

# KICCE POLICY BRIEF

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## The Change in the Cash Benefit System for Families with Infants according to the Introduction of Parental Benefits in Korea

### I. Background

**Since the beginning of 2002, the total fertility rate (TFR) in South Korea has fallen below 1.3. The phenomenon of lowest-low fertility, defined as TFR below 1.3, persists.**

- In 2018, the TFR fell below 1 and was 0.81 in 2021.<sup>1</sup>
- In 2020, a dead cross population occurred in which the number of deaths was higher than that of births. Due to the pandemic, the number of foreigners entering Korea has also decreased. For these reasons, the total population dropped for the first time in 2020.<sup>2</sup>

**In the past, the expansion of childcare services was at the center of the childcare policy agenda's response to low fertility, but recently, cash benefits and income support policies for families with children have become a critical policy agenda.**

- The Fourth Basic Plans on Low Birth Rates in Aging Society (2021-2025) focused on intensive investment in infancy as a policy priority, and in 2022, infant allowance was introduced as part of this policy.<sup>3</sup>
- In 2018, a child allowance was introduced, and the age at which parents could receive a child allowance gradually increased.

**The new government announced the introduction of parental benefits, which are a payment of one million KRW per month to children aged 0 years from 2024.**

- In 2023, 700,000 KRW per month for 0-year-olds and 350,000 KRW per month for 1-year-olds, and from 2024, one million KRW per month for 0-year-olds and 500,000 KRW per month for 1-year-olds will be given.<sup>4</sup>

**To reduce the burden of childbirth and childcare by raising the level of support for infancy and to compensate for lost income, parental benefits were introduced.**

- Parents prefer to raise their children at home for one or two years after childbirth, however, it is not easy for parents to take care of their children at home for more than a year without a career break. Due to the parental leave system, which is based on employment insurance and a family unfriendly corporate culture, many parents are unable to use parental leave. That is, there

1. Statistics Korea press release (August 24, 2021). Birth Statistics 2021.

2. Statistics Korea press release (February 24, 2021). Birth and death statistics: Population Survey 2022.

3. Republic of Korea government (2021). The Fourth Basic Plans on Low Birth Rates in Aging Society.

4. Ministry of Health and Welfare press release (August 19, 2022). Work plan report of the ministry of health and welfare in new government.

is an extensive blind spot where parental leave cannot be used. In addition, the real wage replacement rate and the upper limit for parental leave benefits in Korea are relatively low. In Korea, the rate of use of parental leave by parents of children born in 2020 was only 24.2%.

**It is necessary to identify the context of changes in the rapidly expanding cash benefit system and to clarify the institutional characteristics of parental benefits in the context of changes in the cash benefit system.**

## II. Development of a cash benefit policy for families with infants

**The first cash benefit for families with children in South Korea is the child home care allowance.<sup>5</sup>**

- The child home care allowance introduced in July 2009 was paid to parents of low-income families who were not using childcare services and who had children under 24 months; 100,000 KRW was paid out per month.
- With the introduction of universal free childcare in 2012, a child home care allowance was paid to all parents with children under 7 who did not use childcare services.

**The child allowance was introduced to strengthen state responsibility for childcare.<sup>6</sup>**

- The child allowance was introduced as a quasi-universal form of payment in September 2018, and 100,000 KRW was paid out per month for the ninth quintile of families with children under 6 years old through a means test.
- To improve the inefficiency of the means test and to strengthen the cash benefit support for children, the child allowance was paid universally to all children under 6 years old from April 2019.
- From April 2022, child allowances can be received for children under the age of 8.<sup>7</sup>

**The infant allowance was introduced as part of an intensive investment policy for infancy.<sup>8</sup> It was intended to strengthen parents' right to free choice. Parents who receive an infant allowance can choose between childcare services and child home care.**

- For the infant allowance, 300,000 KRW is paid out per month for children born in 2022.
- If parents use a childcare facility or a full-day childcare service, it is paid in the form of a voucher, and if they care for their children at home, it is paid in cash.

**With the exception of child allowances, cash benefits for families with children were developed in relation to the universal free-childcare system.**

- With the introduction of free childcare, the child home care allowance was proposed with the intention of ensuring parents' freedom not to use childcare services.
- The infant allowance system was set up in a way that does not violate the universal free-childcare system. In other words, the infant allowance was designed so that parents could choose between childcare services and cash benefits, which are other payment forms of benefits within the universal free childcare system.

5. Song, D. Y & Park, E. J. (2019). An Institutional Congruence Analysis of Child Home Care Allowance: Focusing on Comparison between Korea and Germany. *Journal of Critical Social Welfare*, (64), 93–135.

6. Lee, K. & Min, I. (2018). Child Allowance and Labor Supply of Married Women: A Microsimulation Approach, *Survey Research*, 19(2), 25–49.

7. Ministry of Health and Welfare (2022a). Guidance on Implementing the Child Allowance.

8. Ministry of Health and Welfare (2022b). Guidance on Implementing the Infant Allowance.

### III. Changes in the cash benefit system following the introduction of parental benefits

**Cash benefits for families with children were divided into the child allowance and child home care allowance until 2021.**

- For children under 7, it was possible to choose between the child home care allowance and childcare subsidies while receiving the child allowance.

**In 2022, with the introduction of the infant allowance, the cash benefit system was divided by age. The existing cash benefit system is implemented in the same way from the age of 2, but children under the age of 2 receive an infant allowance.**

- Children born in 2022 receive infant allowances in the form of vouchers or cash depending on the use of childcare services.

[Table 1] Cash benefit systems for families with children in 2021 and 2022

Unit: 10,000 KRW

2021				2022					
Age		0 years	1 year	2-7 years	Age		0 years	1 year	2-7 years
Child Allowance		10 per month			Child Allowance		10 per month		
Childcare Center	Unused	Child Home Care Allowance			Childcare Center	Unused	Cash 30 per month	Child Home Care Allowance	
		20 per month	15 per month	10 per month				10 per month	
Childcare Center	Used	Childcare Subsidy (Voucher)			Childcare Center	Used	Voucher (Childcare Subsidy) 50 per month	Childcare Subsidy (Voucher)	
		50 per month	50 per month	28 ~ 36 per month				28 ~ 36 per month	

Source: Ministry of Health and Welfare (2022b). Guidance on Implementing the Infant Allowance.

**As parental benefits are paid to children under the age of 2 from 2023, families with infants under the age of 2 will no longer receive infant allowances, but parental benefits.**

- Families with infants under the age of 2 receive parental benefits while receiving a child allowance.
- Recipients of the infant allowance are not eligible for child home care allowance, and recipients of parental benefits are not either.
- Parents can choose methods of childcare, such as childcare facilities, childcare services, or childcare at home, and pay the expenses with parental benefits.

[Table 2] Cash benefit system for families with children after 2023

Unit: 10,000 KRW

After 2023				
Age		0 years	1 year	2-7 years
Child Allowance		10 per month		
Childcare Center	Unused	Parental Benefit		Child Home Care Allowance
		70 per month (2023)	35 per month (2023)	10 per month
Childcare Center	Used	Parental Benefit		Childcare Subsidy (Voucher)
		100 per month (2024~)	50 per month (2024~)	28 ~36 per month

Source: 1) Ministry of Health and Welfare (2022b). Guidance on Implementing the Infant Allowance.

2) Ministry of Health and Welfare press release (August 19, 2022). Work plan report of the ministry of health and welfare in new government.

## IV. Policy suggestions

### **The institutional characteristics of parental benefits should be specified.**

- The parental benefit is similar to the infant allowance in that it is a policy to give parents a free choice, regardless of whether they choose childcare at home, unlike the child home care allowance.
- Parental benefits can alleviate the financial burden on parents and compensate for income reduction in the household, which is expected to further strengthen the right to care for parents and children. This is not the same as the purpose of the infant allowance, which was introduced as part of the intensive investment in infancy.

### **A legal basis should be established considering institutional coherence.**

- As parental benefits cannot be implemented based on the current Child Allowance Act, it is necessary to prepare a legal basis by amending the law or legislating a new one.

### **It is necessary to prepare countermeasures to consider the adverse ripple effect of parental benefits.**

- While the proportion of childcare center use will decrease, child-rearing at home may increase because of parental benefits. To ensure that parental benefits do not lead to quality deterioration in services, public childcare services under the age of 3 should be improved and expanded. It is important that the quality of childcare services should be continuously improved so that parents can choose freely.
- For parental benefits to be used for policy purposes and for parents to raise their children well at home, diverse childcare support services are needed. This requires providing parents with sufficient information about parenting. In addition, it is necessary to provide parental counseling or various parenting programs.

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