Asset-Based Policy in South Korea

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Introduction

South Korean public assistance programs were reshaped as a result of Korea’s major financial crisis in 1997. The traditional program was changed to support the poor’s income regardless of work ability and promote their workforce participation. However, the general consensus is that these programs have not been effective in tackling national poverty.

National discussions on asset building in Korea are linked very closely with the Self-Support Program, a government welfare program that offers job training and employment opportunities at the community level to welfare recipients. A key concern is how to support those who can work and maximize effects of public investment. This has resulted in a focus on asset building for working poor families and ties to work incentive policy, such as the Earned Income Tax Credit (EITC).

Asset building was first discussed at the 56th Korean National Meetings in November 2004. In November 2006, the conference “Toward a New Paradigm in Social Policy: The Potential of Child Development Accounts in Asset-Based Social Policy,” organized by the Korean Labor Institute and Chung Ang University, generated substantial discussion and reinforced interest in asset-based policy in Korea. In March 2007, Mr. Simin Rhyu, Minister of KMHW, delivered a keynote address entitled “Learning from Korea: Innovative social investment strategies for future generations” to American policymakers and policy experts in Washington, DC. In his speech, Minister Rhyu specifically introduced Child Development Accounts as a component of Korean social investment policy aiming at tackling new social risks and promoting development of all households.

Since 2007, a growing number of asset-based programs have been implemented at both national and city levels throughout Korea. CSD research, especially findings on Individual Development Accounts (IDAs) in the United States, has played a role in these developments. In addition, CSD has provided consultation on asset-building policies and programs in Korea to Mr. Simin Rhyu, then Minister of KMHW, Mr. Oh See-hoon, Mayor of Seoul City, and Dr. Seong-gyu Lee, President of the Seoul Welfare Foundation.

The Child Development Account (CDA) program, implemented nationwide by the Korean Ministry of Health and Welfare (KMHW) in 2007, aims to reduce intergenerational transmission of poverty and to boost the national economy through intensive investment in development opportunities for children and youth. Plans are underway to expand the reach of this program.

Several Individual Development Account (IDA) programs have been implemented in major cities to help the working poor accumulate assets to fund long-term development at the individual and household levels. These IDA programs include the Seoul Hope Plus Savings Accounts program launched in Seoul by the Seoul...
Currently, all children aged 0-17 in the child welfare system, including institutional care for children with disabilities, are eligible for CDAs. In addition, since April 2011, children aged 12 whose families receive welfare benefits and reside outside Seoul are also eligible. Local governments plan to select program participants on a quarterly basis, subject to budgetary constraints.

Children and their sponsors save into the Didim accounts, and the government matches deposits at a 1:1 rate up to a monthly limit of 30 USD (exchange rate: 1 USD=1,000 KW). Children and their sponsors can make additional monthly deposits of up to $50 that are not matched. Every participating child has two accounts, a savings account (for their and their sponsors’ deposits) and a fund account (for the government matching funds). At age 18, children will be allowed to access the funds in their CDAs for education, vocational training, housing, micro-enterprise start-up, medical costs, or wedding expenses. Children who are older than 15 years old and have saved for more than five years, however, can make a maximum of two early withdrawals. Early withdrawals may only be used to pay for education or vocational training. Children in the child welfare system who return to their families may continue saving in the account.

Currently, KMHW, Shinhan Bank, the Korean Federation of Children’s Welfare, and local governments have partnered in managing all aspects of the CDA program. The KMHW provides matching funds and other financial support. The budget for the CDA program was $6.3 million in 2010 and $7.3 million in 2011.

Early evaluation results suggest successful implementation of the program. As of 2010, approximately 40,900 children (17,800 in the child welfare institutional care; 1,500 children living without parents; 15,400 in foster care homes; 1,900 in group homes; 2,700 in disability institutional care; 1,600 children who returned to families) are estimated to have CDAs. Total CDA savings exceeded 70 million USD (exchange rate 1 USD: 1000 KW). According to a survey administered by KMHW (2009), the most participants viewed the CDA program positively.

The Korean national government plans to make CDAs available to all children born into households with incomes below the national median—approximately 50% of all Korean newborns. KMHW is currently examining the feasibility of this expansion plan.

Seoul Metropolitan Government

The Seoul Metropolitan Government also implemented a CDA program, Kumnarae Accounts, in April 2009. Seoul residents who have children aged 12 and younger and receive welfare benefits are eligible. Financial education and parental education are provided for the duration of program participation.

Participants can save either $30 or $50 per month for seven years or $70 or $100 per month for five years. With a match rate of 1:1, participants will hold $12,000 plus interest in their accounts at the end of the five- or seven-year term. Savings can be used only for education and vocational training. Matching funds come from both the Seoul Metropolitan Government and the Community Chest of Korea.

Individual Development Accounts

Seoul Metropolitan Government

The Seoul Hope Plus Savings Account program was launched in late 2007 by the Seoul Welfare Foundation in partnership with the Seoul
The Metropolitan Government and the Community Chest of Korea. This three-year pilot project aims to assist working poor families to save for one of three goals: home purchase, education, or micro-enterprise. The first pilot program started with 100 participants, and the Seoul Welfare Foundation had additionally recruited about 13,000 low-income participants for the program as of October 2010.

Each participant is required to deposit up to 200,000 Korean Won (200 USD) per month for three consecutive years to remain in the program and receive matching funds from the Seoul Metropolitan Government and the Community Chest of Korea. With a match rate of 1:1, it is estimated that participants will save up to 14,400 USD plus interest in their accounts by the time the program ends. If participants exit the program early, they can receive the full amount they have saved plus interest, but no matching funds.

The Korean Ministry of Health and Welfare


The Haengbok Kium program is a three-year pilot program that aims to help the working poor save for the future and escape from poverty through asset accumulation. Heads of households who are 18-34 years old with children are eligible if their income is at or below 120% of the poverty line. In 2009, local governments in four regions—Incheon, Gyeungki, Jeonbuk, and Pusan—enrolled about 2,000 participants in the program.

Participants save 100 USD per month and receive a 1:1 savings match provided by the local government (50%) and the Community Chest of Korea (50%). Savings can be used only for long-term development purposes such as housing, education, small business start-up, or vocational training.

Heemang Kium Accounts provide working poor families in the public welfare system with savings matches and working incentives to help them leave welfare. Families on welfare whose earned income from their own work is more than 70% of the minimum cost of living are eligible. Families who leave the welfare system while participating in the program may continue to save until their income exceeds 150% of the poverty line. In 2010, the KMHW recruited about 10,000 participants, and expects to recruit an additional 5,000 in 2011.

Participants save either 50 USD or 100 USD per month for three years. Their saving is matched at a 1:1 rate with funds provided by the Community Chest of Korea. Participants must leave the welfare system at the end of the three-year program to receive the savings match; if they do not leave welfare during this period, they receive only their deposits plus interest. Savings may be used for housing, education for their children, vocational training, or small business start-up. Beginning in 2011, participants will also receive financial education and medical support for two years after completing the program.

Role of Research

A growing body of Korean-language publications on asset building has become available, including articles by CSD researchers, Korean domestic policy experts and researchers, and mainstream media.

Collaborative research on the Seoul Hope Plus Savings Accounts has been conducted by CSD and the Seoul Welfare Foundation since July 2009. This project aims to evaluate the outcomes of Hope Plus Savings Accounts for low-income households in Seoul. Early study results (Kim et al., 2010; Kim, Lee, and Kim, 2011; SWF, 2009; 2010) indicate positive outcomes associated with participation and financial planning.


Conclusion

With the implementation of the CDA program, the Seoul Hope Plus Savings Accounts program and other small scale IDA asset-building pilot programs, there is enormous potential for the development of a universal asset-based policy in Korea. These initiatives are laying the groundwork for continuing research and policy innovation in Korea. In particular, asset-building policy draws continuous attention as a promising alternative to complement the existing public welfare system for the working poor and their children.

The most critical challenge will be reaching all of the poor in Korea, whether they are welfare recipients or the working poor and how asset-building programs can be integrated with
existing anti-poverty policy. In addition, the 2012 presidential election is likely to largely influence scope, direction, and discussion of asset-building initiatives.

Publications

The above policy discussions have begun to generate a body of scholarship on asset building published in Korea and elsewhere. This body of work includes:


International Academic Symposium

The following papers were presented in 2007 at the International Academic Symposium in Seoul, sponsored by the Seoul Welfare Foundation:

Ahn, S.-H. Social investment theory: A compass for the Korean welfare state?

Cheng, L.-C. Building assets for the poor as a strategy for social inclusion.

Kim, Y.-M. Social investment strategy for Korea: Possibilities, issues, and prospects.

Lee, T.-J. The significance and assessment of Taiwan’s asset building system.

Sherraden, M., & Han, C.-K. The social investment state and asset-based welfare: Implications for Korean social policy.


International Seoul Welfare Forum

The papers below were presented in 2009 at the International Seoul Welfare Forum in Seoul organized by the Seoul Welfare Foundation.

Scholars and experts from Singapore, the United Kingdom, and the United States shared their experiences from implementing asset-based policies as an anti-poverty strategy in their countries. Additionally, Song Sung-suk from Seoul Welfare Foundation presented the outcomes and policy implications of Hope Plus Savings Accounts.

Appendix 1: Selected websites for more information


Kumnarae Account: http://welf.seoul.go.kr/seoulwelf/fivewelf/business01_02_02.html

Seoul Hope Plus Account: http://welf.seoul.go.kr/seoulwelf/fivewelf/business01_01_01.html

Heemang Kium Account: http://www.hopegrowing.com/index.jsp

Appendix 2: Selected Media Coverage of Asset-Based Policies in Korea

Ministry of Health and Welfare, April 8, 2011

- Title: Accumulated deposits of the Didim Seed Savings Accounts exceed $70 million.
- URL: http://www.mw.go.kr
- Summary: The Ministry announced that total accumulated savings of the Child Development Accounts (CDAs) for disadvantaged children exceeded $70 million as of April 2011. Additionally, a total of 2,847 children graduated the program, and they received an average $1,210 savings match that was used for housing, university tuition, or vocational training.

Herald Economic News, March 26, 2011

- Title: The Heemang Kium Accounts start
- URL: http://biz.heraldm.com/common/redirect.jsp?category_id=010109020101&news_id=20110325000813
- Summary: The Ministry announced that they will begin the first round of the recruitment for the Heemang Kium Accounts. They will recruit 1,500 participants in the first round. In addition, from 2011, after the participants leave the welfare...
system and complete the program, they can receive education and medical support from the government.

Daejun News, March 8, 2011

» Title: Recruitment cut down in the Heemang Kium Accounts


» Summary: Since the Ministry reduced recruitment in the Heemang Kium Accounts from 10,000 to 5,000, welfare recipients who are eligible for the Heemang Kium Accounts express concerns.


» Title: Eligibility for the CDAs expands

» URL: http://www.adongcda.or.kr

» Summary: The Ministry announced that starting in April 2011, children aged 12 in low-income families who receive welfare benefits and reside outside Seoul are also eligible for CDAs.

Jeju News, October 31, 2010

» Title: Half of the Heemang Kium Accounts participants save for homeownership


» Summary: According to the Jeju Government, more than a half of the participants in Heemang Kium Accounts chose homeownership as a saving goal.

Financial News, October 27, 2010

» Title: Participants in the Heemang Kium Accounts exceed 10,000

» URL: http://www.fnnews.com/view?ra=Sent0801m_01A&corp=fnnews&arcid=101027132617&cDateYear=2010&cDateMonth=10&cDateDay=27

» Summary: The Ministry announced that the participants in the Heemang Kium Accounts exceeded 10,000. In addition, the Ministry decided to support the participants even after they leave the welfare system by providing education and medical expenses.

Newsis, July 26, 2010

» Title: The Incheon City Government expands the Haengbok Kium Accounts


» Summary: The Incheon City Government is recruiting new participants for the Haengbok Kium Accounts. Residents in Incheon City whose head of family is 18-34 years old with children are eligible if income is at or below 120% of the poverty line.

Yeonhap News, January 25, 2010

» Title: The Keungi Government provided 500 participants with Haengbok Kium Accounts


» Summary: The Keungi Government gave Haengbok Kium Accounts to 500 participants who are living at or below 120% of the poverty line and have children under age 18.


» Title: Opportunity for the poor to support themselves through asset-building program

» URL: http://www.mw.go.kr

» Summary: The ministry announced the implementation of an asset-building program for the poor. This three-year pilot program provides 2,000 low-income individuals and families an opportunity to save for restricted purposes, such as purchasing home, going to college, or starting a small business.


» Title: Accumulated deposits of Didim Seed Savings Account exceed $40 million.

» URL: http://www.mw.go.kr

» Summary: The ministry announced that total accumulated deposits of Child Development Accounts (CDAs) for disadvantaged children exceeded $40,000 as of August 2009. Additionally, a total of 35,474 children were enrolled in the

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program, and average deposits per child totaled $1,250 as of that date.


» Title: Ministry of Health, Welfare and Family Affairs announces a new name for CDA “Didim Seed Savings Account”.

» URL: http://www.mw.go.kr/

» Summary: The Ministry announced the new brand name for its CDA: “Didim Seed Savings Account,” which means saving as a stepping stone for children’s hopes and dreams. According to the Ministry, 34,000 children were participating in the CDA program with a total savings of $28.7 million as of November 2008.


» Title: Seoul Metropolitan Government helps families at risk by implementing “Seoul Hope Dream Project.”

» URL: http://www.cbs.co.kr/Nocut/Show.asp?IDX=997953

» Summary: Seoul Metropolitan Government will implement the Seoul Hope Dream Project to help low-income families escape from poverty and accomplish self-support through asset building and other supportive programs. The Government plans to invest $38 million in 2009 and $84 million by 2010.

Joins News (중앙일보), Nov 22, 2007

» Title: Savings in CDAs exceeds $10 million.

» URL: http://article.joins.com/article/article.asp?total_id=2955862

» Summary: Savings in the CDA program exceeded $10 million in November 2007. The CDA program targets disadvantaged children in the child welfare systems such as orphanages, foster care, group homes, and youth-headed families.


» Title: Shinhan Bank Offers Child Development Accounts (CDAs)


» Summary: Shinhan Bank announced that it supports the Child Development Accounts program launched by the government to support low-income children. The Bank will allocate 0.2% of total deposits to CDAs. Shinhan Bank has been selected as a partner bank by the government after a competitive selection process.

New America Foundation, Mar 26, 2007

» Title: Learning from Korea: Innovative Social Investment Strategies for Future Generations

» URL: http://www.newamerica.net/events/2007/learning_from_korea_innovative_social_investment_strategies_for_future_generations

» Summary: Video of Minister of Health and Welfare Rhyu Simin discussing Korea’s CDA policy in a special guest forum with the New America Foundation.


» Title: [The Korean] government announced the launch of the Child Development Accounts (CDA) in April 2007.

» URL: http://www.mohw.go.kr/

» Summary: Minister of Health and Welfare, Rhyu Simin, announced that the Ministry will implement the CDA policy in April of 2007. The government will match the savings deposited by low-income children and their parents and sponsors in order to help them build assets to prepare for their young adulthood. Minister Rhyu emphasized that the CDA program is a new model for social investment policies in Korea in that it was designed based on the principle of government-private sector collaboration. The CDAs will be operated by three partners: the government, Shinhan Bank, and the Korea Welfare Foundation.

Hankyoreh newspaper (한겨레신문), Nov 24, 2006.

» Title: Income maintenance may not be enough in breaking intergenerational transmission of poverty

» URL: http://www.hani.co.kr/arti/society/society_general/174069.html

» Summary: Despite a continued increase in the government budget for public assistance programs since 2000, the number of welfare recipients has not declined. Even among able-bodied welfare recipients, only 4.5% exited from welfare in 2005.
The high number of recipients may indicate the ineffectiveness of the current welfare program that focuses solely on income maintenance. It has been argued that the country needs an asset-building policy to help welfare recipients escape poverty and become economically independent. The only asset-building policy under consideration is the CDA (Child Development Accounts) program that will be implemented in 2007.

Hankyoreh newspaper, Nov 24, 2006

» Title: Asset building policy promotes work incentives for the poor
» URL: http://www.hani.co.kr/arti/society/society_general/174085.html
» Summary: An interview with Michael Sherraden was featured in this article. Key questions center around the theory of asset building, its adaptation to the Korean context, and its impact on Korean anti-poverty efforts.

The Korea Herald, Aug 22, 2006

» Title: Government expands welfare investment for needy children
» URL: http://www.koreaherald.co.kr/SITE/data/html_dir/2006/08/22/200608220041.asp

Hankyoreh newspaper (한겨레신문), Feb 5, 2006.

» Title: Cash support available for the working poor
» URL: http://www.hani.co.kr/arti/society/rights/100023.html
» Summary: The Ministry of Finance and Economy announces that the government will start its IDA program in 2007 and start its EITC in 2008. The goal of these programs is to narrow the extreme economic disparity. Both programs will target working poor households with earned income. Matched savings for the poor in the IDA program will be supported by both government and private funds.

Hankyoreh newspaper (한겨레신문), Jun 3, 2005.

» Title: The number of welfare recipients will increase by 60,000.
» URL: http://www.hani.co.kr/
» Summary: The Minister of Finance and Economy announced its “current economic disparity and policy agenda” at the national vision workshop. According to the announcement, the government will increase the number of people eligible to receive welfare by 60,000, expand the number of working poor eligible for the self-support program from 20,000 to 50,000, and implement an asset-building demonstration program in 2006.


» Title: Government supplements savings for the poor likely to double over three years
» URL: http://www.hani.co.kr/
» Summary: At the 56th National Meeting, the Korean government announced several anti-poverty approaches that are expected to be implemented starting in 2006. Asset building for the poor and an EITC are included as new alternatives for poverty alleviation. The demonstration of the asset-building program is planned to start in 2006 and last for three years.


» Title: Encouraging the poor to work and save
» URL: http://www.hani.co.kr/
» Summary: The Korean government proposed an EITC program, an asset-building program, and a job creation program for the poor. The 2006 anti-poverty plans will serve the purpose of attracting the poor to the labor market. EITC and asset-building programs for the poor have made a significant impact in the US and some European countries.