

Recent Poverty Trends in Korea: With Special Reference to One-Person Households

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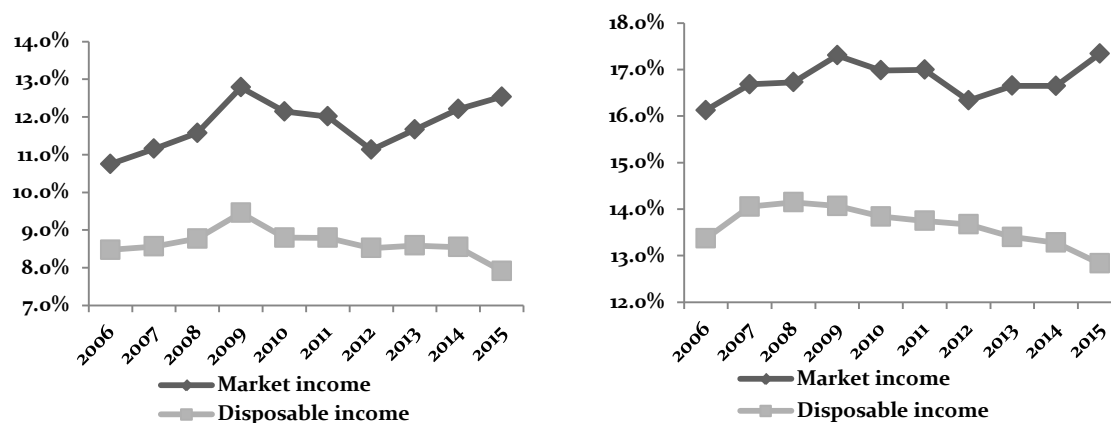
Introduction

Korea's disposable-income poverty rate has been declining steadily over the recent years without notable volatility. As shown in Figure 1, the disposable-income poverty rate was at its highest in 2009, when, in the aftermath of the 2007 global financial crisis, the Korean economy was in dire recession. However, whereas the poverty-reduction effect of public transfers has grown to a great extent, the market-income poverty rate in general, and the poverty rate of one-person households in particular, have turned upward of late (see Figures 1 and 2). [Absolute poverty rate as used in this study is defined as the proportion of households living below the nationally-set subsistence level; relative poverty here means below 50 percent of the median income; market income is composed of earned income, business income, property income and private transfers; ordinary income consists of two components, market income and public transfers; public transfers include public pension, basic (old-age) pension, cash social benefits and in-kind social transfers; and disposable income is current income minus current tax and social security contributions.]

Increased impact of public transfers on poverty reduction

A glance at the past decade's poverty trends reveals a large gap between the market-income poverty rate, which has been rising in both absolute and relative terms, and the disposable-income poverty rate, which has been declining all along. The widened gap between market-income and disposable-income poverty rates suggests that the impact of public transfers has increased on poverty reduction. In other words, the role of public transfers has grown important in keeping the poor afloat above the subsistence level. The flipside, however, is that with increases in market-income poverty comes the need for increased public social spending.

[Figure 1] Trends in market and disposable income poverty in Korea



Source: Household Income and Expenditure Survey (each year), Statistics Korea

The poverty-reduction impact of public transfer grew especially steeply immediately after the global financial crisis, dipped a little a short while, and soon picked up again in 2013: overall, an upward trend over the past decade. The trajectory suggests that the poverty-reduction impact of public transfers is closely associated with the introduction in July 2014 of the Basic Pension and the launch of the “customized benefit system” in July 2015.

[Table 1] The impact of public transfers on reducing absolute poverty (in %)

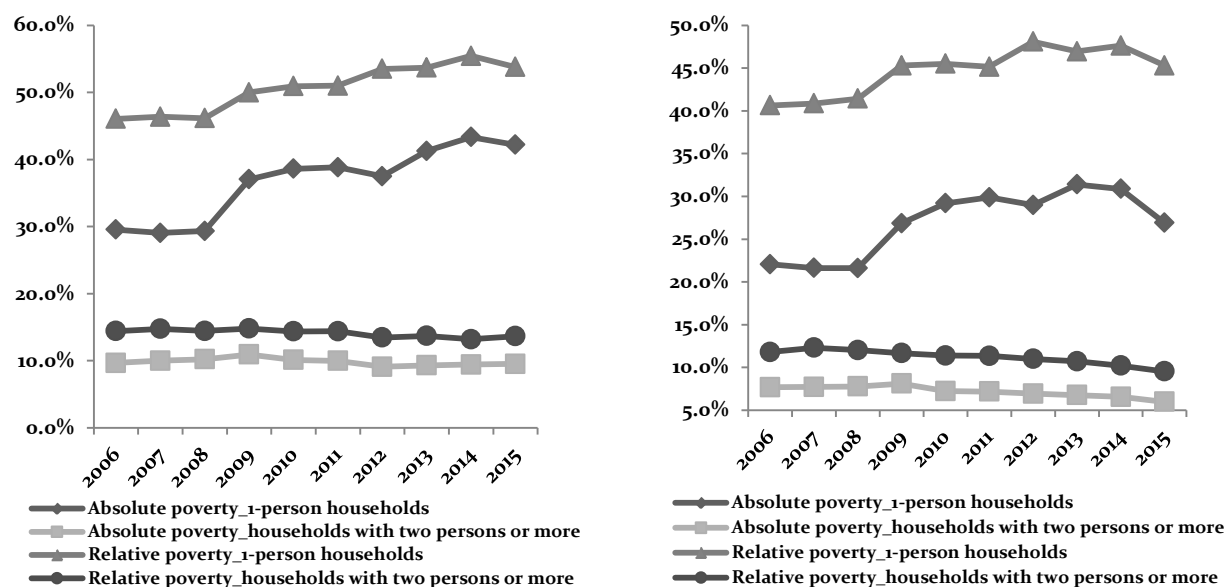
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Based on disposable income	21.2	23.2	24.2	26.0	27.6	26.8	23.4	26.4	30.0	36.9
Based on current income	29.2	30.2	30.8	34.3	34.7	34.8	31.6	34.0	36.8	43.3

Note: Poverty-reduction effect=[market income poverty rate-current (disposable) income poverty rate]/market income poverty rate
 Source: Household Income and Expenditure Survey (each year), Statistics Korea

Increasing poverty among one-person households

The most conspicuous in the poverty trends over the past decade is poverty among one-person households, which, having increased at a rapid pace since 2008 until before starting to fall in 2015, still remains much higher than its pre-2008 levels. This is the case for the absolute poverty rate and the relative poverty rate alike, although the ups and downs of the latter have been less pronounced. The poverty rate of households also remains higher than its pre-2008 levels.

[Figure 2] Poverty trends for one-person households and for households with two or more persons



Source: Household Income and Expenditure Survey (each year), Statistics Korea

The share of one-person households in the poverty population has kept increasing even as both the absolute and relative poverty rates of one-person households have declined from 2015 on after years of increase. This is attributable to the continued increase in one-person households—which are more poverty-prone than their larger counterparts—as a share of all households. Also, the fact that one-person households has, from 2010 on, accounted for a larger

share of poverty households when based on disposable income than when based on market income suggests that the poverty-reduction impact of public transfers has been greater for households with two or more persons than for one-person households.

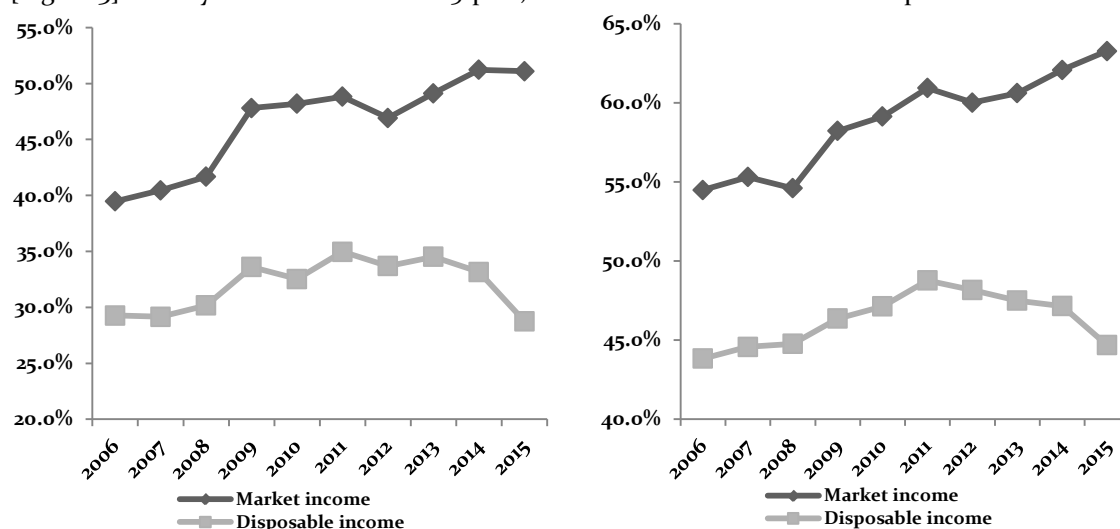
[Table 2] One-person households as % of the poverty population and the impact of public transfers on (absolute) poverty reduction

	One-person households as % of the poverty population		Impact on the reduction of absolute poverty	
	Market income	Disposable income	One-person households	Households with two or more persons
2006	15.0	14.2	25.4	20.4
2007	15.9	15.4	25.6	22.8
2008	18.3	17.8	26.3	23.8
2009	20.7	20.3	27.5	25.7
2010	22.8	23.8	24.4	28.5
2011	23.0	24.2	23.1	27.9
2012	24.3	24.5	22.7	23.7
2013	26.2	27.1	23.9	27.2
2014	29.1	29.7	28.8	30.5
2015	31.0	31.4	36.2	37.2

Lone-elderly households in poverty on the increase

The market-income poverty rate of Koreans 65-plus has trended upward in recent years as their disposable-income poverty declined. The poverty rate as a whole is much higher for the elderly population than for the whole population. Also, disposable-income poverty rate of the population 65-plus still remains at a level that is strikingly high by OECD standards, with lone-elderly people as a share of the poverty population rapidly increasing.

[Figure 3] Poverty trends for Koreans 65-plus, based on market income and disposable income



Source: Household Income and Expenditure Survey (each year), Statistics Korea

The gaping gap between the two poverty rates of the elderly population is due in large part to the growing impact of public transfers. The increasing market-income poverty rate means there are a growing number of older Koreans with a market income below the poverty line who therefore are in need of public transfers. The aspect most noteworthy in old-age poverty in the

last ten years is that one-person households have been rapidly increasing as a share of older Koreans living below the poverty threshold.

[Table 3] One-person households as % elderly population in poverty

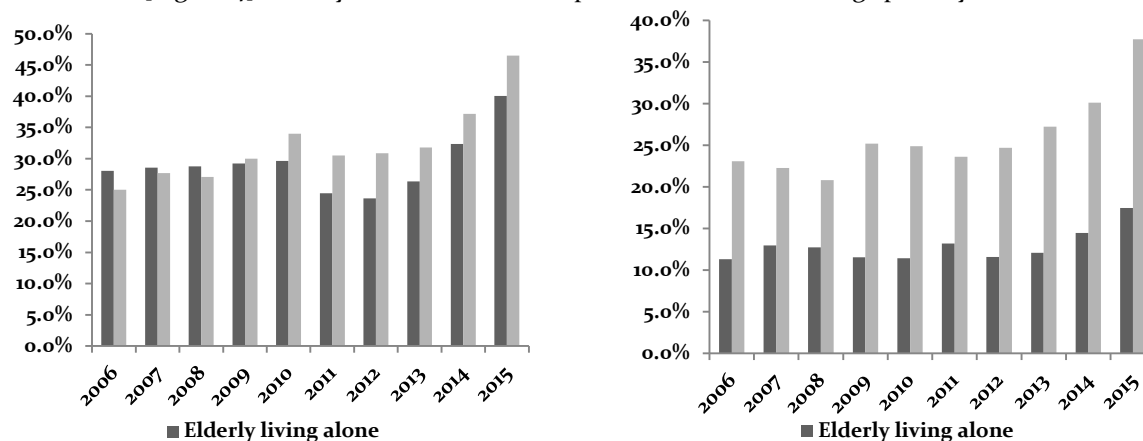
	Absolute poverty		Relative poverty	
	Market income	Disposable income	Market income	Disposable income
2006	27.9	27.1	29.8	30.8
2007	28.5	28.3	30.7	32.7
2008	31.9	31.4	34.6	34.4
2009	34.5	34.7	35.2	35.1
2010	35.0	36.5	34.0	35.5
2011	35.0	36.9	34.9	38.8
2012	37.3	39.6	37.6	42.3
2013	37.7	39.5	36.9	45.6
2014	39.2	41.0	38.7	47.6
2015	43.0	45.9	41.1	49.1

Source: Household Income and Expenditure Survey (each year), Statistics Korea

Measured in terms of disposable income, one-person households as a share of elderly Koreans living below the absolute poverty threshold have increased nearly by 1.7 times, from 27.1 percent in 2006 to 45.9 percent in 2015; one-person households as a share of Koreans 65-plus living below the relative poverty line has increased by 1.6 times over the same period. An increase in income-poor older persons living alone means an increase in those who, with their ability to work in rapid decline, have to rely exclusively on private and public transfers. That those living alone account as they do for a larger percentage in the disposable-income-poor elderly than in the market-income poor elderly suggests that the impact of public transfers has been less on older people living alone than on older people living in households with at least one non-elderly member, in both absolute and relative poverty terms, as shown in Figure 4.

The impact of government transfers has since 2012 increased—and to a greater extent from 2014 on with the introduction of the Basic Pension—for both older people living alone and older people living with other family members. This is the case for both absolute poverty and relative poverty. For lone elderly Koreans, however, the focus of public transfer has been placed more on reducing absolute poverty than on reducing relative poverty.

[Figure 4] Poverty-reduction effect of public transfers on old-age poverty



Source: Household Income and Expenditure Survey (each year), Statistics Korea

Conclusion

The rapid increase in the poverty rate of one-person households after 2008 and the growth over more recent years in the poverty-reduction impact of public transfers are two of the noteworthy features of Korea's poverty trends in the past decade. The poverty rate of households with two members or more, although having been less volatile than the poverty rate of one-person households, has yet to recover its pre-2008 levels. The increase in the poverty rate of one-person households is attributable in large part to the increased number (and the increased poverty rate, for that matter) of living-alone elderly Koreans. Those 65-plus living alone are a group that deserves particular policy attention, as mostly they have no income source other than public and private transfers.

The implementation of the Basic Pension has certainly reduced old-age poverty in general and poverty among those 65-plus living alone, but the impact has been less significant on elderly people living alone than on non-lone elderly people. Also, as the government's effort to reduce poverty among older persons living alone remains focused on those living below the absolute poverty threshold, there is a need to design and implement new interventions focused on reducing their relative poverty. The proposed shift in the focus of public transfers for one-person households is all the more justified as, with the introduction in 2015 of the "customized benefit system," the standards of the National Basic Living Security have been elevated from absolute poverty to relative poverty. At the same time, the current rise in the market-income poverty rate calls for further discussion on how to reshape the poverty reduction policy in a way that better accords with these times of low growth.