CHILD-TO-PARENT FINANCIAL TRANSFERS AND THEIR CONTRIBUTION TO REDUCING ELDER POVERTY IN KOREA

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1. Introduction

The Korean population is rapidly ageing. One result is a growing need for elder care and financial support. But the traditional family provision is breaking down and an alternative system is not yet in place. As a result, caring for the older Koreans poses a major challenge to Korean society. Yet relatively little is known about the actual financial status of elderly Koreans or the amount of support elderly Koreans receive from their children. This paper addresses these issues using data from a national survey.

This paper is organized in the following way. Section 2 provides background on elder care in Korea and Section 3 summarizes relevant literature. Section 4 introduces the dataset and variables. Section 5 summarizes child-to-parent financial transfers, estimates poverty among older Koreans, and examines children's contribution to reducing the poverty. Finally, section 6 concludes this paper.

2. Background on Korean Elder Care System

The Korean population is rapidly ageing due to growing life expectancy and decreased fertility rates (Table 1). Though population ageing is common in many developed countries, it is occurring much faster in Korea, giving little time for the Korean government to cope.[3]

In accordance with the Confucian tradition in East Asian countries, families, especially the eldest son and his wife, have played the dominant role in Korean elder care. Although adult children are still an important source of old-age security for parents, industrialization and urbanization of the Korean society are rapidly breaking down the tradition of family care.[4]

However, an alternative public system is either not yet in place or at the infant stage. For example, only 19.6 percent of elderly Koreans received benefits from the Korean national pension program in 2007 (Korea National Statistical Office, 2008). Two other major programs for old-age security, the Basic Old-Age Pension and the Long-term Care Insurance, only started in 2008. With these two policies, the Korean government's expenditures for old-age programs recorded a dramatic increase in 2008 (Korea National Statistical Office, 2008) and concerns about crowding-out of the traditional family support by government policies have been raised.

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3 The transition from an ageing society, where over 7 percent of the population are aged 65 or older, to an aged society, where over 14 percent are aged 65 or older, is expected to take roughly 19 years from 2000 to 2018. This transition is notably shorter than the estimates of 115 years in France, 71 years in the U.S., and 24 years in Japan (Korea National Statistical Office, 2006; United Nations, 1996).

4 For example, the proportion of elderly people who lived with their child decreased from 77 percent in 1984 to 54 percent in 1998 (Kim and Rhee, 1999). Child-to-parent monetary transfers accounted for 72 percent of total parental income of an average elderly person in 1980 but only 31 percent of the income in 2003 (Moon et al., 2006).

3. Current Knowledge and Next Steps

With growing public concern over population ageing, new surveys targeting elderly Koreans were initiated and recent studies using the datasets started to provide more accurate estimates of the financial status of older Koreans and the role of children as providers of financial support.

Using the 2003 wave of the Korea Labor and Income Panel Study, Moon et al. (2006) estimated 38.7 percent of households headed by people aged 60 or older were poor with a poverty gap of 4.5 billion k₩ when private transfers, which are mostly transfers from children, were ignored.[5] Adding private transfers to the household income decreased the proportion to 27.9 percent and the gap to 2.8 billion k₩. Chung et al. (2005) analyzed Koreans aged 65 or above in a 2004 study by the Korea Institute for Health and Social Affairs. The authors found 78.6 percent of the elderly received private transfers and, for those who received a private transfer, the mean annual amount was 2,110 k₩. The Korean Retirement and Income Study, a survey of households with at least one household member aged 50 or above, is unusual in that it surveys intergenerational transfers not only between non-coresident but also between coresident family members. By analyzing its first wave, Kim (2008) found 16.5 percent of respondents received financial transfers from coresident children and 45.8 percent from non-coresident children in 2004. For children that made a transfer, the median transfer was 2,000 k₩ from the former and 1,500 k₩ from the latter.

Thus there is a growing literature on the financial well-being of elderly Koreans and children's contributions, but there still exists a paucity of evidence. We contribute to this literature by analyzing a recent national survey.

4. Data and Variables

This paper analyzes the first wave of the Korean Longitudinal Study of Ageing (KLOSA), which is representative of Koreans aged 45 or older (Korea Labor Institute, 2007). In this paper, the analysis sample is limited to people aged 65 or older (hereafter elderly people) and the final sample includes 3,981 elderly people.[6] The first wave contains data for 2005 and follow-up waves are planned every other year.

The KLOSA dataset consists of comprehensive ageing-related modules. As for key variables, elder Koreans in 2005 were 73.1 years old and had 3.9 children on average. 39 percent were male, 75 percent did not receive middle school education, 61 percent were married, 38 percent were widowed or dispersed, that is, having a spouse in North Korea, and 17 percent were employed.

5. Elder Poverty and the Role of Children

In the KLOSA, respondents reported the amount of their income and assets by detailed source. One reported source of the income is financial transfers from children, which provides the empirical basis for examining financial support by children for their aged parents. One limitation of the dataset is the transfers between parents and children were surveyed only for parent-child

5 1,000 Korean won is worth about $1. For that reason the financial statistics in this paper are presented in units of 1,000 Korean won, abbreviated k₩.

6 This study excludes about six percent of elderly people who were married but whose spouse did not participate in the survey.

pairs who did not live together. Thus any transfers between cohabiting children and their parents are missing from our tabulations.

5.1. Child-to-Parent Financial Transfers

68.1 percent of elderly Koreans received a positive financial transfer from children and the median amount was 400 k₩. The transfers accounted for 26.3 percent of an average elderly person's total personal income. When we compare upward and downward transfers between elderly Koreans and their children, both the incidence of transfers (68.1% vs. 6.1%) and its average amount (1,390 k₩ vs. 130 k₩) were predominantly upward. The role of child-to-parent financial transfers is particularly notable in the poor elderly population. In terms of mean values, the transfers explained 70.8 percent of poor elderly people's total income while they accounted for only 13.4 percent of the income of the non-poor elderly.

5.2. Elderly Poverty

In this paper, poverty is defined utilizing the eligibility criterion for the Basic Old-Age Pension, which provides poor elderly people with supplemental income just as does the Supplemental Security Income program in the U.S. By this criterion, an elderly person is classified as being poor if his or her self-support, annual income except private transfers + 0.05*net assets, is lower than a predetermined poverty line, equivalent to $3,840 for married individuals and $4,800 for others (Korean Ministry of Health and Welfare, 2007). According to this definition, 60.8 percent of elderly Koreans are estimated to be poor.

The poverty gap for an average poor elderly person is calculated by averaging the gaps between the poverty line and reported self-support.[7] The estimated mean gap was 3,052 k₩ (Table 2, panel (a)). The overall poverty gap aggregates the individual poverty gaps of all poor elderly people; the estimated overall gap was 8.3 billion k₩.

Elderly people who live with no child are the population of particular interest since they cannot receive any benefit from cohabitating with a child. The estimated mean poverty gap was 3,549 k₩ for the coresident elderly subgroup and 2,601 k₩ for the non-coresident elderly subgroup (Table 2, panel (b) and (c)). The overall poverty gap divided into 4.6 billion k₩ for the former and 3.8 billion k₩ for the latter.

5.3. Role of Child-to-Parent Financial Transfers

The overall poverty gap reduced by transfers from children is estimated by aggregating the transfers for all poor elderly people.[8] According to the estimation, 26.5 percent of elder poverty in Korea was filled by the transfers. By elderly people's cohabitation status with a child, 18.7 percent of the poverty gap was filled by the transfers in the coresident subgroup, and 34.2 percent in the non-coresident subgroup.

Income inequality among the elderly is also reduced on balance by transfers from children. As we

7 If an elderly person's self-support was negative due to large amount of debts, the poverty line was used for averaging instead of self-support.

8 If child-to-parent transfers were greater than individual poverty gap, the gap was used instead for aggregating.

add child-to-parent transfers to elderly people's total income, the Gini coefficient for the income drops from 0.77 to 0.67.

5.4. Role of Child's Cohabitation with Elderly Parents

While we examined the role of non-coresident children's financial transfers to their elderly parents, children's cohabitation with elderly parents itself can be an important vehicle to provide elder support. According to the KLOSA data, 41.5 percent of elderly Koreans lived with a child in 2005. In particular, the proportion of elderly people who coresided with a child was much higher among poor elderly Koreans (47.6%) than among their non-poor counterparts (32.1%) and, therefore, elder poverty seems mitigated substantially by the cohabitation.

6. Conclusions

Using the first wave of the KLOSA data, this study adds evidence on the financial well-being of elderly Koreans and the role of children in improving the well-being. Despite the decline in the Confucian tradition, we find that almost 70 percent of elderly Koreans received financial transfers from children and the transfers accounted for about a quarter of an average elderly person's income. We estimate over 60 percent of elderly Koreans would be poor without private transfers most of which are from children. Elderly poverty is mitigated substantially both by cohabitation with children and by transfers from children. Income inequality among the elderly is also reduced by the transfers.

This study is limited since, due to data limitations, we are not able to measure financial transfers between cohabiting children and their parents. We show, even excluding these transfers, that Korean children still play a crucial role in providing old-age security of their parents. Hence, this study emphasizes the Korean government should be careful about crowding-out of family elder support by public policies for the elderly population.

Policy Recommendations

Our study shows that Korean children still play a crucial role in providing old-age security of their parents especially in financial aspects. By analyzing a recent national survey, we find that still almost 70 percent of elderly Koreans received financial transfers from children and the transfers accounted for about a quarter of an average elderly person's income. We estimate over 60 percent of elderly Koreans would be poor without private transfers most of which are from children. Elderly poverty is mitigated substantially both by cohabitation with children and by transfers from children. Income inequality among the elderly is also reduced by the transfers.

In recent years, the Korean government has been adopting various policies to meet increasing elder care needs and to improve the welfare of the elderly population. Expansion of the Korean national pension program and introduction of the Basic Old-Age Pension are the key policy changes to ensure financial security among the elderly. With such expensive government programs, concerns about the crowding-out effects of family elder support have been raised. By showing substantial economic family elder support even at a time when the family care tradition is rapidly eroding, our study demonstrates that the Korean government would be wise to design old-age policies so as to preserve the incentives for private assistance.

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Table 1. Demographic trends in Korea, 1960-2020

	1960	1970	1980	1990	2000	2010	2020
% Population 65 and over	3.7	3.3	3.9	5.0	7.3	11.0	15.4
% Population 80 and over	0.4	0.4	0.5	0.7	1.1	2.0	3.6
Old-age dependency ratio (pop.65+ / pop.15-64 * 100)	6.7	6.1	6.2	7.2	10.2	15.2	21.7
Life expectancy at birth	55.2	60.9	66.8	72.7	77.5	80.0	81.7
Total fertility rate	5.6	4.3.	2.2	1.7	1.2	1.3	1.3

Source: United Nations. World Population Prospects: The 2008 Revision.

Table 2. Mean income and assets, and poverty of Koreans aged 65+ by cohabitation status in 2005 (in k₩ ≈ $)

	(a) Overall (100.0%)			(b) Living with a child (41.5%)		(c) Living with no child (58.5%)	
	All (100.0%)	Poor (60.8%)	Non-poor (39.2%)	Poor (69.7%)	Non-poor (30.3%)	Poor (54.5%)	Non-poor (45.5%)
Individual Poverty Line (a)	3,840 for married individuals, 4,800 for others						
Total Income excluding Private Transfers (b = c - d)	3,862	577	8,961	367	8,677	768	9,095
Total Income (c)	5,280	2,001	10,370	1,481	9,855	2,473	10,614
Private Transfers (d)	1,418	1,424	1,409	1,115	1,178	1,705	1,519
Net Assets (e = f - g)	53,184	12,755	115,950	9,149	136,724	16,032	106,118
Total Assets (f)	59,639	17,299	125,371	14,077	146,825	20,226	115,218
Total Liabilities (g)	6,454	4,543	9,421	4,928	10,101	4,094	9,100
Self-support (h = b + 0.05*e)	6,521	1,215	14,758	824	15,513	1,570	14,401
Mean Poverty Gap (i = mean a – h (if a>h) or a (otherwise)	–	3,052	–	3,549	–	2,601	–