

## **Pension reform and long-term old age income security: The case of Taiwan**

Tsung-hsi Fu

Assistant Professor

Department of Social Welfare, National Chung Cheng University (Taiwan)

### **Abstract**

Taiwan's Labour Insurance covers 85 per cent of the employed population, and provides a lump-sum payment to the insured at retirement. With the extension of life expectancy and today's uncertain economy, the lump-sum payment system is deemed inadequate for long-term income security after retirement. The government proposed to reform it and to establish a pension system in 1994. However, data from large-scale sample survey show that the majority of them prefer a lump-sum payment rather than pensions. The government accomplished the unpopular reform in July 2008, but made a few important compromises. These include providing the option to the insured to claim a lump-sum payment based on old regulations, and promising to make up the difference between the sum of pension benefits an insured actually receives and the entitlement he or she had based on old regulations. The goal for improving labours' long-term old age income security thus achieved only partly. In addition, Taiwan introduced the National Pension Insurance to provide old age benefits to those who are not in the labour market. This paper reviews Taiwan's recent pension reform and analyses its impact on older people's income security. It concludes by emphasising that older people's long-term income security should be the key concern for pension reform.

Keywords: risk, pension reform, old age, income support, social protection

The coming of a risk society has been widely acknowledged in social science. Its impact on social welfare system has also become an important issue in social policy discussions (Esping-Andersen 1999; Bonoli 2006). It is argued that traditional welfare state protects male bread-winners who have long-term and stable jobs more than new social risk groups such as single-parent family, the divorced, youth people, and temporary and contract workers, and therefore only has limited effect upon reducing poverty risk among people in these groups (Bonoli 2006).

Issues related to old age income protection has not been discussed intensively in the new social risk discussions. This might be due to the fact that most economic affluent countries have established generous pension system and old people in many countries are better off compared to the young generation. In addition, many people see old age as an 'old' social risk arose from industrial societies (Armingeon 2006; Huber & Stephens 2006). However, changes in family and labour market structures have altered people's life course. Retirement, instead of being a well-planned event, has become an unpredictable and individualised process for many people (Vickerstaff 2006). Older people therefore have to face higher risks in financial situation after retirement. People in general support the notion of a responsible state to provide protection against risks, and do not offer much trust on commercial insurance (Taylor-Gooby 2004).

It is important to bring older age into discussions on new social risks. This paper takes Taiwan as a case study to discuss its recent pension reform and its impact on old people's long-term income security. This paper will first discuss older people's poverty risk generally. It then introduces Taiwan's recent reform and analyses its potential impacts on older people's long-term income security, followed by concluding remarks.

### **Mechanism for older age income security and older people's poverty risk**

Population ageing has become a severe challenge to all developed and developing countries. In Western Countries, population ageing and the maturity of pension system together have led to high growth of pension expenditure. Since mid-1990s, pension expenditure has accounted for more than 10 per cent of GDP averagely in 23 high

income OECD countries (Palacios and Pallares-Miralles, 2000). It is now the largest expenditure for social protection in all European Union member states except Ireland (European Unions 2002).

High levels of pension expenditure have reduced poverty risk among older people substantially. Table 1 shows subjective welfare evaluation in 14 European countries. As is illustrates, there are big differences in older people's subject financial evaluation among these countries. In countries including Germany, Denmark, Luxemburg, and Finland, the proportion of older people feeling 'unable to make ends meet' is lower than 10 per cent. However, in Ireland and Southern European countries, more than one in five older people feel having financial difficulties. In ten out of the 14 countries included in table 1, the proportions of elderly feeling having financial difficulties are lower than non-elderly. Generally speaking, in high income European countries, thanks to generous pension system, poverty risk is lower for older people than for the young.

Table 1: Subject Welfare Evaluation

	Unable to make ends meet			Not satisfied with financial situation		
	All	Non-elderly	Elderly	All	Non-elderly	Elderly
Austria	0.1771	0.1833	0.1425	0.0739	0.0805	0.0461
Belgium	0.1522	0.1576	0.1237	0.1603	0.1628	0.1503
Germany	0.0712	0.0794	0.0374	0.1618	0.1825	0.0868
Denmark	0.1130	0.1234	0.0559	0.0943	0.1058	0.0477
Spain	0.3519	0.3653	0.2842	0.3776	0.3995	0.2911
France	0.1860	0.1976	0.1214	0.2156	0.2358	0.1317
Finland	0.2076	0.2294	0.0843	0.2080	0.2453	0.0602
Greece	0.5440	0.5299	0.6181	0.3683	0.3453	0.4507
Italy	0.1817	0.1796	0.1922	0.3107	0.3139	0.2982
Ireland	0.2856	0.2949	0.2146	0.2856	0.3072	0.1812
Luxemburg	0.0745	0.0840	0.0175	0.1213	0.1335	0.0667
Netherland	0.1306	0.1274	0.1515	0.0957	0.0975	0.0868
Portugal	0.3767	0.3667	0.4317	0.3400	0.3285	0.3877
UK	0.1868	0.1991	0.1211	0.1972	0.2153	0.1316

Source: Georges A. Heinrich(2000). Affluence and Poverty in Old Age: New Evidence from the European Community Household Panel. p.25, CEPS/INSTEAD

In western countries the social security system provides the main source of income for the majority of older people. However, in many Asian countries the family is still the

most important mechanism for providing income security for older people. Due to high speed of population ageing and decline in traditional family functions, the reliability of family in old age income support is in question.

The trend of change in older people's financial resources offers a clearer picture about the change of intra-family financial support. Table 2 shows a clear trend that the importance of children's financial support to older people has been decreasing throughout the past decade and half. The percentage of older people relying on their children for living decreased from 65.8 per cent in 1986 to 46.5 per cent in 2005, a drop of 29 per cent in 19 years. It is worth noting that the 2000 and Survey made a change to the use of telephone interviews, which might underestimate the proportion of older people living alone, and overestimate the proportion of older people living with relatives. Taiwanese authors who argue that the traditional family function for supporting their aged family member is fading away often cite these data to prove their argument. Although these data do not provide any direct evidence about the change of the absolute level in intra-family transfer, they do show that older people's reliance on their family has been decreasing.

Table 2 Main sources of living expenses of people over 65 years old in Taiwan (%)

Item	Total	Children	Saving & Investments	Pensions	Own earnings	Spouse's earnings or pensions	Social assistance & Allowances	Others	
Year									
1986	100.00	65.81			29.77		1.24	3.18	
1987	100.00	64.00			31.68		1.70	2.45	
1988	100.00	61.82			34.88		1.07	2.25	
1989	100.00	58.37	15.29	11.87	8.23	2.72	1.23	2.29	
1991	100.00	52.37	15.87	16.07	8.10	2.68	1.57	3.33	
1993	100.00	52.30	17.25	14.76	6.60	4.25	1.61	3.24	
1996	100.00	48.28	13.15	17.55	7.30	4.34	6.37	3.00	
2000	100.00	47.13	9.26	15.39	13.72 <sup>3</sup>	--	12.86	1.64	
2005	Total	100.0	46.48	9.22	13.04	10.97	3.52	15.97	0.28
sex									
	Male	100.0	33.93	11.48	21.93	15.76	0.66	15.69	0.11
	Female	100.0	59.15	6.95	4.14	6.17	6.37	16.24	0.46
age									
	65-69	100.0	43.21	8.43	8.87	20.87	6.83	10.70	0.49
	70-74	100.0	46.81	10.53	11.59	10.40	2.98	17.06	0.16
	75-79	100.0	46.51	9.36	16.92	5.93	1.89	18.35	0.35
	80+	100.0	51.37	8.55	17.71	0.78	0.54	20.63	0.04

Sources: Survey of Older people's Living Status in Taiwan, Taipei: Department of Interior Affairs, 1997, 2000, 2006

Changes in labour market have resulted in workers' unstable economic situations, thus undermining the young generation's ability to support their parents in many Asian countries. In addition, financial crisis in the late 1990s and recent financial tsunami have sent clear signals to people in this part of the world that the financial market is a reliable mechanism for keeping themselves away from poverty risk in old age. Under these circumstances, many Asian countries, including Taiwan, have been putting much effort in improving old age income security system. The followings of this paper will take Taiwan as a case study to discuss the development of pension reform and its impact on old people's long-term income security.

## **Reform of Taiwan's old age income protection system**

Taiwan's old age income protection system was established in as early as the 1950s. The Labours' Insurance (LI) scheme and the Military Servicemen's Insurance (MSI) scheme were introduced in 1950, and the Government Employees' Insurance (GEI) scheme was in place in 1958. These schemes all provide old age benefits to the insured. The GEI scheme merged with the School Staffs' Insurance (SSI) scheme into the Government Employees' & School Staffs' Insurance (GESSI) scheme in 1999. By the end of 2005, the numbers of the insured of the LI and the GESSI schemes reached 9.12 million, or 65.6 per cent of the 20-60 year-old population (Taiwan Ministry of Interior Affairs, 2006; Taiwan Bureau for Labours' Insurance, 2006; Taiwan Central Trust of China, 2006). The coverage for social insurance schemes in Taiwan has largely extended in the last fifty years. However, eligibility and type of old age benefits for these schemes rarely changed until recently. Before the 2008 reform, the Labour Insurance scheme provided a lump-sum payment rather than regular benefit for retirement; and people not-in-the-labour-market are not covered by social insurance old age income protection schemes. These situations, coupled with trends of low fertility rate and population ageing, are important backgrounds behind the reform of Labour Insurance scheme and the establishment of the National Pension scheme in 2008.

The 2008 reform of the Labour Insurance scheme changed the lump-sum old age benefit into a regular pension, for people who have contributed to the scheme before the reform was implemented can choose to stick to the old mechanism for old age benefit. In addition, the National Pension Insurance scheme was in place in 2008 to cover those not in the labour market, providing benefits for old age, disability, and survivors. Up to this point, the whole working population has been covered by social insurance pension system except for farmers who enjoy a non-contributory-non-means-tested old age benefit.

In the meantime, several non-contributory old age benefits were introduced and expanded due to severe political competition between political parties during the 1990s. There are four major tax-funded non-contributory old age benefits in Taiwan,

including the Middle-Low-Income Elderly Allowance, the Old Farmers' Allowance, the Old Age Allowance, and the Older Aborigine's Allowance. These schemes together have caused serious financial burden to the government.

In addition to public old age income protection schemes discussed above, employers are required by the law to provide retirement benefits to the employees in Taiwan. The mandatory occupational retirement payment scheme was introduced in 1984, and was changed into a portable individual saving account in 2004. Employers are required by law to make contribution no less than six per cent of the employee's wages into his/her account, and employees can top up contribution on a voluntary basis. Taiwan's old age income protection schemes are summarised in table 3.

Table 3. Taiwan's old age income protection schemes

Type of schemes	Name of scheme	Eligibility	Type of benefit	Benefit level	Source of finance	Time of establishment
Social insurance	Labour Insurance	Men aged 60 or over and women aged 55 or over and have contributed for more than one year; or aged 55 or over and have contributed for more than fifteen years; or contributed at the same unit for more than 25 years.	Lump-sum payment/ regular payment	Lump-sum: Depended on years of contribution, maximum 45 times of monthly contribution wages  Regular: depended on insured wages and years of contribution	Contribution paid by the government, the insured, and the employer	1950/2009
	National Pension Insurance	Aged 25-64 excluded from other social insurance	regular payment	Depended on years of contribution	Contribution paid by the government and the insured	2008
	Government Employees' and School Staffs' Insurance	Aged 55 or over and have contributed for more than 15 years	Lump-sum payment	Depended on years of contribution, maximum 36 times of monthly contribution wages	Contribution paid by the government, the insured, and the employer	1958
Social allowance	Old Farmers' Allowance	Older farmers	Monthly payment	NT \$6,000 <sup>1</sup> per month	General budget	1995



Social Assistance	Middle-Low-Income Elderly Allowance	Low income elderly	Monthly payment	NT \$6,000 or 3,000 per month	General budget	1993
	Older Aborigine's Allowance	Aborigine aged between 55-64 not in the upper income levels	Monthly payment	NT \$3,000 per month	General budget	2002
Occupational scheme	Labour Pension	Employees meet requirements for retirement	Lump-sum payment/ regular payment	Depended on fund contributed and rates of return	Employers' contribution	2004
	Government Employees' and School Staffs' Retirement Fund	Government employees and school staffs meet requirements for retirement	Lump-sum payment or monthly payment	Depended on years of contribution; maximum income replacement rate seventy per cent	Contribution by employees and the government/emploer	1995

## Impact of recent pension reform on older people's long-term income security

Due to reforms and extensions of old age income protection system, the number of people receiving pension has increased dramatically since the early 1990s, as shown in figure 1. The largest part of the increase is due to extension of tax-funded old age benefits (Fu 2008).

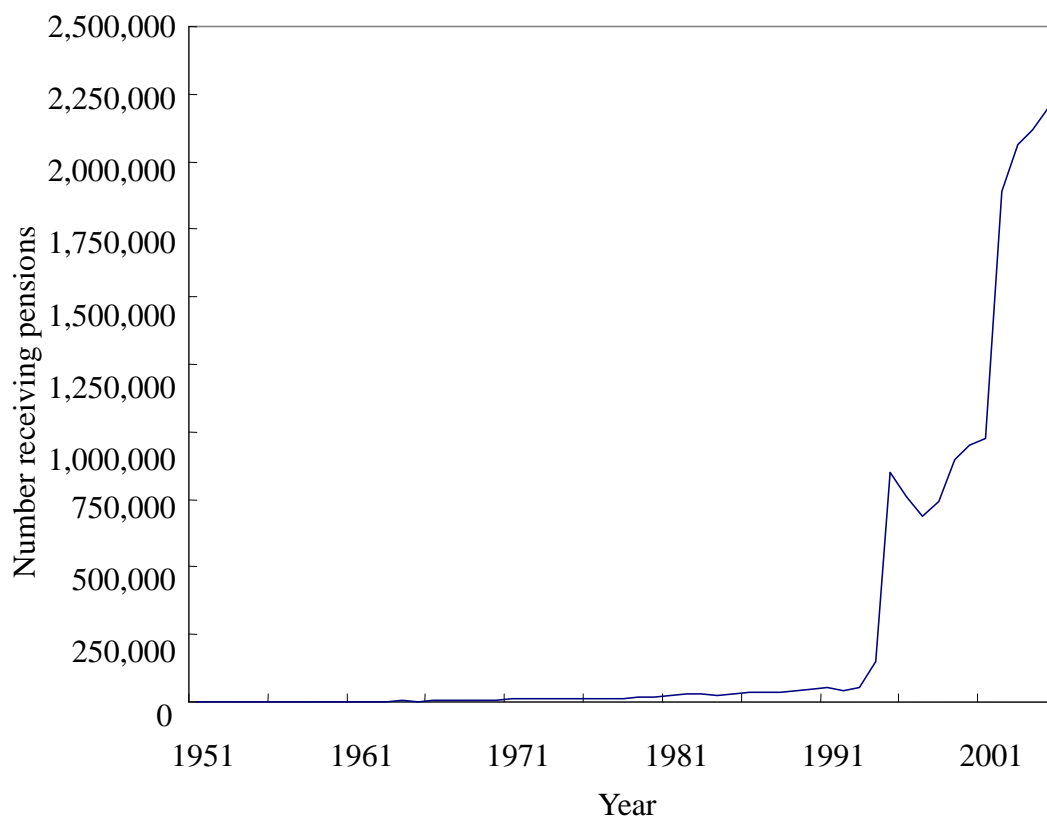


Figure 1. Number of people receiving pensions, Taiwan, 1950-2006

Source: Fu 2008

Despite improvement in coverage, benefit levels of the Taiwanese old age income protection system are low, with exceptions for schemes for government employees and military personnel. Benefit levels for non-contributory old age benefits are general NT \$3,000<sup>2</sup> or 6,000 per month. Average level of old age benefits of the Labour Insurance scheme is also low despite it has matured. Table 4 presents average

---

<sup>2</sup> US\$1= NT\$33.5

levels of old age benefit for the Labour Insurance scheme.

Table 4. Average Months and Unit prices of Old-age, 1998-2007

Unit: NT\$

Year	Average amount (per case)	
1998	539,503	
1999	604,151	
2000	658,273	
2001	729,887	
2002	868,970	
2003	877,183	
2004	914,473	
2005	964,122	
2006	Total	1,022,863
	Sex	
	Male	115.27
	Female	87.00
	Age	
	35—39	104.03
	40—44	123.89
	45—49	142.99
	50—54	132.99
	55—59	94.52
	60—64	97.49
	65 and over	67.14

Source : Taiwan Bureau of Labour Insurance, 2008; Taiwan Council for Labour Affairs, 2007.

As indicated earlier, before the 2008 reform the Labour Insurance scheme only provided lump-sum payment for old age. It is obvious a lump-sum payment is not a good mechanism for long-term old age income security. In 2007 for example, the average one-off payment for retirement is NT1.02 million dollars, and the average age for claiming it was 57 years old. According to official projections, life expectancy at

the age of 57 are 23.66 years for men and 27.72 for women in 2007 (Taiwan CEPD 2008). It was almost impossible for them to rely on this benefit solely for such a long period of time. This was the main reason that the government conducted the 2008 reform and introduced regular payment system.

Government's proposals to change the lump-sum payment system to pensions were unpopular as the majority of workers preferred a lump-sum payment rather than pensions. The government accomplished the unpopular reform in July 2008, but made a few important compromises. These include providing the option to the insured claim a lump-sum payment based on old regulations, and promising to make up the difference between the sum of pension benefits an insured actually receives and the entitlement he or she had based on old regulations. The purpose is to provide a strong incentive for older people to go for the new mechanism, which provides pensions and is considered a better strategy for long-term income security after retirement. Despite the government's intensive advocacy and the obvious financial advantageous, the government is not too optimistic on the popularity for the insured to opt for pensions rather than lump-sum payment. Therefore, it will take decades for old age benefits from the Labour Insurance scheme to have substantial effect on improving older people's long-term income security.

In addition to old age benefit provided the Labour Insurance scheme, all employees have an individual saving account. This is the Labour Retirement Pension (LRP) scheme, an occupational pension scheme financed by their employers. Before the implementation of the LRP scheme in 2005, only those who had served for a same employer for more than 15 years could receive a lump-sum benefit at retirement. Due to the fact that most of workers in Taiwan work for small or medium enterprises that

do not survive for long, only a small proportion of workers could actually get this benefit. The 2005 reform changed the LRP scheme into a portable individual saving account to insure that all workers can get this benefit at retirement. According to the new regulations, employers have to contribute six per cent of an employee's wages in to his/her account, and workers can voluntarily top up the contribution.

Despite its good intention on protecting old people's long-term income security, there are two major worries. First, there are still about forty per cent of workers chose to stick to old mechanism expecting to receive a lump-sum payment at retirement. Second, only five per cent of employees made voluntary top up to their account (Taiwan Council of Labour Affairs 2008). Workers' preference on lump-sum payment and unwillingness to contribute for the retirement account together will limit the effect of the LRP scheme on protecting old people's long-term income security.

The National Pension Insurance scheme, on the other hand, provides pensions for those who were not covered by social insurance pension schemes. The implementation of this scheme has encountered severe challenges. Most importantly, the administration has found it difficult to persuade the insured, those who are not having a wage, to contribute to the scheme. According to official data, by the end of February 2009, only 51.87 per cent of the insured paid their share of contributions (Fu 2009). The insurers' failing to pay full contributions will result in reduction on pension benefit. It is thus an important task for the administration to improve the appropriation rate to achieve the goal of this scheme.

## References

- Armingeon, K. (2006). 'Reconciling competing claims of the welfare state clientele', in K. Armingeon and G. Bonoli (eds.), *The politics of post-industrial welfare states: adapting post-war social policies to new social risks*. London: Routledge.
- Bonoli, G. (2006). 'New social risks and the politics of post-industrial social policies', in K. Armingeon and G. Bonoli (eds.), *The politics of post-industrial welfare states: adapting post-war social policies to new social risks*. London: Routledge.
- Chou, K., Chou, N. and I. Chi (2004). 'Preventing Economic Hardship Among Chinese Elderly in Hong Kong', *Journal of Aging & Social Policy*, 16:4, 79-97.
- Esping-Andersen, G. (1999). *Social Foundations of Postindustrial Economies*. New York: Oxford University Press.
- European Commission (2002). *Social Protection in Europe 2001*. Luxembourg: Office for Official Publication of the European Communities.
- Fu, T (2008). 'Do State Benefits Impact on Intergenerational Family Support? The Case of Taiwan', *Journal of Intergenerational Relations*, Vol.6, No.3, pp.339-354.
- Fu, T. and Rhidian Hughes (eds) (2009), *Ageing in East Asia: Challenges and policies for the twentieth-first century*. London: Routledge.
- Heinrich, G. A. (2000). Affluence and Poverty in Old Age: New Evidence from the European Community Household Panel. CEPS/INSTEAD.
- Huber, E. and Stephens, J. D. (2006). 'Combating old and new social risks', in K. Armingeon and G. Bonoli (eds.), *The politics of post-industrial welfare states: adapting post-war social policies to new social risks*. London: Routledge.
- Palacios, R., & Pallares-Miralles, M. (2000). *International patterns of pension provision*. Washington, D.C.: World Bank Social Provision Discussion Paper, No. 0009.

- Taiwan Bureau of Labour Insurance (2008) *Labor Insurance Statistics*, Taipei: Bureau of Labor Insurance. In Chinese.
- Taiwan CEPD (Council for Economic Planning and Development) (1977-2005) *Survey on Human Resources*, Taipei: CEPD. In Chinese.
- Taiwan Council of Labour Affairs (2008). Taiwan Yearbook of Labor Statistics. Taipei: Council of Labour Affairs.
- Taiwan Ministry of Interior (1997). Report on Survey of Citizens' Living Condition. Taipei: Ministry of Interior. In Chinese.
- Taiwan Ministry of Interior (2006). Report on Survey of Older People's Conditions. Taipei: Ministry of Interior. In Chinese.
- Taylor-Gooby, P. (ed.) (2004). *New risks, new welfare: the transformation of the European welfare state*. Oxford: Oxford University Press.
- Vickerstaff, S. (2006). 'Life course, youth, and old age', in Taylor-Gooby, Peter and J. O. Zinn (eds.), *Risk in social science*. Oxford: Oxford University Press.