

Impact of the Basic Pension Increase on Labor Supply and Private Transfer Income Among the Elderly in Korea

Seung Jun Park

Da Hoon Lee

Abstract

This study investigates the effects of substantial increases in basic pension benefits in 2019 and 2021 on the labor supply and private transfers of the elderly, utilizing data from the 7th to 9th waves of the Korean Longitudinal Study of Aging (KLOSA). Initially, a panel structural equation modeling (SEM) analysis was conducted on a group of households headed by individuals aged 65 and over who received basic pensions in all three waves. The findings reveal that while the increase in basic pension benefits had a non-significant positive impact on labor supply, it exerted a significant negative effect on private transfers at the 10% significance level. Subsequently, a panel SEM difference-in-differences (DID) model was employed to assess the disparities between households headed by individuals aged 65 and over who received basic pensions after 2019 and those who did not. The estimation results indicate that while there was no significant influence on labor supply following the increase in basic pension benefits, a significant negative effect was observed on private transfers. Furthermore, panel SEM DID analyses were conducted by categorizing households into single-person and couple households and by income quintile. The results demonstrate that single-person households exhibited no significant effects. However, for couple households, a crowding-out effect was identified in households with incomes above the median, where private transfers decreased. There were no significant effects observed for households in the bottom 70% of the median income.

Key Words: increase in basic pension benefits, labor supply, private transfers, Panel SEM,

Panel SEM DID model

JEL Code: H3, J0,