

A red vertical bar is positioned in the top-left corner. The background is white with a pattern of semi-transparent grey circles of varying sizes.

Confronting the ageing society in Korea: Enhancing the role of SNG

April 20, 2023

OECD Headquarters

Hyun-A Kim
Korea Institute of Public Finance

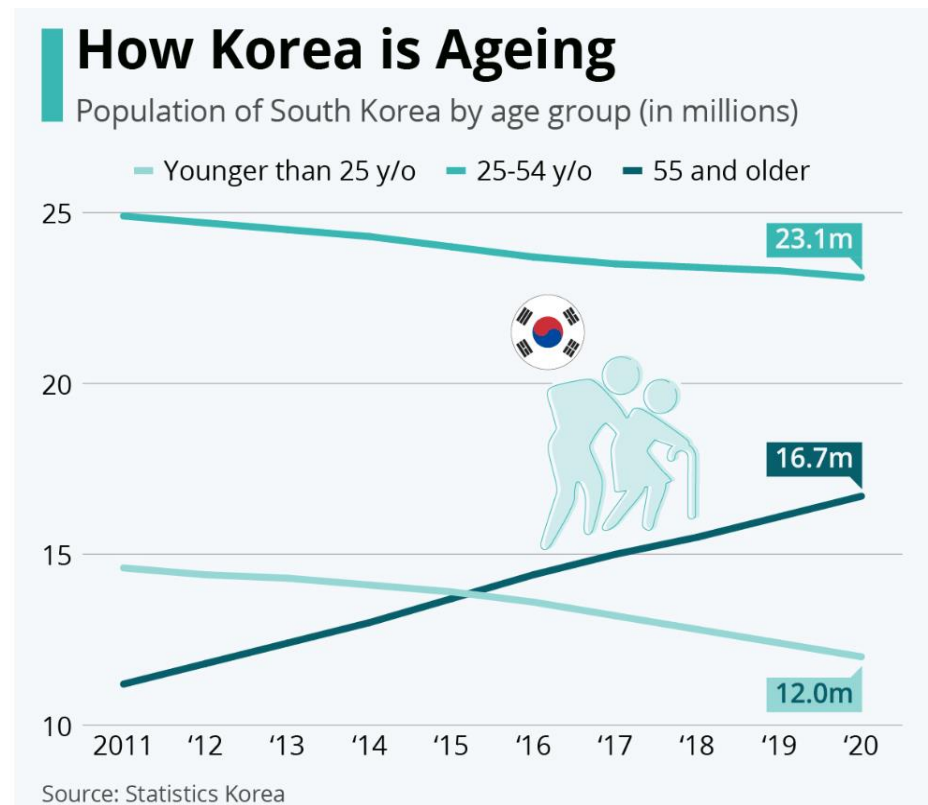


The fastest population ageing country in OECD

Rising life expectancy, the lowest fertility rate → Ageing and downturn of the economy

◆ Fertility rate 0.78 in 2022 ← 0.84 in 2020

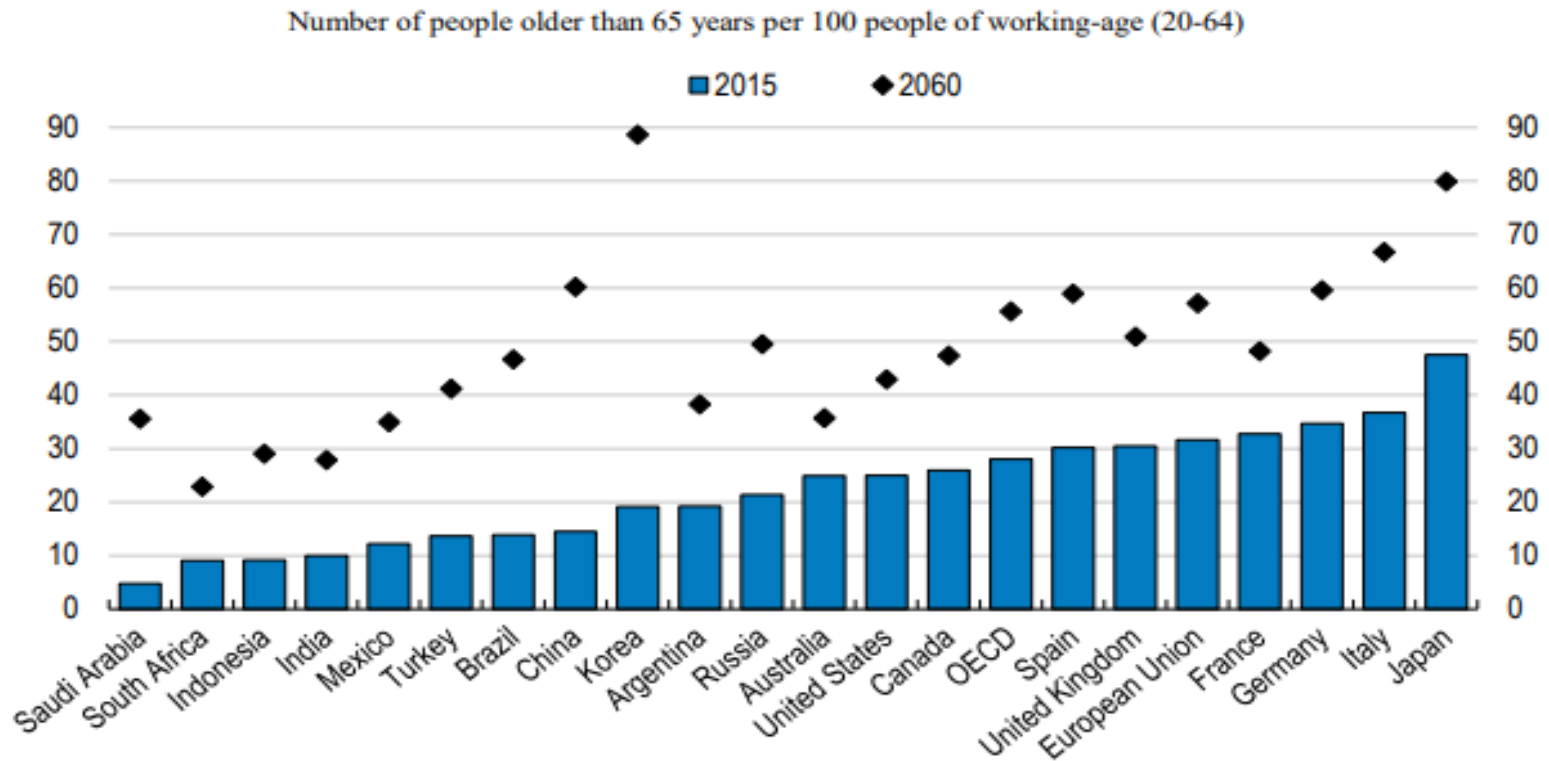
◆ Rising old-age dependency ratios will put unprecedented stress on the financing of Public Pension, National Health Insurance (LTC) and family oriented policies, etc.



The fastest population ageing country in OECD

“Korea will suffer the most abrupt demographic shift in the next 30 years”

Figure 2. Old-age dependency ratios are projected to at least double in most G20 countries

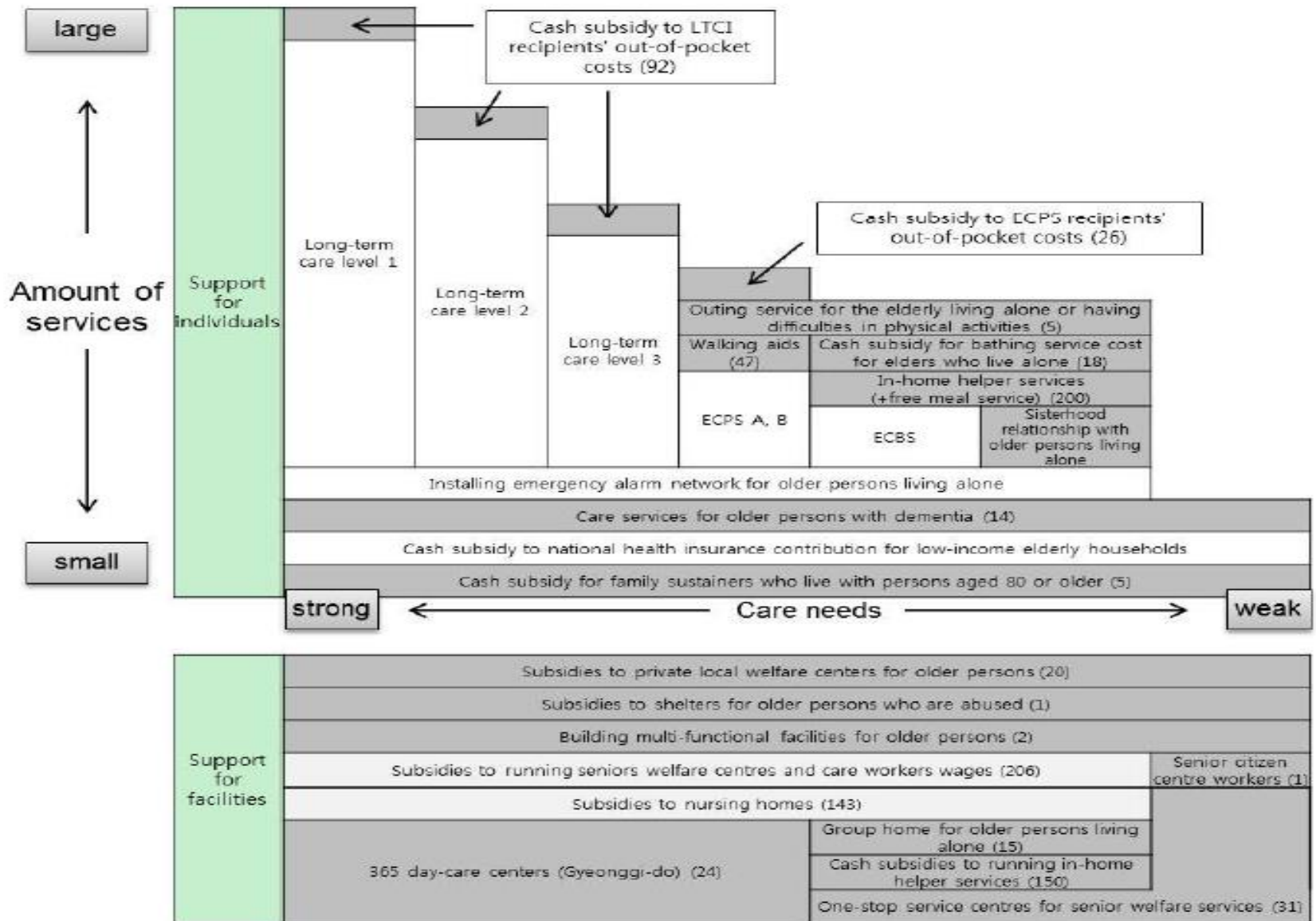


Korea Long-term care (K-LTC) system

Korea government has implemented a comprehensive LTC system in 2008

- LTC services are provided for the elderly population, individuals with disabilities, and those who require intensive care such as home-based care, community-based care, and institutional care.
- LTC services are funded through a combination of government subsidies, NHI premiums, and out-of-pocket payments.
- The NHI program covers most of the LTC services, with individuals and their families for a portion of the expenses.
- Central and local government also provides financial support to low-income individuals and those with severe disabilities.

Figure 1. Long-term care provision and financing in the Republic of Korea



Note: Shaded box: local government programmes, non-shaded box: central government programmes, Numbers in the blanks: number of local governments implementing the programmes. ECPS=Elderly Care Package Services. ECBS=Elderly Care Basic Services.

Financing structure and changes of K-LTC

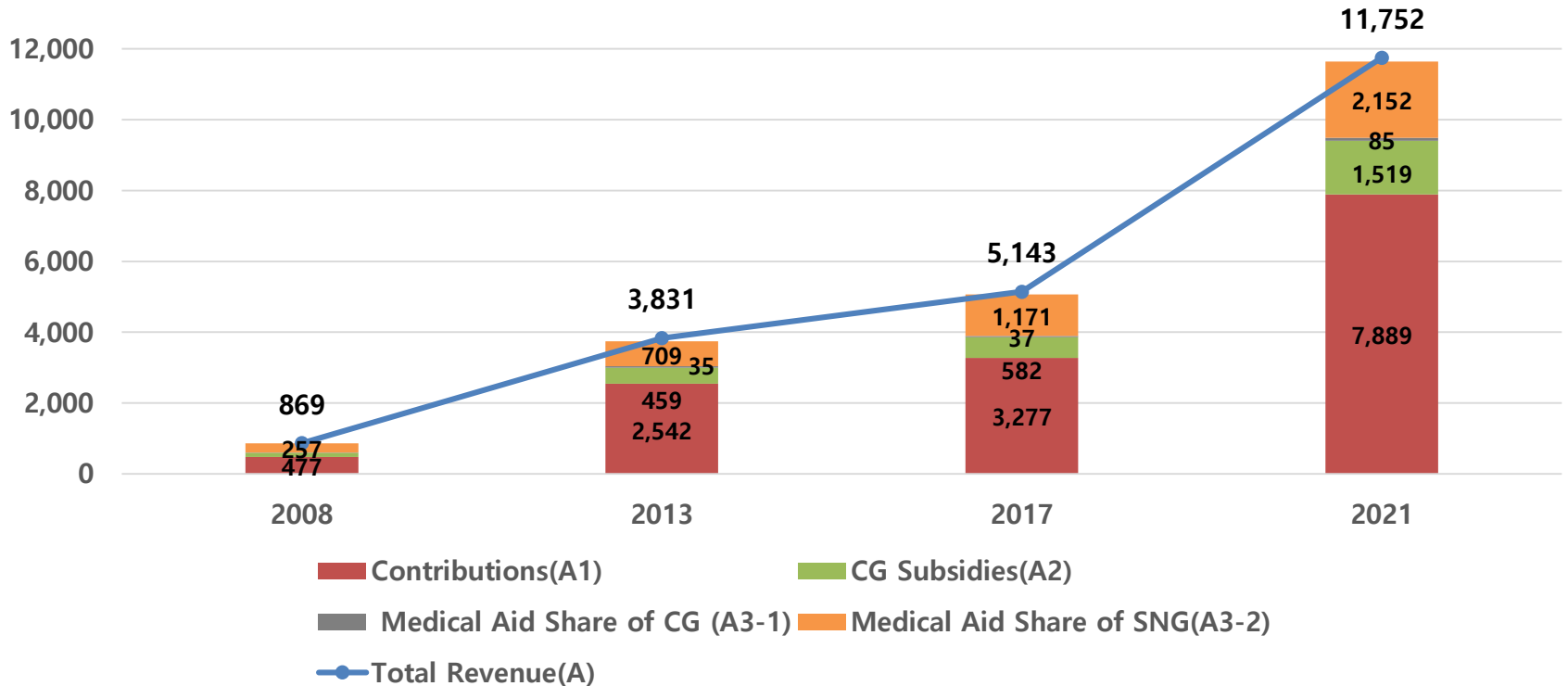
The funding volume of the K-LTC is approximately 0.5% to GDP in 2022

- ◆ LTC funding source is complicated but mainly dependent on NHI premium around 70%
- ◆ The contribution of NHI has been increasing from 7.38% of NHI revenue in 2018 to 12.81% in 2022
 - Currently, contribution of CG to LTC is around 10% share
 - Local governments (municipality level) is responsible for the rest of 20% of LTC.

Revenue source of K-LTC

The SNG share of LTC: Medical aid share of SNG(A3-2)

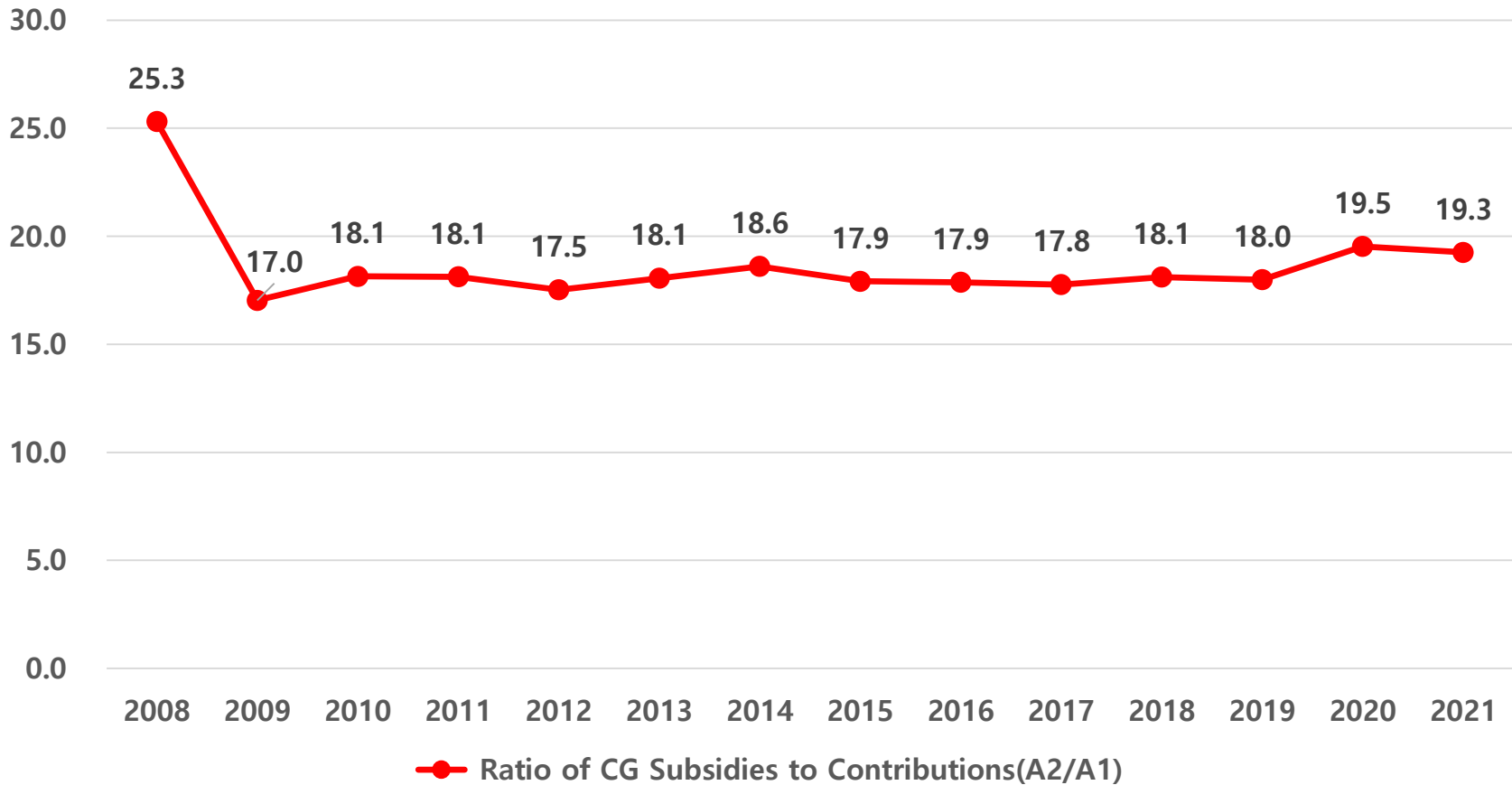
(Unit: billion won)



CG subsidies to LTC

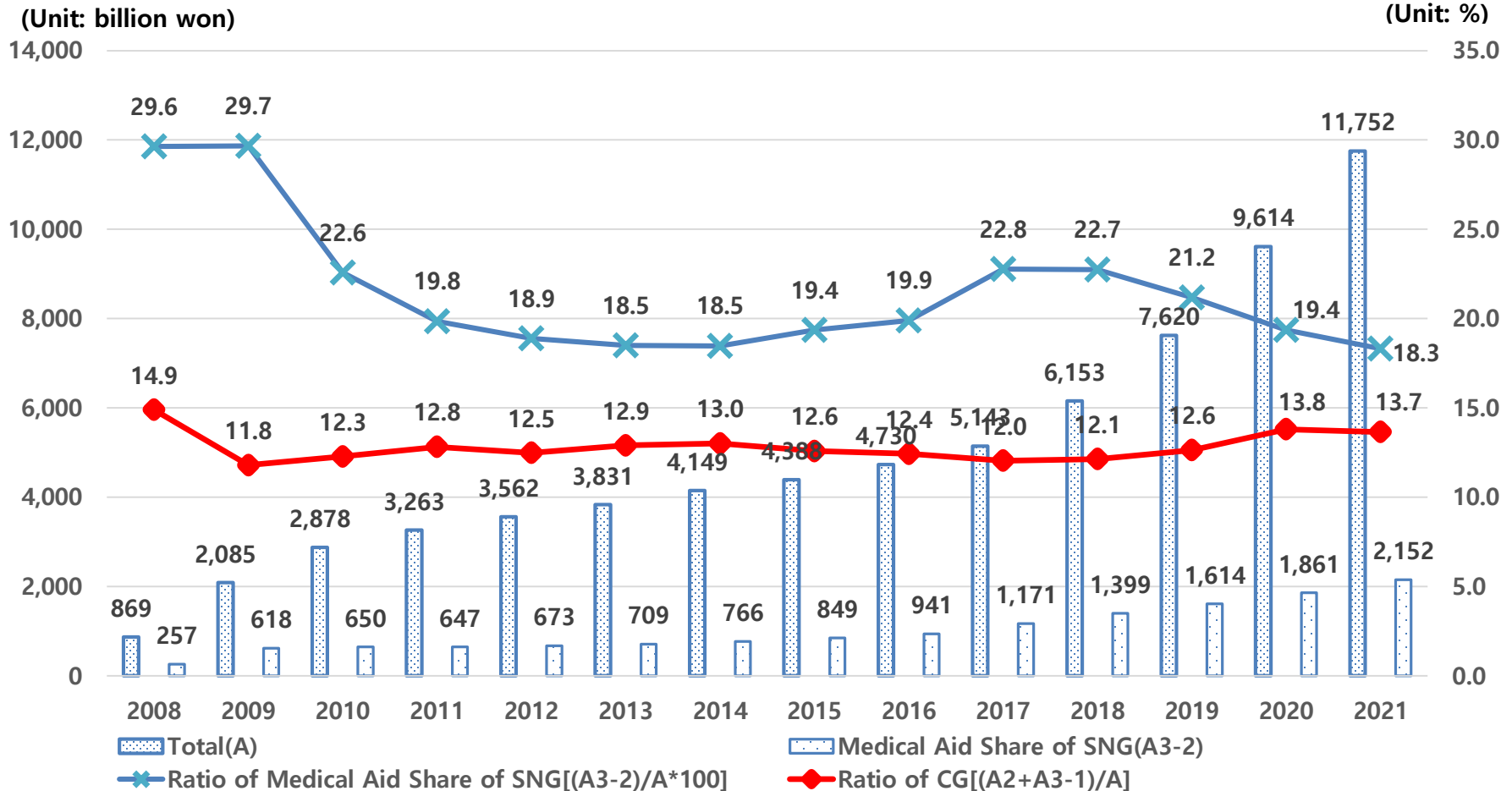
The law denotes up to 20% of share to NHI contributions...

(Unit: %)



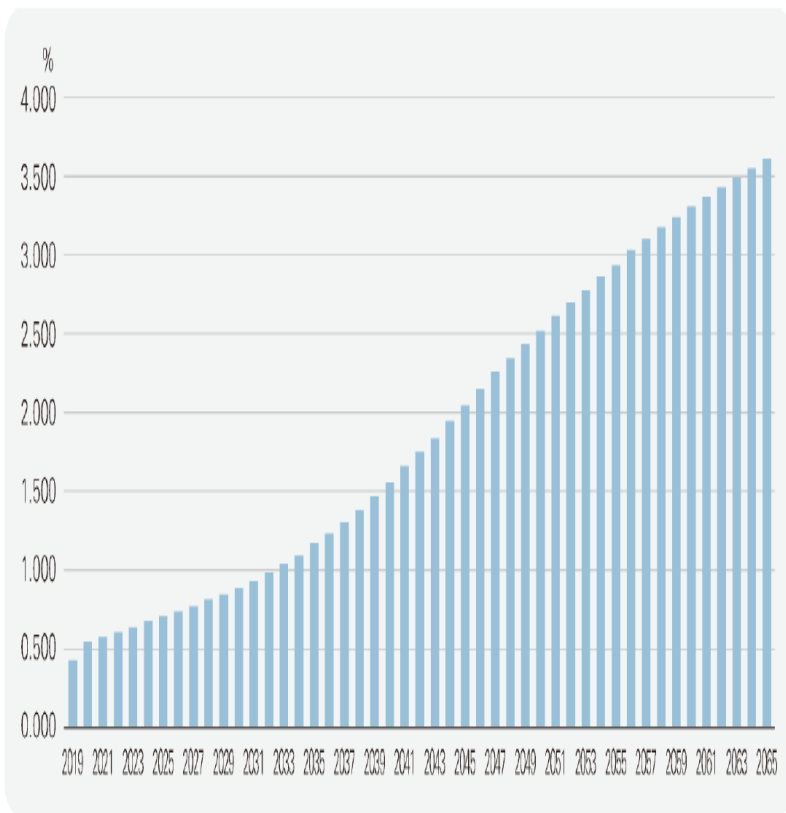
Fiscal burden of local government will be getting severer

The share of local government to LTC is bigger than CG, 18.3% to 13.7%

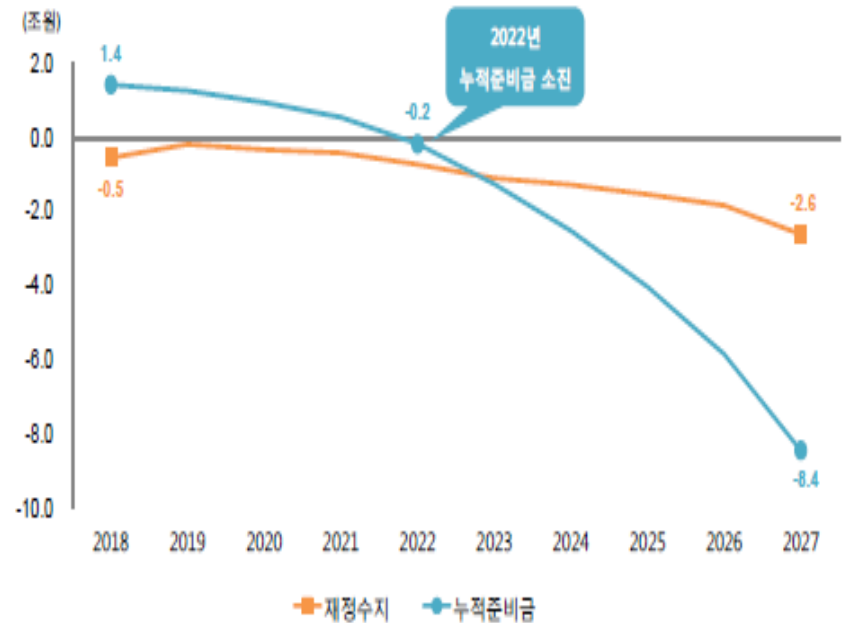


“2% p increase to GDP in 2060”

Optimistic view says long term forecasting of LTC in Korea estimates 3.5% to GDP in 2060



[그림 11] 노인장기요양보험 재정수지 추이: 2018~2027년



자료: 국회예산정책처

Policy actions to help ageing society thrive

Generally, the K-LTC is generally equitable because services are provided irrespective of the income level.

- ◆ And quite stable since funding of K-LTC is based on both the insurance principle and general government support.
- ◆ Therefore, financing of LTC has not been considered as a top priority among budget items until now.
- ◆ However, ageing speed is going to be faster than expected estimation now.
- ◆ A roadmap of LTC reform should be suggested first.

Policy actions to help ageing society thrive

- ◆ *Current government is trying to reform of the NHI funding system, then, LTC financing structure might be rearranged...*
- Suggestion 1: Increasing equity and adequacy by CG and LG
 - 'Out-of-pocket' share(15%, 20%) is quite higher than Japan and Germany
 - The poverty rate of the elderly is highest among the competitive countries... ← *Government(CG+LG) contribution should be increased.*
- Suggestion 2: The degree of redistribution between generations should be compromised by looking at the change of cost burden by generation. ← *The reform of NHI system*

Comparison of LTC (Korea, Japan, Germany)

	KOREA	JAPAN	GERMANY
Enforcement	2008.7.	2000.4.	In home: 1995.4. Facility: 1996.7.
Aging Rate	13.1%('15)	26.3%('15)	21.2%('15)
Financial Size(Revenue)	4,384.4 billion won ('15)	9,933.7 billion yen ('15)	30.69 billion euros ('15)
Financial Size(Expenditure)	4,324.2 billion won ('15)	9,725.4 billion yen ('15)	29.01 billion euros ('15)
Public spending as a percentage of GDP	0.8%('14)	2.1%('14)	1.1%('14)
Funding structure	<p>Government: 10% by CG, 20% by LG</p> <p>Social Insurance: 60~65%</p> <p>Out-of-pocket: Facility 20%, In home 15%</p>	<p>Government: 45%</p> <p>Social Insurance: 45%</p> <p>Out-of-pocket: 10%</p>	<p>Social Insurance: 100%</p>
Management and operating institution	NHI and LG	SNGs(municipality)	Long Term Care Fund

Policy actions to help ageing society thrive

Like many countries, Korea is facing challenges related to an ageing population, a shortage of trained caregivers, and rising costs of care.

- Suggestion 3 : Enhancing the **contribution by Provincial level of governments** with funding responsibility
 - Provincial level of governments have getting bigger fiscal space ← National VAT 21% to 25% in 2023
 - **Social Service Center** in each Province(community-based care) might be one of the options to serve a portion of LTC service.
 - Currently, SNG Care system is composed of LTC in LG(Main), SSC in Province(Supplementary)

Early childhood education and care in Korea

Korea has a split ECEC system with different ministries.

And, the responsibilities for monitoring, standard setting and financing ECEC are divided between different levels of authorities.

- Challenges 1: Integration of childcare centers and kindergarten
 - Such a split results in different quality standards and levels of quality and less unification in ECEC. Only curriculum(Nuri) 3-5 is unified.
 - Staff quality is critical factor to integrate between childcare centers and kindergarten.
 - Currently, initiatives are taking place to improve integration.

Early childhood education and care in Korea

Public spending on ECEC is mainly concentrated on the way of cash transfer to parents and facilities instead of the grant system to public investment.

- Challenge 2: Fiscal space in Local Education Grant ?
- 85% of the budget of Ministry of Education is concentrated on primary and secondary education.
- The reallocation of Local Education Grant(20.79% of internal national tax) has been getting off on the right side in 2022.
 - Now, this grant reform is trying to make large fiscal space in ECEC , and tertiary level.
 - For example, we may expect an increase of number of National and Public facilities (childcare centers and kindergartens).

Early childhood education and care in Korea

In theory, the coverage of SNG to ECEC should be expanded like other countries. But, widening regional disparity tends to discourage SNG's intervention.

- Challenge 3: “Reduction of income polarization and regional disparity” first...
- Income inequality is directly affecting education inequality.
 - Wide regional disparity tends to discourage flexibility by SNG.
 - Quality disparity between rich and poor regions might be politically sensitive issue by the enhancing of SNG's intervention.
 - To make SNG's autonomy to LTC and ECEC, the improvement of Gini would be made first, then regional disparity would be following

Thank you !
감사합니다.

