An Analysis of Household Saving and Asset Accumulation in Korea

As population aging is going rapidly in Korea, many people got concerned about their retirement consumption. In spite of the deep concerns about retirement, the saving rates in Korea still remain relatively low. The gross saving rate has been decreasing since 1988, and it is much explained by low saving rates in the household sector. Compared to the other advanced countries, a sharp decline in the saving rate of Korea is noticeable, and thus makes people more concerned about aging.

In fact, the low rates of saving may lead to insufficient asset accumulations, and in turn get people lacking in assets to prepare for their retirement and vulnerable to economic shocks. Further, using various dataset, it is required to investigate why the household saving rates in Korea are getting lower and why high-income households save more than low-income ones because the aging problems in Korea are critical relative to the other countries.

Unlike the previous studies, this report tries to analyze the rapid decrease in the saving rates of Korea by classifying it into six categories. First, we argue that changes in the policy and incentive schemes of consumer finance and savings promotion have played one of major roles in getting household savings lower and widening the savings gaps between different income groups.

Second, we analyze socio-economic factors using a macro dataset. Our finding in the analysis is that the decreasing household saving rates in Korea may be related to a slowdown in the growth rates of
household income, an increase in the asset price, expansions of the social security and household debts, recent lower interest rates, and an aging population structure.

Third, analyzing savings behaviors by income and age, we find that the declines in the saving rates of low- and middle-income groups have been remarkable relative to the highest-income group since 1997. In addition, our analysis by age shows that the 40’s age group which appear to spend more money on their children’s education have the lowest saving rates in all the income groups.

Fourth, using micro-level data, we get the similar results that education expenditure, social security payment, and the repayment burden of household debts play a major role in decreasing their savings as well.

Fifth, it follows that a change in saving motives seems to affect the decrease in the savings rate. In particular, the expansion of the precautionary saving motive with the lowest average saving rates is like to account in part for the decline in the saving rates in Korea.

Sixth, we point out that the rapid aging process in Korea may make worse the current decreasing trends in savings, and widen savings gaps in the near future. But these adverse impacts can be reduced if we operate efficiently the human capital accumulated with education expenditures high relative to the other OECD countries.

Interpreting the notion of savings in a broad sense along with the results described above, the decrease in saving rates is not a problem in itself. For instance, including human capital and real asset investment in the household savings, we can say that Korean people save more than suggested by some official statistics because they
spend less to invest more in real assets and human capital. Rather, a really critical problem with the saving rates is related to how optimally households can allocate their resources. As such, we suggest in this report that one way of getting around the decrease in saving rates be not related to directly enhancing the saving rates in a short period of time but restructuring asset portfolios or preference. Finally, we provide some policy implications for such a restructuring.

First, it is required to establish and apply consumer finance policies depending upon the characteristics of people by income and age. Second, it is quite important to stabilize the Korean housing market, and optimize household private educational expenses in terms of the inter-generational resource allocation. Third, it is required that the financial industry provide more various financial products which can take their illiquid assets, and that it be able to absorb their longevity risk through more advanced financial markets.