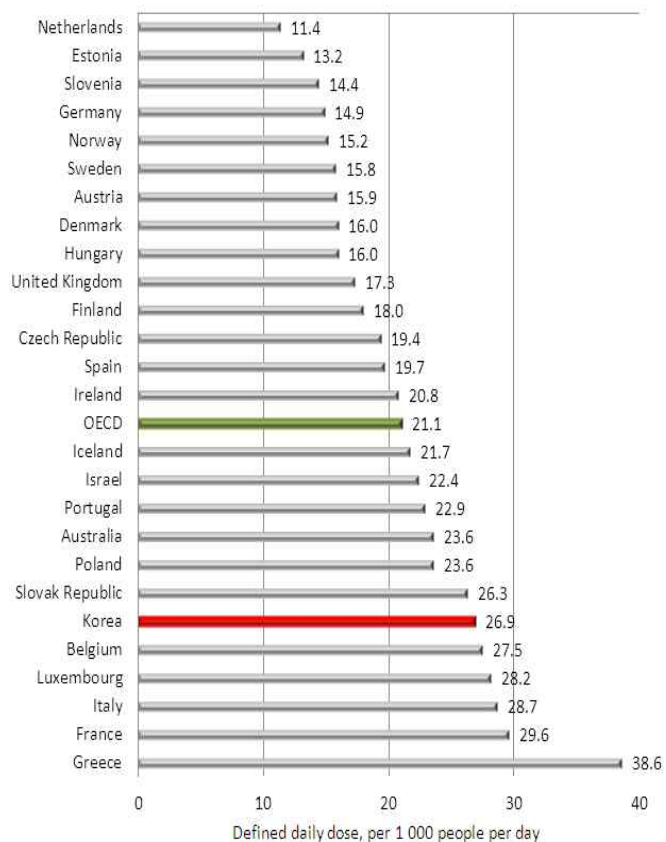
Source : OECD Health Data 2011

Antidepressants consumption, 2009 (or nearest year)



Source : OECD Health Data 2011

Antibiotics consumption, 2009 (or nearest year)



Source : OECD Health Data 2011