

Pension Reform in the Context of Aging Population and Reform Blockades: The Case of Taiwan¹

by

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1. Introduction: Pension Reform in Late-Developed Countries

While certain pension schemes have been in operation for decades in the industrialized countries, they are currently undertaking different degrees of “retrenchment” policy reforms which aim to stabilize the worsening public financial situation and to strengthen the sustainability of the state pension schemes (Bonoli 2000; Hinrichs 2000; Pierson 1994; 1996; Reynaud 2000; VDR 1999). The increasing demographic pressure in these countries is the main basis for the reform of the public pension schemes. On the other hand, developing countries, where public pension schemes have been rudimentarily established, are facing difficulties as regards political options when it comes to deciding which system and institutional setting would best fit the specific socio-economic circumstances of the individual societies (regional overview: Asher 1998; Beattie 1998; Müller 2000; Müller et al. 1999; Mesa-Lago 1994; 1997a; 1997b; 1998; Huber/Stephens 2000). These choices rely heavily on the evaluation of past experiences the industrialized countries have had with competing pension schemes.

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2. The Ageing of Population in Taiwan: The demographic change in Taiwan and its consequences to Old-Age Poverty

The coming of population aging in most East-Asian countries is more speedy than European countries. The aging population has increase from only 2.5% in 1956 to 8.6% in 2000. According to the population estimation of the Committee for Economic Construction (CEC), Administrative Yuan, the aged population above 65 in Taiwan will increase from 2,73 million (11.6%) in 2014 to 3,92 million(16,54%) in 2021. The aged population will account for 20% of the population until 2026. This ratio will increase to one-third until 2051. According to this estimation, the aging population will reach to 29.8% in 2051.

According to another estimation of the CEC (2004), the population of the aged people above 65 and that under 15 is 3.2 million respectively in 2017. After that, the population of aged people will outnumber that under age 15. The dependence ratio between aged and productive population will increase from 13% in 2003 to 23.45% in 2021. It means that every 7.7 young people have to care an elderly in 2003. This ratio will increase to 4.26 in 2021 and 2.65 in 3031. The caring burden shifts to the shoulders of working age populations (Table 3).

Table 1 The Three Phrases of Age and Population Structure in Taiwan

Year Age	1980		1990		2004		2014		2026		2051	
	Population	%	Population	%	Population	%	Population	%	Population	%	Population	%
above 65	798	4.4	1,336	6.5	2,137	9.4	2,734	11.6	4,824	20.4	6,947	35.5
0~ 14	5,731	31.6	5,406	26.3	4,397	19.3	3,451	14.7	2,837	12	1,746	8.9
15~ 64	11,607	64	13,814	67.2	16,228	71.3	17,308	73.7	15,947	67.6	10,896	55.6

Resource: Council for Economic Planning and Development, Administrative Yuan (2004) , The Estimation of Population in Republic of China, Taiwan, 2004-2051 , P. 15 .

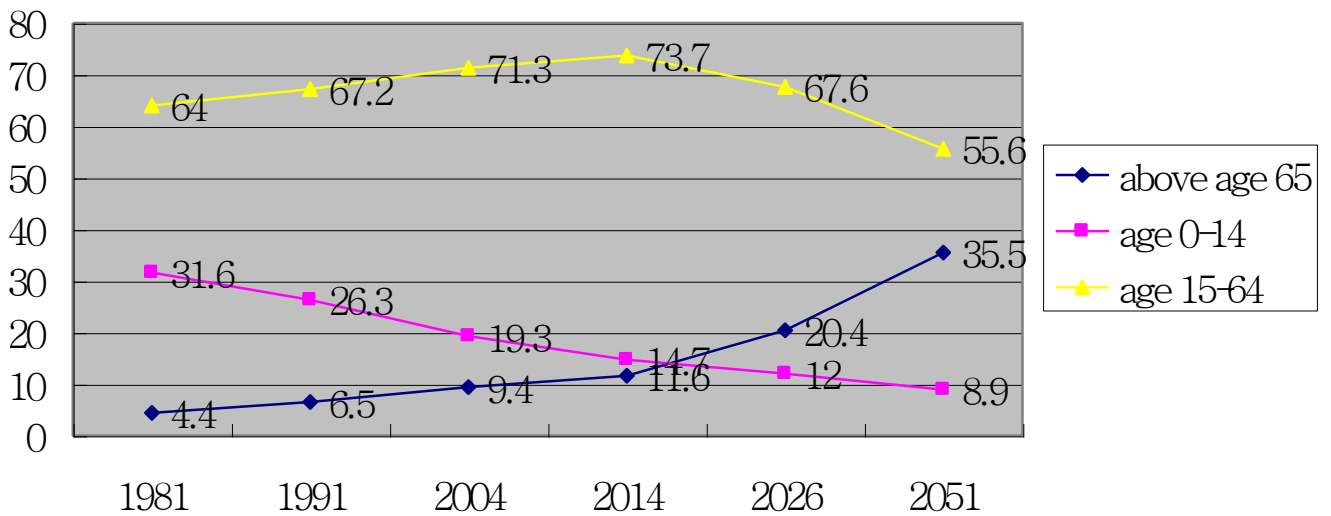


Figure 1: The Three Phases of Demographic and Age Structure in Taiwan

Resource : Council for Economic Planning and Development, Administrative Yuan (2004) , The Estimation of Population in Republic of China, Taiwan, 2004-2051 , P. 15 .

Table 2 The Population Structure of Taiwan: Mid-term Estimation

Year	Ages			Populations (Unit: Thousands)			Structure of Population (%)			Dependence Ratio	
	0~14 (1)	15~64 (2)	Above 65 (3)	0~14	15~64	Above 65	Children Population (1) / (2*100)	Old-Age Population (3) / (2) *100			
2004	4,397	16,228	2,137	19.32	71.30	9.39	27.09	13.17			
2011	3,696	17,164	2,463	15.85	73.89	10.56	21.54	14.35			
2021	3,079	16,701	3,916	12.99	70.48	16.52	18.43	23.45			
2031	2,586	15,039	5,657	11.11	64.60	24.30	17.19	37.61			
2041	2,092	13,153	6,610	9.57	60.18	30.25	15.19	50.26			
2051	1,746	10,896	6,947	8.91	55.62	35.47	16.02	63.76			

Resource: Council for Economic Planning and Development, Administrative Yuan (2004) , The Estimation of Population in Republic of China, Taiwan, 2004-2051 , P. 16.

The reasons for the aging population are manifold. Except for the length of the life expectancy, one of the most important factors is the low fertility rate. Table four shows, the most aging countries, Italy and Japan for example, also have lowest fertility rate. Once the fertility rate is continuing under the replacement rate, the demographic structure will experience an unbalanced structure and have the negative consequences for the dependence ratio.

Table 3 □ International Comparison of Old-Aged Population Percentage and Total Fertility Rates (TFRs)

Countries	Percentage of Aged People above 65(%)	Populations (Mil.)	Natural Increase Rate(%)	TFR(persons)	Life Expectancy (Ages)	
					Male	Female
Italy	19	57.2	0	1.2	77	83
Japan	19	127.5	0.2	1.3	78	85
Sweden	17	9.0	-0.1	1.6	78	82
United Kingdom	16	59.2	0.1	1.6	75	80
France	16	59.8	0.4	1.9	76	83
U.S.A.	13	291.5	0.6	2.0	74	80
Hong Kong	11	6.8	0.2	0.9	78	85
Taiwan	9.2	22.5	0.5	1.22	73.2	78.9
South Korea	8	47.9	0.8	1.3	72	80
Singapore	7	4.2	0.8	1.4	76	81

Sources : 1. U.S. Population Reference Bureau , *2003 Population Data Sheet* , September 2003 .

3. The Old-Age Poverty Problem in Taiwan

The aging of the demographic structure results in the increase of aging households. According to the statistical data, the percentage of aged household has increased from 600.5 thousands in 1996 to 980.0 thousands in 2003. Differing the households into five deciles, 60% of the aged falls into the category of the lowest 1/5 deciles of income group. Their average income reaches only 50% of the whole family. The economic vulnerability status of the aged families is quite obvious.

One of the reasons for explaining the increasing old-age poverty is the change of family structure. The family structure has experienced a tremendous shift in the past two decades. The two waves survey (1990 and 2000) of the Bureau of Statistical and Accounting Affairs shows the nuclear family has decreased from 63.6% in 1990 to

55.1% in 2000. On the other hand, the type of single family has risen the most compared to other forms of family. The single family has increased from 13.4% in 1990 to 21.5% in 2000. The aged single family accounts for the main part of the single families and is 40%. Chen(1996) indicated the percentage of living alone elderly or aged couple has increased to one-third in the past three decades.

Traditionally, the elderly are cared by the sons (or daughters) though the co-habitation arrangements in Taiwan. In the process of modernization, however, the pattern of caring the elderly has changed enormously. In 1986, 65.8% of the aged people are cared by the sons or daughters. This percentage has decreased to 52.3% in 1993 and 48% in 1996 (Hu, Chen and Lii, 2000). Chen found there are only 43% of the elderly live for the incomes from their children. The increase of aged single family implies the economic dependence of elderly on other alternative resources.

Table 4 : The Poverty Rate of Aged People (above 65) Compared to Advanced Countries

	Taiwan				Germany	U.K.	Sweden	Switzerland
	1988	1991	1994	1996				
Median Income 40%	8.6	9.2	10.1	7.7	3.0	1.7	0.2	3.8
Median Income 50%	16.8	17.5	19.5	15.9	7.4	14.1	0.4	6.7
Median Income 60%	26.4	25.9	28.6	25.5	9.7	34.1	2.5	13.8

Resource : Wu(2003) : 31.

Theoretically, the aged people can protect themselves from income loss risks through savings. However, this option has also less feasible due to the weakening of saving capacity in Taiwan since 1980s according to a study (Lin, 1993). Thus, the

option of old-age income protection through personal savings becomes less feasible because of the rise of CPI index and inflation.

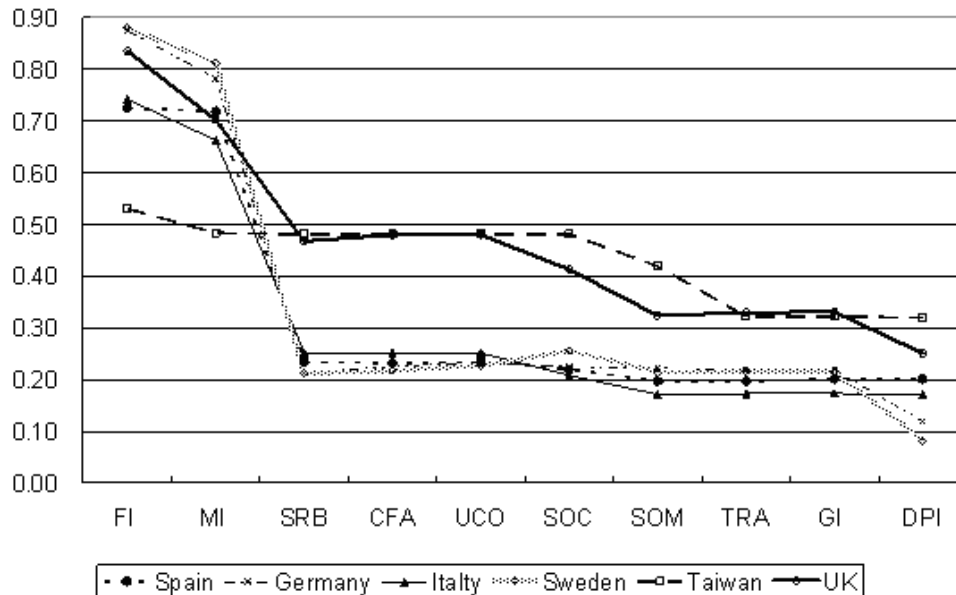


Figure 2 Poverty Rate for the elderly by income packages, circa 2000

FI - **Total factor income** (Total Earnings + Cash property income)

MI - **Market income** (factor income + private occupational pensions + public sector pensions)

SRB - Market income + **Social retirement benefits**

CFA - SRB + **Child or family allowances**

UCO - CFA + **Unemployment compensation**

SOC - UCO + OTHSOCI (Sick pay, Accident, Disability, Maternity, Military benefits, **Other social insurance**)

SOM - SOC + **Means-tested income**

TRA - SOM + **Private transfers**

GI - **Total gross income**

To sum up, the change of family structures and social changes have made the transfer between generations in one household less practical. The income dependence of elderly on the public means has increased in Taiwan by the process of

modernization. Under this circumstance, the policy makers are forced to forge some measures to protect the elderly from the income loss risks after retirement.

4. The Underdevelopment of Old-Age Social Insurance Systems in Taiwan

The pension system accounts for sheer part of the expenditure of social security systems and is the main institution to protect the economic security of the aged. However, this system is quite underdeveloped in Taiwan and demand structural reform. Until now there are some 4,000,000 citizens in Taiwan who are still excluded from the public pension system. The only way for protecting their economic security after retirement depends either on their private savings or on the support of their children. Due to the declining role of nuclear family, the social support function of family will be increasingly eroded in the process of modernization. Furthermore, the aging problem has been a serious problem for the future of social security system. The aged people above 65 has reached 8.4% of the total population by now. It is estimated that it will grow to 10% in 2011 and 20% in 2031 respectively.

The Labor Insurance, the Civil Servants' Servants' and Teachers' Insurance now offers retirement benefits. According to the 1984 Basic Labor Standard Act, the private enterprises should provide old age pension for employees when retired. But it is benefited in a lump sum payment rather than an annuity plan. This system has been severely criticized for their lump sum payments which can't protect labor's income security over an extended period of time and counter against the pressures if inflations. Among those who are covered by the public pension system, the public officials, military personnel and teachers are the most privileged groups. They are covered by a generous retirement pension system. This system is similar to German public official's retirement pension scheme which is financed by government's budget.

Following a 1993 revision, however, it resembles Japan's public official's retirement fund system which is a social security fund system by nature. In other word, they can enjoy a two-tier insurance.

Instead of aiming at the institutionalization of social insurance system, i.e. the public pension system, it seems that the social policy of DPP concentrates on the welfare services. Most of the items of 'Five 5's' are targeting to women's welfare. Compared to other OECD countries, The female labor participation rate of Taiwan still lags behind the average standard. This is mainly due to the underdeveloped supply of the public welfare facilities, e.g. the community care for the elderly and the child caring. This results in the heavy loading for the women in the family and retards the work incentive of the women to enter into the labor market.

The old-age pension benefit in current social insurance systems is lump-sum based. Given the different benefits in different schemes, the common shared problem is the low benefit level. As figure one shows, the public servicemen enjoy generous pension benefits compared to other social groups. The public servicemen are expected to receive 3,864,200 N.T. dollars.

Unit: N.T. Dollars

One U.S. Dollar=30.17 N.T. Dollars

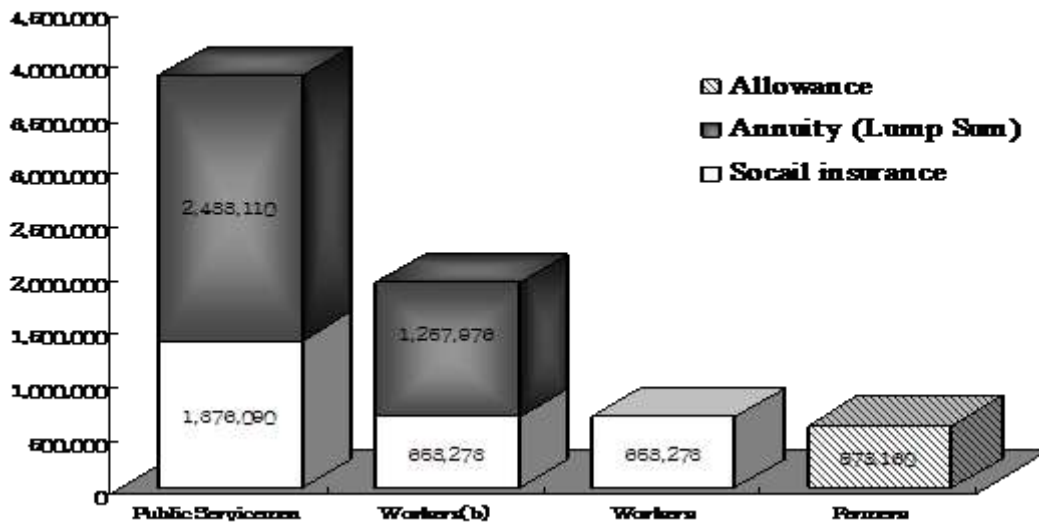


Figure 3 The Divergent Benefits Levels of Institutionalized Old-Age Income Insurance Systems in Taiwan(2000)

Resource: Huang (2003)

The public servicemen are entitled to receive

說明： 1.針對八十九年支領一次退休金及公保養老給付金額者，並未計入優惠存款每年利息所得為 695,556 元。

2.(a) 八十九年退休公教人員實際領取公保養老給付人數為 13,587 人，另外實際支領一次退休金人數計有 3,384 人。

3.(b) 八十九年度依勞基法實際領有退休金之勞工，人數為 19,378 人，占當年退休勞工 17%。

4.老農津貼計算方式=3 千元×12 個月×16.06 年(八十九年台閩地區六十五歲兩性之平均餘命)。

5.資料來源：八十九年公教人員保險統計、八十九年勞工保險統計年報、銓敘部八十八下半年及八十九年決算統計。

6.計算基礎：公教人員退休人數、勞工退休人數及老農津貼請領人數均以八十九年度為準。

For LI, the retired workers are entitled to the benefit after minimum one year contribution,. The benefit is also lump-sum and max. 45 months. The immanent problem of the LI is the low level of the lump-sum benefit. Due to the low contribution years and low sum of contribution, the benefit level is too low to protect

against the old-age income risk after retirement. Calculated on the annuity, the LI insured works can only receive 2000-3000 N.T. dollars per month. The income replacement rate is equivalent only to about 10%.

On the other hand, the retired public servicemen enjoy quite generous pension benefits after retirement. These benefits are financed through multi-tiers. The first tier is Public Servicemen Insurance (PSI). For PSI, the retired insured are entitled to the benefits after five years contribution years and at least 15 years services in the government. Those After 25 years employment in the government or aged above fifty years old, they can be retired and entitled to receive an annuity. The income replacement rate of the pension could be equivalent to 80% of their wage. Compared with the other countries, this system is quite generous and have resulted in financial burden for government.

Figure 3 and 4 shows the PSI recipients are calculated to receive about 46,899 N.T. dollars pension benefits per month, compared to 10,000 for the LI workers and 3,000 for the farmers. The PSI enjoys five times more than LI insured persons and even 16 times more than the farmers. The inequality of benefits level between different occupational statuses is so enormous that this issue has sparked severe political confrontations in the electorate campaigns since 1993.

Unit: N.T. Dollars

One U.S. Dollar=30.17 N.T. Dollars

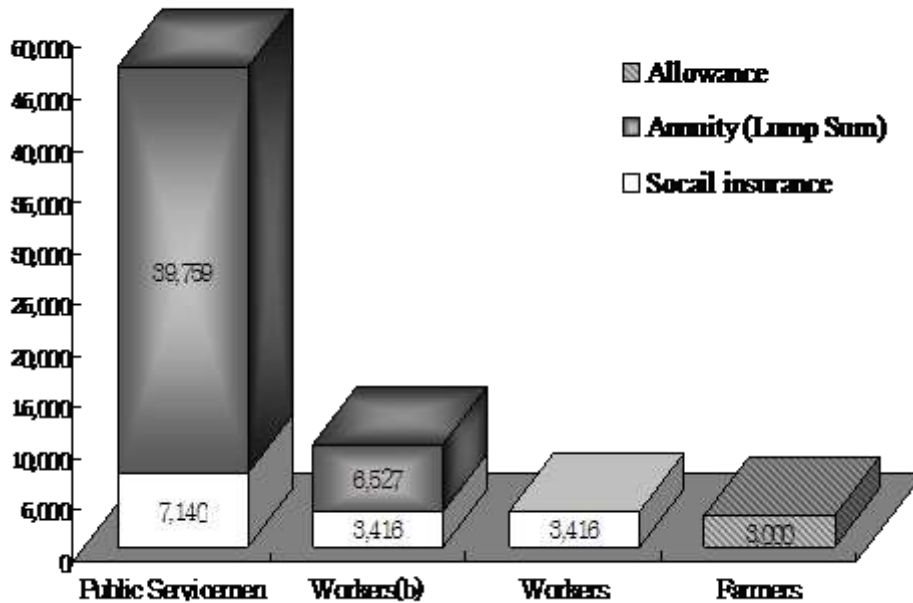


Figure 4 The Monthly Pension Amount of Different Occupations in Taiwan

Resource: Huang (2003)

The public servicemen who are entitled can choose either a lump-sum benefit or a monthly pension equivalent to 70% replacement rate of the income, calculated on the base of the retired month. The point is the retired public servicemen can deposit the lump-sum benefit in a special account, in which the government guarantees the 18% interest rate for the deposit. This high return is surely economic incentive for the retired public servicemen and offers them quite generous old-age pension benefit. The multi-tiers of the old-age benefits offer the public servicemen about 90% replacement rate of income. This benefit is financed by the government subsidize and become severe burden for the public finance. Furthermore, this stipulation widens the inequality with other occupational status and has triggered severe debates in electorate campaigns. The DPP had tried to reform the 18% interest rate stipulation in 2003 parliament campaign, only failed to succeed due to strategic failures.

Except the EI and PSI, the Basic Standard for Labor Protection Act (LPBSA) also stipulates the employers are required to 3% of the salary as the retirement benefit. However, most enterprises ignore the act.

5. Reforming the Old-Age Income Protection Systems: Toward a National Pension System

The Taiwanese government has implemented some policy measures to address the old-age poverty problems since 1994. The policy makers responded reluctantly under the pressures of partisan competition in the process of democratization. Apart from the pension for labors and public employees, there have developed many allowance programs targeting to the disadvantaged groups due to the party competition between KMT and DPP in the process of democratization since 1987. To win the election, the DPP has attacked the underdevelopment of pension system in Taiwan due to the neglecting of then rules government party, KMT. The DPP demanded to set out a comprehensive pension system to cover all citizens and offering allowance programs for certain disadvantaged aged people in the transitional period. The DPP won the local and parliament elections since 1992 partly due to this topic. The KMT was therefore forced to offer allowance programs and engaged in the establishment of an institutionalized pension system. “Living Allowance for Low-Income Families’ Elderly” (NT\$ 3000-6,000 per Month), “Welfare Subsidies for Elderly Farmers”(3,000 per month), “Subsidies for the Elderly” (3,000-8,000 per month) and “Living Allowance for the Veterans” (14,625 per month). All of the programs are financed by tax. These tax-financed pension systems in Taiwan are so fragmented that the eligibility and benefit level among different social groups results in the problem of equality and equity.

Until 2006 the recipients of Living Allowance for aged Farmers are numbered

703 thousands, Living Allowance for Aged Citizens is 795.1 thousands, Living Allowance for Middle-Low Income Aged Citizens is 160.0 thousands, Living Allowance for Disabled Citizens is 60 thousands, the for Veterans is 100 thousands. About 1.69 million aged people are included in these tax-financed schemes. About 80% of the aged population are covered by these programs. Until June 2004 the government expenditure for financing these schemes estimates 45.25 billions N.T. dollars, including 1.4 billion for Living Allowance of Indigenous Aged Citizens. These schemes are important programs for fighting the old-age poverty in Taiwan. The policy impact can be measured by reducing the poverty rate of aged people.

The data of Family's incomes and expenditures in 2002 shows that the social welfare allowances and social insurance transfers contributes to dampen the income inequality about 1.12 times (National Accounting Bureau, 2005). Using the dataset of Family's incomes and expenditures between 1976 and 2000 and analyzing the redistributive effects of public transfer schemes to the social inequality, Ho (2007) finds that after 1994 the public transfer has become advantageous to the low-income aged households.

Table 4. The Poverty Rate Difference between Pre-Transfer and Post-Transfer (by Age)

By Age	Pre-Transfer			Post-Transfer		
	1990	1995	2000	1990	1995	2000
20	5.3	7.0	3.1	3.8	4.2	1.3
25	3.7	1.8	1.3	3.2	1.1	0.6
30	4.8	3.1	2.6	3.9	2.2	1.7
35	4.7	3.6	3.3	4.6	2.1	1.6
40	4.6	3.3	3.7	4.2	2.1	2.3
45	3.5	2.5	3.4	3.0	1.2	2.2
50	4.8	2.9	2.4	3.6	1.8	1.7
55	9.0	5.0	5.6	6.8	3.8	3.4
60	14.7	10.0	11.3	11.4	5.1	6.7
65 +	31.8	30.9	31.3	24.9	15.4	10.4

Resource: Ministry of Interiors, Ho (2007: 104)

Table four shows the redistributive policy effect of reducing the old-age poverty rates by public transfer schemes (after-transfer). The poverty rate of households under age 50 estimates less than 5%. It increases by the households above age 55 and reach its highest peak in the household groups above age 65. The poverty rate for the aged households above 65 is 25.4% and 15.2% in 1990 and 1995 respectively. It decreases to 10.9% in 2000. If the government had not taken any measures, it is stimulated that the poverty rate of the aged households should increase to 30% (pre-transfer). Figure three shows the poverty rate of aged households (pre-transfer) is 31.8%, 30.9% and 31.3% in 1990, 1995 and 2000 respectively. This trend shows the slight improvement of governmental welfare allowance programs for the aged people not covered by the public pension insurance schemes after 1994.

Table 5 : The Current Welfare Allowance Schemes in Taiwan

	Coverage	Benefits Level	Budget Scale	備註
Living Welfare Allowance for Senior Citizens	680,000 (890,000)	3000	245 億(增加 75 億)	68 萬加 21 萬人 (最近修法通過 領勞保者也可 領)總數為 89 萬，增加 75 億
Living Welfare Allowance for Indigenous Citizens	17,000	3000 元	5.5 億	原住民 55-56 歲 人口
Living Welfare Allowance for Retired Farmers	690,000	4000 元	32 billion	
Welfare Allowance for Veterans	105,000	13550 元	18.49billion	
Living Welfare Allowance for Low Income Senior Citizens	156,00	3,000-6,00	71.7 億 (18.7 億)	以內政部統計處 九十二年資料計 算，增加一千元 給付，增加 18.7 億元預算。
Living Subsidize for Low Income Disabled Citizens	210,200	2,000-6,000 列冊低收入戶中 度以上 6000，輕 度 3000 以下 中度以上 3000， 輕度 2000	40 億(增加 25 億)	增加發放一千元 增加金額為 25 億
Total	Aged Citizens : 1.85 Million Disabled Citizens 212,000		98.55 billion (Budget Scale of 2004)	

Resource : Purple Coalition (2003 : 34)

To confront the political challenges from the DPP and integrate all the fragmented schemes, the KMT had nominated in 1994 a task force designate to the CEPD to set out a reform program of the pension system. After enduring debate and discussion, a reform program was completed in 1998. According the plan, it should have been scheduled to be legislated and implemented in 2001, but was postponed in the end while the KMT was defeated in the presidential election in 2000.

KMT's pension reform program is based on the principle of social insurance, which is by far the most popular model in the world. The guideline of this system is targeted at "providing all citizen the basic elderly protection with the supplementary pension benefits worked out by different occupational groups and the market mechanism where each citizen can purchase further protection as needed from the private insurance" (Chen, 2001: 13). The so-called three-tier protection system suggested by the World Bank was set as the blueprint for the planning of the pension system in Taiwan. Theoretically, to add supplementary levy on personal income tax, payroll tax, and/or business income tax should be a viable way of raising funds for pension. Nevertheless, viewing the fact that there exists rather narrow tax base and business income tax increase may cause inflation, the policy maker has to give this alternative up.

It is expected that its implementation would be helpful to solve the problem of elderly economic security. Due to the unintended 921 earthquake in 1999 and the accompanying global economic recession since 2000, the governmental revenues become more limited. The government is force to forge out the pension system and implement only part of the welfare programs selectively. The government claims to put the allowance program for the elderly above 65 in 2002 into practice. It has been criticized by the opposition party as a political instrument flattering the aged people for winning the Parliament election in the end of 2001. Without an adequate financing

resource, it is quite apparent that the implementation of these welfare programs will unavoidably create squeeze effects on other aspects of governmental expenditures

After winning the presidential election of 2000, the DPP t to redefine the social policy. Compared to the KMT as sticker of social insurance model, it seems that it is still difficult to observe the blueprint of ruling party’s social policy program. The DPP had set out the so called ‘Three 3’s’ and ‘Five 5’s’ welfare program as the party program during the election. This program plans to grant 1) those who is aged above 65 a N.T \$ 3,000 monthly living allowance; 2) for children under three years old free medical care; and lastly 3) those first-time house buyers an interest rate as low as 3%. In addition, ‘five 5’s’ program are also on the way. They plan to 1) increase 50% of the number of day-care and kindergarten teachers; 2) increase 50% of female labor participation rate; 3) cut down 50% of the number of school dropouts; 4) 50% decrease of woman care burdens at home; 5) 50% decrease of women’s victims of violent crimes.

Table 6 : The Recipients Numbers of Old-Age Welfare Allowance Programs in Taiwan (2004)

	Population	Percentage	Total
Population above Age 65	2,150,130	100.0	90.9%
Living Allowance for Senior Citizens	691,304	32.2	
Living Allowance for Retired Farmers	687,915	32.0	
Living Allowance for Low-Income Aged Citizens	144,775	6.7	
Living Allowance for Veterans	86,443	4.0	
Living Subsidize for Disabled Citizens	31,444	1.5	
Aged Citizens covered by PSI or LI	6,830	0.3	
Disqualified due to Residence in Taiwan less than 183 Days in three Years	305,924	14.2	
Rich Aged Citizens Exempt from Welfare Allowances	30,570	1.4	9.1%
Others	121,743	5.7	
Aged Citizens covered by PSI or LI	43,182	2.0	

Resource: Ministry of Interiors

As table 6 shows, the existing old-age welfare programs covers about 76.4% of

the aged people in Taiwan. The public pension programs cover only 14.2% of the populations.

The old-aged pension system in Taiwan is constructed along occupational lines and is characteristic of fragmentation. The recipients receive different pension benefits and welfare allowances. The old-aged pension system in Taiwan encounters the following problems (Wang et al., 2004). Firstly, the stipulated retirement age for PSI and EI is so low (Age 55) that the insured workers have the incentive to retire earlier than necessary. It results in the fiscal over-burden of the pension schemes and the ineffective loss of the labor force. Secondly, the coverage of the pension program is still quite limited. According to a statistics, about 5,30 million (40%) of the employed people are still not covered by any public pension schemes. Thirdly, most of the pension benefits are lump-sum based payment. The average amounts of the PSI is 1,38 million N.T. and 880 Thousands for EI respectively. This amount is evidently too low for fighting old-age poverty. The inadequacy of the social insurance pension schemes force the government to put forth welfare allowances programs based on budget. However, as many scholars indicate, these measures have the problems of. These welfare allowance programs have covered about 76.4% of the aged populations since 1993. These temporary allowance schemes are developed to alleviate the old-age poverty problems prior to the legislation of comprehensive National Pension Act. However, as the institutionalism asserts, these allowance schemes exert its negative influences in the national pension reform process.

These fragmented allowance schemes results in the financial problems for the government. The average expenditure for financing these welfare allowance programs is estimated about 47 billion N.T. dollars every year and results in serious financial problems for the government. It is expected to increase by the aging population. Furthermore, the existing allowance systems are divided according to different status.

The eligibility and benefit level diverges according to different schemes. It results in the unequal welfare treatments among different allowances schemes. As a result, the reform of Taiwan's pension programs should focus on extending the coverage of pension programs and solving the unequal problems among fragmented schemes.

Pension schemes differ in their regulation of the relationships between contributions and benefits. Some pension schemes (such as the PAYG scheme) determine their benefits in advance according to the earlier earnings of individuals over a number of reference years. In order to meet the amount of benefits paid out, which may vary from period to period, rates of contribution have to be adjusted on the basis of demographic, actuarial and economic factors. Risks are hence borne by contributors. Other schemes (e.g. the FF scheme) lay more emphasis on the primacy of contribution stability, leading to varying benefits that depend on the specified rates, the performance of the capital market etc. Under defined contribution schemes, risks are largely borne by pensioners whose pension amount is not predictable (Gillion et al. 2000: 406). It is noteworthy that the question of risk and who bears it has been a controversial issue in the debate. Preference for individual responsibility and contribution leads to the conclusion of a defined contribution model, whereas concern about the adequacy of benefits and redistribution favours for a defined benefit model which benefits lower lifetime earners to a greater extent (Ross 2000:11). The discussion of "generation justice" in Germany is a prominent example, where the deteriorating demographic development has led to a continuously heavier burden on younger generations (Leisering/Motel 1997).

The central criterion for judging a pension scheme is the proportion of the population that benefits from it. Though old-age income security for all is desired, full coverage may well not be easily achieved. Particularly in developing countries, where regional developments are often unequally promoted, the exclusion of rural

population from the state pension scheme tends to be a common phenomenon, whereas some categories of workers, such as civil servants and members of the military services, are covered by special pension schemes.² The primary task of many developing countries is therefore to unify rudimentarily pension systems and broaden pension scheme provision to cover socially weak groups (Gillion et al. 2000: 409ff.).

For overcoming the fragmentation problems hidden in the previous pension programs, the government has initiated a task force delegated by Ministry of Interiors (MOI) for reforming the pension systems. The main goal is to offer all citizens with a basic pension programs. Two options under debates have emerged during the policy deliberation and making stage. The first option is called ‘big-integration’ scheme and the second the ‘small-intergration’ one. The first option aims to cover the other citizens not included in the previous pension or allowance programs into one basic pension programs. It is estimated that there are still 4 millions citizens still not covered by any programs. The age of these target groups are between 25-65 and is estimated about 3.84 millions populations. Among them are housewife (230 mill.), farmers (110 mill.), students (40,000) and employers (190 thousands). The first option is designed as ‘big-integration’ program because the all population would be included into one single scheme independently of the occupational status and gender. Based on this basic pension program, all citizens are eligible to claim a basic pension benefit. The benefit level is set by 3,000 N.T. per month in the initial phrase.

Based on this comprehensive reforming proposal, the pension benefits in existing fragmented social insurance schemes should be consolidated into one single

² This holds especially for countries with authoritative regimes or similar historical experiences of dictatorship. In East Asia, South Korea and Taiwan are prominent examples. Even in the PR China, a transitional country with one-party rule, civil servants and members of the armed forces still enjoy more generous pension schemes.

basic pension program. The other part above the basic pension benefits should be designed as supplementary occupational pension based on earning-related contribution and benefit. Should this 'big-integration' program have been successfully implemented, a universal eligible basic pension similar to the Nordic welfare states would be established in Taiwan. This is a progressive program because it signifies the principle of equality and contributes to the breeding of solidarity across the classes and gender. Based on the principle of universal insurance, the citizens are eligible to claim the pension rights. Though the benefit level is still too low to have strong redistributive effects across upper and low-income groups, this universal option still lay a firm foundation for the institutional blueprint of the institutionalized pension system in Taiwan if implemented I the initial stage.

However, while this reforming proposal had been transferred to Committee of Economic Planning and Development (CEPD) in Oct. 1996, the Task Force was reorganized and more economists were included in the newly established team. Instead of following the guideline of 'big-integration', the blueprint had been changed to 'small-integration'. The organizational principle was designed to construct along the previous occupational lines, namely the social insurance for public servicemen (PSI), insurance for employee (EI). The newly established National Pension Insurance (NPI) are set up to cover those who are excluded from the PSI and EI. What was common is the financing mechanism. These schemes were contribution-based. According to the reforming proposal of CEPD, the difference of existing separate pension schemes should be maintained. The change is only the payment would be changed from lump-sum to annuity based scheme. Except the basic guaranteed pension equivalent to the NPI program, the other old-age benefits in PSI and EI would be designed according to the annuity principle and established as the second tier supplementary to the NPI.

One of the important reasons for explaining the ‘big-integration’ option has failed in the final debates is the diverse interests between the related ministries. While the Ministry of Interiors (MOI) favored the radical ‘big-integration’, the Council for Labor Affairs was inclined to adopt the ‘small-integration’ version. The attitude of CLA toward the status quo is understandable because CLA is interested in holding the EI at hands.

The formation of NPI in the context of partisan competition

The DPP stood for the ‘Big-Integration’ option in the beginning. According to the party program in reforming the pension system, the guideline is two-tier system. The first tier is the basic pension scheme and is proposed to integrate all old-age pension schemes into the National Pension Insurance (NPI). All citizens are eligible to the rights of claiming the basic pension when retired. The benefit level is set by 5,000-6,000 N.T. dollars per month. The NPI is planned to be financed by levying 1-2% of the value-added tax (VAT). It is therefore tax-financed.

This program had been modified after the DPP had won the presidential election in 2000. The main change occurred while the employer associations protested against these labor-costs induced measures by moving the capital aboard to China. The main modification can be observed in the method of financing and the pooling of social risks. Instead of financing the NPI by tax, the new version proposed to finance the NPI by contribution. The contribution rate is set by 10%. 7% of the contribution is specified to the individual saving account, while the other 3% is specified into the social insurance account (SIA). Once the ISA is emptied, the social insurance account serves as transitory income source to guaranteed income security scheme (welfare allowance schemes).

Obviously, this new version adopted important element of the Singapore Individual Saving Account (ISA) model, where the government has limited (or near zero) responsibility to the old-age income security of low-income aged citizens. On the contrary, the burdens are shifted to the shoulders of individuals. As a consequence, this version can be taken as another form of defined contribution (DC) scheme and runs to the disadvantage of the low-income groups. To fight back this trend of individualization of old-age income risks, Many progressive groups for social welfare were organized to protest against this version. DPP as the then ruling party recalibrated her tune and rolled back to the social insurance model. The partial-funding system was modified to pay-as-you-go system. However, the DPP had given up the ‘big-integration’ principle and changed to the ‘small-integration’ version, namely the pooling of risk was narrowed to cover those who are excluded to the current social insurance and welfare allowance schemes. The financing mechanism had also changed from tax-based to contribution-based method.

The principles mentioned above apply at most in transitional countries where pension reforms are high on the political agenda. Due to various changes, their flawed old pension systems are subject to reform. The overall trend is towards a more comprehensive scheme with wider coverage and more generous benefits. But problems arise since these countries have to develop simultaneously their own economies as well as political system which lack sound framework for appropriate functioning.³ Numerous examples have shown that even a multipillar pension system requires a political and economic environment that can support the pluralistic arrangements for old-age security.

³ The author deals with this subject in another report.

The NPI aims to cover the citizens aged between 25-64 not covered by the MI, PSI and LI schemes. The institutional principle is the social insurance principle. The NPI aims to build a channel with the LI through extending the coverage to the spouses of the LI insured workers. The contribution rate is set by 6% in the first year and is planned to raise to 6.5% in the first three year. The premium is set by 1,037 N.T. dollars per month. The contribution is distributed between insured citizen (60%) and the central government (40%). The contribution of social assistance welfare recipients will totally be financed by the government.

6. Conclusion: Pension Reform between Structural Necessity and Political Blockades

The principles mentioned above apply at most in transitional countries where pension reforms are high on the political agenda. Due to various changes, their flawed old pension systems are subject to reform. The overall trend is towards a more comprehensive scheme with wider coverage and more generous benefits. But problems arise since these countries have to develop simultaneously their own economies as well as political system which lack sound framework for appropriate functioning. Numerous examples have shown that even a multipillar pension system requires a political and economic environment that can support the pluralistic arrangements for old-age security. The reforming process of old-age security in Taiwan indicated that in order to make a cover-all comprehensive pension scheme, it is also important for the Taiwanese government to reform the previous occupation-based pension schemes so that the previous unequal gaps between the insured/uninsured can be expected to be narrowed. Policy options for such reform processes are not easy, for the intended goals may contradict with one another and compromises are not simple to be found. The reform of inefficient PSI in Taiwan as a

step towards equitable pension system in the context of comprehensive pension reforms has, for example, resulted in an robust counteract and resistance from the vested interests. The Taiwanese government is thereby forced to take incremental reforming steps as regards pension reforms for those who are still excluded from the current schemes, most of them are disadvantaged groups such as housewives, students, atypical workers. The Taiwanese example is distinctive because of its transformation from fragmented to institutionalized old-age income security system. This experience also corresponds exactly with the message of the debates among comparative social policy scholars: whatever social policy paths a late-developed country chooses, it is undertaking at the same time a social reform which covers a wide range of societal sectors. The social foundation of policy reforms plays certainly a central role.

Despite the insightful consensus reached in the international debates, the overall relationship of pension scheme with other social security branches has not been discussed in detail. Scholars and social workers in international organizations are rather interested in technical arrangements as to how a pension scheme is most likely to be implemented with long-term sustainability, in financial as well as in technical terms. An assessment of the overall welfare arrangements in the context of welfare regimes goes well beyond the concern of these organizational actors. Indeed, while people's standard of living still lingers at the verge of absolute poverty, it remains difficult for many countries to offer minimum benefits for their citizens, not to mention the consideration of what welfare path to adopt in the near future. It is thus important to recognize the stances these international organizations are taking. Their contributions to the understanding and improvement of current pension reforms in many developing countries are doubtlessly high. But for a better analysis of the overall developments of the emerging welfare states, one has to go beyond the scopes the international debates have offered in order to grasp the context under which these

developments take place.

By the same token, the meaning of old age in cultural context was not taken into account by the participants in international debates, either. Western researchers have pointed out the significance of cultural interpretation which influences greatly the formation of social policy for the elderly. By setting up income security schemes for the aged, social policy also contributes to construct and define the relationships of old age to other age groups (e.g. Walker 2000; Wilson 2000). The focus of international debates concentrates rather on technical issues such as financial sustainability or economic impact of pension schemes (except ILO and ISSA). The preference for economic issues in these debates has much to do with the fact that many of the participants are economists or economic organizations that put more weight on market mechanism and other relevant topics, hence paying little attention to a broadly researched field in the social science about old age in modern society.

For this reason, the contribution of international debates over pension reforms has to be limited appraised with regard to the relationships of the elderly with other social groups. It helps illuminate the differences among various pension scheme options and their implications for the financial and economic developments in respective countries. The emphasis in the course of debates on the relationships between pension scheme designs and economic growth becomes their strength in tackling problems of ageing and financial burdens, but unfortunately also their weakness in viewing old age in the context of societal developments. Both sides should be borne in mind if we are to grasp the essence of old age in the modern society more thoroughly.

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Appendix 1 The Comparison between National Pension Program(NPP) and Labor Insurance (LI)

		「勞工保險條例」修正草案	國民年金法
Type		Social Insurance	Social Insurance
Category of Benefits		1. Insurance for Normal Accidents : Benefits of Maternity, Disability, Sickness, Old-Age and Death 2. Insurance for Occupational Accidents : Benefits of Maternity, Disability, Sickness, Old-Age and Death	Disability、Old-Age、Death and 喪葬。
Administrative Administrative Ministry		Council for Labor Affairs	Ministry of Interiors
Insurer		Bureau for Labor Insurance	Bureau for Labor Insurance
The Insured	Compulsory	依現行勞保條例規定。(第 6 條) 4	柔性強制 (第 7 條): 1.一般原則: 年滿 25 歲~未滿 65 歲, 未參加軍、公教、勞保, 且未曾領取相關社會保險老年給付者(包括農民、原住民在內), 均為強制加保。 2.過渡措施: (1) 勞工: 開辦前已領取勞保老年給付者; 或開辦後 15 年內領取勞保老年給付, 勞保年資未滿 15 年, 未滿 65 歲, 且未領取公教保養老給付、軍保退伍給付者, 亦應強制加保。 (2) 農民: 開辦時年滿 15 歲未滿 65 歲之農保被保險人, 均強制參加國保, 並自農保退保。

⁴ 第 6 條 年滿十五歲以上、六十歲以下之左列勞工, 應以其雇主或所屬團體或所屬機構為投保單位, 全部參加勞工保險為被保險人:

一、受僱於僱用勞工五人以上之公、民營工廠、礦場、鹽場、農場、牧場、林場、茶場之產業勞工及交通、公用事業之員工。

二、受僱於僱用五人以上公司、行號之員工。

三、受僱於僱用五人以上新聞、文化、公益及合作事業之員工。

四、依法不得參加公務人員保險或私立學校教職員保險之政府機關及公、私立學校之員工。

五、受僱從事漁業生產之勞動者。

六、在政府登記有案之職業訓練機構接受訓練者。

七、無一定雇主或自營作業而參加職業工會者。

八、無一定雇主或自營作業而參加漁會之甲類會員。

前項規定, 於經主管機關認定其工作性質及環境無礙身心健康之未滿十五歲勞工亦適用之。

前二項所稱勞工, 包括在職外國籍員工。

Appendix 2 The Contribution Rate and Benefit Level of NPI (Calculation Based on the Minimum Wage Level of 17,280)

Unit: N.T. Dollars

One U.S. Dollar=30.17 N.T. Dollars

Yearly Income Replacement Rate		1.1%
Income Replacement Rate after 40 years contributions		44%
Monthly Pension Benefit after 40 years contribution		7,603
Contribution Rate		6%
Premium	Total	1,037
	Governmental Subsidize(40%)	415
	The Insured (60%)	622
The Premium of the Insured after 40 Years Contribution		298,560
The Premium of Governmental Subsize after40 years		199,200
The total NPI Pension Benefits after 17 years		1,551,012

Resource: Administrative Yuan (2007: 13)

Appendix 3 The Public Old-Age Income Protection Schemes in Taiwan

Systems	Schemes	Types of Benefits	Level of Benefits	Financing	Coverage
Social insurance	Public Servicemen Insurance (PSI)	lump sum payment	保險年資每滿 1 年給付 1.2 個月，最高 36 個月	Contribution by Government, Employer and Employee	14.2%
	Labor Insurance (LI)	Lump sum payment	保險年資滿 1 年給付 1 個月；年資逾 15 年部分每滿 1 年給付 2 個月；最高 45 的月為限	Contribution by Government, Employer and Employee	
Social Allowance	Welfare Allowance for Old-Aged Farmers	Monthly payment	6,000	Budget	32.0%
Social Assistance	Living Allowance for Aged Citizens	Monthly payment	3,000	Budget	32.2%
	Living Allowance for Low-Income Aged Citizens	Monthly payment	3000-6000 Per month	Budget	6.7%
	Living Allowance for Indigenous Aged Citizens	Monthly payment	3000/ Month	Budget	0.85%
	Living Subsidize for Disabled Citizens	Monthly payment	3000-6000/ Month	Budget	1.5%

Resource: Wang et al (2004) The Demographic Composition and the Direction of Population Policy Facing the Future, p. 72 .

Appendix 4 Benefits Level of Different Contribution Years by NPI

Starting Ages of Contribution	Contribution Years	Total Amount of Premiums	Estimated Monthly Benefit	Total Pension Benefits after 17 Years Contribution
Age 60	5	37,320	3,475	708,941
Age 50	15	111,960	4,426	902,822
Age 40	25	186,600	5,376	1,096,704
Age 30	35	261,240	6,653	1,357,212
Age 25	40	298,560	7,603	1,551,012

Resource: Administrative Yuan (2007: 12)