

ASSESSING FINANCIAL PREPAREDNESS IN OLD AGE IN ASIA

EVIDENCE FROM THE REPUBLIC OF KOREA

Sang-Hyop Lee, Hyun Kyung Kim, Huixia Wang, and Donghyun Park

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ABSTRACT

We estimate expected financial resources in old age—including public transfers, family transfers, accumulated assets, and post-retirement labor income—and compare them with target consumption needs. The sample is divided into a reference group (individuals at or beyond retirement age) and a target group (pre-retirement individuals). Two retirement scenarios are considered: (i) a statutory retirement age of 62 for both men and women, and (ii) effective retirement ages of 66 for men and 65 for women. Results are presented by gender and place of residence. We find substantial heterogeneity in financial preparedness, with women facing significantly larger shortfalls than men. Continued work and family transfers remain critical pillars of old-age support, highlighting the transitional nature of the Republic of Korea's welfare regime.

Keywords: population aging, financial preparedness, retirement, pensions, Republic of Korea

JEL codes: J14, H55, D91, J26

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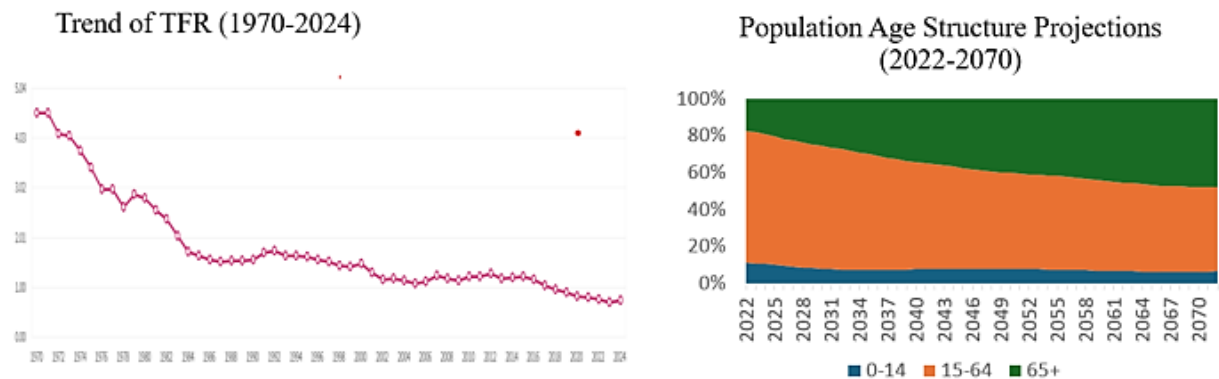
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1. BACKGROUND

The Republic of Korea (ROK) is experiencing one of the most rapid demographic transitions in the world, posing serious challenges to old-age income security. Despite recent expansions in social spending, old-age poverty remains high. This paper assesses whether older Koreans are financially prepared to sustain consumption after retirement using the framework developed by Ehrlich and Liu (2025). Specifically, we compare expected lifetime financial resources in old age with the consumption needed to maintain living standards. This approach provides a comprehensive assessment of economic dependency and the consumption–income gap in later life.

The ROK presents a particularly important case study because of the speed and scale of its population aging. The share of the population aged 65 and older increased from 3.1% in 1970 to more than 20% in 2024 and is projected to reach 40% by 2050 (Ministry of Data and Statistics 2025). This rapid aging is driven largely by extremely low fertility. The total fertility rate (TFR) declined from 4.53 births per woman in 1970 to 0.75 in 2024. At the same time, life expectancy increased from 62.3 years in 1970 (58.7 years for men and 65.8 for women) to 83.7 years in 2024 (80.8 years for men and 86.6 years for women) (Figure 1).

Figure 1: Demographic Transition of the Republic of Korea



TFR = total fertility rate.

Source: Ministry of Data and Statistics, Republic of Korea. <https://kosis.kr/eng/> (accessed 1 October 2025).

Labor force participation among older Koreans is among the highest in the Organisation for Economic Co-operation and Development (OECD). In 2023, the labor force participation rate among individuals aged 65 and older was 37.3% in the ROK, compared with an OECD average of about 14% (OECD 2025a). This high participation likely reflects insufficient public pension coverage and adequacy.

Older Koreans rely primarily on two public support programs: the Basic Livelihood Security Program (BLSP) and the National Pension Scheme (NPS). The BLSP provides cash and in-kind benefits to individuals with incomes below 40% of the median income, although benefit levels remain modest. The NPS, established in 1988, has gradually expanded coverage but currently provides old-age pensions to only about one-third of older Koreans (Ministry of Data and Statistics 2025).

Public spending in the ROK, measured as a share of gross domestic product (GDP), remains the lowest among OECD member countries and is about half the OECD average (OECD 2025a). Unlike many advanced economies, the ROK entered a period of population aging before establishing a mature welfare state. The net replacement rate for full-career workers is 38.9% (OECD 2025b), among the lowest in the OECD. Moreover, this figure likely overstates actual income replacement because many workers leave their primary jobs well before reaching the statutory retirement age. Corporate pensions also remain underdeveloped. Many firms continue to rely on lump-sum severance payments, exposing retirees to longevity and investment risks. Although the government plans to mandate corporate pension participation between 2027 and 2030, opportunities for risk diversification are expected to remain limited.

Family support has traditionally played a central role in old-age security. Living arrangements significantly influence intergenerational transfers. While multigenerational households remain common, their prevalence has declined over time. Between 2000 and 2020, the share of one-person households increased from 15.5% to 31.7%, while the share of extended-family households declined substantially. These structural changes raise concerns about the long-term sustainability of family-based support (Table 1).

The remainder of the paper is organized as follows. Section 2 describes the data and methodology. Section 3 presents the empirical results. Section 4 discusses policy implications and study limitations.

2. DATA AND KEY ASSUMPTIONS

The analysis uses data from the 2020 Korean Longitudinal Study of Aging (KLoSA), a nationally representative survey of individuals aged 45 and older. All monetary values are converted to 2023 United States dollars using consumer price index (CPI) adjustments and exchange rates, and results are reported in units of \$10,000. Survey weights are applied throughout to ensure national representativeness.

Table 1: Distribution of Households and Household Members by Household Type in the Republic of Korea, 2000–2020

	Households					Household Members (Individuals)				
	2000	2005	2010	2015	2020	2000	2005	2010	2015	2020
Number (thousands)	14,312	15,887	17,339	19,111	20,927	44,711	45,737	46,651	48,340	49,029
(1)	14.2	16.2	17.5	17.4	18.6	9.4	11.5	13.3	14.0	16.1
(2)	56.7	51.3	46.5	43.4	39.1	66.5	63.5	59.7	57.4	55.1
(3)	4.1	4.2	4.8	5.4	4.9	4.6	4.8	5.9	6.7	6.2
(4)	8.2	6.9	6.1	5.4	3.6	13.3	11.7	11.0	10.0	7.1
(5)	0.2	0.1	0.1	0.1	0.0	0.3	0.2	0.2	0.1	0.1
(6)	15.5	20.0	23.9	27.2	31.7	5.0	6.9	8.9	10.8	13.5
(7)	1.1	1.4	1.2	1.1	2.0	0.9	1.2	1.0	1.0	1.9
Extended ^a	12.5	11.1	11.0	10.9	8.5	18.2	16.8	17.1	16.9	13.4

Notes: (1) One-generation household, (2) two-generation households with unmarried children or unmarried siblings, (3) two-generation households except for only with unmarried children or unmarried siblings, (4) three-generation households, (5) four- and higher-generation households, (6) one-person household, and (7) non-kinship households.

^a Extended Households = (3)+(4)+(5).

Source: Ministry of Data and Statistics, Republic of Korea. Population Census.

The sample is divided into a target group comprising individuals below retirement age and a reference group of retired individuals. The reference group is used to estimate expected future financial resources through regression-based projections. Two retirement scenarios are considered. Option 1 assumes a statutory retirement age of 62 for both men and women, consistent with Ehrlich and Liu (2025), who use this age as an approximation of the average mandatory retirement age in the ROK.¹ Option 2 assumes effective retirement ages of 66 for men and 65 for women, based on the World Economic Forum (2023) and the OECD definition of retirement. The statutory retirement age refers to the age at which individuals can retire without pension penalties after completing a full career beginning at age 22. The effective retirement age refers to the average age at which workers aged 40 and older permanently exit the labor force. In many countries, actual retirement differs from the statutory retirement age because of institutional, labor market, and individual factors. In the ROK, the actual retirement ages are relatively high. These alternative scenarios capture uncertainty surrounding retirement behavior and institutional arrangements.

¹ The statutory retirement age varies by birth cohort. It is 60 for individuals born before 1952, 61 for those born during 1953–1956, and 65 for those born in 1968 or later.

The analysis closely follows the framework developed by Ehrlich and Liu (2025). Financial resources in old age include public transfers (pensions and other social benefits), private pensions, family transfers, and labor and business income. In KLoSA, family transfers are observed for approximately two-thirds of respondents, although only interhousehold transfers are recorded. Reported transfer amounts are allocated according to marital status to approximate individual-level receipts, recognizing that this approach may underestimate resource sharing within households.

KLoSA provides detailed information on household assets, including self-reported ownership shares,² which are used directly in the analysis. Expected financial resources in old age are estimated using regression models applied to the reference group. These models generate age-specific profiles of transfers and labor income that are subsequently projected for individuals in the target group. All estimates are reported separately by gender and place of residence (urban and rural).

Although KLoSA includes information on household consumption, it does not directly measure imputed rent. Applying an arbitrary percentage of housing value would likely introduce biased estimates given the ROK's distinctive housing and rental system and relatively high housing prices. Instead, imputed rent is estimated using data from the 2020 Household Income and Expenditure Survey (HIES), in which imputed rent accounts for an average of 25.8% of household consumption. This share is calibrated to KLoSA by estimating imputed rent at 2.35% of reported housing value, thereby replicating the HIES consumption share. The resulting estimate is added to observed consumption in KLoSA. OECD equivalence scales are applied to adjust consumption for economies of scale by household size.

The financial preparedness index (PI) is defined as the ratio of total expected financial resources to total projected lifetime consumption. A PI value below 1 indicates insufficient financial preparedness. The index is then calculated under three alternative scenarios: (i) including and excluding illiquid assets,³ (ii) including and excluding post-retirement labor and business income, and (iii) excluding illiquid assets while including post-retirement labor and business income.

² As a robustness check, assets, debts, and mortgages were also aggregated at the couple level and allocated equally between spouses. The results are qualitatively similar. Section 3 presents additional sensitivity analyses.

³ For the liquid-assets scenario, rent or imputed rent is derived from consumption estimates to ensure consistency between homeowners and non-homeowners.

3. RESULTS

This section presents comprehensive empirical evidence on financial preparedness in old age in the ROK. Using an integrated framework that combines predicted post-retirement income streams, accumulated wealth, projected consumption needs, and labor income in later life, we assess the extent to which individuals approaching retirement are financially prepared to sustain consumption throughout retirement.

The analysis proceeds in several steps. First, we estimate expected post-retirement financial resources and aggregate them into lifetime resources. Second, we examine their distribution across population groups. Third, we assess labor income in old age and projected consumption needs, which together determine financial preparedness. Finally, we analyze the determinants of preparedness and subjective well-being, estimate the fiscal implications of closing preparedness gaps, and conduct sensitivity analyses to assess the robustness of the results.

Determinants of Post-Retirement Financial Resources

Expected post-retirement financial resources are estimated using ordinary least squares (OLS) regression models. Under Option 1, observed outcomes for individuals aged 66–84 (men) and 65–88 (women) serve as the reference group for predicting annual income streams among the target group aged 57–61. Under Option 2, observed outcomes for individuals aged 62–84 (men) and 62–88 (women) are used to predict income for the target group aged 60–65 (men) and 59–64 (women). In both scenarios, financial resources are decomposed into three components: public insurance (primarily public pensions), market insurance (private pensions), and self-insurance (family transfers and other private support).

The regression results (Table 2) indicate that socioeconomic and demographic characteristics are strong and consistent predictors of post-retirement financial resources. Educational attainment emerges as one of the most important determinants across all income sources. Individuals with lower levels of education are predicted to receive significantly lower public pension benefits, private pension income, and family transfers. This pattern reflects cumulative disadvantages over the life course, including weaker attachment to formal employment, lower lifetime earnings, and more limited access to contributory pension systems.

The number of living children is positively associated with self-insurance income, underscoring the continued importance of family support in the ROK's old-age security system. At the same time, having more children is associated with lower public pension income, likely

reflecting interrupted employment histories and lower pension contributions, particularly among women.

Table 2: Estimated Coefficients for Post-Retirement Financial Resources, Overall Samples

	Option 1			Option 2		
	Public Insurance	Market Insurance	Self Insurance	Public Insurance	Market Insurance	Self Insurance
Gender (Female=1)	-0.091***	0.001**	0.07***	-0.064**	-0.013	0.071***
Educational attainment (Benchmark = at most secondary)						
No education	-0.036*	-0.076**	-0.034***	-0.062***	-0.071**	-0.033***
At most primary	-0.018	-0.059***	-0.018*	-0.039***	-0.056***	-0.014
Post secondary	0.018	0.443***	-0.014	0.006	0.523***	0.002
Marital status (Married/living with partner=1)	0.010	0.033	-0.043**	0.038	0.030	-0.040**
Gender*Marital status	-0.131***	-0.095**	-0.069***	-0.163***	-0.087*	-0.066***
Health status (Very good/good =1)	-0.006	0.009	-0.032***	-0.004	0.010	-0.023***
Number of living children	-0.024***	0.003	0.036***	-0.026***	0.000	0.036***
Place of residence (Urban=1)	0.038***	-0.017	0.025***	0.027**	-0.014	0.027**
Constant	0.327***	0.096**	0.050**	0.336***	0.110**	0.046**
R-squared	0.099	0.094	0.062	0.114	0.111	0.071
Number of observations	4,715	4,711	4,665	3,899	3,896	3,859

*, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

Source: Authors' estimation based on Korean Longitudinal Study of Aging 2020.

Interactions between gender and marital status reveal persistent inequalities. Married women are predicted to receive significantly lower income from all three sources than men, reflecting long-standing gender disparities in labor market participation, wages, and pension accumulation among older cohorts.

Urban residents tend to receive somewhat higher public pension benefits and self-insurance income than rural residents, although the rural–urban gap is relatively modest. This finding suggests that pension coverage is broadly comparable across regions.

To further examine gender disparities, separate models are estimated for women and men (Table 3). For women, nearly all demographic and socioeconomic characteristics significantly predict post-retirement financial resources. Educational attainment is particularly important: women with lower levels of education are predicted to receive substantially less income from public pensions, private pensions, and family transfers. In contrast, women with post-secondary education receive significantly higher private pension income, reflecting stronger labor market attachment.

Table 3: Estimated Coefficients for Post-Retirement Financial Resources

	Option 1			Option 2		
	Public Insurance	Market Insurance	Self Insurance	Public Insurance	Market Insurance	Self Insurance
Female						
Educational attainment (Benchmark = at most secondary)						
No education	-0.038**	-0.066***	-0.043***	-0.056***	-0.055***	-0.045***
At most primary	-0.021*	-0.047***	-0.025**	-0.029**	-0.040***	-0.027**
Post secondary	-0.006	0.380***	-0.009	0.016	0.459***	0.004
Marital status (Married/living with partner=1)	-0.119***	-0.057***	-0.113***	-0.122***	-0.051***	-0.107***
Health status (Very good/good =1)	-0.015	-0.011	-0.023***	-0.02*	-0.011	-0.025**
Number of living children	-0.021***	-0.003	0.039***	-0.022***	-0.006	0.038***
Place of residence (Urban=1)	0.018	-0.010	0.031***	0.017	0.000	0.037***
Constant	0.246***	0.110***	0.108***	0.265***	0.101***	0.11***
R-squared	0.060	0.085	0.111	0.067	0.101	0.096
Number of observations	2,763	2,760	2,733	2,380	2,378	2,354
Male						
Educational attainment (Benchmark = at most secondary)						
No education	-0.078	-0.092	-0.001	0.059	-0.101	0.004
At most primary	-0.018	-0.086*	-0.007	-0.063**	-0.093*	0.007
Post secondary	0.022	0.461***	-0.013	-0.008	0.541***	0.006
Marital status (Married/living with partner=1)	0.012	0.022	-0.038	0.041	0.021	-0.038*
Health Status (Very good/good =1)	0.004	0.03	-0.041***	0.017	0.039	-0.022
Number of living children	-0.033***	0.011	0.031***	-0.039***	0.011	0.032***
Place of residence (Urban=1)	0.061**	-0.027	0.018	0.04	-0.034	0.013
Constant	0.324***	0.086	0.063**	0.354***	0.101	0.057*
R-squared	0.015	0.074	0.016	0.024	0.088	0.019
Number of observations	1,972	1,951	1,932	1,519	1,518	1,505

*, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

Source: Authors' estimation based on Korean Longitudinal Study of Aging 2020.

Marital status is negatively associated with women's financial resources, likely reflecting traditional gender norms that constrained labor force participation and pension accumulation among older cohorts. The number of living children is also particularly important for women. Each additional child increases predicted family transfers but reduces predicted public pension income, highlighting the trade-off between caregiving responsibilities and formal employment.

In contrast, the male sample shows fewer statistically significant predictors. Education and health remain important determinants, but family-related characteristics, such as the number of children, play a less prominent role. This asymmetry underscores the gendered structure of

financial preparedness in the ROK: women's outcomes are shaped by both labor market and family factors, whereas men's outcomes are driven primarily by labor market trajectories.

Financial Resources in Old Age

Using predicted income streams, we calculate the present value of future financial resources using a 2% discount rate. These estimates are combined with the present value of net wealth to construct total available resources (TAR).

As shown in Table 4, average per capita TAR under Option 1 (retirement at age 62) is approximately \$268,000. Net wealth accounts for 66.5% of total resources, reflecting high homeownership rates and the central role of housing in household balance sheets. Public pensions account for 13.9% of TAR, followed by private pensions (13.4%) and family transfers (6.2%). Under Option 2 (later retirement), average TAR increases modestly to \$284,000. This suggests that delaying retirement modestly increases lifetime resources, primarily through a longer period of earnings and pension contributions rather than through structural changes in the composition of financial resources (Table 4).

Table 4: Average Financial Resources in Old Age of the Target Group (Present Value)

	Overall	Female	Male	Rural	Urban
Option 1					
Public insurance [PubP]	3.72	2.29	5.79	2.90	3.85
Market insurance [PrivP]	3.58	2.26	5.50	2.90	3.70
Self insurance [FamT]	1.67	1.89	1.34	1.37	1.72
Self protection [Wealth]	17.82	13.93	23.54	18.34	17.74
Option 2					
Public insurance [PubP]	3.63	2.28	5.24	3.01	3.77
Market insurance [PrivP]	2.84	1.63	4.28	1.95	3.03
Self insurance [FamT]	1.73	2.04	1.36	1.49	1.78
Self protection [Wealth]	20.23	14.20	27.46	19.62	20.36

Source: Authors' estimation based on Korean Longitudinal Study of Aging 2020.

Substantial gender disparities are evident. Men have significantly higher TAR than women across public pensions, private pensions, and wealth. Public pension wealth for men is approximately 150% higher than for women, reflecting cumulative differences in earnings histories and pension contributions. Women rely relatively more on family transfers. In contrast, geographic differences are small. Urban–rural differences are relatively small. Although the results should be interpreted cautiously because of the smaller rural sample size, they suggest that geographic

disparities are less pronounced in the ROK, where the rural population represents only small share of the total population.

The density plots in Figure 2 confirm that men's distributions of financial resources are consistently shifted to the right, particularly for public and market-based income. Women's distributions are concentrated at lower levels and exhibit greater reliance on self-insurance. Urban and rural distributions largely overlap, except in the case of public pensions, reinforcing the finding that gender disparities exceed spatial disparities.

To further examine the composition of financial resources, we calculate the self-dependency ratio (SDR), defined as the share of TAR derived from private sources, including market insurance, self-insurance, and wealth. We also calculate the public dependency ratio (PDR), defined as the share of TAR derived from public sources (Table 5).

The ROK's average SDR is exceptionally high: 0.77 under Option 1 and 0.78 under Option 2. This implies that 77%–78% of old-age financial resources originate from private sources, substantially higher than in Japan and the United States (Ehrlich and Liu 2025). The high SDR reflects both a strong savings culture and continued reliance on family support. At the same time, it indirectly reflects the relatively low replacement rate provided by the public pension system. The average PDR is only 22%–23% of total financial resources, which is low by OECD standards. Women exhibit higher SDRs than men, while urban residents have higher PDRs than rural residents (0.24 versus 0.12 under Option 2), suggesting stronger pension coverage and higher benefit levels in urban areas.

The Role of Labor Income in Old Age

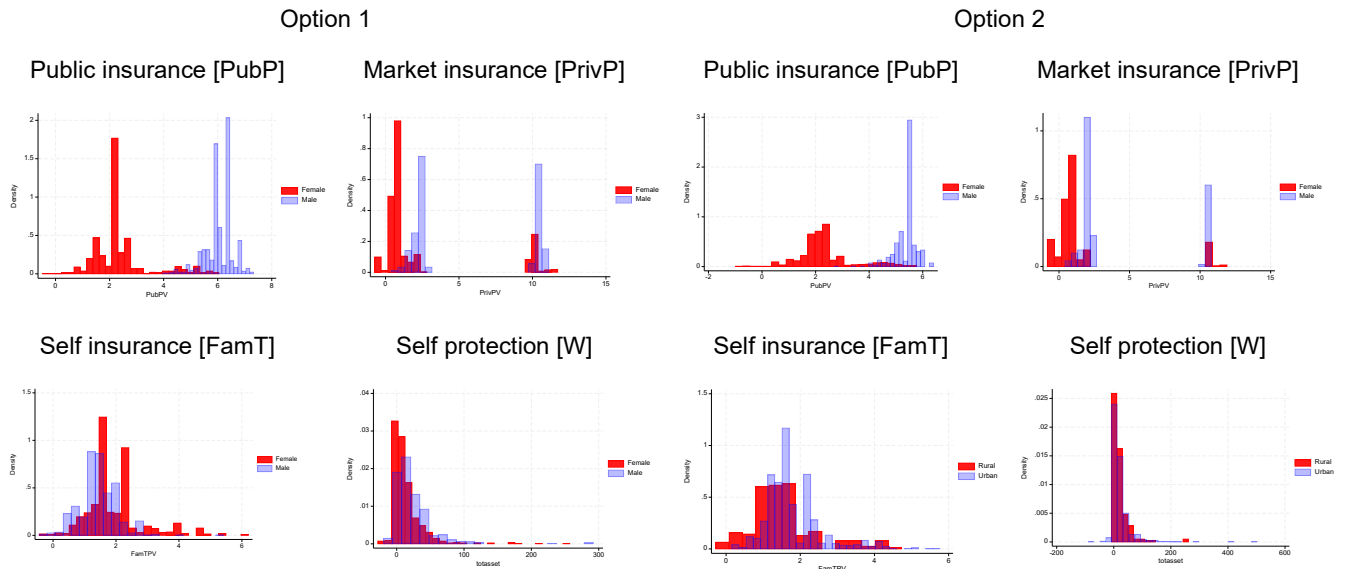
We next examine labor income, recognizing that continued employment remains a critical support in later life in the ROK.

The regression results (Table 6) indicate that education, health, gender, marital status, and family structure significantly influence expected labor income in old age. Lower levels of education and a larger number of children are associated with lower wages, while being male, married, and in good health is associated with higher wages. These patterns mirror labor market inequalities observed earlier in the life course.

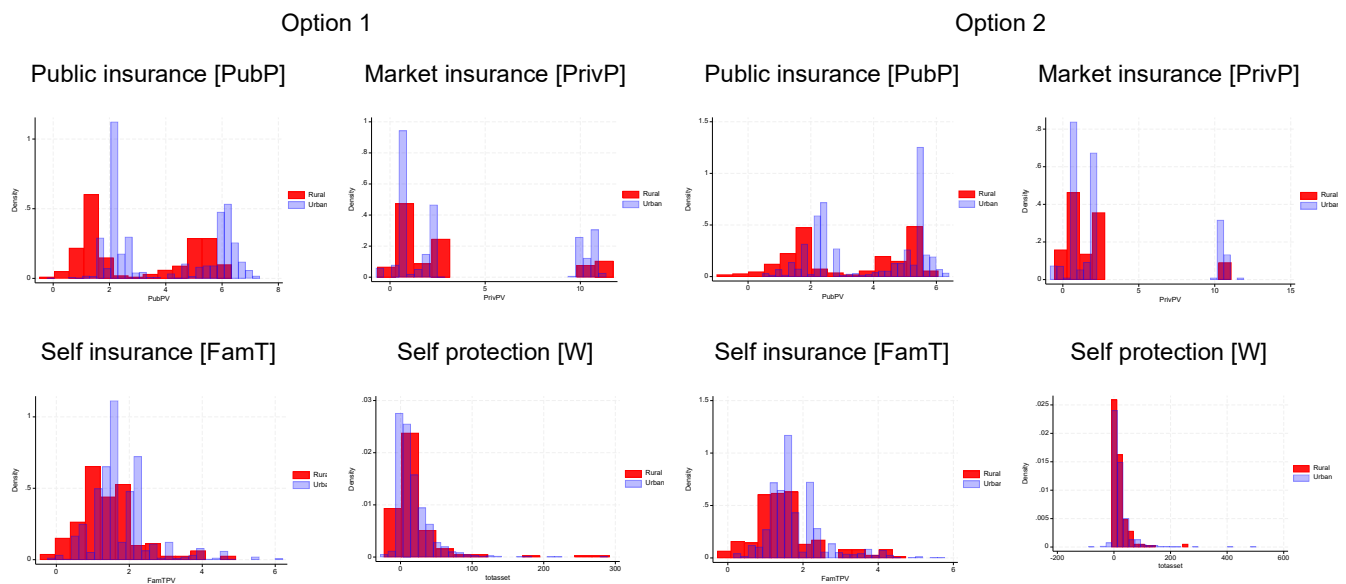
As shown in Table 7, the average present value of labor income under Option 1 is approximately \$166,500, compared with \$113,700 under Option 2. Men earn substantially more than women under both scenarios, reflecting persistent gender wage gaps. No statistically significant differences are observed between urban and rural residents.

Figure 2: Density Plots of Financial Resources in Old Age for the Target Group (Present Value)

A. By Gender



B. By Urban or Rural Residence



Source: Authors' estimation based on KLoSA 2020 and Korean Longitudinal Study of Aging 2020.

Table 5: Financial Preparedness in Old Age

	Overall	Female	Male	Rural	Urban
Option 1					
Financial self-dependency [FSD]	23.07	18.10	30.36	22.56	23.16
Financial public dependency [FPD]	3.72	2.29	5.79	2.90	3.85
Self-dependency ratio [SDR]	0.77	0.77	0.77	0.85	0.76
Public dependency ratio [PDR]	0.23	0.23	0.23	0.15	0.24
Option 2					
Financial self-dependency [FSD]	24.80	17.86	33.12	23.08	25.17
Financial public dependency [FPD]	3.63	2.28	5.24	3.01	3.77
Self-dependency ratio [SDR]	0.78	0.81	0.75	0.88	0.76
Public dependency ratio [PDR]	0.22	0.19	0.25	0.12	0.24

Source: Authors' estimation based on Korean Longitudinal Study of Aging 2020.

Table 6: Estimated Coefficients for Wage Incomes

	Option 1			Option 2		
	Overall	Female	Male	Overall	Female	Male
Gender (Female=1)	-0.302***			-0.221**		
Educational attainment (Benchmark = at most secondary)						
No education	-0.289***	-0.213***	-0.600***	-0.230***	-0.138***	-0.476**
At most primary	-0.184***	-0.144***	-0.250**	-0.142***	-0.083**	-0.234**
Post secondary	0.264***	0.485***	0.167*	0.090	0.263***	0.023
Marital status (Married/living with partner=1)	0.231***	0.062	0.212*	0.199**	0.062*	0.178
Gender*Marital status	-0.188*			-0.153		
Health status (Very good/good =1)	0.249***	0.073*	0.443***	0.201***	0.119***	0.301***
Number of living children	-0.055***	-0.061***	-0.054	-0.039***	-0.055***	-0.010
Place of residence (Urban=1)	-0.059	0.028	-0.169*	-0.063	0.023	-0.179**
Constant	0.878***	0.54***	0.935***	0.706***	0.440***	0.743***
R-squared	0.091	0.047	0.039	0.067	0.037	0.025
Number of observations	4,715	2,763	1,952	3,899	2,380	1,519

*, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

Source: Authors' estimation based on Korean Longitudinal Study of Aging 2020.

Table 7: Expected Wage Income in Old Age

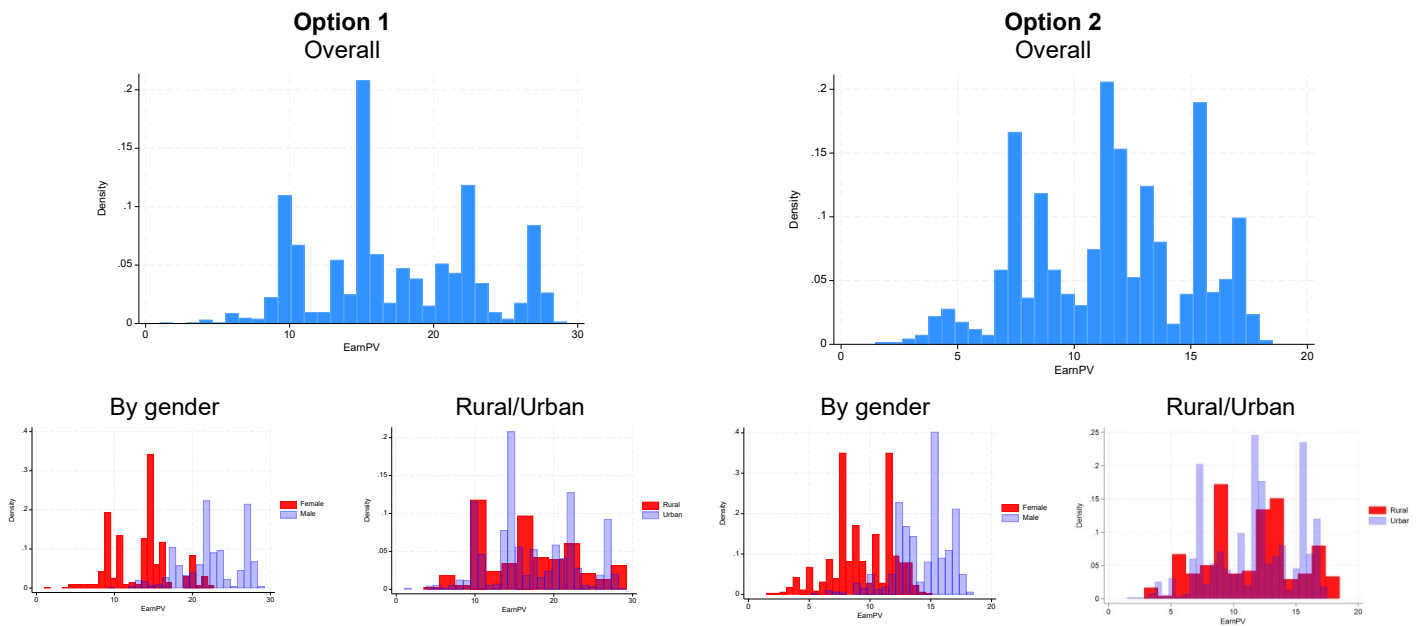
	No. of Obs.	Mean	Std. Dev.	Minimum	Maximum
Option 1					
Overall	1,371	16.65	5.39	0.97	27.92
Female	812	13.37	3.63	0.97	22.37
Male	559	21.42	3.73	8.72	27.92
Rural	193	16.21	5.55	3.44	27.92
Urban	1,178	16.72	5.37	0.97	27.85
Option 2					
Overall	1,207	11.37	3.33	1.46	18.02
Female	655	9.21	2.49	1.46	14.92
Male	552	13.94	2.20	5.01	18.02
Rural	213	11.12	3.48	2.80	18.02
Urban	994	11.42	3.30	1.46	17.05

Obs = observation, Std. Dev. = standard deviation.

Source: Authors' estimation based on Korean Longitudinal Study of Aging 2020.

The d plots in Figure 3 confirm that men's wage distributions are consistently shifted to the right, indicating greater earning potential in old age, while women's distributions are more concentrated at lower income levels. Urban and rural distributions largely overlap.

Figure 3: Density Plots of Expected Wage Income in Old Age for the Target Group (Present Value)



Source: Authors' estimation based on Korean Longitudinal Study of Aging 2020.

Consumption Needs in Old Age

Estimated consumption needs in old age are presented in Table 8. Average lifetime consumption amounts to approximately \$299,000 under Option 1 and \$237,000 under Option 2. The lower value under Option 2 reflects the shorter retirement period associated with later retirement.

Women exhibit slightly higher consumption needs than men (31.54 versus 27.55 under Option 1 and 25.63 versus 21.44 under Option 2) under both scenarios, likely reflecting longer life expectancy and therefore higher cumulative lifetime consumption. Urban–rural differences are small and not statistically significant. Figure 4 shows moderate dispersion in consumption needs, with gender differences considerably smaller than disparities in financial resources.

The preparedness index (PI), defined as the ratio of total financial resources to total consumption needs in old age, provides a summary measure of financial adequacy. The baseline estimates indicate that financial preparedness among older adults in the ROK is generally low (Table 9). The average PI equals 0.398 under Option 1 and 0.524 under Option 2, indicating that

many individuals approaching retirement lack sufficient resources to sustain expected consumption throughout retirement.

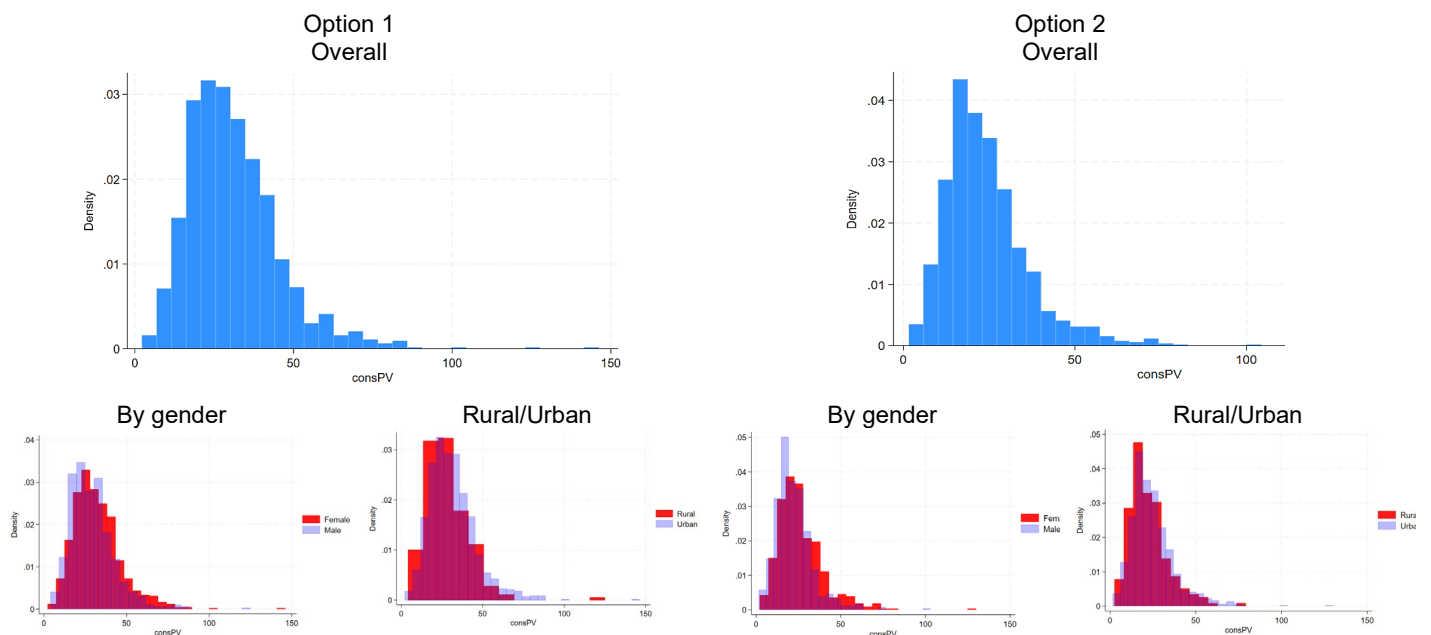
Table 8: Target Consumption in Old Age

	No. of Obs.	Mean	Std. Dev.	Minimum	Maximum
Option 1					
Overall	1,367	29.91	14.00	2.16	142.95
Female	809	31.54	14.45	2.16	142.95
Male	558	27.55	12.98	3.71	117.94
Rural	193	27.11	13.59	4.06	117.94
Urban	1,174	30.37	14.02	2.16	142.95
Option 2					
Overall	1,200	23.72	12.27	1.51	127.79
Female	652	25.63	13.15	2.07	127.79
Male	548	21.44	10.71	1.51	99.63
Rural	211	22.03	11.14	2.49	77.85
Urban	989	24.08	12.48	1.51	127.79

Obs = observation, Std. Dev. = standard deviation.

Source: Authors' estimation based on Korean Longitudinal Study of Aging 2020.

Figure 4: Density Plots of Target Consumption Needs in Old Age for the Target Group (Present Value)



Source: Authors' estimation based on Korean Longitudinal Study of Aging 2020.

Table 9: Preparedness Index

	No. of Obs.	Mean	Std. Dev.	Minimum	Maximum
Option 1					
Overall	1,371	0.398	0.490	0	1
Female	812	0.238	0.426	0	1
Male	559	0.631	0.483	0	1
Rural	193	0.389	0.489	0	1
Urban	1,178	0.400	0.490	0	1
Option 2					
Overall	1,207	0.524	0.500	0	1
Female	655	0.321	0.467	0	1
Male	552	0.766	0.424	0	1
Rural	213	0.512	0.501	0	1
Urban	994	0.527	0.500	0	1

Obs = observation, Std. Dev. = standard deviation.

Source: Authors' estimation based on Korean Longitudinal Study of Aging 2020.

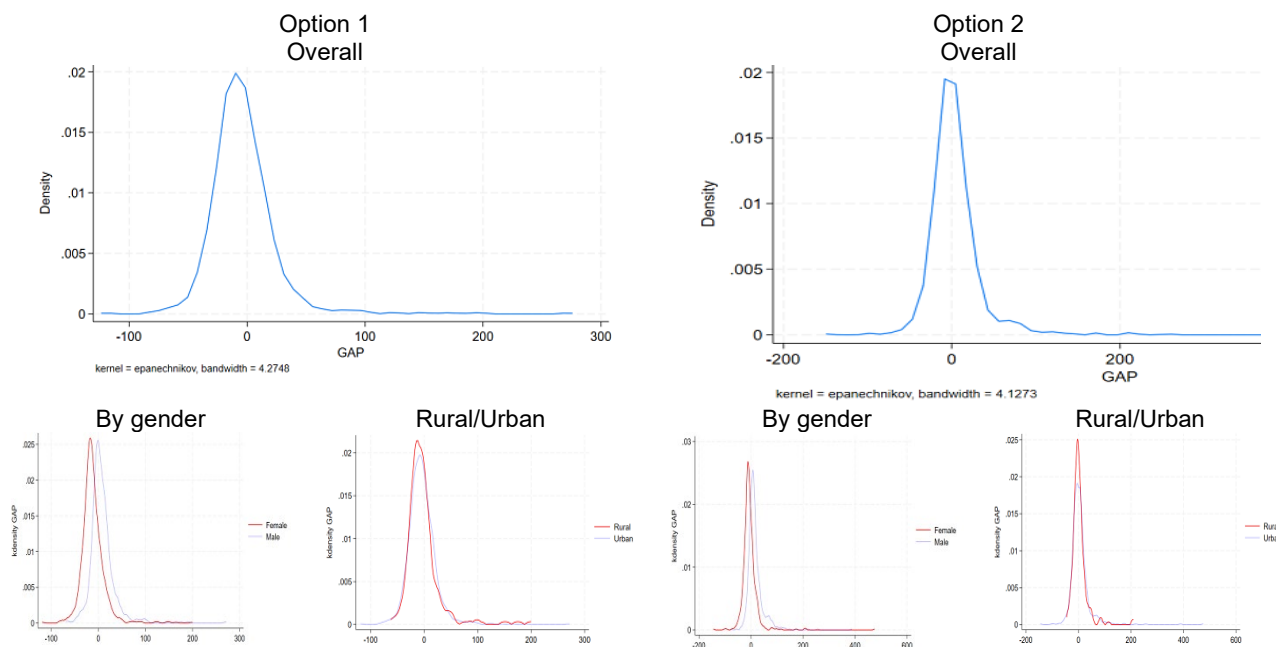
These averages mask substantial heterogeneity across population groups. Gender disparities are particularly pronounced. Men's PI ranges from 0.631 to 0.766 across the two retirement scenarios, whereas women's PI ranges from only 0.238 to 0.321. Thus, men's preparedness is more than twice that of women. This disparity reflects cumulative differences in labor force participation, lifetime earnings, pension contributions, and asset accumulation, all of which favor men in older Korean cohorts.

Figure 5 presents kernel density plots of financial gaps, further illustrating the extent and distribution of financial inadequacy. A substantial share of individuals faces negative gaps, indicating that projected financial resources fall short of expected consumption needs. Men's distributions are shifted toward smaller deficits and, in some cases, modest surpluses, whereas women's distributions are concentrated at larger negative gaps. Urban–rural differences remain comparatively limited, reinforcing earlier findings that gender disparities dominate spatial disparities in financial preparedness.

Sensitivity Analysis

To assess the robustness of the preparedness estimates and better understand the mechanisms underlying financial adequacy, we conduct a series of sensitivity analyses focusing on asset liquidity and labor income. These exercises further underscore the central role of continued work in supporting financial preparedness in old age in the ROK.

Figure 5: Kernel Density Plots of Financial Gaps in Old Age (Total Financial Resources Minus Total Consumption)



Source: Authors' estimation based on Korean Longitudinal Study of Aging 2020.

When illiquid assets, primarily housing wealth, are excluded from total financial resources, financial preparedness declines sharply (Table 10). The PI falls from 0.398 to 0.284 under Option 1 and from 0.524 to 0.387 under Option 2. The gender and urban–rural patterns remain broadly unchanged. This reduction highlights the importance of housing wealth in household balance sheets and suggests that a large share of household wealth in the ROK is not readily available to finance consumption in old age. The results also indicate that asset-based measures of preparedness may overstate true financial security when liquidity constraints are binding. Older adults who are asset-rich but income-poor may face difficulties converting housing wealth into consumption, particularly in the absence of well-developed annuitization or reverse mortgage markets. In this context, alternative sources of income become especially important.

Table 11 presents the financial preparedness in old age when wage income is included. Preparedness improves substantially under both retirement scenarios. The PI rises to 0.672 under Option 1 and 0.708 under Option 2, indicating that continued work can offset a large share of the resource gap identified in the baseline analysis. For men, the PI approaches 0.943, suggesting that financial resources are nearly sufficient to meet projected consumption needs once labor income is considered. Preparedness also improves markedly for women, although substantial gender gaps remain.

Table 10: Financial Preparedness in Old Age Excluding Illiquid Assets (Mean Values)

By gender	Baseline			Excluding Illiquid Assets		
	Overall	Female	Male	Overall	Female	Male
Option 1						
Self protection [W]	17.82	13.93	23.54	9.71	9.96	9.38
Financial self-dependency [FSD]	23.07	18.10	30.36	14.96	14.14	16.16
Self-dependency ratio [SDR]	0.768	0.766	0.772	0.690	0.728	0.633
Preparedness Index	0.398	0.238	0.631	0.284	0.213	0.386
Option 2						
Self protection [W]	20.23	14.20	27.46	10.79	10.54	11.10
Financial self-dependency [FSD]	24.80	17.86	33.12	15.37	14.20	16.77
Self-dependency ratio [SDR]	0.781	0.805	0.751	0.684	0.731	0.626
Preparedness Index	0.524	0.321	0.766	0.387	0.299	0.491
By urban or rural residences	Overall	Rural	Urban	Overall	Rural	Urban
	Overall	Rural	Urban	Overall	Rural	Urban
Option 1						
Self protection [W]	17.82	18.34	17.74	9.71	13.45	9.10
Financial self-dependency [FSD]	23.07	22.56	23.16	14.96	17.68	14.52
Self-dependency ratio [SDR]	0.768	0.849	0.755	0.690	0.768	0.677
Preparedness Index	0.398	0.389	0.400	0.284	0.347	0.273
Option 2						
Self protection [W]	20.23	19.62	20.36	10.79	14.88	9.94
Financial self-dependency [FSD]	24.80	23.08	25.17	15.37	18.35	14.74
Self-dependency ratio [SDR]	0.781	0.880	0.760	0.684	0.750	0.670
Preparedness Index	0.524	0.512	0.527	0.387	0.423	0.379

Source: Authors' estimation based on Korean Longitudinal Study of Aging 2020.

These results suggest that labor income can partially compensate for limited pension income and liquid wealth. Unlike illiquid assets, labor income provides a continuous flow of resources that directly supports consumption. This finding is particularly relevant in the ROK, where public pensions account for a relatively small share of total retirement resources and many older adults have limited liquid savings.

The baseline preparedness outcomes must be interpreted in light of the important role of labor income in old age. When financial preparedness is assessed using only post-retirement income streams and accumulated wealth, the resulting PI reflects a scenario in which individuals fully withdraw from the labor force at retirement. However, as shown in the wage estimations, continued work is common among older adults in the ROK and represents a substantial source of income. The large gap between the baseline estimates and those that include wage income suggests that work in old age is a key mechanism through which many individuals mitigate financial shortfalls.

Table 11: Financial Preparedness in Old Age Including Wage Income (Mean Values)

By gender	Baseline			Including Wage Income (L)		
	Overall	Female	Male	Overall	Female	Male
Option 1						
Self protection [W]	17.82	13.93	23.54	17.82	13.93	23.54
Financial self-dependency [FSD]	23.07	18.10	30.36	39.69	31.47	51.74
Self-dependency ratio [SDR]	0.768	0.766	0.772	0.897	0.912	0.876
Preparedness Index	0.398	0.238	0.631	0.672	0.485	0.943
Option 2						
Self protection [W]	20.23	14.20	27.46	20.23	14.20	27.46
Financial self-dependency [FSD]	24.80	17.86	33.12	36.15	27.05	47.06
Self-dependency ratio [SDR]	0.781	0.805	0.751	0.883	0.892	0.871
Preparedness Index	0.524	0.321	0.766	0.708	0.511	0.940
By urban or rural residences	Overall	Rural	Urban	Overall	Rural	Urban
Option 1						
Self protection [W]	17.82	18.34	17.74	17.82	18.34	17.74
Financial self-dependency [FSD]	23.07	22.56	23.16	39.69	38.69	39.85
Self-dependency ratio [SDR]	0.768	0.849	0.755	0.897	0.911	0.895
Preparedness Index	0.398	0.389	0.400	0.672	0.653	0.675
Option 2						
Self protection [W]	20.23	19.62	20.36	20.23	19.62	20.36
Financial self-dependency [FSD]	24.80	23.08	25.17	36.15	34.22	36.56
Self-dependency ratio [SDR]	0.781	0.880	0.760	0.883	0.899	0.879
Preparedness Index	0.524	0.512	0.527	0.708	0.723	0.704

Source: Authors' estimation based on Korean Longitudinal Study of Aging 2020.

The sharp increase in the PI when wage income is included indicates that labor income contributes substantially to narrowing consumption gaps. For many individuals, particularly men, continued work allows financial resources to approach or exceed projected consumption needs. This effect is especially important given the relatively limited contribution of public pensions to total retirement resources. In this context, labor income effectively compensates for limited pension adequacy and uneven wealth accumulation.

At the same time, reliance on work to achieve financial preparedness may create new forms of inequality. The ability to continue working depends heavily on health, education, and gender. Individuals in poor health or with limited human capital are less able to offset resource gaps through labor income and therefore remain more vulnerable to financial inadequacy. Consequently, although continued work substantially improves average preparedness, it does not eliminate vulnerability and may widen disparities between those who can and cannot continue working at older ages.

Overall, the preparedness results highlight a dual reality in the ROK. Baseline financial resources are insufficient for a substantial share of the population, yet continued labor force participation serves as an important buffer against financial insecurity in old age.

When wage income is included and illiquid assets are excluded simultaneously, preparedness remains substantially higher than in the baseline scenario (Table 12). The PI increases from 0.398 to 0.690 under Option 1 and from 0.524 to 0.737 under Option 2. This pattern suggests that continued work plays a stabilizing role even in the absence of housing wealth. The combined scenario is particularly informative for understanding vulnerability among asset-poor households. For individuals with limited liquid wealth, labor income may represent one of the few available mechanisms to finance consumption and avoid severe shortfalls. The results further suggest that, in the absence of continued work, many older adults would face considerable financial insecurity, particularly given the limited generosity of public pensions.

Table 12: Financial Preparedness in Old Age Including Wage Income and Excluding Illiquid Assets (Mean Values)

By gender	Baseline			Including Wage Income, Excluding Illiquid Assets		
	Overall	Female	Male	Overall	Female	Male
Option 1						
Self protection [W]	17.82	13.93	23.54	9.71	9.96	9.34
Financial self-dependency [FSD]	23.07	18.10	30.36	31.57	27.50	37.54
Self-dependency ratio [SDR]	0.768	0.766	0.772	0.879	0.899	0.848
Preparedness Index	0.398	0.238	0.631	0.690	0.528	0.925
Option 2						
Self protection [W]	20.23	14.20	27.46	10.79	10.54	11.10
Financial self-dependency [FSD]	24.80	17.86	33.12	26.71	23.38	30.70
Self-dependency ratio [SDR]	0.781	0.805	0.751	0.856	0.885	0.821
Preparedness Index	0.524	0.321	0.766	0.737	0.566	0.940
By urban or rural residences	Overall	Rural	Urban	Overall	Rural	Urban
Option 1						
Self protection [W]	17.82	18.34	17.74	9.71	13.45	9.10
Financial self-dependency [FSD]	23.07	22.56	23.16	31.57	33.80	31.21
Self-dependency ratio [SDR]	0.768	0.849	0.755	0.879	0.902	0.875
Preparedness Index	0.398	0.389	0.400	0.690	0.710	0.687
Option 2						
Self protection [W]	20.23	19.62	20.36	10.79	14.88	9.94
Financial self-dependency [FSD]	24.80	23.08	25.17	26.71	29.48	26.13
Self-dependency ratio [SDR]	0.781	0.880	0.760	0.856	0.885	0.850
Preparedness Index	0.524	0.512	0.527	0.737	0.775	0.729

Source: Authors' estimation based on Korean Longitudinal Study of Aging 2020.

Taken together, the sensitivity analyses reinforce a central finding of this study: labor income plays a critical role in financial preparedness in old age in the ROK. Although housing wealth and private savings remain important sources of support, labor income provides a uniquely flexible and reliable source of support. At the same time, access to work at older ages is uneven, reliance on labor income also exposes structural inequalities related to health, education, and gender. These findings underscore the importance of considering labor market outcomes alongside pension income and wealth accumulation when evaluating financial security in old age.

Financial Preparedness and Well-Being

The probit estimates in Table 13 indicate that higher educational attainment, better health, and a larger number of living children are associated with a higher probability of being financially prepared. Married women exhibit a significantly lower probability of preparedness, reflecting cumulative disadvantages over the life course.

The ordered logistic regression results in Table 14 show that education, marital status, and health are positively associated with both financial preparedness and subjective well-being. Notably, women and rural residents report higher levels of subjective well-being despite lower objective preparedness, suggesting the importance of nonfinancial sources of support and adaptive expectations.

Fiscal Implications of Closing Preparedness Gaps

We also estimate the amount of government expenditures required to close preparedness gaps among older adults. Under Option 1, approximately 62% of the target group is classified as financially unprepared, compared with 48% under Option 2. Closing the preparedness gaps for individuals in the bottom 40% of consumption would require resources equivalent to 6.5% of total lifetime consumption under Option 1 and 4.5% under Option 2.

Private consumption accounts for approximately 48% of gross domestic product (GDP) in the ROK, while individuals aged 65 and older represent about 20% of the population. Under these assumptions, the implied fiscal requirement amounts to approximately 0.43%–0.62% of GDP annually.⁴

⁴ These fiscal requirements are likely to increase over time as the share of older people in the population continues to rise.

Table 13: Determinants of Financial Preparedness: Probit Regression Results

Dependent variable: Preparedness Index (0,1)	Option 1	Option 2
Age	3.200	1.709
Age 2/100	-2.643	-1.362
Gender (Female = 1)	-0.103	-0.171
Educational attainment (Benchmark = At most secondary)		
No education	-0.551	-0.868 **
At most primary	-0.144	-0.417 ***
Post secondary	0.610 ***	0.561 ***
Marital status (Married/living with partner = 1)	0.143	-0.127
Gender * Marital status	-0.912 ***	-1.102 ***
Health status (Good/very good = 1)	0.242 ***	0.168 **
Number of living children	0.142 ***	0.157 ***
Urban (=1)	-0.079	-0.119
Constant	-97.162	-53.154
R-squared	0.174	0.217
No. of observations	1,371	1,207

** and *** indicate significance at the 5% and 1% level, respectively.

Source: Authors' estimation based on Korean Longitudinal Study of Aging 2020.

Table 14: Financial Preparedness and Well-Being: Ordered Logistic Regression Results

Dependent variable: Preparedness Index (0,1)	Option 1	Option 2
Age	-1.630	6.711 **
Age 2/100	1.317	-5.395 **
Gender (Female = 1)	0.849 ***	0.882 **
Educational attainment (Benchmark = At most secondary)		
No education	-0.838	-0.863
At most primary	-0.335	-0.214
Post secondary	0.409 ***	0.659 ***
Marital status (Married/living with partner = 1)	1.489 ***	1.480 ***
Gender * Marital status	-0.762 **	-0.885 **
Health status (Good/very good = 1)	0.366 ***	0.505 ***
Number of living children	0.093	0.087
Urban (=1)	-0.367 ***	-0.652 ***
	0.260 **	0.124
Constant		
R-squared	0.023	0.027
No. of observations	1,371	1,207

** and *** indicate significance at the 5% and 1% level, respectively.

Source: Authors' estimation based on Korean Longitudinal Study of Aging 2020.

4. DISCUSSION AND POLICY IMPLICATIONS

The findings highlight the transitional nature of the ROK's welfare regime. Public pensions remain insufficient for a substantial share of the older population, while family support and continued labor force participation continue to play a larger role than in many advanced economies. Although public provision has expanded, old-age financial security remains heavily dependent on private and family-based sources of support. Policy priorities therefore include strengthening pension adequacy, promoting productive and decent work opportunities for older workers, and designing targeted gap-closing programs that explicitly recognize heterogeneity in financial preparedness across gender, socioeconomic status, health, and family structure.

It would be informative to compare the findings of this study with those generated by the National Transfer Accounts (NTA) project, as the two approaches differ in several important conceptual and empirical respects. First, the NTA framework incorporates both public and private consumption, as well as intra-household transfers, whereas the Ehrlich and Liu framework does not explicitly account for intra-household redistribution. As a result, family transfers often appear as a more important source of support in old age in NTA-based analyses. Second, NTA is a flow-based accounting framework and does not assume that all assets are fully liquidated at the end of life. By contrast, this study assumes that both liquid and illiquid assets are fully drawn down at death, which affects the measurement of lifetime resources. Third, NTA relies primarily on observed cross-sectional age profiles of income and consumption, whereas this study adopts a forward-looking approach that projects future income streams based on individual characteristics and estimated regression models. Finally, NTA aggregates are designed to be fully consistent with the National Income and Product Accounts, ensuring macroeconomic coherence, whereas this study relies on micro-level survey data that provide greater insight into heterogeneity across individuals and households but are less suitable for macroeconomic analysis.

Despite these differences, the two approaches should be viewed as complementary rather than competing. Micro-level analysis enables detailed estimation and projection across individuals and households, providing a richer understanding of distributional patterns and vulnerabilities. By contrast, macro-accounting approaches provide greater aggregate consistency and institutional comparability. Importantly, both approaches point to a similar conclusion: labor income and asset holdings remain key sources of support in old age in the ROK.

Overall, the study documents substantial gaps in financial preparedness among older Koreans and highlights the continued importance of labor income and family support. These findings point to the need for a coordinated policy strategy that integrates pension reform, labor

market policies, asset management mechanisms, and family-support institutions to promote equitable and fiscally sustainable population aging. Five key policy implications emerge:

1) Strengthening Public Support

Public support for older adults in the ROK has expanded considerably in recent decades. Nevertheless, rapid population aging raises legitimate concerns about long-term fiscal sustainability and intergenerational equity. The ROK's relatively cost-effective health-care system represents a critical institutional strength because it helps contain public expenditures while sustaining consumption and well-being in later life. Preserving efficiency while gradually enhancing benefit adequacy will be essential to maintaining stable per-capita consumption among older adults without imposing excessive fiscal burdens.

2) Expanding Private Pension Coverage

Historically, retirees in the ROK have relied heavily on lump-sum severance payments rather than annuitized pension income. Such arrangements expose retirees to investment risk, longevity risk, and inadequate risk diversification. The government's recent announcement to make participation in the corporate pension system mandatory in the coming years therefore represents an important structural reform. Strengthening annuitization mechanisms, improving pension governance, and enhancing regulatory oversight will be critical to improving income stability and retirement security.

3) Promoting Employment at Older Ages

Continued employment remains a major source of income in later life, underscoring the importance of health investments and age-friendly labor market institutions. Policies that support flexible work arrangements, reduce age discrimination, and improve job quality for older workers can help sustain labor income in later life. At the same time, rapid technological change and automation may alter future labor demand. Policies promoting lifelong learning, skills upgrading, and effective job matching will therefore become increasingly important.

4) Supporting Families and the Care Economy

Family transfers continue to play an important role in the well-being of older adults, although its relative importance is likely to decline as fertility remains low and multigenerational living arrangements become less common. Policymakers may therefore need to explore ways to strengthen or complement family-based support systems. Singapore provides one example of policies that encourage intergenerational co-residence and family responsibility. Gender disparities in family transfers also warrant greater attention. Men are typically net recipients of

time transfers, whereas women remain net providers of unpaid care (Ministry of Data and Statistics 2025). As extended family structures evolve, policies that strengthen the formal care economy, examined extensively by the United Nations (2025) and Donehower (2025), will become increasingly important to prevent gender inequalities from widening.

5) Facilitating Asset Utilization

Older Koreans remain reluctant to liquidate nonfinancial assets, particularly housing wealth. In 2024, only 1.3% of individuals aged 55 and older participated in the reverse mortgage program (Ministry of Data and Statistics 2025). Limited asset decumulation contributes directly to the persistence of old-age poverty, especially among individuals who are asset-rich but income-poor. Cultural norms surrounding bequests and homeownership may discourage asset liquidation. Policies that facilitate safe, transparent, and socially acceptable mechanisms for asset decumulation—including improvements in reverse mortgage design and financial education—could strengthen financial security in later life without substantially increasing fiscal costs.

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Assessing Financial Preparedness in Old Age in Asia

Evidence from the Republic of Korea

This paper assesses financial preparedness for old age in the Republic of Korea by comparing expected retirement resources—including public pensions, family transfers, assets, and post-retirement earnings—with target consumption needs. Using two retirement scenarios, it examines differences by gender and place of residence. Financial preparedness varies substantially across groups, with women facing much larger shortfalls than men. Continued employment and family support remain essential sources of old-age security, underscoring the transitional nature of the welfare system.

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