

Policy Responses to Low Fertility and Rapid Aging in Korea

2008

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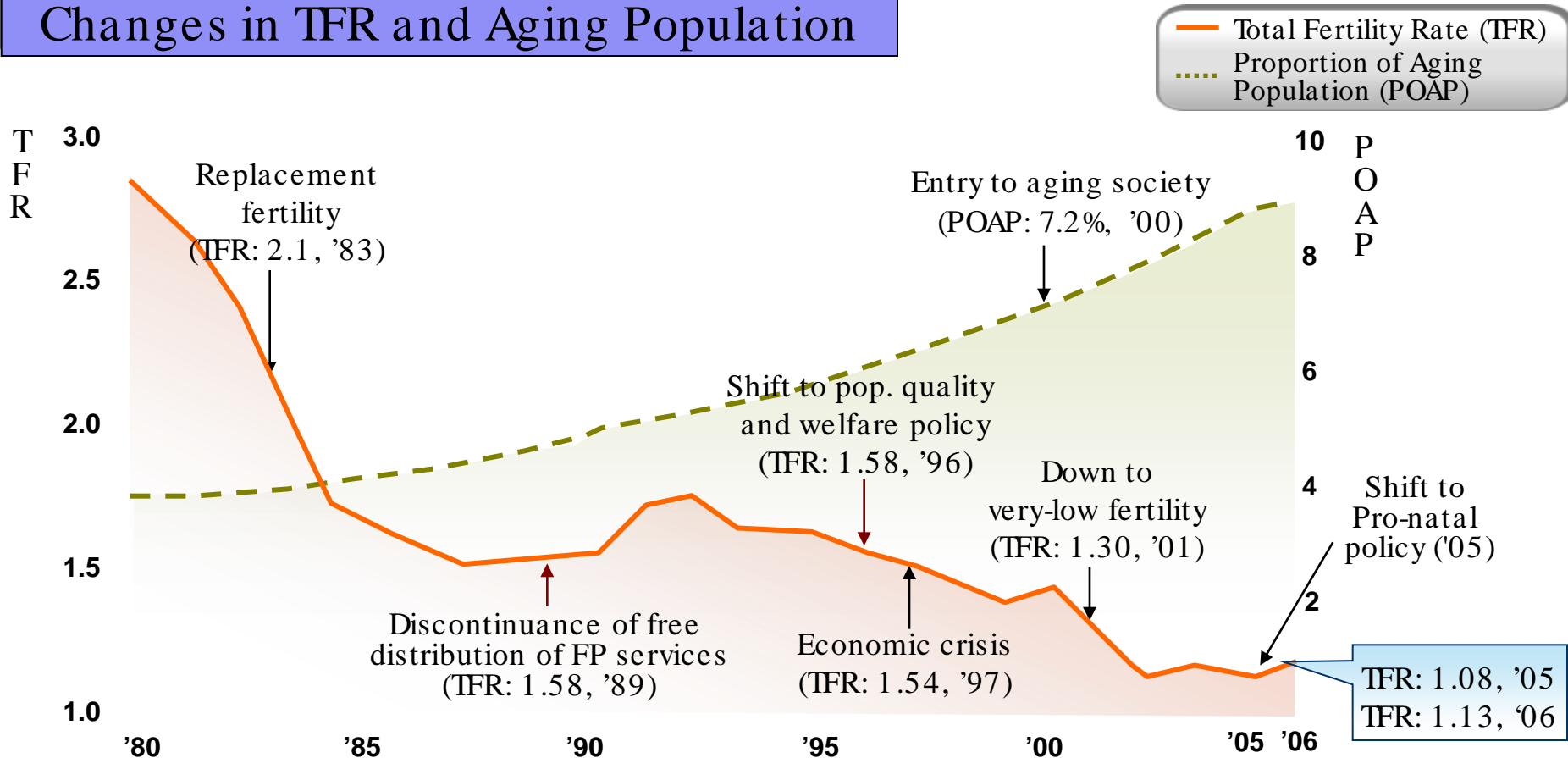
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- Causes of Low Fertility in Korea
- Historical Review of Population Policy
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Low Fertility and Aging: Now and Future (1)

Changes in TFR and Aging Population

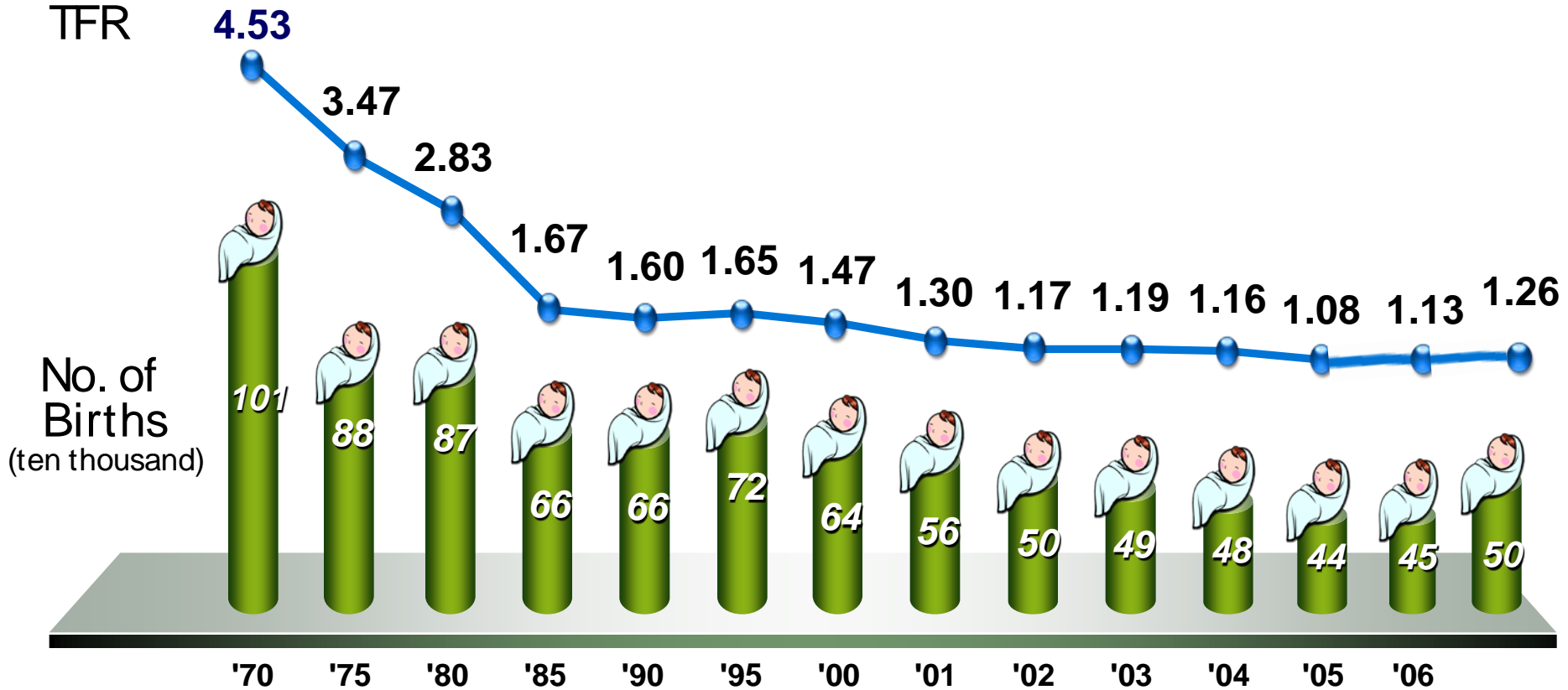


- For 10 years since the mid-80's, TFR remained in the region of 1.6
- Rapid decline of TFR after the Economic Crisis in 1997 → 1.13 in 2006 (one of the lowest in the world)

Low Fertility and Aging: Now and Future (2)

Trends in fertility rates

- Rapid decline in fertility: low fertility for more than 20 years; super-low fertility for more than 5 years



Low Fertility and Aging: Now and Future (3)

Rapid aging

- It will take only 18 years for Korea to become an aged society (more than 14% elderly population from an aging society (more than 7% elderly population))

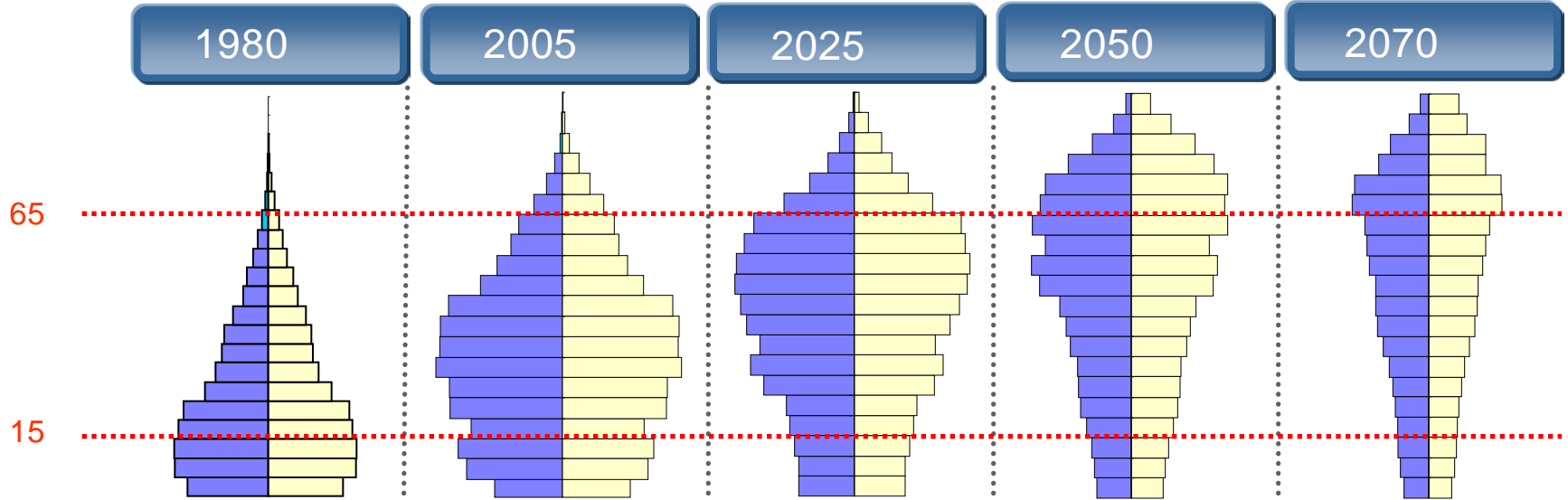
| Country | Year | | | Years taken | |
|---------|---------------|---------------|---------------------|---------------------------|---------------------------------|
| | Aging (7%) | Aged (14%) | Super-aged (20%) | Aging to aged (7%→14%) | Aged to super-aged (14%→20%) |
| Korea | 2000 | 2018 | 2026 | 18 | 8 |
| Japan | 1970 | 1994 | 2006 | 24 | 12 |
| France | 1864 | 1979 | 2018 | 115 | 39 |
| Germany | 1932 | 1972 | 2009 | 40 | 37 |
| Italy | 1927 | 1988 | 2006 | 61 | 18 |
| US | 1942 | 2015 | 2036 | 73 | 21 |

Source : NSO, 'Population Projection', 2006.

Low Fertility and Aging: Now and Future (4)

Changes in demographic structure

Unit: 10 thousand



| | 1980 | 2005 | 2025 | 2050 | 2070 |
|--------------------------------------|-------|-------|-------|-------|-------|
| Total population | 3,812 | 4,814 | 4,911 | 4,234 | 3,244 |
| Economically active population (EAP) | 2,372 | 3,453 | 3,356 | 2,242 | 1,537 |
| Elderly population | 146 | 437 | 977 | 1,616 | 1,421 |
| Dep. ratio | 6.1 | 12.6 | 29.1 | 72.0 | 92.5 |

- Total population will decrease after reaching 49.3 million in 2018
- EAP will decrease after reaching 36.2 million in 2016

Low Fertility and Aging: Now and Future (5)

Future Impact

- Reduced labor force and productivity
 - Reduced EAP: 34.53 million ('05) → 22.42 million ('50)
 - Aging of EAP : 38.0 years ('05) → 43.2 years ('30) → 43.5 years ('50)

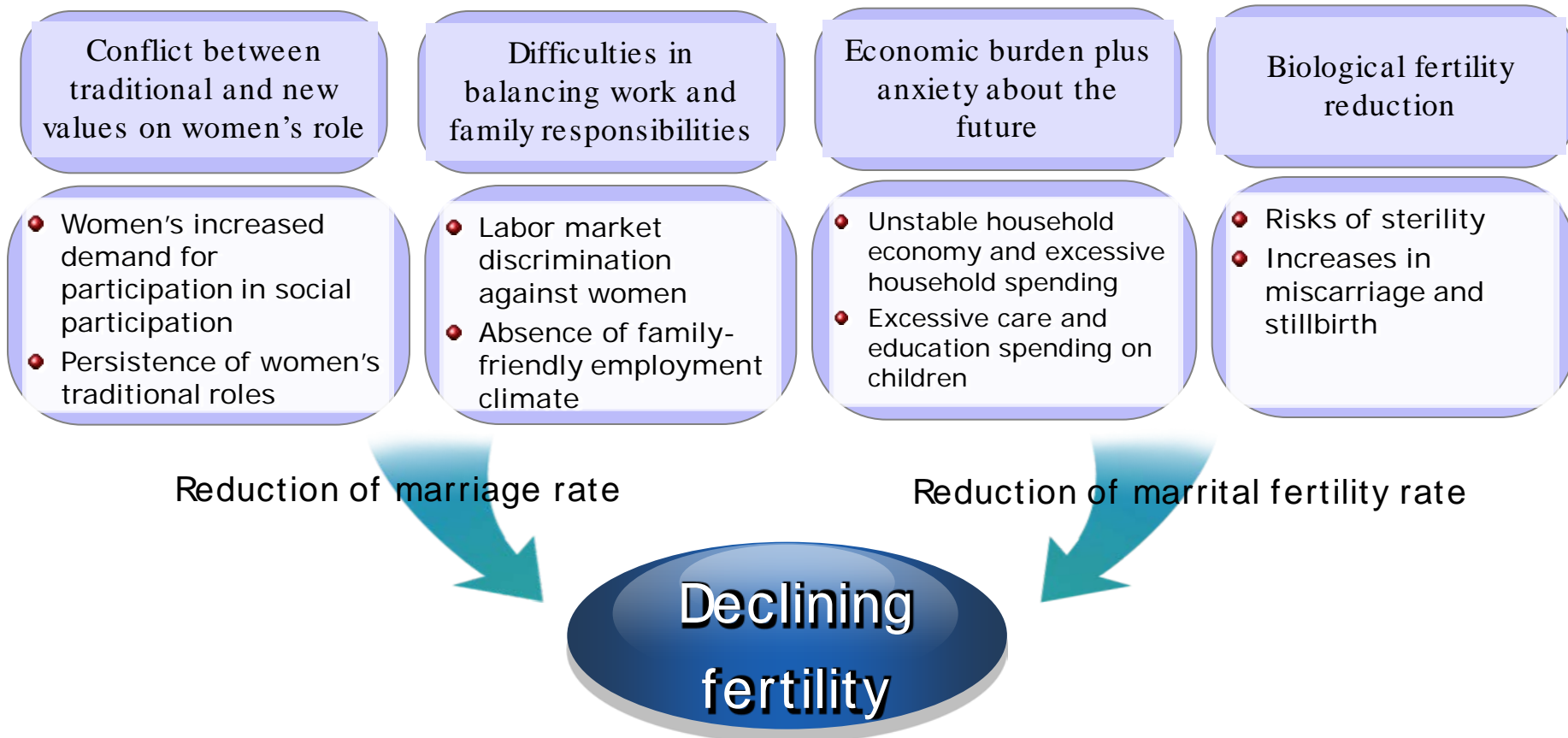
- Reduced growth rates
 - Reduction in labor productivity, savings, consumption and investment
 - Declining potential growth: 5.08%(2000) → 1.53%(2040's)
 - Fiscal instability: account deficits of 10% of GDP (2040's)

Low Fertility and Aging: Now and Future (6)

Future Impact

- Financial constraints on social security
 - Increasing pension, health spending on the elderly, weakened tax base, etc.
 - No. of EAP per older person: 8 ('05) → 4 ('22) → 2 ('37)
 - Pension contribution burden: 30% ('50) → 39% ('70)
- The issue of inter-generational equality rises as the EAP's burden increases.

Causes of Low Fertility



※ First marriage for women: 25.4('95) → 26.5('00) → 27.8('06)

※ First childbirth: 26.5('95) → 29.0('00) → 30.4('06)

※ Rate of sterility for married women: 13.5%('03), and pregnancy wastage 31.2%('05)

Historical Review of Population Policy

Changes in Population Policy (1960~2006)

| Year | Population Policy |
|------|--|
| 1961 | <ul style="list-style-type: none">■ Adoption of anti-natal policy<ul style="list-style-type: none">• Five-year Economic Development Plans and Family Planning ('62)• Enactment of the Maternal and Child Health Law, legalization of medically necessary induced abortions ('73)• Priority for public housing to families with 2 or less children ('74)• Sterilization and contraception covered by Health Insurance('82) |
| 1996 | <ul style="list-style-type: none">■ Abolition of anti-natal policy, shift to population quality and welfare |
| 2005 | <ul style="list-style-type: none">■ Adoption of pro-Natal Policy<ul style="list-style-type: none">• Basic Law on Low Fertility and Aging Society; Presidential Committee on Low Fertility and Ageing Society ('05)• Initiation of the First Basic Plan in Response to Low Fertility and Population Aging(2006-2010) in Aug. 2006. |

Historical Review of Population Policy

Model Slogan of Family Planning Program

- Boys or Girls, Two is enough.
- A Well-grown girl is better than ten boys.

Lessons from Other Countries (1)

Sweden, 1.85('06)

- Sharing of family responsibilities
- Support for work-family balance
- Financial support for child-rearing
- Childcare infrastructure
- Institutional acceptance of various forms of family
- Social acceptance of immigration

France, 1.98('06)

- Sharing of family responsibilities
- Support for work-family balance
- Financial support for child-rearing
- Childcare infrastructure
- Institutional acceptance of various forms of family
- Social acceptance of immigration

US, 2.0('06)

- Labor market flexibility
- Makes it easy for workers to balance work and family
- Inexpensive private childcare services
- High fertility rates among naturalized citizens

- ※ Family allowance as a % of ('01) : Sweden 2.9%, France 2.8%, US 0.4%, Korea 0.1%
- ※ Women's economic participation rate('03: Sweden 72.8%, France 56.7%, US 65.7% Korea 49.0%)
- ※ Out-of-wedlock birth rate : Sweden 56%('04) France 43.7%('01) US 33.8%('04)

Lessons from Other Countries (2)

Germany, 1.3('06)

- Distinct role division between men and women (Catholicism)
- Passive acceptance of nontraditional families
- Insufficient support for work-family balance, inflexible employment
 - 40% of women with a college degree decide not to have children
- Lack of support for childrearing and child education
 - Low family allowance
- Poor childcare services for children aged 0~3

Spain, 1.3('06)

- Distinct role division between men and women (Catholicism)
- Passive acceptance of nontraditional families
- Insufficient support for work-family balance, inflexible employment
- Youth have barriers to self-support
 - Unemployment rate for those aged 25 or younger: 30%
 - High housing prices
- Lack of support for childrearing and child education
- Lack of public childcare facilities
- Family policy overly focused on poor households

- ※ Family allowance as a % of GDP('01) : Germany 1.9%, Spain 0.5%, Korea 0.1%
- ※ Women's labor force participation ('03): Germany 58.7%, Spain 46.8%, Korea 49.0%
- ※ Out-of-wedlock childbirth rate('01): Germany 23.6%, Spain 17.7%

Lessons from Other Countries (3)

Japan 1.32('06)

Policies In place

- Work-family balance (employment flexibility)
- Childcare infrastructure
- Financial support (child allowance)
- Family-friendly employment climate
- Economic of Youth

Singapore 1.2('06)
Taiwan 1.1('06)

- Support for work-family balance (childcare leave)
- Childcare infrastructure (allowance, nannies)
- Financial support (grandparent childcare allowance)
- Family-friendly employment policy
- Support for marriage (housing support)

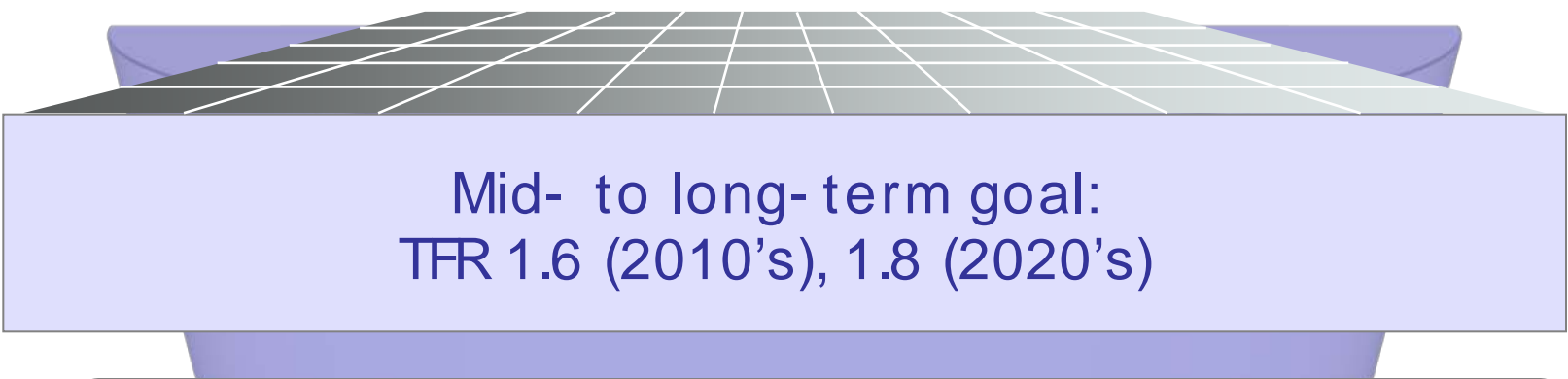
Limita- -tions

- East Asian culture
 - Confucian patriarchy with distinct role division between men and women
 - Insufficient pro-family employment (Long working hours, inflexible labor market)
 - Low acceptance of out-of-wed families (cohabitation, unmarried mothers)
- Lack of support for work-family balance
- Piecemeal policy measures

Policy Responses to Low Fertility and Aging

Policy Vision and Goals (Basic Plan)

Sustainable society, economic prosperity, and individual happiness



Mid- to long-term goal:
TFR 1.6 (2010's), 1.8 (2020's)


- Slow-down of rapid changes in population structure for sustainable development of the nation
- Super-low fertility is a recent phenomenon and can be reversed with policy efforts

Policy Responses to Low Fertility and Aging

Policy Directions

- To strengthen social role in childbirth and childbearing
- To achieve family-friendly and gender-equal culture
- To nurture healthy future generations
- To improve limited responses of local government to low fertility

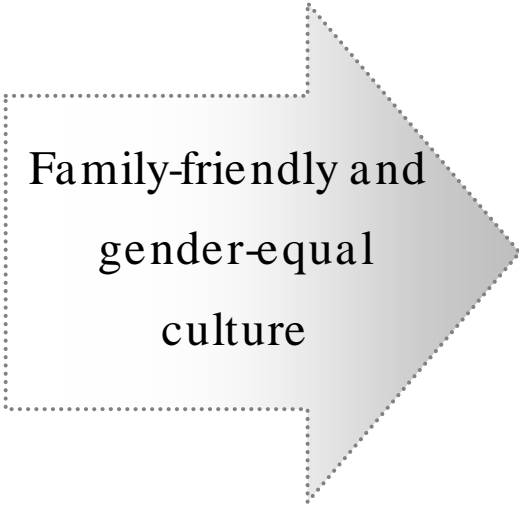
Policy Direction (1)



Strengthened social
role in childbirth
and childrearing

- Relieve families with growing children of financial burden
 - Increase support for childcare and child education in cash and in-kind
 - Increase incentives in tax and social insurance
 - Activate domestic adoption
- Childrearing support infrastructure
 - More childcare facilities to meet increasing childcare needs
 - Improve private childcare services
 - Demand-oriented, diversified childcare services
- Increase support for pregnancy and childbirth
 - Maternal and child health
 - Infertile couples
 - Helping hand service for new mothers

Policy Direction (2)

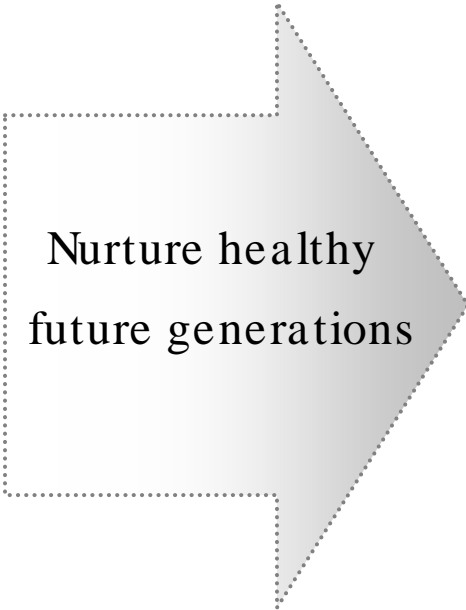


Family-friendly and
gender-equal
culture

- **Work-family balance**
 - Maternity leave benefits
 - Flexible employment
 - Return-to-work support for new mothers
 - Accreditation system for family-friendly firms

- **Improved social education and family-friendly culture**
 - Strengthen social education in schools to foster family values
 - Foster friendly and equal family-life culture

Policy Direction (3)



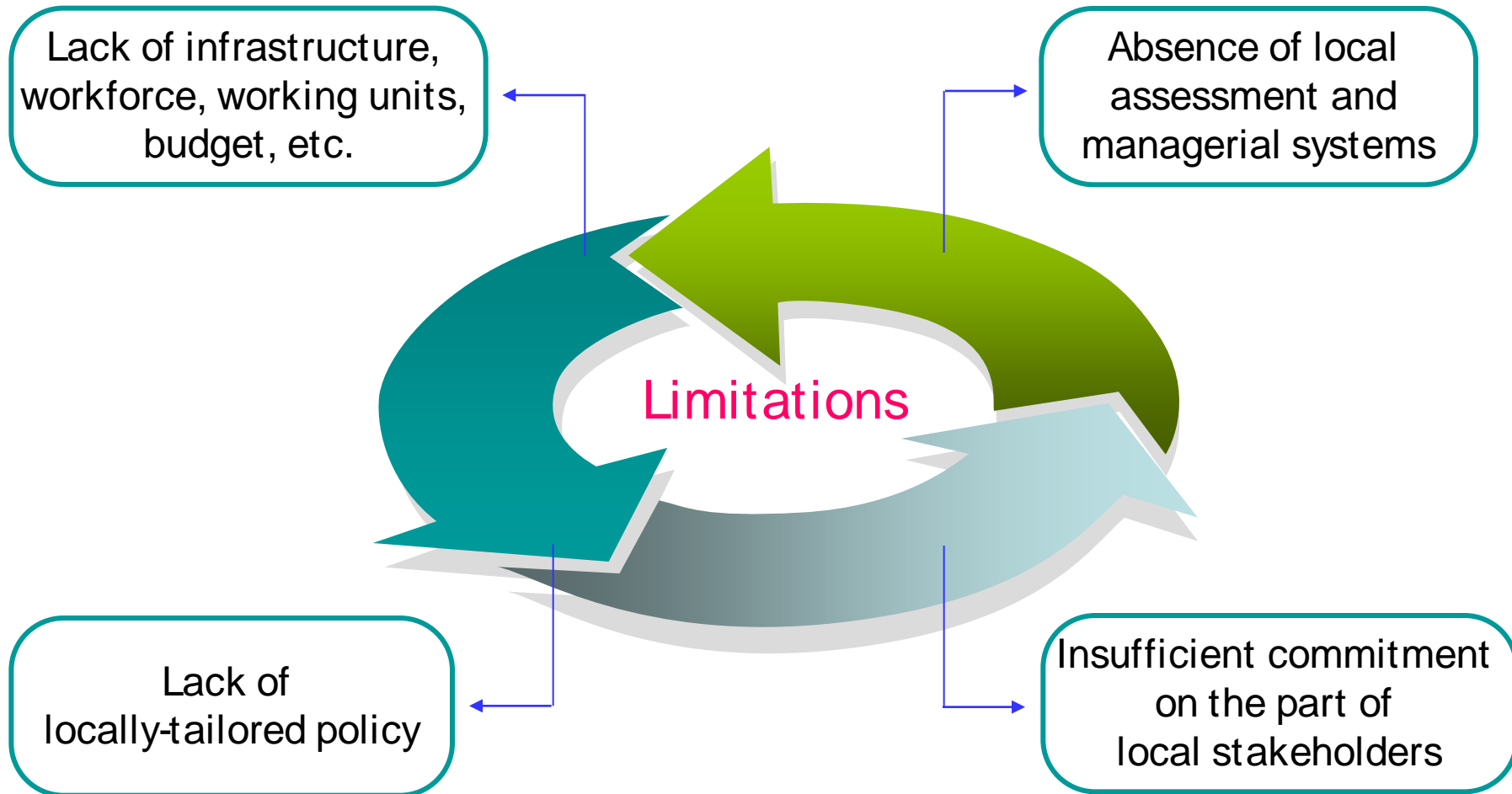
Nurture healthy
future generations

- Safe growth environment for children and youth
 - Build social infrastructure to prevent child safety accidents
 - Prevent child abuse and strengthen protection for neglected children
 - Take measures for to prevent and eradicate school violence

- Establish social support system for the healthy growth of children and youth
 - Strengthen community-based child protection
 - Establish social system for the protection of children's rights
 - Provide children and youth with art and cultural education to increase their creativeness
 - Protect youth from harmful environment
 - Improve school health management

Policy Direction (4)

Improve Limited responses of local governments to low fertility



How to invest (1)

Investment Plan

- Of a total budget of 32 trillion won earmarked for the Plan in Response to Low Fertility and Aging Population ('06 ~ '10), low fertility accounts for 58.9%, aging 22.4%, and growth engine 18.6%.

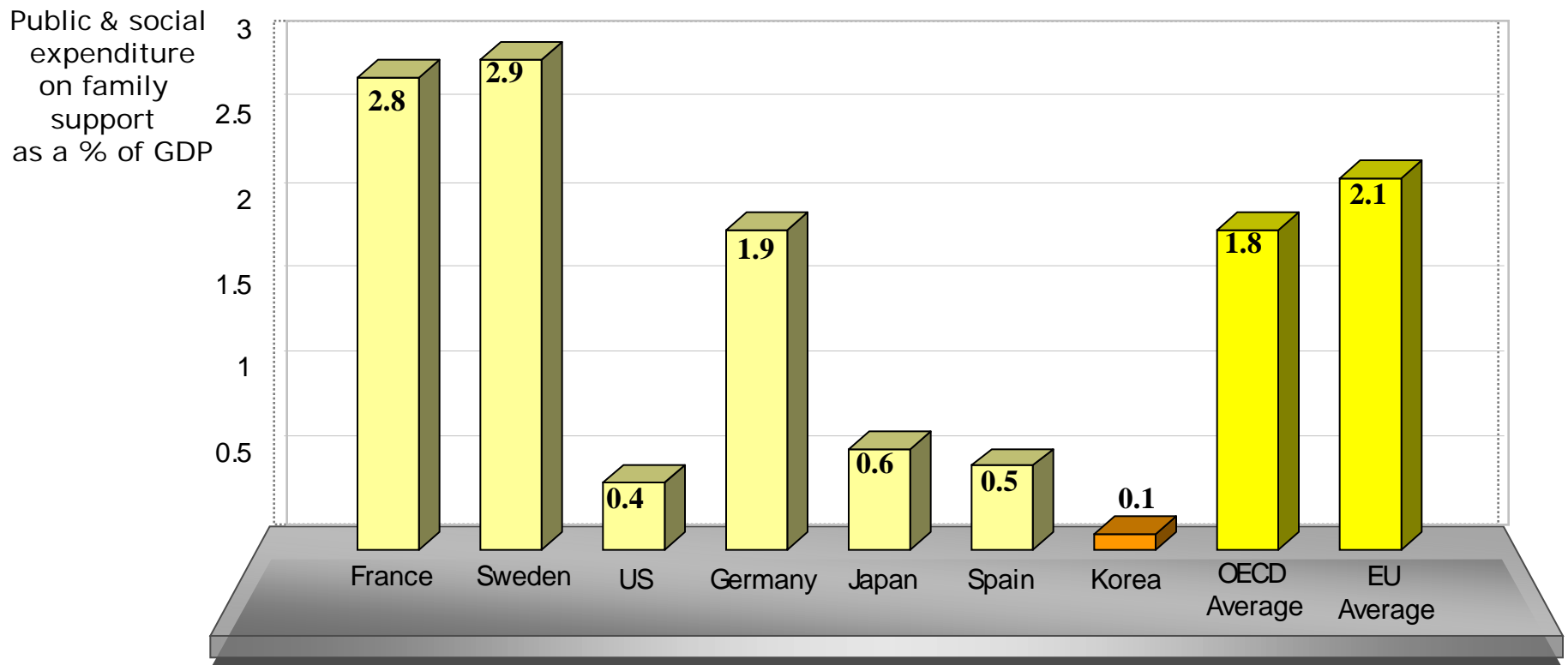
(Unit: hundred million won)

| | '06 | '07 | '08 | '09 | '10 | Total |
|---------------|--------|--------|--------|--------|--------|---------|
| Total | 37,500 | 56,979 | 71,033 | 72,969 | 82,265 | 320,746 |
| Low fertility | 21,133 | 32,489 | 40,265 | 45,569 | 49,542 | 188,998 |
| Aging | 8,367 | 12,809 | 18,040 | 14,075 | 18,511 | 71,802 |
| Growth engine | 7,987 | 11,614 | 12,644 | 13,236 | 14,119 | 59,600 |
| Others | 13 | 66 | 84 | 89 | 94 | 346 |

How to invest (2)

Insufficient family support

Family-related support in OECD countries



Source : OECD(2004), Social Expenditure

※ Family allowance, maternity and childrearing leave allowance, income supplement, pregnancy allowance, school lunch program, and others, included.

Pro-Elderly Policy (1)

Rapid increases in the elderly population, rapid increases in welfare needs

■ Increases in elderly-only households

- Elderly-only households: 51.2% (elderly living alone, one in four)

■ High rate of chronic illness; long-term care need rises

- Need for long-term care increases due to increasing cases of dementia and stroke
- 90.5% of elderly are chronically ill, 36.3% experienced impairment in daily activities

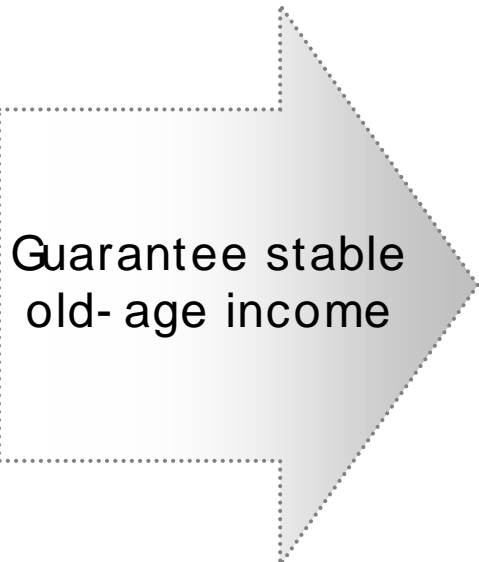
■ Insufficient economic preparation for old age; growing government responsibility

- 28.4% of the elderly have an income below the minimum standard of living
- An increasing share of the population find the government responsible for people's old-age lives
 - 20.5%(1994) → 40.2%(2004)

■ Elderly want an active social life

- Those wanting an active old-age life increases with increasing life expectancy and education levels
 - % of the elderly with a high school education and higher 5.5%(1994) → 18.6%(2004)


Pro-Elderly Policy (2)



Guarantee stable
old-age income

- Strengthen public pension
 - Enhance long-term sustainability
 - Improve Special Occupational Pension
 - Introduce linkage between the National Pension and Special Occupational Pension
 - Introduce work incentives in pension schemes
- Eliminate Dead Zone in the old-age income protection system
 - Introduce basic old-age pension
 - Eliminate gaps in the National Pension
- Improve private income security
 - Facilitate an early implementation of retirement pension
 - Activate private pension plans

Pro-Elderly Policy (3)



Safe and active life
for the elderly

■ Safe housing

- New residential criteria for senior households
- Housing refurbishment
- Increased housing provision for seniors

■ Senior-friendly transportation infrastructure

- Elder-friendly public transportation & pedestrian environments
- Specialized transportation infrastructure for senior drivers

■ Environment for the social participation of active seniors

- Create jobs for senior workers
- Promote productive leisure activities
- Foster a culture with increased protection of the rights and interests of seniors

Pro-Elderly Policy (4)



Healthy
old-age life

■ Old-age health management

- Preventive health care
- Improved old-age health security
- Physical activity project for health promotion

■ Long-term care

- Long-term care insurance
- Long-term care infrastructure
- Private home care services
- Better management of elderly with dementia

Recent Development of Pro-Elderly Programs (1)

Long-term Care Insurance

- Recent developments

- Pilot project on long-term care insurance (July 2005~June 2008)
- Promulgation of the Long-term Care Insurance Act (April 2007)

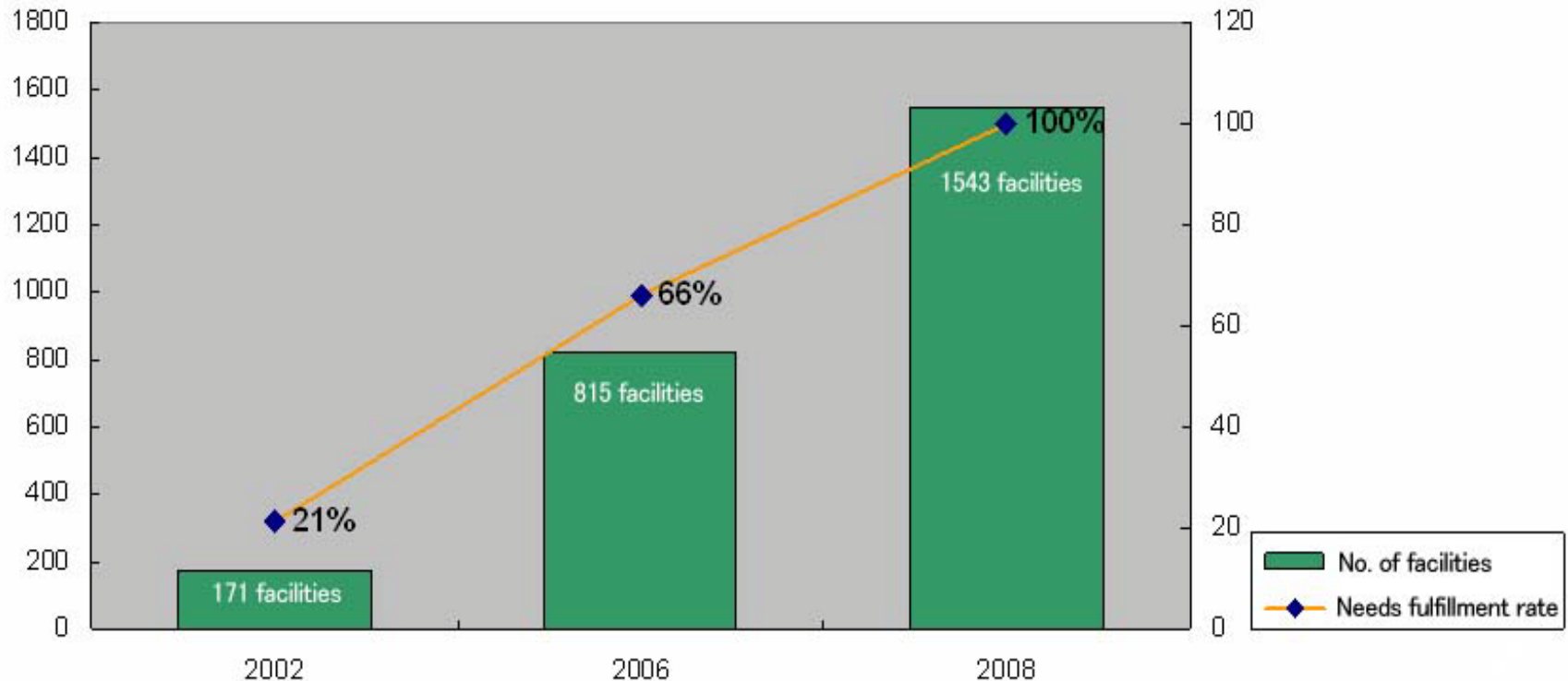
- Outline of Long-term Care Insurance

- Target: those aged 65 and over or those aged below 65 having geriatric diseases
- Long-term care benefit: home care benefits, institutional care benefits, special in-cash benefits
- Financing method: premiums + government support + out-of-pocket payment
- Effective in July 2008

Recent Development of Pro-Elderly Programs (2)

Long-term Care Insurance

- Ten Year Plan for Long-term Care Infrastructure('02-'11)
 - Increase in home care centers from 368 to 1,185 in 2007
 - Needs fulfillment was 60% in 2006, expected to reach 100% in 2008



Recent Development of Pro-Elderly Programs (3)

Basic Old-age Pension Program

- National Pension System (1988~1999)
- Special Subsidy Program (1998)
- Recent developments
 - The stressed need for the elimination of Dead-Zone in old-age income security
 - Promulgation of the Basic Old-age Pension Law (April 2007)

Recent Development of Pro-Elderly Programs (4)

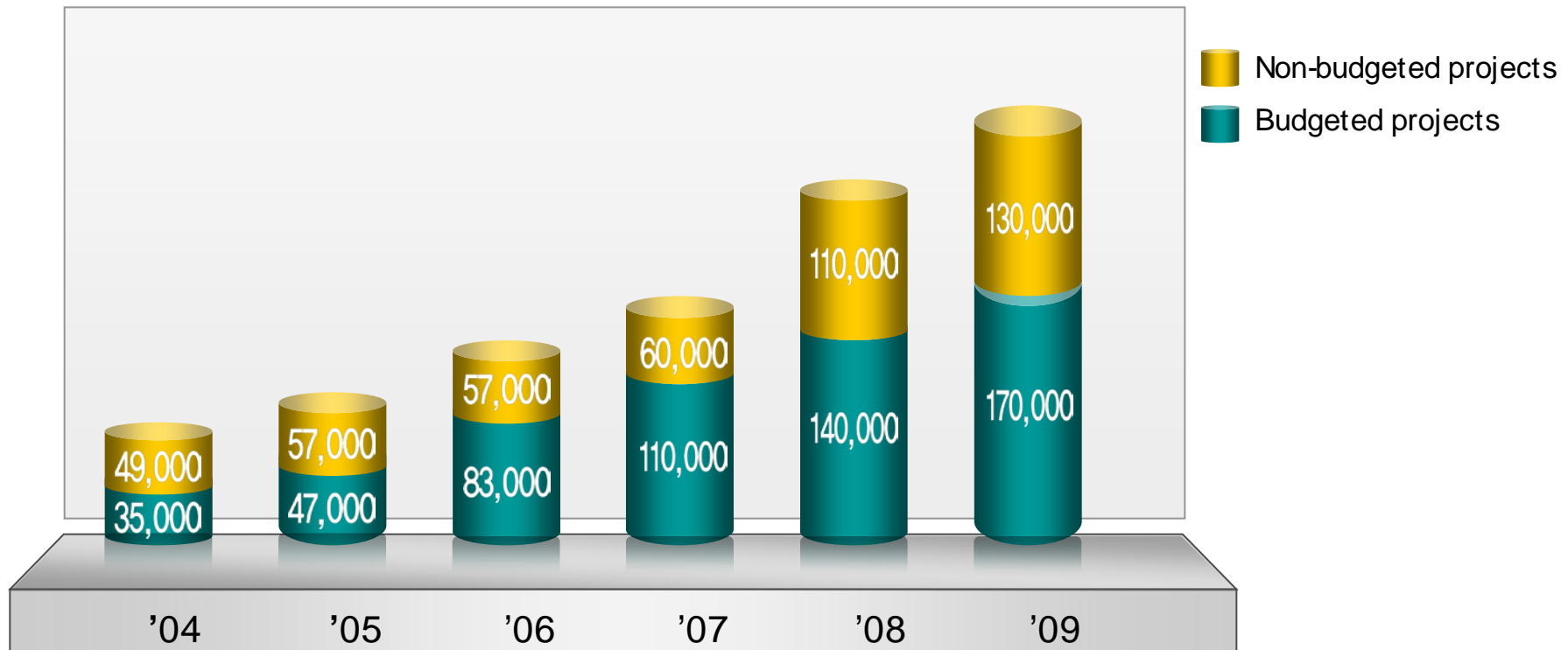
Basic Old-age Pension Program

- Outline of Basic Old-age Pension Program
 - 5% of the income of an average National Pension participant
 - 3 millions of older persons be paid in 2008
 - To be implemented January 2008 for those over 70
from July '08 for those 65 and over

Recent Development of Pro-Elderly Programs (5)

Job Provision Program

- One of the policies on the elderly pursued by the Government since 2004
 - aimed at creating 300 thousand jobs until 2009
 - Article 23, Welfare Law for the Aged; Article 11, Basic Law on Low Fertility and Aged Society

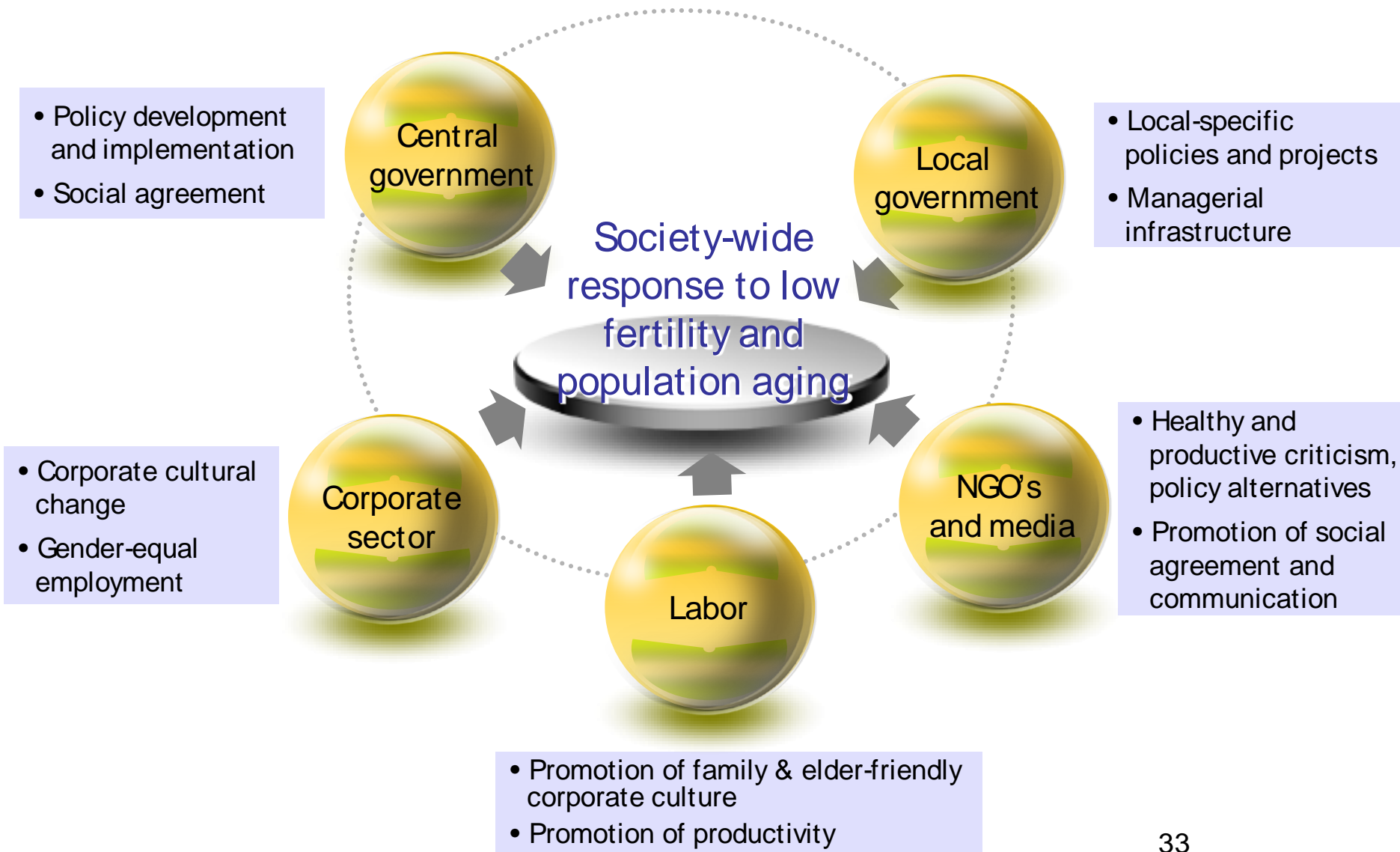


Recent Development of Pro-Elderly Programs (6)

Elderly Employment Promotion Law

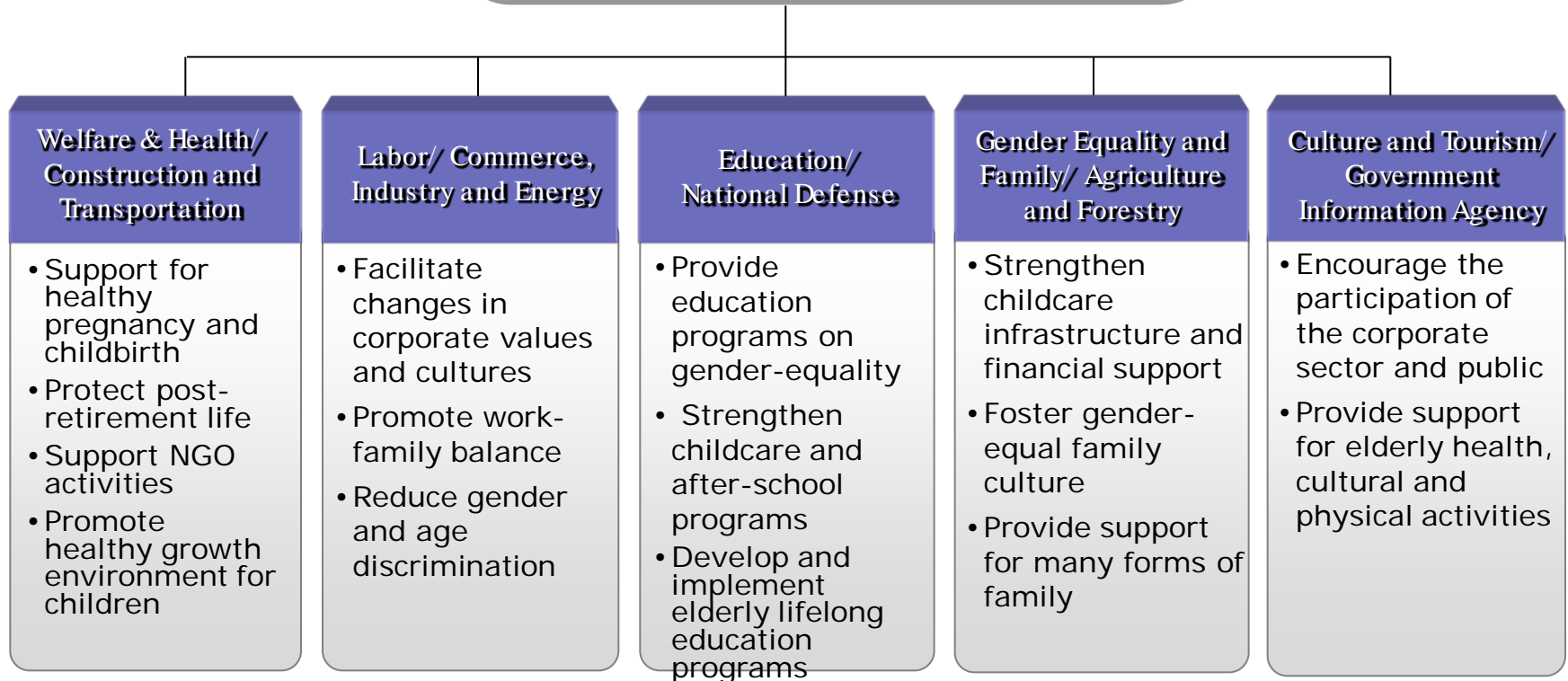
- Amended in 2007 and implemented in 2008
- Increased retirement age
 - Extended retirement age, encouragement grant for continued employment('08)
 - 2+5 Strategy: start earlier (2 years) and stay longer (5 years) in employment
- Wage peak system for phased retirement
- “Elderly-first” jobs (extended to 160)
- Loan support for effort to improve elderly-friendly working conditions

Conclusion : Society-wide cooperation



Conclusion : Ministerial Cooperation

Presidential Committee on Aging Society and Population Policy



Finance and Economy:
Financing of needed services

Planning and Budget : Setting of policy priorities

Conclusion : Message

- There is no sustainable development with low fertility and poor/ unhealthy elderly.
- Earlier actions can reduce socioeconomic costs and stop up a terrible demographic time-bomb.

Thank you