International Journal of Applied Engineering Research ISSN 0973-4562 Volume 10, Number 18 (2015) pp 39745-39750

Differences in Financial Well-being of Users of Social Welfare Institutions by Housing Tenure Type

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Abstract

In this study, differences in financial well-being of users of social welfare institutions were examined by housing tenure type. Financial well-being was measured through the levels of debt arrears, saving activities, and financial stress, using survey data for 381 users of social welfare institutions in South Korea. Key findings are as follows. First, significant differences in financial well-being by housing tenure type were found. Second, monthly rent tenants showed the worst financial well-being, followed by public rental apartment tenants, lease tenants, and owner-occupiers. Third, monthly rent tenants who are also poor recipients of national basic livelihood security (NBLS) had the worst financial condition. In conclusion, the findings of this analysis suggest that housing support programs to improve the financial well-being of users of social welfare institutions must be quickly expanded today in South Korea.

Keywords: Housing Tenure Types, Low-Income Households, Financial Well-Being, Financial Arrears, Saving Activities, Financial Stress,

Introduction

Since the foreign currency crisis in 1997, South Korea government has steadily lowered the base rate to break through the continuing economic depression [1], expecting to boost domestic consumptions, in particular, real estate transactions [2]. However, the government is yet to present any evidences of the positive effects of the low interest policy [3, 4]. Moreover, they are faced with criticisms that they have clearly damaged the housing stability of the low-income households [5] because landlords raised rent deposits or monthly rents to compensate for their losses of interests resulting from the low interest policy [6].

Furthermore, the supply of *Jeonse* houses to the housing rent market has been quickly diminishing recently [4, 7] as an increasing number of landlords do not want *Jeonse* contracts with decreasing returns.In South Korea, *Jeonse* is a unique housing tenure type in which landlordsdemand a deposit of 50%-80% of the usual house price only with no monthly rent, which is returned to the tenant upon termination of contract [7]. Low-income households in South Korea prefer *Jeonse* because they don't have to pay monthly rent, but the percentage of *Jeonse* is steadily decreasing [5]. For example, the contract rate of *Jeonse* to monthly rent in 2011 was 67.0%, but it has been decreasing every year to 66.0% in 2012, 60.6% in 2013, and 59.0% in 2014 [8]. As a result, a growing number of low-income households are forced to either purchase houses with a bank loan in spite of the grave burden of interests or pay higher monthly rents than before to house owners.

Despite the effect of housing on the financial well-being of the low-income group is increasing, very few studies on social welfare in South Korea have showed interest in housing problems [9]. Even basic studies on the effects of housing on the low-income household are absurdly insufficient. Consequently, the rapid establishment of accurate policies on the housing problems of the low-income group is being hindered. Therefore, this study was conducted to empirically investigate the differences in the subjective financial well-being of the low-income group by housing tenure type including *Jeonse* and monthly rent in South Korea. Specifically, the effects of poverty and housing tenure type on the debt problems, saving activities, and financial stress of users of social welfare institutions were analyzed to present future directions of housing welfare policies in South Korea.

Housing Tenure Types in South Korea and Literature Review

The housing tenure types in South Korea are officially classified into *Owner-occupier*, *Jeonse*, *Monthly rent with deposit*, *Monthly rent*, *Sageulse*, and *Free* [11]. *Owner-occupier* is refers to living in one's own house. *Jeonse* is, as explained in Introduction, a unique housing tenure type in South Korea in which the tenant pays a certain amount of deposit to the renter, uses the house usually for one to two years without monthly rent, and receives back the deposit from the landlord upon termination of contract. *Monthly rent with deposit* is to pay both deposit and monthly rent, and *Monthly rent with no deposit* is to pay monthly rent. *Sageulse* is to pay monthly rents for a fixed period of six months or one year, for example, in a lump. Lastly, *Free* is to live in an official residence, a company house, relative's house, etc. with no rent.

Table 1 below shows the status and changing trend of housing tenure types in South Korea since 2006. First, in terms of the percentage of each housing tenure type, *Owner-occupier* was 53.64% at the minimum throughout the entire survey period, indicating it is the representative type. However, the percentage of *Owner-occupiers* has been slowly decreasing since 2006. The percentages of *Jeonse* and *Monthly rent* are similar for the survey period, but the rate of *Monthly rent* to *Jeonse* is rising each year.

Table 1: Changing trends of housing tenure types (unit: %)

Housing tenure type	2006	2008	2010	2012	2014
Owner-occupier	55.57	56.39	54.25	53.75	53.64
Jeonse	22.39	22.34	21.66	21.79	19.60
Monthly rent with deposit	15.07	14.80	18.16	18.6	21.83
Monthly rent with no deposit	2.10	1.93	1.97	2.71	1.35
Sageulse	1.79	1.53	1.30	0.31	0.73
Free	3.09	3.02	2.66	2.83	2.84
Total	100.00	100.00	100.00	100.00	100.00

Source: Ministry of Land, Infrastructure and Transport (2015) [11]

Next, Table 2 below shows the percentages of housing tenure types by 10 income brackets as of 2014 [11]. In general, the closer to the 10th bracket with the highest income level, the higher the percentage of *Owner-occupiers* became. The percentage of *Jeonse* was the highest in the middle class between 5th and 8th brackets. The percentage of *Monthly rent with deposit* was the highest in the 3rd and 4th brackets. The lowest 1st and 2nd brackets showed the highest percentages of *Monthly rate with no deposit* and *Free*. In short, the higher the income level, the higher the percentages of *Owner-occupiers* and *Jeonse* were; on the other hand, the lower the income level, the higher the percentages of monthly rent were, especially *Monthly rate with no deposit* and *Sageulse*. However, it was also clear that in all income brackets, the descending order of the percentages of housing tenure types was *Owner-occupier*, *Jeonse*, *Monthly rate with deposit*, *Monthly rate with no deposit*, and *Sageulse*. This suggests that preferences for housing tenure type are not much different among all the income brackets.

Table 2: Percentages of housing tenure types by income bracket (unit: %)

Income bracket	Owner-occupier	Jeonse	Monthly rent with deposit	Monthly rent with no deposit	Sageulse	Free	Total
1st-2nd	48.15	13.68	27.55	3.37	2.09	5.16	100.00
3rd-4th	46.57	15.08	32.26	2.25	1.05	2.79	100.00
5th-6th	44.15	21.16	30.60	0.91	0.33	2.85	100.00
7th-8th	58.24	24.90	14.49	0.34	0.17	1.86	100.00
9th-10th	69.46	20.80	7.72	0.21	0.18	1.63	100.00

Source: Ministry of Land, Infrastructure and Transport (2015) [11]

Then, how is the housing cost burden different among the income brackets? According to National Statistics Office [12], the percentage of housing cost in monthly average consumption has been increasing slightly each year, and the difference in housing cost burden by income bracket was approximately two fold. The 1st income bracket with the lowest income level showed the highest housing cost burden in total household consumption, which increased the most for 10 years since 2004. On the other hand, the 10th income bracket with the highest income level showed a low housing cost burden, which decreased somewhat over time. In other words, housing cost burden in South Korea is large among the low income group and the situation is worsening.

Table 3: Change of housing cost burden to consumption by income brackets (unit: %)

	2004	2006	2008	2010	2012	2014
Total average	9.69	9.92	9.72	10.07	10.42	10.38
1st bracket	14.90	15.81	15.62	17.56	18.21	17.91
2nd bracket	13.37	14.93	14.44	14.89	15.45	14.91
3rd bracket	11.66	12.55	12.94	12.50	12.97	13.41
4th bracket	10.68	11.57	11.25	11.11	11.96	11.36
5th bracket	10.05	10.40	10.16	10.36	11.54	10.78
6th bracket	9.33	9.68	9.54	10.26	9.85	10.02
7th bracket	8.85	9.14	9.00	9.17	10.00	9.97
8th bracket	8.98	9.10	8.04	8.11	8.75	9.27
9th bracket	8.19	7.62	7.94	8.24	8.47	8.60
10th bracket	7.94	7.75	7.49	8.24	7.72	7.78

Source: National Statistics Office (2015) [12]

Now, a few previous studies will be reviewed to understand the effect of the high housing cost burden of the low income group as shown in Table 3 on their financial well-being, which is the main theme of this study. First, we need to clarify the concept of financial well-being. According to Atkinson et al. [13], financial well-being is conceptually different from income or material well-being. According to them, financial well-being reflects the ability to manage money and control finances. In other words, high income does not directly lead to high financial well-being. Financial well-being becomes high when you are economically healthy and happy through appropriate financial decision making and credit and debt management even if your income is not high. Meanwhile, the importance of financial well-being tends to be emphasized during a period of economic recession rather than a period of economic boom. During economic recession, it is substantially difficult to improve individual income and financial capability enhancement becomes more critical for individuals to improve their quality of life [14].

There are largely two methods of measuring financial well-being: objective and subjective. The subjective method subdivides the areas of financial well-being before calculating the financial well-being of individuals using objective indicators representing each of the areas. The representative objective method is to determinethe rate of income and consumption, the rate of savings and debts, etc. which are calculated through the balance sheets of households, and to estimate financial well-being based on them. Some studies also includedfinancial literacy here [9, 14]. Next, the subjective method is to ask the opinions of respondents about their income, consumption, savings, and debts through questionnaires, etc. [14].This method is supported by the fact that individuals make their financial decisions based on subjective partial understanding, rather than objective, complete understanding of financial soundness. In fact, many

behavioral economic studies about consumption behaviors demonstrated through empirical findings that the financial decision making of individuals is greatly influenced by uneconomical and irrational reasons or causes [15]. Therefore, the financial soundness of individuals needs to be measured and enhanced at the subjective level rather than objective. As an example of the latter, Taylor et al. [16] measured financial soundness in the U.K. by asking such questions as "How are you these days in terms of finances?" and "How difficult is financial management?'". They reported that the psychological health of individuals is much more influenced by subjective financial soundness of individuals rather than objective economic level or income. The findings of Jang [17] are similar. Based on surveys with users of social welfare institutions in South Korea, he found that financial stress is a function of subjective financial soundness more than a function of objective income level. Melhushi et al. [18] also reported that for women of the low income group, higher levels of psychological well-being were associated with higher subjective financial soundness.

Lastly, a few studies in South Korea that used housing tenure types, which is the key theme of this study, as independent variable will be examined. First, Hwang [19] analyzed differences in housing satisfaction by housing tenure type and revealed that *Owner-occupiers* had the highest housings housing satisfaction, followed by *Jeonse* and*Monthly rate tenants*. Next, Choi et al. [20] investigated whether the *National rental houses* provided at low prices by the government for the residential stability of the low income group have succeeded in lowering the housing cost burden of the low-income group. According to their report, the rental fees of *National rental houses* were lower by about 70-80% than those of all houses and apartments. Furthermore, the housing cost burden (monthly rent and management fees) of the tenants of *National rental houses* was 29.0% of their monthly income, which is much lower than 37.2% which is their housing cost burden during periods of *Jeonse* or *Monthly rent*.

Research Method

Government statistics on the financial soundness of households in South Korea are still very insufficient. Therefore, in this study, analysis data was directly collected through surveys based on random sampling. The sample consisted of users of social welfare institutions because they include many low-income groups who has high monthly rent burden. The survey was conducted from January to May 2014 with users of social welfare institutions and local self-sufficiency centers in Seoul, Gyeonggi and Chungnam. 429 people responded to the survey, and a total of 381 respondents were used for the analysis, excluding those whose housing tenure types were unclear. Frequency analysis and Analysis of Covariance (ANCOVA) were performed for data analysis. As with Analysis of Variance (ANOVA), ANCOVA is also used for comparison of averages between groups, but has the advantage of controlling the influence of other variables that can affect dependent variables.

The independent variable of this study is housing tenure type. In this study, housing tenure types were classified into *Owner-occupier*, *Jeonse*, *Monthly rent*, and *Public rental apartment*. For control variable, the National Basic Livelihood Security (NBLS) was used which was classified into general recipient, conditional recipient, near poverty group, and non-recipient. In addition, income level, age, and divorce were also used as control variables. Dependent variables for this study were debt arrears, saving activities, and financial stress. The values of each variable are the average value of the answers by respondents to multiple questions in each area. The lowest valuemeant"Not at all" while the highest one meant"Very much so". First of all, the full score of each question in debt arrears was 4 points, and corresponding questions were: I do not replay my debts within the due date; I have difficulties in money due to debt repayment; I have overdue loans for three months or longer; and I don't have sufficient money to repay my debts. The full score of each question in saving activities was also 4 points, and corresponding questions were: I am saving regularly on short-term installment savings for one year or less; I am saving regularly on installment savings for three years or longer; I have an emergency fund account and am using it; I have living expenses for at least three months in my emergency fund account; I increase my savings when my income increases. Lastly, the full score for each question in financial stress was 10 points, and corresponding questions were: Today I feel much stressed due to money problems; I am dissatisfied with my financial condition; It is difficult to prepare one million won in a crisis; I often worry about my financial condition these days; I have not dined out or been to theater for last one year because I could not afford it financially; I often think that I am living from hand to mouth these days; and I am very worried about my financial condition now.

The reliability of each question used for the variables was assessed through Cronbach'sα(Alpha). It was.758 for debt arrears,.837for saving activities, and.915 for financial stress. Therefore, there was no problem in reliability. For statistical analysis, SPSS ver. 21 was used.

Analysis Results

For the housing tenure types of the respondents who participated in this study, the percentages of *Owner-occupier*, *Jeonse*, *Monthly rent*, and *Public rental apartment* were similar at around 20% each. This result was very different from the statistics of the Ministry of Land, Infrastructure and Transport in Table 3. The reason for this difference appears to be that the survey was conducted with users of social welfare institutions which are more frequently used by the low-income group. Thus, *Owner-occupiers* and *Jeonse tenants* were under-sampled, while *Monthly rent* and *Public rental apartment tenants* were over-sampled.

Table 4: Residential and economic characteristics of respondents

Housing Tenure Type	Frequency	Percent	NBLS	Frequency	Percent
Owner-occupier	110	28.9	General recipient	49	12.9
Jeonse tenant	80	21.0	Conditional recipient	116	30.4
Monthly rent tenant	102	26.8	Near poverty group	64	16.8
Publicrental apartment tenant	89	23.4	N/A	152	39.9
Total	381	100.0	Total	381	100.0

Next, as shown in Table 5, differences in debt arrears, saving activities, and financial stress were examined by housing tenure type and economic characteristics. First, for housing tenure type, *Monthly rent* and *Public rental apartment tenants* had the most serious problems related to debt arrears, followed by *Jeonse tenants* and *Owner-occupiers*. It was the opposite for saving activities: *Monthly rent* and *Public rental apartment tenants* were the least active, whereas *Jeonse tenants* and *Owner-occupiers* were most active. The order of the levels of financial stress was exactly identical to the order of the levels of debt arrears.

When the seriousness of debt arrears was examined according to the NBLS type, the near poor group was the most serious.In South Korea, the near poverty group is characterized by not receiving financial support from the government due to dissatisfaction of some recipient qualifications even though they are as poor as the recipients. The groups with the next highest risk of debt arrears were conditional recipients, followed by general recipients, and others. One notable fact in Table 5 is that the monthly rent tenants group has a greater problem of debt arrears than the recipient group. Saving activities were low among the general recipients and conditional recipients of NBLS, whereas saving activities were high among the near poor group and other group who did not receive NBLS. Finally, financial stress levels were exactly opposite to the levels of saving activities. The financial stress level was high among the NBLS groups such as conditional recipients, and low among the non-recipient groups such as others.

Table 5: Differences in debt arrears, saving activities, and financial stress by housing tenure type and economic characteristics

		Debt arrears (4point scale)		Saving activities (4point scale)		Financial stress (10point scale)	
	Variables	N	Mean	N	Mean	N	Mean
Housing Tenure Types	Owner-occupiers	110	3.052	110	2.525	110	5.083
	Jeonsetenants	80	3.228	80	2.031	80	6.366
	Monthly rent payers	102	3.517	102	1.559	102	7.741
	Public rental apartment dwellers	89	3.461	89	1.711	89	7.173
NBLS Types	Ordinary beneficiaries	49	3.332	49	1.648	49	7.417
	Conditional beneficiaries	116	3.410	116	1.591	116	7.555
	Near poverty groups	64	3.481	64	1.945	64	6.790
	Others (non-beneficiaries)	152	3.153	152	2.380	152	5.408
	Total	381	3.309	381	1.972	381	6.552

Table 6 to Table 8 show the ANCOVA results for the differences in debt arrears, saving activities, and financial stress by the housing tenure type. ANCOVA shows the pure influence of the housing tenure type on the financial soundness of respondents with the influence of the control variables, NBLS, income level, age, and divorce under restriction. This analysis examined the main effects of the independent and control variables on each dependent variable, as well as the effect of interaction between the housing tenure type and the NBLS. The findings from this analysis are outlined below.

First, the debt arrears level showed significant differences by the housing tenure types (Leven's $F=1.395$, $p>.05$). The effects of other variables including NBLS were insignificant. Second, the differences in the effect of housing tenure type on the saving activities level was significant. The interaction with NBLS also brought about a significant difference in the level of saving activities. The effects of control variables such as income level, age, and divorce were also significant(Leven's $F=.798$, $p>.05$).Third, the level of financial stress by housing tenure type was insignificant. However, financial stress could be worsened through interaction with NBLS (Leven's $F=1.208$, $p>.05$).

Table 6: Debt arrearsaccording to housing tenure types

Source	Sum of Squares	DF	Sum of Means	F Value	Pr. > p
Housing Tenure Types (A)	11.904	4	2.976	2.547	.039
NBLS Types (B)	.300	3	.100	.086	.968
A * B	7.169	12	.597	.511	.907
Income Level	4.032	1	4.032	3.451	.064
Age	3.446	1	3.446	2.949	.087
Divorce	.922	1	.922	.789	.375
Error	435.832	373	1.168		
Total	4, 693.438	396			
Adj. Total	469.964	395			

R^2=.073(Adj. R^2=.018)

Table 7: Saving activities according to housing tenure types

Source	Sum of Squares	DF	Sum of Means	F Value	Pr. > p
Housing Tenure Types (A)	10.341	4	2.585	6.798	.000
NBLS Types (B)	1.174	3	.391	1.029	.380
A * B	10.048	12	.837	2.202	.011
Income Level	9.682	1	9.682	25.460	.000
Age	3.988	1	3.988	10.487	.001
Divorce	2.666	1	2.666	7.012	.008
Error	141.841	373	.380		
Total	1, 762.250	396			
Adj. Total	237.682	395			

R^2=.403(adj. R^2=.368)

Table 8: Financial stress according to housing tenure types

Source	Sum of Squares	DF	Sum of Means	F Value	Pr. > p
Housing Tenure Types (A)	81.005	4	20.251	7.206	.072
NBLS Types (B)	4.132	3	1.377	.490	.004
A * B	49.176	12	4.098	1.458	.045
Income Level	102.169	1	102.169	36.356	.089
Age	36.808	1	36.356	13.098	.034
Divorce	13.680	1	13.098	4.868	.013
Error	1, 048.212	373	2.810		
Total	18, 750.061	396			
Adj. Total	1, 729.966	395			

R^2=.394(adj. R^2=.358)

Conclusion

The findings from the analysis in this study confirmed that the financial soundness of the low-income group showed significant differences by housing tenure type. In particular, the *Monthly rent tenants* showed weakest financial soundness in terms of debt arrears and saving activities. Their financial soundness was worse than those of the NBLS recipients and the near poor group who are regarded as very poor groups. Another notable finding from the analysis of this study was that the housing tenure type and NBLS variables interacted with each other in terms of saving activities and financial stress. This suggests that, for example, the poor monthly rent tenants have more difficulty in saving activities and greater financial stress compared to other people. In conclusion, the results of this study indicate that the government should quickly provide distinct residential welfare policies and programs to improve the financial soundness of poor monthly rent tenants who are increasing more and more now in South Korea.

Acknowledgments

Funding for this paper was provided by Namseouluniversity.

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