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**AGEING SOCIETY ISSUES IN KOREA**

By

Sung-Jae Choi

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# **Ageing Society Issues in Korea\***

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## **I. Introduction**

Population ageing is a social phenomenon not only in developed countries but also in developing countries. The rapidity of population ageing in Korea during the past decade epitomizes how rapidly developing countries are ageing compared to developed countries. Rapid population ageing may be recognized as a universal phenomenon, equivalent to globalization (UN, 2002), which continues to influence almost all aspects of social systems and lives of people.

The relatively gradual population ageing rate in developed countries allowed resources to be accumulated to finance various reforms and the creation of social systems, which includes social welfare for the elderly. But developing countries with much rapid ageing rates and economic development issues to tackle face greater difficulties in addressing issues related to population ageing problems compared to affluent developed countries because of their insufficient resources. The implications of population ageing are not only limited to the welfare of the elderly, but has a much wider effect. From a wider and long-term perspective, population ageing may require a new perspective or an new paradigm in understanding an ageing society.

Korea has attempted to model its policies for ageing society to resemble those of advanced welfare states, but as welfare states no longer seem viable, Korean policy makers are searching for more effective and efficient measures to deal with its rapid ageing population. From the turn of this century the Korean society has begun to understand population ageing from a broad and long-term perspective. Recent policy making, reflecting

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the broad and long-term perspective, produced a comprehensive national policy plan to deal with the consequences of rapid population ageing.

This paper will first present an outline of the population ageing phenomenon in Korea, followed by a brief review of the recent development of national policies regarding population ageing. Then, this paper will introduce the comprehensive national policy plan of Korean government in response to population ageing and examine major issues and problems related to the development and implementation of national policies on population ageing. Finally this paper will suggest a new perspective to approach an ageing society.

**II. Population Ageing in Korea**

The Korean society began to modernize rapidly from the early 1960s with the national implementation of a five-year economic development plan and a family planning program. Fertility and mortality have since been in continual decline, and life expectancy has increased substantially; as a consequence, the absolute number and proportion of the elderly has increased over the last four decades and is projected to increase unprecedentedly higher during the first half of the current century (Table 1). The eldest age group 85 and over (the oldest old) is likely to be the fastest growing age bracket among the elder population aged 65 and over.

Table 1. Actual and Estimated Number and Proportion of Aged Population in Korea, 1960 to 2050

Year	Total population (‘000)	Number of the elderly (‘000)			% in old age group		
		65+	75+	85+	65+	75+	85+
1960	25,012	726	170	24	2.9	0.7	0.1
1970	32,241	991	251	30	3.1	0.8	0.1
1980	38,124	1,456	406	53	3.8	1.1	0.1
1990	42,869	2,195	695	94	5.1	1.6	0.2
2000	47,008	3,395	1,091	173	7.2	2.3	0.4
2010	48,875	5,357	2,019	373	11.0	4.1	0.8
2020	49,326	7,701	3,212	770	15.6	6.5	1.6
2030	48,635	11,811	4,704	1,240	24.3	9.7	2.5
2040	46,343	15,041	7,620	1,959	32.5	16.4	4.2
2050	42,343	16,156	9,472	3,376	38.2	22.4	8.0

Source: National Statistical Office (2006).

If such trends continue, Korea is fated to have the world's largest proportion of elderly population in 2050 (table 2).

Table 2. OECD countries' proportion (%) of elderly population by selected year

Country	2000	2010	2020	2030	2040	2050
USA	12.4	13.2	16.6	20.6	21.5	21.7
Japan	17.4	22.5	27.9	29.6	33.2	35.7
Sweden	17.3	19.5	23.1	25.5	27.2	26.7
UK	15.9	17.1	19.8	23.1	25.5	24.9
Germany	16.4	19.8	21.6	26.1	28.8	28.4
France	16.1	16.6	20.1	23.2	25.3	25.5
Australia	12.4	13.4	18.2	20.0	21.9	22.6
Korea	7.2	11.0	15.6	24.3	32.5	38.2
Mean of OECD	13.0	14.5	17.5	20.9	23.3	24.4

Note: Projection of elderly Korean was made in 2006.

Source: OECD, 2003; National Statistical Office, 2006.

The rapid growing of elderly population is mainly a result of the rapid lengthening of lifespan and ever-dropping fertility rate. The extension of lifespan has been conspicuous over the past 40 years. Life expectancy at birth for men increased from 51.1 years in 1960 to 71.1 years in 2000, and for women the increase has been from 53.7 to 78.6 years. It is projected to reach 82.9 for men and 88.9 for women in 2050 (Table 3).

Table 3. Life expectancy at selected year

Year	Mean	Male	Female
1960	52.4	51.1	53.7
1971	62.3	59.0	66.1
1980	65.7	61.8	70.0
1990	71.3	67.3	75.5
2000	76.6	72.3	79.6
2010	79.6	76.2	82.9
2020	81.5	78.0	84.7
2030	83.1	79.8	86.3
2040	84.7	81.4	87.7
2050	86.0	82.9	88.9

Source: National Statistical Office, 2006.

Table 4. Total fertility rate (TFR) by selected year

Year	TFR	Year	TFR
1970	4.53	2000	1.47
1975	3.47	2001	1.30
1980	2.83	2002	1.17
1985	1.67	2003	1.19
1990	1.60	2004	1.16
1995	1.65	2005	1.08

Source: National Statistical Office, 2006.

Reducing fertility rates was one of government's core objectives to facilitate economic development from the 1960s to 1980s. As a result, the total fertility rate dropped to the level of 1.60. Such numbers continued to decrease during the 1990s, and has not been able to stop; the total fertility rate in 2005 was 1.08, which may be considered, one of the world's lowest (table 4). Despite a great deal of policy efforts to reverse fertility trend, it will not be easy to reverse the declining fertility trend. Therefore, the declining fertility rate is one of the major factors accelerating rapid population ageing in the first half of this century.

### **III. Recent Development of Policies for an Ageing Society**

Until the end of 1990s basic policies for the welfare of elderly Koreans had been established. For income maintenance, the National Pension system which was designed as a contributory social insurance program, was instituted in 1988, and Elder Respect Pension which was designed as a kind of public assistance program was introduced in 1998. For health care, general elderly Koreans could benefit from the National Health Insurance, a social insurance scheme, that pays for only acute illness, while those with low-income could benefits from the Medical Assistance, which is a public assistance program and pays for all Koreans with low-income; and also several kinds of institutional and community care programs were provided mainly to the elderly with low-income. However, any policy program that pays for long-term care of general elderly Koreans had not been instituted. There had been no particular housing policy that provides financial benefits or housing with structure convenient for daily living of the elderly. Several kinds of social services programs such as community elderly

welfare centers, elder schools, elder club houses, and rest facilities had been also provided to the elderly.

However, the conception and implication of population ageing or ageing society has been mostly confined to the problems associated with ageing and consequent social welfare policies for the elderly. That is, societal view on population ageing has not been based on a broad framework which provides a long term perspective on a wider range of effects on the whole social system.

The fact that the national elderly population reached 7.2% carries a symbolic meaning. In Korea and Japan, it is generally recognized that societies with 7% or more elderly population could be classified into three categories: societies with 7-14% of elderly population are called 'ageing societies,' those with 14-21% are called 'aged societies,' and those with 21% and more are called 'super-aged societies.' This kind of classification has been known to be originated from the UN. However, contrarily to popular belief in Japan and Korea, reliable UN literature mentioning such classification could not have been identified. Such classification may only be meaningful in the sense that it provides indicators of the proportion of the elderly population at a certain point in the history of a country. Therefore, instead of using the tri-category classification, this paper will simply use 'ageing society' to refer to the society in which population is aging and consequently the proportion of elderly population is increasing.

Anyway since the Korean society had symbolically entered an era of 'ageing society' in the year 2000, this triggered many important policy discussions related to population ageing ranging from a various field of the Korean society. And the significance of entering an ageing society may have contributed to the building up of a societal view of broad and long-term implications of population ageing beyond the range of welfare policies for the elderly. From the 2000 on several important policies associated with population ageing have been developed and a very comprehensive policy plan in response to the advancement of ageing society was established.



## 1. Effort to Reform National Pension System

The National Pension (NP) system was originally designed for an income replacement rate (IRR) of 70% of the average standard monthly income, based on a maximum contribution rate of 9% over a 40 year insured period. However, such IRR proved too high in relation to the NP contribution rate, and the NP was destined to be insolvent by the mid 2030s. Given the trend of rapid population ageing predicted early in the 21<sup>st</sup> century, adjustment of the IRR was inevitable.

Accordingly, in 1998, the IRR was revised to 60%, still based on a 40 year insured period, but the effect was only to delay insolvency of the system to 2047. Two further measures were introduced along with the lowering of the IRR: raising the contribution rate to stabilize the pension fund, and raising the pension age by one year every five years from 2013, to reach 65 in 2033.

Since the revision of the National Pension Act in 1998, the necessity for further reform of the NP has been continuously voiced. Currently the National Pension Law stipulates the contributions to be based on 45 wage brackets, with lower and upper limits, and provides for recalculation of contributions every five years. The National Pension Development Committee proposed abolishing the wage bracket system used to calculate contributions from 2004 and also raising the lower and upper wage limits. The committee recommended a more important reform proposal to revise the IRR and contribution rates. The proposal has three options in the combinations of the IRR and contribution rate: (1) 60% of the IRR and 19-20% of the contribution rate, (2) 50% of the IRR and 15-16% of the contribution rate and (3) 40% of the IRR and 12-13% of the contribution rate.

This proposal aims at stabilizing the NP funds by deferring the expected year of insolvency from 2047 to after 2070. It will not be easy to get the general public's consent to the resultant increases in contributions because Koreans generally lack confidence in the public pension system. In addition managing the burden of increasing contributions to pension, health, and employment insurances, politically as well as financially, will

be problematic. In June 2004 with the recommendation of the National Pension Development Committee, the government submitted a bill of NP reform to raise the contribution rate up to 15.9% by 2030, and to lower the IRR to 50% by 2008.

After more than three years' deliberation of the bills at the Subcommittee of Health and Welfare of Congress, the sub-committee finally came up with a revised bill to raise the contribution rate to 12.9% and to lower IRR to 50% and then submitted it to general assembly in April 2007. However, regrettably the reform bill was rejected at the congress.

## 2. Introduction of Basic Old Age Pension

While the reform bills of NP were reviewed at the Sub-committee of Health and Welfare of Congress, the Basic Old Age Pension (BOAP) Bill designed as a non-contributory pension to be given to lower 60% of the elderly in terms of their incomes and assets was passed in April 2007. This law was proposed to supplement the bill of NP reform on the condition that the bill of NP reform should be passed. However, while the BOAP Bill was passed in the congress, surprisingly the bill of NP reform did not.

## 3. Introduction of Long-Term Care Insurance

In response to the needs of long-term care (LTC) services that has been widely recognized in the later part of the 1990s, the government established the Policy Planning Committee for LTC at the Ministry of Health and Welfare in 2000. The ministry reorganized the Policy Planning Committee for LTC in 2003, and also organized the Committee for Public LTC Policy Implementation in 2004 to design specific plans for LTC to be implemented from 2008. This LTC Policy Implementation Committee suggested a drafted law for public LTC insurance. In February of 2005, the Ministry of Health and Welfare submitted the public Elderly LTC Insurance (ELTCI) Bill to the congress, which deliberated the Elderly LTC Insurance Bill together with other bills regarding the LTC insurance submitted by different political parties for more than a year. The congress revised and passed the government bill as the Elderly Long-Term Care Insurance Law in April of 2007.

#### 4. Establishment of a Comprehensive Policy Plan for an Ageing Society

In July of 2002 a higher level of policy planning committee called the "Policy Action Committee of Health and Welfare for the Aged" under the Prime Minister's Office announced comprehensive national measures for an ageing society. Such measures including the legislation of the 'Basic Law for Aging Society' and the 'Public Long-term Care Insurance Law,' along with amendments to the Elderly Welfare Law and the Older Worker Employment Promotion Law were recommended.

Most of the comprehensive measures for an ageing society were accepted and implemented by the new government which inaugurated in February 2003. The national government established the Presidential Advisory Committee for Ageing and Future Society in 2004, and the committee exerted a great deal of effort to legislate the Basic Law for an Ageing Society in cooperation with the Ministry of Health and Welfare and other ministries. In May of 2005, 'the Basic Law for Low Fertility and Ageing Society' was legislated. This law required the establishment of the Presidential Committee for Population Policy and Ageing Society in September 2005 as a statutory committee, with the president sitting as chair.

By stipulation of the relevant law, under the presidential committee a government agency called 'Policy Headquarters for Population Policy and Ageing Society' was newly established with 12 teams of more than 100 officials dispatched from 12 governmental ministries. In addition, under the guidance of the presidential committee, policy headquarters designed the first five-year (2006-2010) plan for low fertility and ageing society, which was announced in August 2006.

#### **IV. Comprehensive National Policy Plan in Response to Population Ageing**

The five-year policy plan for low fertility and ageing society deserves our attention because it contains comprehensive policies including current ones from a broad and long-term perspective regarding population ageing.

Also, the fact that the plan was approved as a social contract between the government and the civil society, which was composed of a variety of non-governmental organizations (NGOs), deserves our attention as well. A summary of the plan is provided in the following.

## 1. Policy Objectives

The over-all long-term objective for policies in response to low fertility and ageing society is set as 'building a sustainable society for all ages.' Under this over-all objective, two-stage sub-goals are set: one is 'to build societal bases corresponding to low-fertility and the aging society' during 2006-2010, and the other is 'to restore higher fertility rate and respond successfully to the aging society' during 2011-2020. The second sub-goal will be reviewed and further more elaborated in the second five-year plan (2011-2015).

## 2. Major Policies

The major policies consist of three parts: (1) the creation of an environment conducive to child birth and child rearing, (2) building bases for securing quality of life in an ageing society, (3) securing power of economic growth in an ageing society.

- a) Creation of an Environment Conducive to Child Birth and Child Rearing
  - i) Strengthening Social Responsibility for Child Birth and Child Rearing
    - Reducing Economic and Social Burdens of Child-rearing for Families: expanding financial support for child rearing and education to families with children in preschool, expansion of support to reduce the burden for private education through after-school programs, expansion of benefits through tax deductions and creation of child-birth credit as a premium of the National Pension (NP), provision of housing incentives to families with more than three children, activation of domestic adoption, and deliberation of the introduction of child allowance system.

- Building Diverse and Quality Supportive Systems for Child Rearing: expansion of capacity of child care facilities, improvement of services in civilian childcare facilities, and expansion of diverse consumer-centered child-rearing supportive services.
  - Expanding Support for Pregnancy and Child Birth: systematization of health maintenance for maternity and preschool children, financial support for sterile married couples, and provision of maternity aids to low-income families.
- ii) Creating Social Culture of Family-Friendliness and Gender Equality
- Creating Work Environments Compatible with Family Life: expanding the application of maternity leaves and maternity allowance, activation of child care leave and strengthening flexibility of working hours and workplaces, support for workers' returning after childbirth and child-rearing, and improvement of workplace culture through introduction of social recognition system of family-friendly corporations.
  - Strengthening School and Social Education and Creation of Family Culture of Gender Equality: strengthening school education and social education to establish family values on low fertility and ageing society, and the creation of a gender equal family culture.
- iii) Fostering Healthy Future Generations
- Creating Safe Environments for Children and Youth: building social bases for prevention of safety accidents of children, strengthening systems of child-abuse prevention and child-neglect prevention, and strengthening programs for the prevention and eradication of school violence.
  - Establishing Social Support Systems for the Healthy Growth of Children and Youth: strengthening care functions for children and youth in communities, building social system to advocate children's rights, support for culture and art education to develop creativity of children and youth, ensuring safety from harmful environments, and building conditions to strengthen functions of health management in schools.

## b) Building Bases of Quality of Life in an Ageing Society

### i) Building a Stable Income Security System in Old Age

- Substantiating the Public Pension System: ensuring sustainability of the National Pension System and special occupational pension systems (Government Employees Pension, Military Servicemen Pension, Private School Teachers Pension), creation of portability device (linkage device) between the National Pension and special occupational pensions, and reforming the National Pension to elicit work incentives beyond pensionable age.
- Solution of the Problem of Older Persons' Exclusion from the Coverage of Income Security System for Old Age: expansion of the coverage of Elder Respect Pension, and the eradication of older persons' exclusion from the coverage of National Pension system (Elder Respect Pension will be replaced by Basic Old Age Pension from 2008).
- Expansion of Private Income Security System for Old Age: anchoring retirement pension system and activation of private individual pension system toward building a three-tier income security system in an ageing society.

### ii) Securing Healthy and Care-given Life in Old Age

- Building Bases for Health Maintenance in Old Age: building preventive health care system throughout life time, substantiating health care security system in old age, and activating physical exercise system for health promotion of older persons.
- Expansion of Bases for Long-term Care in Old Age: instituting public LTC insurance, expanding capacity of LTC facilities, building consolidated management and support systems for the elderly with dementia, and activating civilian home-care services in LTC.
- Activation of Physical Training for Life-long Health Maintenance: heightening utilization of physical training facilities, and developing physical training programs fit to individual and age characteristics.

### iii) Building Bases for Safe and Active Life in Old Age

- Ensuring Safe Housing Spaces: setting housing standards and supporting housing renovation for the elderly, and expansion of housing supply for the elderly with low-income.
- Creating Ageing-Friendly Traffic Environment: improving the environment of pedestrian and mass transportation for older persons, and building transportation bases for older drivers.
- Building Conditions for Active Ageing: creating jobs appropriate to older persons, activating productive leisure activity programs and building conditions for older persons' participation, expansion of welfare services for the elderly in rural areas and bases for their participation, improving older persons' rights and interests and building a culture to promote the spirit of filial piety.

### c) Securing Power of Economic Growth in an Ageing Society

#### i) Building Bases for Utilization of Potential Manpower of Women and Older People

- Promotion of Women's Participation in Economic Activities: strengthening active employment policies for women, and developing workability of women and support for their employment.
- Building Productive Ageing System to Utilize Elderly Manpower: legislation prohibiting age discrimination and improving mandatory retirement system, reform of wage system of corporations and diversification of working hours and places, strengthening work incentives of older workers, support for development of persons aged 55 and over, and improving work environment of older workers.
- Utilization of Foreign-Nationality Korean Workers and Foreign-Nationality Workers, and Promotion of Their Social Integration: promoting utilization of foreign-nationality Korean workers and foreign-nationality workers, inviting excellent Korean manpower residing overseas to Korea, early anchoring of foreign worker's employment permission system, and activating social integration programs for adaptation to multi-cultural society.

ii) Promotion of Competitive Power of Human Resources and Their Utilization

- Development of Virtuous Circle of Workability and the Building of Life-long Education System: strengthening linkage between school education and labor market, expanding opportunities for consumer-centered vocational training, and innovation of life-long education, vocational training facilities and national licensing system for technologists.
- Prevention of Loss of Workforce through Prevention of Industrial Disasters: improving safety and health conditions of workplaces, and strengthening support for workers who had suffered disasters return to workplaces.

iii) Building Bases for Financial System in an Ageing Society

- Activation of the Reverse Mortgage System
- Activation of the Asset Operation Industry
- Fostering of the Long-term National Bond Market

iv) Fostering Elderly Markets (Ageing-friendly Industries) as Industries Generating Power of Economic Growth in the Future

- Creation of Infrastructures to Foster Elderly Markets: building institutional bases for systematic growth of elderly markets, instituting designation system for superior products or services in elderly markets, and establishing consolidated test facilities of products in elderly markets
- Facilitating the Development of Technologies in Elderly Markets
- Standardization of Products in Elderly Markets

### 3. Financing of the Plan

Successful implementation of the first five-year plan for low fertility and the ageing society requires 34 billion US dollars, of which the burden will be shared by the central government and local governments. Fifty nine percent of the total budget will be invested in creating an environment conducive to child birth and child rearing, twenty two percent in building



bases of quality of life in an aging society, nineteen percent in securing power of economic growth in an ageing society.

The budget will be secured through the readjustment of national budget structure and the expansion of taxation bases. Mid- to long-term budgets will be secured through increasing the tax rate and developing a special tax such as ear-marked tax for population policy and ageing society. However, the financing methods for the sequential five-year plans seem to be very vague.

## **V. Issues and Problems in Korean Ageing Society**

Though most important measures for the low fertility and ageing society have been reflected in the first five-year plan, issues and problems may arise in implementation of the five-year policy plan for Korean ageing society. Hence, expected issues and problems will be examined according to the three parts of the plan: (1) general matters, (2) creation of an environment conducive to child birth and child rearing, (3) building bases of quality of life in an ageing society, (4) securing power of economic growth in an ageing society.

### **1. General Issues and Problems**

#### **a) Population Ageing from the Perspective of Elderly Welfare vs. Entire Social Systems**

Implications of population ageing can be viewed from the perspective of elderly welfare or from the perspective of the entire social systems. The perspective of elderly welfare is narrow compared to that of its counterpart. In other words, implications of population ageing relate with all aspects of social systems, including elderly welfare.

Despite the fact that population ageing needs to be viewed from the perspective of entire social systems, most of the general public and politicians tend to view population ageing from the perspective of elderly welfare, at broadest, from the perspective of social welfare in general. Because of this tendency, policies and budgets tend to be limited to the

scope of the Ministry of Health and Welfare. This narrow perspective becomes a significant barrier in implementing the plan. Therefore, a great deal of efforts to persuade the general public and politicians to have broad perspective on population ageing need to be exerted.

#### b) Lack of Supporting Longevity Science and Gerontechnology

The development of longevity science and gerontechnology is important in building a stable income security system in old age, securing healthy and Care-given life in old age, and building bases for safe and active life in old age (Park, 2004; Shim, 2002). However, it is regrettable that the five-year plan did not consider the development of longevity science and gerontechnology. It would be a good example that the Japanese government's policy plan for ageing society set up in 1986 included the development of longevity science and gerontechnology.

#### c) Policy Headquarters' Weak Power in Policy Planning and Implementation

The government agency 'Policy Headquarters for Population Policy and Ageing Society' established under the Ministry of Health and Welfare in order to assist roles of Presidential Committee for Population Policy and Ageing Society may have difficulties in coordinating policies established and implemented under other 11 ministries even though the policy headquarters was composed of officials dispatched from 12 governmental ministries, because the headquarters is actually under the control of the Ministry of Health and Welfare, that might be equivalent or inferior to other ministries in terms of power within the cabinet.

#### d) Unstable Financing of the Plan

Obviously, a plan cannot be implemented without adequate budgets. It is usually very difficult to raise budgets for the plan compared to other various governmental programs and projects. In order to secure funds, political power games are necessary, meaning that sometimes, the budgets may dwindle. Also it is very difficult to secure funding from general revenues due to competition with other items needing budgets and many

governmental ministries. For instance, the budget for Basic Old Age Pension, which was not included in original five-year plan, that may account for the largest part of all the budgets for policies to be implemented in 2008 may limit other budgets.

In the sense that population ageing is an inevitable phenomenon in the future and policy plan for the population ageing should be implemented without hesitation, it would be desirable to secure funding through an ear-marked tax. There might be a strong opposition to such a method of financing because different government officials have different ideas and priority on securing budgets. Therefore, whether to secure the budgets through ear-marked tax would be an important issue in implementing the plan.

## 2. Issues and Problems in Creating an Environment Conducive to Child Birth and Child Rearing

### a) Difficulties in Boosting up Fertility Rate

Low fertility appears to result mainly from unstable income and employment, difficulties in compatibility of work and family life, and increasing burden of child rearing (Korean government, 2006). Low fertility is most attributable to increasing burden of child rearing in Korean (Shin et al., 2005). Burden of child rearing includes higher expenses for child care and private education, and highly competitive college entrance examination. The five-year plan does not provide child allowance that might be an incentive for heightening fertility rate, but the plan will only deliberate its introduction. Policies to improve educational system, particularly college entrance examination, have not come up with effective results. It seems very difficult to expect notable increase in fertility rates without lightening the burden of child care and education.

### b) Lag in Building up a Culture of Gender Equality within the Family

A culture of gender equality has been gradually forming in Korea but will take a longer time to prevail. In particular, building up a culture of gender equality in families is a crucial issue to be solved in the Korean

society. The culture of gender equality should be built up swiftly regardless of the intention to increase fertility rate, however, this practice requires patience, owing to the dominant Korean tradition of unequal women's treatment in the family. Consequently, the facilitation of gender equal attitudes in the family is likely to be lagged far behind from its achievement in the employment and education field. Therefore, it would be difficult to expect higher fertility rate through achieving gender equality in the family. One of the effective ways of achieving gender equality may be to reflect the culture of gender equality in both regular and social education.

### 3. Issues and Problems in Building Bases of Quality of Life in an Ageing Society

#### a) Sustainability of Public Pension System

The failure of NP reform to lower IRR and to increase contribution rate will certainly threaten the sustainability of NP system. However, we need to pay attention to the reasons why the NP reform bill was rejected at the congress. Reformulation of IRR and contribution rate of NP may have to be based on national consensus on the value of generational interdependence vs. generational equity in the matter of supporting the elderly. In fact, the need to reform the National Pension system was initiated by pension experts and was corresponded by the government. Only a few people could understand the complexity of the public pension system and its need for reform in response to population ageing. Since most of general public still do not have confidence in the national pension system and increasing the contribution rate means the raising of tax, a majority of general public might have opposed the reform. Particularly prospective retirees in the near future could have opposed to the reform because their pension would be substantially cut. Congressmen also might have been reluctant to reform the NP for fear of losing votes, despite the fact that they knew the NP had to be reformed as soon as possible to ensure its sustainability. Therefore, even though the reform bill would be resubmitted to the congress, it might face many controversial issues.

Another matter to be addressed in the reform of the NP is the tendency of the self-employed to under-report their incomes, with result in

contributions less than the expected amount. This problem has arisen from the lack of a mechanism to verify incomes of the self-employed. Currently incomes of only 30% of the self-employed can be verified and so it will take time to establish a full income verification system.

While the reform bill of NP reform was deliberated at the congress, the need to reform special occupational pensions, the Government Employees Pension (GEP) in particular, was also raised. The GEP contains features of the workmen's compensation insurance and retirement benefits systems, because government employees cannot be covered by workmen's compensation insurance and retirement benefits system just as general employees are. The general public subscribe to both of them independently from the NP. Because the GEP has such features, and because its contribution rate is much higher (17%) than that of NP (9%), the IRR of the government employees' pension is higher (76%) than that of the NP (60%). In fact, even considering these features of the GEP, its IRR is somewhat higher than that of NP. The GEP fund has been recently deficient and so government has supplemented the deficit.

Because of higher IRR of the GEP and government supplement of its fund's deficit, the general public and pension experts have voiced for the need of its reform. Whether to reform the GEP so that its IRR may be equivalent to that of the NP, and whether the government needs to supplement the deficit of the GEP fund is an issue of concern in relation to population ageing in Korea.

Raising the pension age without a plan to raise the customary and 'mandatory' retirement age may cause problems of a widening gap between the prevailing retirement age of 55 and the higher pension age of 65. Raising the mandatory retirement age can thus be identified as one of the critical policy issues for the near future.

#### b) Uncomfortable Basic Old Age Pension

The Elder Respect Pension (ERP) was designed to help the elderly who are not eligible for coverage by the NP because they had already reached the aged 60 at the time of the NP's inception. The ERP is currently

provided to those aged 65-69 below the poverty line and those aged 70 and over with income less than 65% of average income of urban families. As of 2005, about 14% of elderly Koreans received the ERP. The original purpose of the ERP was not only to be an interim pension system that compensated for benefits forfeited because of the late inception of the NP, but also a symbolic expression of respect for the elderly who sacrificed themselves for the development of the country. To be faithful to this latter original purpose, the ERP should have been given to all the elderly Koreans, but mainly because of budget limitations, it was restricted to the low-income elderly.

As mentioned above the Basic Old Age Pension (BOAP) Law was suddenly legislated in April 2007 and will be effective from January 2008 replacing ERP. The amount of BOAP to be given is a little higher than the ERP but will cover lower 60% of the elderly in terms of income and assets. Not only because of a large amount of its budget but also because of its relation to NP reform, the BOAP may pose some issues.

When the BOAP bill was proposed one political party argued that the pension should be included in the NP, which then should be amended to have a two-tier system of basic pension and income-related pension. However, this idea, which may be desirable in the reform of the NP, failed to materialize. In relation to the NP reform many issues would come fore front in the future.

c) Lack of Incentive to Retirement Pension and Individual Pension to Build a Three-Tier Income Security System for Old Age

Despite efforts to improve the NP system, the risks of running into a national deficit have not been fundamentally solved. Another critical risk is the heavy burden it will place on coming generations. The first five-year plan intends to build an income security in old age through a three-tier system. A public pension alone cannot maintain an appropriate level of income security in old age for Koreans. The three-tier system addresses long-term financial stabilization, affordability, appropriate benefit level, universal coverage, equity within and between generations, and role sharing between public and private sectors in income maintenance for old

age. The three-tier system seems to be reasonable in the light of the experience of advanced countries.

The three-tier income security system could be developed mainly by the restructuring of various components of the present arrangements. The first tier would integrate the NP and the three other public pensions (Government Employee Pension, Private School Teachers Pension and Military Personnel Pension) to provide a National Pension with an IRR of 40%. The second tier would be the Retirement Pension, which is a new mandatory occupational pension for employees converted from existing Retirement Benefit system in December 2005. The third tier would be optional individual pensions, offered by the private financial markets. Thus, the IRR of public pension would be 40%, the IRR of the Retirement Pension would be 20-30%, the IRR of individual pension would be 20-30%, giving a total IRR of 80-100%.

The Retirement Pension system, created in 2005, is an improved system for retirees and provides options to receive retirement benefits in lump sum or in the form of pensions during a certain period of time. It is desirable for workers to select retirement pension, but in the case of selecting retirement benefits, workers' income security in old age may not be improved. So far, since the rate of converting retirement benefit to retirement pension is not so high, it would be questionable how much the retirement pension system would contribute to old age income security or three-tier income security system.

Private individual pensions became available through the private financial markets from 1994, to help those insured under the NP to save for additional income in old age. These pensions have not been attractive to those insured under the NP because tax exemption amount on monthly premiums and pensions were limited. In this sense the value of adding the third tier as individual pension could be questionable.

#### d) Lower Coverage of Public Long-Term Care Insurance

It is fortunate that public Elderly Long-Term Care Insurance (ELTCI) was legislated in April of 2007. The ELTCI bill intended to cover only

1.7% (85,000 persons) of the frail elderly in the first year (2008) of its inception. However, since its coverage is too a small proportion, the law was passed under the condition that its coverage should be expanded to 3.4% (166,000 persons) by 2008. By 2015, the coverage is to be gradually expanded to all the elderly who need LTC. Approximately 3.4% of the total elderly is estimated to be only 23% of all the frail elderly who need LTC. Since 3.4% of the total elderly are those who are severely and moderately frail (disability degree 1-3) that may need institutionalization in a majority of cases, and the rest of the elderly (76% of those who need LTC) will be excluded from the benefits of public LTC services (community care services). Such a small coverage will provoke dissatisfaction regarding the ELTCI, and may lead this law to a direction contrary to the principle of community care with higher priority proclaimed. The fact that those who would have paid premiums for the ELTCI could not benefit for more than 7 years until the coverage is fully expanded may raise a serious problem in the implementation of the ELTCI.

e) Social Negligence of Supplying Elderly Housing

As of 2005, the proportion of the elderly who live separately from their adult children reaches almost 50%, and the proportion is estimated to rapidly increase in the future. The demand for elderly housing designed to be convenient to daily life will also increase. However, elderly housing is short in supply excepting a very few number of retirement communities (called 'silver town' in Korea). Housing developers or housing construction companies do not seem to have interest in supplying elderly housing in general communities. Demand usually creates supply, but sometimes supply creates demand. Thus, supply of elderly housing may create its demand. In relation to the inception of public long-term care services from 2008, LTC needs may increase without the supply of elderly housing, which may help the elderly live more independently. Thus, the lack of elderly housing may create issues in relation to long-term care in the future.

f) Creation of Jobs for the Elderly from a Short-Term Perspective

Providing opportunities to work is one of the most effective measures for population ageing. The Korean government began to emphasize job



creation for the elderly particularly from 2004, and the five-year plan set a goal of creating about 70,000 jobs every year. However, such efforts mainly focus on socially created jobs, which are paid by the government with very low level of wage for a period of only 7 months. Most of the jobs are simple and labor-concentrated, of which work experience is not too helpful when trying to attain other jobs. After 7 months of employment, there are usually only few opportunities for elders to be reemployed. Therefore, more jobs need to be created for the elderly and also older workers need to be trained to competitive in the regular job market. The five-year plan does not seriously consider job training that may equip elders with work ability and job skills. Without enhancing workability and systematic job training for older workers, the provision of jobs on its own would not result in the intended effects.

#### g) Lack of Effective Measures for Population Ageing in Rural Areas

Population ageing in rural areas has been far more rapid. The proportion of the elderly aged 65 and over in rural areas increased from 14.7% in 2000 to 18.6% in 2005. Of the total 234 local government areas, there were 29 areas (12%) those with more than 20% of the population consisted of the elderly, and 14 areas (6%) with more than 30%.

Most of the local government areas with large elderly populations are also low in their self-support rate against the national government's budget. The most serious concern of these areas regarding the large elderly population is how to develop their areas in what industries. In this sense how to develop rural areas holding a large elderly population would be a task for the national and local government, as well as the issue of how much support should be given to these areas is also an important task for the national and local government. Recent decisions made by the central government to support the development of models of ageing-friendly area (counties) will provide good examples to other rural areas.

#### 4. Issues and Problems in Securing Economic Growth Power in an Ageing Society

##### a) Readjustment of Mandatory Retirement Age and Legislation of Law on Prohibition of Age Discrimination

The mandatory retirement age, which has prevailed for the past several decades, tended to be adjusted from age 55 to 60, with 55 being the most prevalent as of now. It will take a long time to adjust the mandatory retirement age to 60 because most corporations are reluctant to engage in upward adjustment. Also there would be the possibility of strong opposition to the legislation of the law on prohibition of age discrimination from the side of corporations. Without much scientific evidence about the relationship between ageing and workability/productivity across a variety of jobs and occupations, it would be very difficult to persuade those with prejudice or negative stereotypes regarding ageing. Unfortunately, there seems to be few scientific studies on ageing and productivity as of yet. Therefore, readjustment of the mandatory retirement age and legislation of laws on prohibition of age discrimination will continuously evoke controversy.

##### b) Developing Economic Markets for the Elderly (Elderly Market)

All the services necessary to respond to diversified needs of the elderly, including quality services demanded by the well-to-do population, cannot usually be provided in the social market which means a social welfare system. Economic market that may be called as 'elderly market' is necessary to respond to a part of the diversified needs. This economic market is also needed in the sense that services targeting the elderly can be more efficient and effective. The elderly market is also necessary for the development of services and product industries in the society. It is also necessary to lead public sector services for the elderly to more efficient and effective ones by eliciting competition with the private sector.

Many controversial issues can be raised regarding the market for the elderly: whether the market is within the scope of social welfare, whether welfare services provided in the market on profit-making basis are

justifiable, whether welfare services provided by profit-making organizations can reasonably respond to the needs of citizens and promote equality, whether government control is necessary to maintain the rights and safety of the elderly population, how much the government needs to support the development of the market, etc.

## **VI. A New Perspective to Approach an Ageing Society Suggested: Age-Integrated Social System Perspective**

Traditional perspective to approach an ageing society has tended to understand the phenomenon as matters of problems associated with ageing and welfare of the elderly from a narrow and short-term perspective. However, this traditional perspective does not seem to fit in approaching ageing society or population ageing. Hence, a new perspective to approach an ageing society needs to be developed. The new perspective could be constructed based on some existing theoretical considerations.

Age stratification theory suggests that every society divides people into categories or strata according to age and so each cohort members of a certain age bracket has roles appropriate to the age strata (Riley, 1987). When there is a lack of fit in terms of available roles cohort members may challenge the existing patterns of age stratification. By viewing ageing groups as members of status groups within a social system, as well as active participants in a changing society, age stratification theory can provide useful sociological explanations of age differences related to life course and cohort. This age stratification theory has an important implication for developing a new perspective on life course and ageing in that it emphasizes social roles appropriate to specific age stratum that may change throughout life course. For instance, people in old age stratum need to be given social roles that are appropriate for their age in a social system.

Life course theory explains the diversity of roles and role changes across the life course as it suggests that development is not restricted to any one part of life course, but rather, a life-long and highly dynamic process (George, 1996 Bengtson et al., 1997). In this theory human development cannot be solely equated with steady incremental growth and change but instead is an interactive, non-linear process characterized by the

simultaneous appearance of role gains and losses, continuity, and discontinuity. This life course theory has implication for the new perspective in that it proposes a life-long and highly dynamic process of development throughout life course.

In functionalism adaptation involves the problem of securing sufficient facilities from the environment and then distributing these facilities through the system (Turner, 2003). Goal attainment refers to the problem of establishing priorities among system goals and mobilizing system resources to reach the goals. Integration denotes the problem of coordinating and maintaining viable interrelationships among system units. Latency involves two related problems: pattern maintenance and tension management. Pattern maintenance pertains to problem of how to ensure that actors in the social system display the appropriate characteristics. Tension management addresses the problem of dealing with the internal tensions and strains of actors in the social system.

Age-integration provides a social status or social roles to the elderly in the social system and involves them in the mainstreams of social systems. If elderly persons are age-integrated, they could become important facilities or resources for the implementation of functional adaptation. Furthermore, the elderly could become a social force to affect the social system by asserting voting power and posing generational conflicts in the social system. Therefore, integration of a social system could be promoted by intentionally including all age groups, particularly the elderly group. Latency function could be well implemented by ensuring that the elderly display appropriate roles, and by dealing with internal tensions and strains of the elderly in the social system.

The idea of new ageing including three factors of generational claims, diversity and longevity provide an new set of circumstances, profoundly altering our view of the elderly and society's response to them shed light on a new perspective different from the traditional one (Torres-Gil, 1992). These three factors could framework for how we look at the life course, the ageing, the elderly and societal response to population ageing.

The main theme of United Nations' International Year of Older Persons designated in 1999 that was set as "a society for all ages" could be incorporated into social policies with the following three principles: (1) independence, (2) participation, and (3) self-fulfillment. The principles for older persons proclaimed in 1991 by UN were (1) independence, (2) participation, (3) care, (4) self-fulfillment, and (5) dignity. The Madrid International Plan of Action on Ageing adopted by UN at the second World Assembly on Ageing in 2002 emphasized three priority policy directions: (1) older persons' participation in society and development, (2) advancing health and well-being into old age, (3) ensuring enabling and supportive environment. Common factors in UN's policy directions related to population ageing or ageing society could be summarized as (1) independence, (2) participation and (3) self-fulfillment. Particularly participation in society and development has implication for social integration of the elderly into the society.

The idea of productive ageing and active ageing was initially proposed to address productivity in economic sense but the meaning has been broadened and become the modern concept of active ageing that combines the core elements of productive ageing with a strong emphasis on quality of life and mental and physical well-being not only in economic and but also in social and psychological aspects (Walker, 2002). Particularly the idea of active ageing promotes life-long approaches in terms of mental and physical well-being (WHO, 2002).

The concept of successful ageing that has been prevailed in the social gerontology and gerontological services for the ageing for the past several decades is one of the important dependent variable and a goal of development in later life for the past several decades. Active engagement with life, which means maintaining social relationships with others and productive activities including remunerative and voluntary work (Lowe and Kahn, 1998) is generally regarded as one of the major determining factors of successful ageing. The concept of successful ageing has implication for the new perspective in that it includes promoting productive activities to be promoted regardless of age.

As mentioned above age stratification theory, life course theory, new ageing, UN's age-integration policy promotion, the idea of active ageing, the concept of successful ageing, etc. could be some major theoretical foundations for the new perspective provisionally called "age-integrated social system perspective."

The characteristics of the age-integrated social system perspective could be summarized as follows: (1) It integrates all ages, particularly older persons into a social system by providing social roles according to their age. This implies older persons' participation in the society and development. (2) It allows redefinition of life course. This implies the necessity of redefinition of the middle adulthood and older adulthood in terms of age that is flexible enough to accommodate the extending lifespan, and elaboration of old age period. (3) It emphasizes that the capabilities of the elderly are accumulation of experiences, knowledge and skills obtained throughout life course. This suggests life-long learning and preparation for old age. (4) It emphasizes a societal survival and development through implementing functional requirements such as including the elderly in the whole social system. This suggests that a society without integration of the elderly into the society may not survive in the long run.

## **VII. Conclusion**

We have presented a profile of population ageing, briefly reviewed recent development of national policies for an ageing society, introduced the comprehensive national policies in response to the ageing society, and examined major issues and problems in developing and implementing the national policies for the ageing society, and finally suggested a new perspective to approach an ageing society.

The first five-year plan is, in a sense, a reform to change the entire social system in order to survive the unavoidable ageing society in the future. In this sense, the plan seems to reflect some part of the age-integrated social system perspective. Though there might be differences in the rapidity of ageing, all future societies will eventually develop into ageing societies. In general, developed societies have not successfully responded to population ageing with a comprehensive national plan from a

broad and long-term perspective on ageing society, which might be the age-integrated social system perspective.

Reform could be well progressed if supported by the general public (Kim & Roberts, 2007). Even though the five-year plan was approved as a form of social contracts between the government and NGOs, the support from the NGOs does not necessarily equate to support from the general public. The general public also includes economic market sector. Therefore, in implementing the five-year plan, the government needs to initiate policy implementation in cooperation with NGOs and economic markets (UN, 2002).

The issues arising in the implementation of the five-year plan for low fertility and ageing society may also be discussed and solved through government efforts to persuade the general public for support. If the Korean society would well implement the comprehensive national plan by solving issues arising in the implementation of the plan, the Korean society's response to population ageing may become a model to other developing countries. The Korean government, benefiting from the experience of other advanced countries, could now take active steps to implement the comprehensive national plan for low fertility and population ageing from the new perspective to approach an ageing society.

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## **Asia-Pacific Institute of Ageing Studies (APIAS) at Lingnan University**

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The Asia-Pacific Institute of Ageing Studies (APIAS) was established as a University-wide institute in 1998 and has been operating as one of the research centers in the Institute of Humanities and Social Science (IHSS) since September 2001. The mission of APIAS is to facilitate and develop research in gerontology and issues related to population ageing in Hong Kong and the Asia-Pacific region.

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“To develop a better environment for older people and their families in Hong Kong and the Asia-Pacific region.”

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- To strengthen the collaboration and network amongst the Asia-Pacific region.

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