Economic Analysis

A Closer Look at Korea’s Post-Liberation Generation

More and more seniors over 65 are facing economic hardship, and the government should take measures

The Korean War, which broke out only five years after Korea’s liberation from Japan in 1945, devastated the entire country. But thanks to the nation’s hardworking people, Korea rose from the ashes of war to achieve remarkable economic progress. The post-liberation generation worked hard to educate their children and overcome poverty, making significant contributions to Korea’s economy. Now most of these people are in their mid-to-late 60s and again facing economic hardship due to an insufficient pension system. This article casts light on the status of Korea’s post-liberation generation. They are divided into two categories — those in the “high-income class” and those in the “low-income class,” with members of both categories being over 65 years old. Those in the high-income class earn more than 150 percent of the median income while those in the low-income class earn less than 50 percent of the median income.

First, in terms of demographics, there were 2 million people in the low-income class as of 2014, which is 54 percent of the total number of senior household heads (3.71 million). Those in the high-income class account for just 6.2 percent, or 230,000.

Second, those in the low-income class are largely economically vulnerable senior households, single-senior households and female households. As of 2014, the low-income class represented 63.4 percent of total senior households, 71.9 percent of total single-senior households and 69.8 percent of total female households. The high-income class made up only 3.8 percent, 2.6 percent and 3.3 percent, respectively, of the same categories.

Demographic Characteristics

Third, the income gap between the two classes is widening. From 2006 to 2014, the monthly average ordinary income of those in the low-income class increased slightly, from KRW 510,000 (USD 431) to KRW 650,000, while that of those in the high-income class soared from KRW 4,48 million to KRW 5.8 million. Now the income for the high-income class is 9.2 times higher than that of the low-income class, marking a roughly 8.8-fold increase since 2006.

Fourth, excluding public transfer income, income for the low-income class has actually decreased. Its market income — ordinary income minus public transfer income — decreased from KRW 390,000 in 2006 to KRW 330,000 in 2014. Meanwhile, that of the high-income class increased from KRW 3.79 million to KRW 4.42 million, which is 13.4 times higher than the low-income class’ market income. This means that the low-income class relies highly on public transfer incomes.

Fifth, those in the low-income class spend most of their money on necessities, such as food, housing and medical expenses. The high-income class’ expenses, however, are mostly optional. While the low-income class’ necessity spending ratio increased from 61.1 percent in 2006 to 64.7 percent in 2014, the high-income class’ necessity spending accounted for a mere 40 percent, which shows that they enjoy a high standard of living.

Sixth, the household finances of the low-income class worsened while those of the high-income class improved. The low-income class’ household deficit increased from KRW 160,000 in 2006 to KRW 190,000 in 2014, while the high-income class’ surplus increased from KRW 380,000 to KRW 1.15 million in the same period.

Ordinary Income

Spending Ratio

The government should come up with measures to respond to the increasing number of people in the low-income class, as the expansion of this group could cause the government financial burden. The government should start by implementing job creation measures, such as the expansion of public projects. The current social safety net should be expanded to reach out to those in the low-income class left in a blind spot. Financial and other means of support, such as business consulting for low income, self-employed seniors, should be strengthened. Finally, to ensure individuals can lead a more stable life, the government should strengthen national pension and other basic pension schemes and promote the private pension system.

By Lee Jun-hyup
Research Fellow
Hyundai Research Institute
sododuk1@hri.co.kr